ran one 16

Welcome to the Alimentation Revolution

REGISTRATION DOCUMENT

ANNUAL FINANCIAL REPORT

DANONE Manifesto

Alimentation Tree

1 INFORMATION ABOUT THE ISSUER AND INFORMATION ON THE REGISTRATION DOCUMENT 5

1.1 Information about the issuer 6
1.2 Information about the Registration Document 7
1.3 Person responsible for the Registration Document 9

2 OVERVIEW OF ACTIVITIES, RISK FACTORS 11

2.1 History 12
2.2 Presentation of Danone 13
2.3 Strategic growth areas 15
2.4 Description and strategy of the Divisions 16
2.5 Other elements related to Danone's activity and organization 18
2.6 Simplified organizational chart as of December 31, 2016 22
2.7 Risk factors 24

3 DANONE'S BUSINESS HIGHLIGHTS IN 2016 AND OUTLOOK FOR 2017 41

3.1 Business highlights in 2016 42
3.2 Consolidated net income review 46
3.3 Free cash flow 55
3.4 Balance sheet and financial security review 57
3.5 Outlook for 2017 61
3.6 Financial indicators not defined by IFRS 61
3.7 Documents available to the public 62
3.8 WhiteWave acquisition project: unaudited pro forma consolidated information 62

4 FINANCIAL STATEMENTS 67

4.1 Consolidated financial statements and Notes to the consolidated financial statements 68
4.2 Financial statements of Danone SA, the Danone parent company 138
4.3 Information originating from third parties, expert opinions and declarations of interest 159

5 SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY 161

5.1 Danone's social, societal and environmental approach 162
5.2 Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law 166
5.3 Funds sponsored by Danone 195

6 CORPORATE GOVERNANCE 201

6.1 Governance bodies 202
6.2 Positions and responsibilities of the Directors and Nominees to the Board of Directors 224
6.3 Compensation and benefits of governance bodies 234
6.4 Detailed information on long-term and multi-annual compensation plans 254
6.5 DANONE shares owned by the Board of Directors and the Executive Committee members 270
6.6 Internal control and risk management 272
6.7 Statutory auditors' special report on related party agreements and commitments 281

7 SHARE CAPITAL AND SHARE OWNERSHIP 289

7.1 Company's share capital 290
7.2 Treasury shares and DANONE call options held by the Company and its subsidiaries 291
7.3 Authorizations to issue securities giving access to the share capital 294
7.4 Financial instruments not representing share capital 296
7.5 Dividends paid by the Company 296
7.6 Shareholders' Meetings, voting rights 297
7.7 Crossing of thresholds, shares and share sales 299
7.8 Share ownership structure as of December 31, 2016 and significant changes over the past three fiscal years 300
7.9 Market for the Company's shares 303
7.10 Factors that might have an impact in the event of a public tender offer 304
7.11 Change of control 305

APPENDIX 307

Cross-reference tables 308

DANONE Manifesto

By writing a Manifesto, we reinforce our dual commitment to business success and social progress and, hereby, acknowledge that we cannot work for healthier choices and lifestyles without caring about the health and wellness of our communities.
This Manifesto embodies our commitment to build an alimentation revolution for the health of Danone, the health of our planet and our whole ecosystem, the health of current and future generations...

★ OUR CONVICTIONS ★

At Danone, we believe that...

★ **GOOD HEALTH IS EVERYTHING TO ALL OF US** ★ Good health is a state of general well-being. It involves the mind as well as the body, and emotion as well as sensation. ★ **FOOD IS HEALTH'S MOST SIGNIFICANT PARTNER** ★ Healthy eating is an essential part of life, to build and to maintain our well-being. From the earliesttimes, all over the world, people have always understood this. ★ **HEALTH CANNOT LIVE LONG WITHOUT PLEASURE** ★ Without appetite and delight, no-one would eat or keep eating well.Pleasure in food is a precondition of every healthy lifestyle. ★ **FOOD IS THE WARMTH BEHIND EVERY CULTURE** ★ Healthy eating is an idea that goes beyond nutritional needs and appetites. Its richness is a part of every culture – always different and always special – and worth taking the time to understand. ★ **THE WEALTH OF NATIONS GROWS FROM A HEALTHY PLANET** ★ Everything we eat depends on the earth that it grows in or feeds on. As gardeners of this planet, we have a duty of care to manage its resources responsibly and sustainably. ★ **RESEARCH IS OUR BEST ALLY** ★ Food is more than nature. It is the outcome of human endeavour, combining technological progress with deeper understanding of its value and its potential. ★ **PREPARING FOR TOMORROW IS THE BUSINESS OF TODAY** ★ New ways can and will be found, to better serve this generation and the next, and to bring healthy, affordable food and safe water to thegreatest number, across the world.

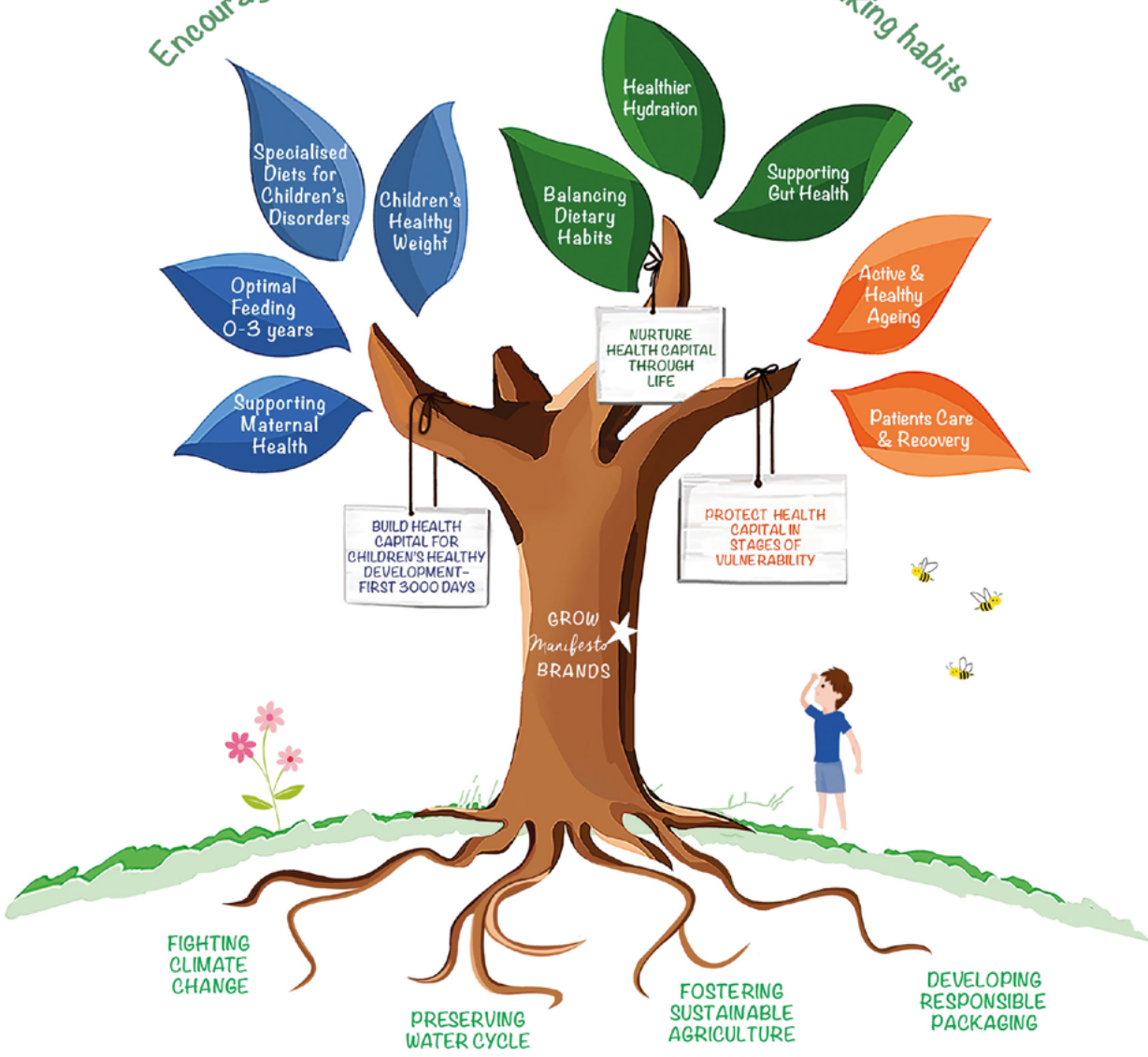
★ MISSION IN ACTION ★

At Danone, we stand for...

★ **FOR HEALTH AND WELL-BEING** ★ We will stand next to our employees and our consumers in their quest for good health, by encouraging diets and lifestyles that will bring the most benefit in people's lives. ★ **WITH THE BEST WE CAN DO, ALWAYS** ★ We will stand by all our products and services, with pride, as a guarantee of their quality and integrity – whatever a consumer may choose, and wherever they may choose it. ★ **FOR EVERY INDIVIDUAL, AT EVERY AGE, WITH PLEASURE** ★ We will stand for the widest range of products and services to feed the needs and wishes of every person at every key stage of life, encouraging balanced nutritional habits or delivering specific health benefits. ★ **FOR YOUR HOME, NOT SOMEONE ELSE'S** ★ We will stand up for the principle that every culture has the right to preserve its own way of eating and living well, by offering products inspired and developed out of local needs and ideas. ★ **FOR OUR PLANET AND ITS LIVING HERITAGE** ★ We will stand together for a healthy planet and devote all our energies to protect and preserve the abundance of life and the variety of nature, in all its forms and ecosystems. ★ **FOR WHAT IS INVENTED AND WHAT STILL NEEDS TO BE INVENTED** ★ We will always respect our obligation to prepare the future through new, sustainable ways to provide healthy food and access to safe water for all, by bonding with communities and stakeholders. We will keep our place at the forefront of these efforts. ★ **NOT ALONE, BUT WITH PARTNERS AND FRIENDS** ★ We will stand firmly by our belief that it is better to walk together than apart, by engaging always with more consumers and more communities, in our common quest to find better health through better food, for the greatest number.

Alimentation

Encourage healthier, more sustainable, eating and drinking habits



Impacting positively local Communities

DANONE

A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €163,973,000

REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS

PARIS CORPORATE REGISTER NUMBER: 552 032 534

2016

REGISTRATION DOCUMENT

ANNUAL FINANCIAL REPORT

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

The French language version of this Registration Document (Document de Référence) was filed with the French financial markets authority (Autorité des Marchés Financiers, or AMF) on March 17, 2017, 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

"Bringing health through food to as many people as possible"

"With the upcoming addition of WhiteWave, we will soon start a whole new and exciting chapter of our alimentation revolution journey. While we delivered a robust performance leading to a very strong recurring EPS growth in 2016, the challenges we faced, including a slower turnaround of dairy in Europe and major market volatility, are a clear case to step up in our ability to seize consumer opportunities and improve our efficiency.

The changes announced at the beginning of the year will drive horizontal collaboration and vertical delegation across our entire organization, making us more agile to grow, closer to consumers, and driving consistency in resource allocation. On one hand, I have decided to address our efficiency agenda in a radically new way, and to launch a comprehensive, company-wide program allowing us to spend better and more sustainably and to work more efficiently. On the other hand, fueled by resources generated from higher efficiency, our new integrated growth and innovation process will gradually bring our brands into an entirely new level of relevance with their communities of consumers, which is the core of the alimentation revolution.

These decoupled mid-term growth and short-term efficiency agendas, linked by our seamless resource allocation process, will allow us to reach both our short and mid-term financial objectives, beyond the benefits of the future WhiteWave acquisition. On behalf of my whole executive team, I would like to share my pride for all Danone teams, working hard every day to provide great and wholesome products: better for our health, better for our planet."

Emmanuel FABER, Danone Chief Executive Officer

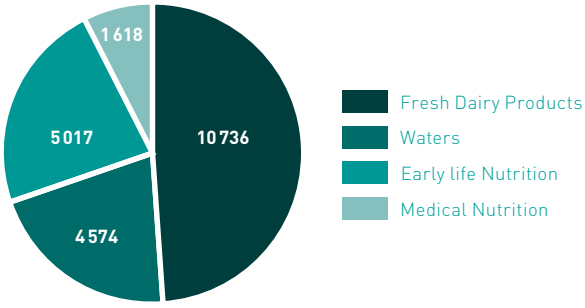
+2.9%	+70 bps	+9.3%	+6.3%
2016 like-for-like Sales growth	**2016 like-for-like Recurring operating margin growth**	**2016 like-for-like Recurring EPS growth**	**2016 Dividend growth in € per share**

- 99,187 employees
- Reduction of carbon intensity [a] of 50.1% [b] from 2008 to 2016
- Reduction of water intensity of 1.3% in 2016 [c]
- Ranked in leading social responsibility indexes:
  Dow Jones Sustainability Index, Ethibel Sustainability Index, MSCI and Vigeo

(a) Grams of CO_2 equivalent per kilo of product sold.
(b) Based on constant scope of consolidation, constant methodology and on emissions under the direct responsibility of Danone (packaging, industrial activities, logistics and end-of-life).
(c) Related to industrial process, based on comparable scope and constant methodology.

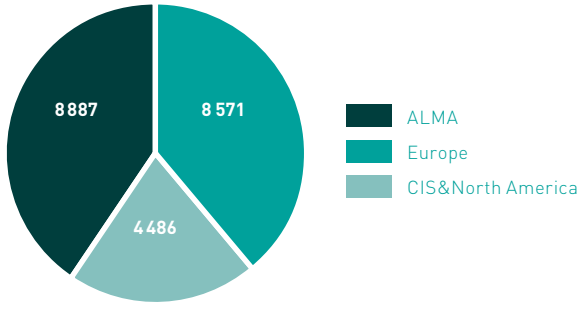
Consolidated sales by Division

(in € millions)



Consolidated sales by geographical area

(in € millions)



Key financial figures

	2014	2015	2016
Sales [a]	**21,144**	**22,412**	**21,944**
Like-for-like growth [b]	+4.7%	+4.4%	+2.9%
Recurring operating income [a] [b]	**2,662**	**2,892**	**3,022**
Recurring operating margin [b]	**12.59%**	**12.91%**	**13.77%**
Like-for-like growth [b]	-12 pbs	+17 pbs	+70 pbs
Net income [a]	**1,253**	**1,398**	**1,827**
Recurring EPS [b] [c]	**2.62**	**2.93**	**3.10**
EPS [c]	**1.88**	**2.10**	**2.79**
Free cash-flow excluding exceptional items [a] [b]	**1,401**	**1,529**	**1,786**

(a) In € millions.
(b) Financial indicator not defined by IFRS, see definition in section 3.6 *Financial indicators not defined by IFRS*.
(c) In € per share.

1.1 INFORMATION ABOUT THE ISSUER 6

Legal name and trade name 6

Registration number in the Register of commerce and companies 6

Date of start of activity and term of the Company 6

Registered office 6

Information on branches pursuant to Article L.232-1 of the French commercial code 6

Legal form and applicable law 6

Corporate purpose 6

Statutory auditors 6

1.2 INFORMATION ABOUT THE REGISTRATION DOCUMENT 7

Selected financial information 7

References and definitions 7

Incorporation by reference 8

1.3 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT 9

Person responsible for the Registration Document 9

Statement by the person responsible for the Registration Document 9

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 on branches pursuant to Article L.232-1 of the French commercial code

The Company has a branch (secondary institution) at 152, boulevard Victor Hugo, 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 22, 2010

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

1.2 INFORMATION ABOUT THE REGISTRATION DOCUMENT

Selected financial information

The financial information presented in section *Key figures* is extracted from section 3 *Danone's business highlights in 2016 and outlook for 2017* and from Danone's consolidated financial statements for fiscal year 2016 prepared in accordance with International Financial Reporting Standards (IFRS).

Consolidated financial statements and Notes to the consolidated financial statements for fiscal year 2016 are presented in section 4.1 *Consolidated financial statements and Notes to the consolidated financial statements*.

References and definitions

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

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 2016 fiscal year;
Danone	All references to "Danone" or the "Group" refer to the Company and its consolidated subsidiaries;
DANONE call options	All references herein to DANONE call options refer to DANONE share purchase options subscribed by the Company to hedge certain stock-option plans described in section 7.2 *Treasury shares and DANONE call options held by the Company and its subsidiaries;*
Danone's market share 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;
Division	All references herein to "Division" or "Divisions" refer to one or all of Danone's Fresh Dairy Products, Waters, Early Life Nutrition and Medical Nutrition businesses;
Early Life Nutrition	All references herein to "Early Life Nutrition" and the early life nutrition business or market 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;
Emerging countries	All references herein to "emerging countries" refer to countries other than mature countries where Danone is present;
Europe	Europe excluding CIS and including Turkey;
Fresh Dairy Products	All references herein to "Fresh Dairy Products" and the fresh dairy products business or market refer to processed dairy products and exclude cream and butter;
GPS (Group performance shares)	All references herein to GPS (Group performance shares) refer to DANONE shares subject to performance conditions granted to certain employees and corporate officers described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*;
GPU (Group performance units)	All references herein to GPU (Group performance units) refer to multi-annual compensation described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*;
Group	All references herein to the "Group" or "Danone" refer to the Company and its consolidated subsidiaries;

Markets	All references herein to "markets" for products in particular, or to market shares, refer to markets for packaged products and exclude products that may be otherwise marketed or sold;
Market shares and market positions	Data pertaining to market shares and market positions are based on the value of sales;
Mature countries	All references herein to "mature countries" refer to Western Europe (particularly France and Southern Europe, including Spain, Italy and Portugal), North America, Japan, Australia and New Zealand;
Medical Nutrition	All references herein to "Medical Nutrition" and the medical nutrition business or market 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;
North America	All references 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;
Sales	All references herein to "Sales" refer to the consolidated net sales of Danone;
Stock-options	All references herein to stock-options refer to options to purchase DANONE shares granted to certain employees and corporate officers described in section 6.4 *Detailed information on long-term and multi-annual compensation plans;*
Value of GPS and stock-options	All references herein to the value of GPS and stock-options refer to the fair value of those shares and options calculated as of grant date in accordance with IFRS 2;
Waters	All references herein to "Waters" and the waters business or market refer to bottled water, water sold in large containers (jugs), and water sold in small containers (cups).
WhiteWave	All references to "WhiteWave" refer to The WhiteWave Foods Company.

Incorporation by reference

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

- the consolidated financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2014 on pages 73 to 152 of the Registration Document filed with the AMF on March 19, 2015 under filing number D. 15-0176;
- the annual financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2014 on pages 153 to 173 of the Registration Document filed with the AMF on March 19, 2015;
- the selected financial information, the Group's management report and all non-financial information pertaining to the fiscal year ended December 31, 2014 on pages 2 to 3 and 41 to 64 of the Registration Document filed with the AMF on March 19, 2015.
- the consolidated financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2015 on pages 72 to 143 of the Registration Document filed with the AMF on March 17, 2016 under filing number D. 16-0156;
- the annual financial statements and the Statutory auditors' report relative to the fiscal year ended December 31, 2015 on pages 144 to 165 of the Registration Document filed with the AMF on March 17, 2016;
- the selected financial information, the Group's management report and all non-financial information pertaining to the fiscal year ended December 31, 2015 on pages 2 to 3 and 46 to 65 of the Registration Document filed with the AMF on March 17, 2016.

1.3 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Person responsible for the Registration Document

Emmanuel FABER

Chief Executive Officer

Danone

Statement by the person responsible for the Registration Document

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

Paris, March 17, 2017

"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, financial situation, and 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 this Registration Document provides a faithful representation of the business trends, results and financial position of the Company and of all companies within its scope of consolidation, as well as a description of the principal risks and uncertainties that they face.

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

Chief Executive Officer

Emmanuel FABER

2.1 HISTORY 12

The Company's roots: from glass to food 12
1973-1990: European expansion 12
1990-1996: global ambitions 12
1996-2007: refocus on health food 12
2007-2014: acceleration of international development 12
Since 2014: toward strong, profitable and sustainable growth 12

2.2 PRESENTATION OF DANONE 13

Activities 13
Principal markets 13

2.3 STRATEGIC GROWTH AREAS 15

Alimentation 15
Cyclical management of strategic resources 15
People and the organization 16
Towards a strong, profitable and sustainable growth by 2020 16

2.4 DESCRIPTION AND STRATEGY OF THE DIVISIONS 16

Fresh Dairy Products 16
Waters 17
Early Life Nutrition 17
Medical Nutrition 17

2.5 OTHER ELEMENTS RELATED TO DANONE'S ACTIVITY AND ORGANIZATION 18

Distribution 18
Competition 18
Research and Development 19
Plants and equipment 20
Raw materials purchasing 21
Social and environmental responsibility 22
Financial risk management 22

2.6 SIMPLIFIED ORGANIZATIONAL CHART AS OF DECEMBER 31, 2016 22

Parent company Danone 22
Consolidated subsidiaries 22
Main fully consolidated but not fully owned companies 23
Main publicly traded companies 23

2.7 RISK FACTORS 24

Risk identification and control policy 24
Principal risk factors 24
Description of principal risk factors 25
Insurance and risk coverage 39

2

OVERVIEW OF ACTIVITIES, RISK FACTORS

2.1 HISTORY

The Company's roots: from glass to food

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

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

1973-1990: European expansion

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

1990-1996: global ambitions

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

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

1996-2007: refocus on health food

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

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

2007-2014: acceleration of international development

In order to pursue its international development strategy around its four Divisions, 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 equity interests in Fan Milk in West Africa and Brookside in Kenya.

Since 2014: toward strong, profitable and sustainable growth

In 2014 Danone marked a turning point, changing its governance structure and launching its transformational Danone 2020 plan, whose ambition is to generate strong, profitable and sustainable growth by 2020. To reinforce the Company's economic and social impact, Danone also created its Manifesto, cornerstone of the Danone 2020 plan. With the signature of an agreement to acquire WhiteWave in 2016, Danone further boosted its 2020 agenda for "strong, profitable and sustainable" growth. The completion of this acquisition will represent a major advance in its Danone 2020 transformation plan, to build the nutrition of the future.

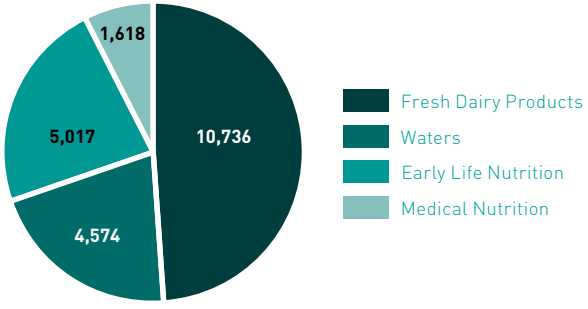
2.2 PRESENTATION OF DANONE

Activities

Danone's strategy aligns with its mission to "bring health through food to as many people as possible." Since 2007 and the acquisition of Numico, this mission has been implemented through four Divisions:

- the Fresh Dairy Products Division (production and distribution of yogurts, fermented dairy products and other dairy specialties) accounted for 49% of Company sales in 2016;
- the Waters Division (production and distribution of packaged natural, flavored and vitamin-enriched water) represented 21% of Company sales in 2016;
- the Early Life Nutrition Division (production and distribution of specialized food for babies and young children to complement breast-feeding) accounted for 23% of Company sales in 2016;
- the Medical Nutrition Division (production and distribution of specialized food for people afflicted with certain illnesses or frail elderly people) made up 7% of Company sales in 2016.

Consolidated sales by Division
(in € millions)



Each Division has a global management unit, to which the dedicated local entities report.

Danone enjoys, in value, the following leadership positions: No. 1 worldwide for fresh dairy products, No. 3 worldwide for packaged waters, No. 2 worldwide for early life nutrition and No. 1 in Europe for medical nutrition.

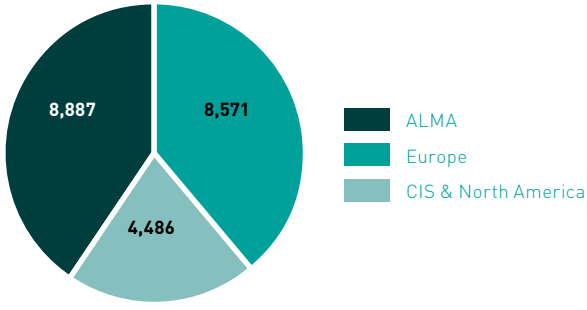
Principal markets

The Company is present in all of the regions of the world:

- Europe, accounted for 39% of the Company sales in 2016, with contributions from all four Divisions. The leading countries in this region include France, the United Kingdom and Spain;
- the CIS & North America zone represented 20% of the Company sales in 2016 thanks to the strong performance of the Fresh Dairy Products Division in these markets;
- the ALMA zone – which combines the activities in the Asia/Pacific region, Latin America, Africa and the Middle East – represented 41% of the Company sales in 2016:
  - in the Asia/Pacific region, China and Indonesia lead the way thanks to robust sales in the Waters and Early Life Nutrition Division,
  - in Latin America, Argentina, Mexico and Brazil are the main contributors for the Company's four Divisions,
  - in the Africa and Middle East regions, Morocco and South Africa are the largest markets, focused mainly on fresh dairy products. The Early Life Nutrition Division is also growing rapidly in this zone through an export model.

Concerning its geographic organization (Europe, CIS & North America, ALMA), the decision to combine the CIS and North America regions under a single geographic reporting structure was made in 2013 to adapt reporting to the Company's changes. The decision to combine these regions was based on the fact that they had similar characteristics: predominance of the Fresh Dairy Products businesses, margin lower than Danone's average and similar growth rates. This choice remains relevant for 2016.

Consolidated sales by geographical area
(in € millions)



Top ten countries in terms of sales

	Year ended December 31	
(in percentage)	**2015**	**2016**
United States	11%	11%
France	10%	10%
China	7%	7%
Russia	7%	7%
Indonesia	6%	6%
United Kingdom	6%	5%
Spain	5%	5%
Mexico	5%	5%
Argentina	6%	4%
Germany	4%	4%

The evolution of this ranking compared to last year should be read taking currency fluctuations into account, especially their high volatility on emerging markets.

Top ten customers

In 2016, Danone's top 10 customers worldwide (of which five are French) accounted for approximately 19% of its consolidated sales; the top five customers represented approximately 13% of its consolidated sales.

2.3 STRATEGIC GROWTH AREAS

To address major challenges facing society, Danone is committed to a responsible corporate approach to promote healthier and more sustainable food practices through the Alimentation Revolution.

The positioning of its categories, its commitments detailed in its Manifesto and its mission to «bring health through food to as many people as possible" enable Danone to take part in this revolution. Danone symbolizes, with the Alimentation Tree, the health territories and the environmental problems, on which, the Company wants to strengthen its impact in the years to come.

In order to carry out this revolution, Danone has launched its Danone 2020 transformational plan, which focuses on three main streams:

- alimentation: encourage healthier eating behaviors;
- strategic resources: strengthen Danone's ability to protect and optimize its essential resources (water, milk and plastic) and secure its license to operate in a cycle-oriented way;
- people and the organization: the goal is to tap into the full range of talent at Danone to give its corporate architecture more solidity and more relevance for today's world.

Alimentation

Danone does not limit its mission to simply satisfying nutritional needs. It also includes a cultural, social, emotional and physiological dimension linked to local eating habits in each region around the world. Danone has chosen to provide food that takes into account each community's own way of life while using pleasure as means to get people to adopt and maintain healthy eating behaviors. The idea is therefore not to focus exclusively on the sale of food products but to adopt a broader vision and promote dietary practices by offering a superior product and services experience as well as a healthy alternative that is adapted to the communities while still retaining the goal of building, fueling and protecting health capital.

In that context, demographic trends and the major nutrition challenges generate new growth opportunities for Danone. A balanced diet is in fact a genuine challenge in a world where 39% of adults are overweight, and in the developing regions, 13% of the population suffers from malnutrition. In this context, each of Danone's businesses – Fresh Dairy Products, Waters, Early Life Nutrition and Medical Nutrition – contribute to this mission and play a role in the profitable and sustainable growth strategy that Danone has set. Danone is thus developing its activities in all of the world's regions, notably in emerging countries. They constitute a key lever for Danone to successfully carry out its mission while ensuring its long-term growth.

To implement its strategy, Danone relies first on major growth markets in which it enjoys strong positions such as Indonesia, China, Russia, the United States, Mexico and Brazil. In these countries, the Company continues to develop the consumption of its product categories, especially through innovation.

Danone is also pursuing its expansion in new countries in order to develop new sources of growth. Since 2013, Danone has accelerated its growth in Africa, with the increase of its majority stake in Centrale Danone (Fresh Dairy Products, Morocco) and the purchase of an equity interest in Fan Milk (Fresh Dairy Products, West Africa) and Brookside (Fresh Dairy Products, East Africa). Danone's goal is to take advantage of all of the growth opportunities Africa has to offer in the near and medium term.

With a presence in more than 130 markets, Danone is committed to developing and optimizing its organizational model to make the most of its global size while providing strong support to local businesses. In the near term, Danone's priority is to strengthen its various supply, distribution, manufacturing base and quality control platforms and to fuel future growth by relying in particular on its ability to innovate. Innovation plays a key role in the implementation of this strategy in order to adapt the products and distribution to the local conditions and consumption patterns.

Cyclical management of strategic resources

Danone relies increasingly on the upstream segment of its activity (environmental management, raw materials supply, manufacturing processes and logistics), not only to optimize costs but also to create a lever for value creation and differentiate Danone from the competition.

Thus one key stream of the transformational "Danone 2020" plan is a new approach for managing strategic resources (milk, water and plastic). For Danone, these resources are essential not just from an economic standpoint but also an environmental and social standpoint. Danone's key raw materials come from nature and must therefore be protected by creating shared value for ecosystems and communities where Danone operates. These resources are therefore managed as cycles in order to ensure their long-term viability, limit their volatility and, lastly, gain a true competitive advantage:

- in the milk industry, the Company is working closely with local producers to improve animal husbandry practices in both developed and emerging countries. Collection entities and cooperatives open to small producers were created in several countries (Egypt, Indonesia, India, Mexico, Turkey, Ukraine, etc.) in order to help members manage their farms, optimize their purchases, improve the herd's feed or get veterinary treatment;
- in the area of water, Danone has made commitments to protect resources, particularly where they are scarce, and uses water in harmony with local ecosystems and communities. By 2020, Danone plans to deploy a new tool for measuring its water footprint in all its subsidiaries. The Company is also committed to reducing water consumption in its factories by 60% by 2020;
- in the area of plastics, Danone is striving to reduce its weight and excess packaging and to use recycled materials. In that regard, Danone contributes to the development of recycling channels for its packaging in many countries.

People and the organization

As part of its transformational Danone 2020 plan, Danone has adopted a new administrative organization that is more robust and, more importantly, better adapted to an environment that will remain politically and financially complex, unstable and fragmented. Danone has therefore launched several initiatives in order to enhance its efficiency, expertise and flexibility, notably One Danone and Beyond Budget projects:

- One Danone: this project seeks to make a lasting and positive contribution to the success of Danone and its employees. Its objective is to build a solid framework for Danone that supports its unique spirit and culture. Danone's goal is to make a bigger impact and improve its consistency and efficiency by sharing and strengthening its expertise and using resources across divisions to an even greater extent. These efforts will support the development of its activities, while the Company remains close to its markets. On the one hand, Danone needs to optimize its organizational entities by pooling certain support functions, and on the other it needs to invest in key functions, which are essential to ensure the long-term viability of Danone's model;
- along with One Danone, Danone has also reviewed how it steers its performance, time frames and activity cycles in its Beyond Budget initiative. This initiative marks a radical shift in how Danone plans to allocate resources going forward. Danone is thus replacing the traditional budget process with a rolling forecast, *i.e.* a dynamic forecasting process based on new forecasts determined at the end of each quarter with the aim to strengthen discipline, flexibility, agility and the organization's precision in terms of resource allocation.

Towards a strong, profitable and sustainable growth by 2020

Danone's ambition is to generate strong, profitable, sustainable growth by 2020, meaning a growth greater or equal to 5% including the following dynamics:

- between +3% and +5% for the Fresh Dairy Products Division;
- between +7% and +10% for the Waters and Early Life Nutrition Divisions;
- between +6% and +8% for the Medical Nutrition Division.

Danone also commits to a yearly margin increase to which the main lever is the structural recovery of the Fresh Dairy Products Division margin. Danone anticipates an improvement of the Fresh Dairy Products Division margin of more than 200 bps between 2015 and 2020 compared to 2014 with like-for-like exchange rates.

2.4 DESCRIPTION AND STRATEGY OF THE DIVISIONS

Danone implements its strategy in a specific manner for each of its four Divisions.

Fresh Dairy Products

The Fresh Dairy Products Division produces and markets yogurts, fermented fresh dairy products and specialized dairy products.

The Division's strategy consists of developing consumption of these products in all regions around the world. The strategy is based notably on:

- strengthening the Division's main growth platforms such as the United States, Russia, Brazil, Mexico, Morocco and South Africa, where consumption of Fresh Dairy Products offers strong growth potential;
- maintaining business volume in mature European countries, notably through product quality, constant product line renewal and innovation;
- the development of new regions, in particular in Africa (for example in Egypt, Nigeria and Kenya) or Asia (notably in China through the strategic alliance forged with Mengniu in 2013).

The Division continuously renews its product lines in terms of flavor, texture, ingredients, nutritional content and packaging. This innovative capacity enables it to reach new consumer segments and develop new consumption moments while adapting to the local tastes and dietary preferences of each market and making sure to cover the full range of price points.

To promote the consumption of fresh dairy products, the Division also strives to build a consensus around the central role of its products as part of a balanced daily diet. Fresh dairy products certainly do provide essential nutritional benefits for the human body, notably proteins, carbohydrates, calcium, phosphorus and vitamins B2 and B12.

The Division relies on a solid portfolio of international and local brands benefiting from a high profile and good reputation.

The Division's main brands and product lines are as follows:

- so-called core business brands, which include basic fresh dairy products such as plain and fruit yogurts;
- Greek-style yogurt lines such as *Oikos* and *Danio*, which contain twice as much protein as standard yogurt;
- the *Activia* line, which has been marketed for more than 20 years and is now present in more than 70 countries;
- the *Actimel* brand sold for more than 15 years;
- brands aimed at children and preteens, such as *Danonino*, which have been replicated in more than 50 countries (notably under the *Fruchtswerge* and *Danoninho* brand names), as well as *Danimals* in the United States, Serenito in Argentina or *Tëma* in Russia;
- functional brands such as *Danacol* or *Densia*;
- indulgent lines such as *Danette*, *Fantasia*, *Danissimo* or *YoCrunch*;
- *Vitalinea*, also marketed under the *Light & Fit*, *Taillefine* or *Ser* brand names, which comprises the low-fat product lines.

Waters

The Waters Division comprises the natural waters business along with Aquadrinks (waters flavored and vitamin-enriched with natural fruit juice extracts, fruit juice and vitamins).

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

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

- promotion of hydration-related health benefits: Danone is establishing initiatives to promote healthier hydration through partnerships with public health authorities and scientists and by communicating directly with consumers in order to inspire healthier hydration practices. In particular, the Company runs the "Hydration for Health" scientific platform: 150 scientists and public health authority researchers from around the world meet annually to share and promote the advances in the area of hydration science and its positive effect on health;
- long-term management and environmental protection of water resources: Danone strives to preserve the unique quality and sustainable nature of its natural waters products by strengthening the protection of its springs and respecting the water cycle. Danone is also committed to getting all socio-economic players involved through associations and partnerships that promote the development of non-polluting activities and the establishment of agricultural practices that do less harm to the environment around the catchment areas;
- the development of a line of healthier natural beverages, alternatives to sodas and other sweetened beverages. The challenge is to facilitate the adoption of healthier hydration practices for consumers of sweetened beverages. Many of the Company's water brands also come in flavored versions or mixed with fruit juice, *i.e.* Aquadrinks;
- packaging innovation: in order to reduce its environmental impact, the Division has substantially reduced the weight of its bottles over many years and uses new packaging materials such as ones made from plant-based or recycled materials.

Early Life Nutrition

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

The infant milk formula segment accounts for more than 80% of this Division's activity. These products are available worldwide. The complementary foods segment (also known as 'weaning foods') is less than 20%, and these products are available in selected European countries only. The Division deploys a few global brands (such as *Aptamil* and *Nutrilon*) and a large number of local heritage brands (*Cow & Gate*, *Bledina*, *Bebelac*, *Malyutka* and *Dumex*). The Early Life Nutrition Division has 24 factories around the world and its products are available in 150 countries.

The Division's growth strategy is built on a combined 'Health & Business' agenda. This means that Danone aims to grow the early life nutrition category in a credible, sustainable way, providing meaningful products, services and education that contribute to the health of next generations. For this, the Division collaborates with many healthcare professionals in the sector. Also, it performs local surveys to better understand local dietary habits and nutritional needs, in order to fuel successful innovation.

Medical Nutrition

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

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

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

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

2.5 OTHER ELEMENTS RELATED TO DANONE'S ACTIVITY AND ORGANIZATION

Distribution

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

- distribution aimed at major retail chains;
- distribution to traditional commercial sales points.

Moreover, a significant portion of the products in the Early Life Nutrition and 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 sales points. 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 in the emerging countries particularly, a large portion of Danone's sales is generated through traditional market outlets thanks to small-scale sales points networks. An in-house sales force 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 Division's products is directly distributed to consumers (Home & office delivery or HOD).

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

Specialized distribution channels of hospitals, clinics and pharmacies

In the Early Life Nutrition and 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 Company's competitors in its respective Divisions include (i) large multinational food and beverage corporations such as Coca-Cola, General Mills, Kellogg's, Kraft Heinz, Mondelez, Nestlé, PepsiCo, Unilever, (ii) large corporations in the Medical Nutrition and Early Life Nutrition segments such as Abbott and Mead Johnson, (iii) more local companies specialized in certain product lines or markets such as Fresenius, Lala, Yakult and Biostime, or (iv) retail chains offering generic or private label products.

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.

Research and Development

Presentation of Danone's Research and Development

Research and Development plays a central role in the implementation of Danone's growth strategy. Danone believes that food can play an essential role in addressing health challenges.

The Research and Development strategy focuses on four main innovation areas:

- progress: building bridges between science and food to contribute to the health of people of all ages, from the youngest to the oldest;
- reliability: committing to the nutritional quality of the products and managing natural resources sustainably;
- cultures: staying connected to eating practices, integrating cultural differences and local needs and encouraging healthier dietary practices within communities;
- well-being: promoting its categories as a daily source of health and well-being for all; Danone therefore supports nutrition research, educates and trains health professionals on diet-related matters and contributes toward improved dietary practices for the consumers through educational and informational campaigns.

The Research and Development strategy is based on a unique approach to nutrition. This approach involves stakeholders who are concerned by the public health challenges in the countries where Danone operates.

Research and Development organization

The Research and Development function at Danone Nutricia Research has approximately 1,600 employees spread in the following locations:

- two international research centers: Danone Research Centre Daniel Carasso (Palaiseau, France) and Nutricia Research (Utrecht, the Netherlands);
- four specialized centers:
  - Danone Research Packaging in Évian, France,
  - Nutricia Research Singapore, in Singapore,
  - Danone Research Fresh Dairy Technological Expertise, in Madrid, Spain,
  - Danone Research Fresh Dairy Technological Expertise, in Chekhov, Russia,
- local teams in 55 Danone subsidiaries.

Scientific collaborations

In their research, the Research and Development teams regularly work with external partners such as universities and public research centers. For example:

- Danone benefits from the expertise of external scientific committees on strategic topics such as cultures, including ones with probiotic potential, or water;
- Danone maintains permanent contact with the scientific community to better understand health and nutrition issues. This collaborative scientific approach makes it possible to pool investments, resources and skills. Danone expresses support for research and ongoing dialogue with the scientific community which are among the beliefs and commitments in its Manifesto;
- as part of its contribution to nutrition research, Danone created the Danone Institutes (non-profit entities) in 1991 to help strengthen the understanding of the links between food, nutrition and health. As of end-2016, 16 Danone institutes have been established worldwide. Their initiatives cover everything from support for scientific research to information and training for health professionals, to educational programs for children and the general public.

Danone's Research and Development innovation areas

Danone determines its Research and Development areas in accordance with its strategy based on four innovation areas:

Progress: bridging life science and nutrition

This innovation field consists of building bridges between science and nutrition in order to develop food that strengthens the health potential of each individual, from the youngest to the eldest.

To that end, Danone has developed scientific expertise in selecting and characterizing lactic acid bacteria as well as understanding the way these bacteria (known as probiotics) can benefit human health.

In recent years Danone has therefore developed substantial knowledge of the various genomic, molecular, cellular, physiological and functional elements that form the basis for this link between the microbiota, the immune system, intestinal walls and their overall contribution to health.

To develop fermented dairy products that have an impact on the human body's balance and homeostasis, Danone uses various approaches, including applying its extensive collection of lactic acid bacteria and selecting the top-performing ones depending on the desired physiological and clinical effects.

For the work in these areas, the Research and Development teams use the latest techniques in genomics, cellular and molecular biology, cytometry and robotics. They design and set up clinical studies based on international standards and utilize the latest statistical analysis methods. They also collaborate with other internationally-recognized, high-level scientific partners such as INRA (French National Institute for Agricultural Research) in Paris, Harvard Medical School in Boston (United States), the Institut Pasteur (Pasteur Institute) in Paris and University College of Cork in Ireland. Furthermore, to further develop these research areas, Danone sponsors conferences with these institutions in order to share the latest findings to the international scientific community.

Reliability: committing to nutritional quality and resource preservation

Danone applies the recommendations of the World Health Organization (WHO). Focusing the nutritional composition of its products is a key component of its nutrition strategy, with a dual objective:

- strive to reach nutritional targets defined by nutrient, product category and consumer group. These targets were redefined and disclosed in December 2016 for all three Divisions: Fresh Dairy Products, Early Life Nutrition and Waters (Aquadrinks) and apply in all Danone geographies;
- develop products that constitute an alternative, with nutritional and taste qualities exceeding those of other market products or categories that might be chosen in a given consumption situation.

Danone prepares and implements action plans to steadily improve its products in order to maintain the sensory qualities of the products and ensure continued consumer preference.

This approach is also conducted in accordance with a strict food safety policy.

Cultures: embracing local eating and drinking habits

Danone puts the consumer at the heart of its development projects. To that end, Danone relies on its Sensory & Behavior Science Department within the Research and Development Department.

Danone firmly believes that consumers and their specific needs must be taken into account early in product development, including the identification of research areas. Danone's Research and Development thus seeks to understand the human behaviors of food consumption and identify consumer expectations in terms of taste, usage and experience in everyday life and targeted benefits. These insights are expressed in the directions given to Research and Development to develop superior and unique product experiences for consumers. This department works hand-in-hand with the Insights and Strategy department under Marketing.

As mentioned above, understanding local challenges surrounding nutrition and food as well as major challenges pertaining to public health and involving food are also key to Danone's strategy. This enables Danone to develop products that are relevant and more closely adapted to local market conditions. To that end, Danone drafted a "Nutriplanet" map of nutrition and public health that identifies food deficiencies and excesses in specific countries and allows Danone to adapt its product recipes accordingly. Today, Nutriplanet has been completed in over 50 countries and is a resource for research published in scientific journals.

This expertise also leads Danone to study dietary practices and trends, and the role of various food groups in the local cultures through a sociological approach.

Well-being: promoting Danone's product categories

Through its four Divisions, Danone focuses on product categories that support primarily health and well-being:

- fermented fresh dairy products, because daily consumption of yogurt is consistent with the rules for a balanced diet, as evidenced by the official food pyramids of many countries;
- water, an essential beverage;
- early life nutrition, because the diet in the first 1,000 days of life is critical for good health;
- medical nutrition, because targeted nutrition works together with medical treatment.

The creation of quantitative measurement tools; the definition of diet quality indices; the development of methods to classify consumers based on their dietary practices, quantified by the impact of a change in a given food on the overall quality of the diet.

Plants and equipment

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

Danone has production facilities around the world in its principal markets. As of December 31, 2016, Danone had 197 production sites (see section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*).

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, 2016

		Key sites by Division [a]	
	Production [b]	Localization	Share of production [b] by Division
Fresh Dairy Products	6.4 million metric tons	Mexico, Brazil	12%
Waters	28.1 billion liters	Indonesia	11%
Early Life Nutrition	0.9 million metric tons	Ireland	15%
Medical Nutrition	182.5 million liters	Netherlands	59%

(a) Two of the largest sites for the Fresh Dairy Products and Waters Divisions, the largest site for the Early Life Nutrition and Medical Nutrition Divisions.
(b) For the fiscal year.

2

Raw materials purchasing

Danone's principal raw material needs consist primarily of:

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

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

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

The price trends of major raw materials may affect the structure of Danone's results. In that context, the Company manages 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 Company's various products) and take advantage of pooled purchasing for its various subsidiaries;
- implementation of a purchasing policy ("Market Risk Management") that consists of defining rules for securing the physical supply and price setting with suppliers and/or on financial markets when they exist. The monitoring of exposures and the implementation of this policy are made for each raw materials category by the Company's central purchasing team. The buyers typically negotiate forward purchase agreements with suppliers, since no financial markets exist that would allow full hedging of the volatility of Danone's main raw materials purchase prices. Forward purchase agreements are monitored at the Company level at the end of each year. The information regarding these future purchasing commitments is presented in section 3.4 *Balance sheet and financial security review*. Also, with respect to Danone's two main raw materials categories (milk and dairy ingredients and plastics including PET), a sensitivity analysis of the impact of changes in their prices on the Company's annual purchasing costs is presented in Note 5.7 of the Notes to the consolidated financial statements.

Social and environmental responsibility

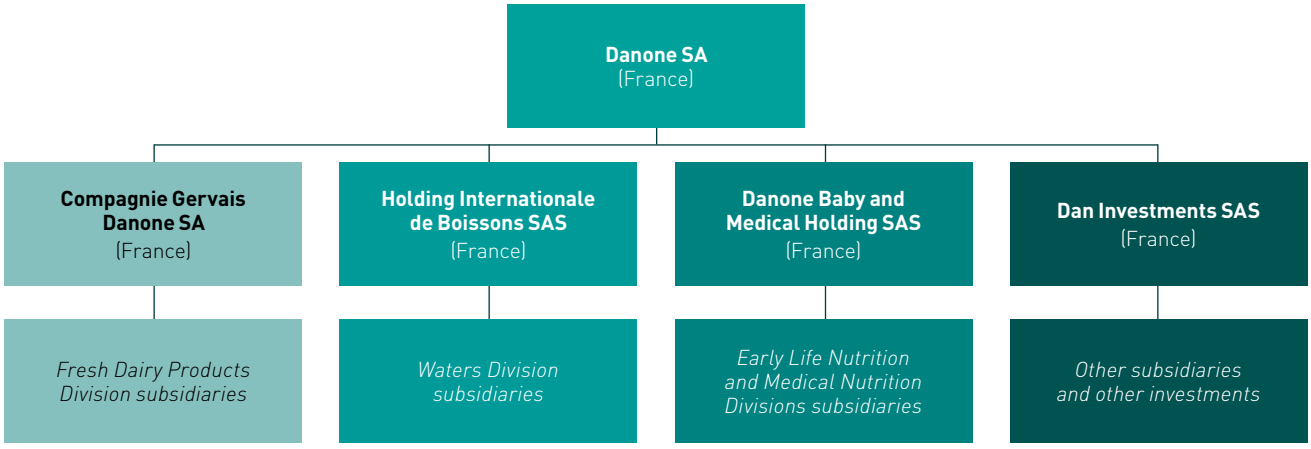
See sections 5.1 *Danone's social, societal and environmental approach*, 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*, and 5.3 *Funds sponsored by Danone*.

Financial risk management

See section 2.7 *Risk factors*.

2.6 SIMPLIFIED ORGANIZATIONAL CHART AS OF DECEMBER 31, 2016

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



Parent company Danone

Danone SA is the parent company of the Danone group. The company 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 844 in 2016.

Consolidated subsidiaries

The lists, by Division, of the 20 largest, fully consolidated subsidiaries in terms of net sales are presented in Note 17 of the Notes to the consolidated financial statements.

More information about the relationships between Danone SA and its subsidiaries can be found in Note 3 of the Notes to the financial statements of the parent company Danone.

Main fully consolidated but not fully owned companies

Percentage of non-controlling interests held as of December 31

(in percentage)	Division	Country	Listing market [a]	2015	2016
Danone-Unimilk group [b]	Fresh Dairy Products	CIS		29.1%	7.1%
Danone Spain [b]	Fresh Dairy Products	Spain		7.6%	0.3%
Centrale Danone [b]	Fresh Dairy Products	Morocco	Casablanca	4.1%	0.3%

(a) If the company is listed.
(b) As of December 31, 2016, non-controlling interests of the company have no representative on the Board of Directors of the company.

Each of these companies operates Danone's fresh dairy products activities in a given country or group of countries. As a reminder, most of the non-controlling shareholders of each of these companies held put options on their interest as of December 31, 2014, with the majority of these options exercised in 2015.

These put options constitute the principal commitments and/or agreements between Danone and the non-controlling shareholders of certain fully consolidated companies in which Danone does not own a 100% equity interest.

Main publicly traded companies

As of December 31, 2016

	Division	Country	Listing market
Centrale Danone [a]	Fresh Dairy Products	Morocco	Casablanca
China Mengniu Dairy [b]	Fresh Dairy Products	China	Hong Kong
Yakult Honsha [b]	Fresh Dairy Products	Japan	Tokyo
Yashili [b]	Early Life Nutrition	China	Hong Kong

(a) Fully consolidated company.
(b) Company consolidated as associate.

2.7 RISK FACTORS

Risk identification and control policy

As any other company Danone is facing external and internal risks which can affect the targets' achievement. The main risks Danone is exposed to as of the date of this Registration Document are described in the following part.

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 the Chairman's report on internal control and risk management in section 6.6 *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	Laws and regulations Risks associated with product quality and safety, and with their positioning Consumer tastes, preferences, and environmental preferences Raw materials: price volatility and availability Concentration of distribution Competition Natural and climate change risks Weather conditions and seasonal cycles
Risks associated with Danone's strategy	Intellectual property Risks associated with Danone's image and reputation External growth Principal markets Danone's position in certain markets
Risks associated with Danone's organization and operation	Concentration of purchases with a limited number of suppliers Human resources Ethical and non-compliance risks Information systems Internal control deficiency Industrial risks Insurance coverage deficiency
Financial market risks	Financial market risks Currency risk related to operating activities Currency risk related to financing activities Liquidity Interest rates Counterparty, credit

These primary risk factors are described hereafter.

Other risks

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

- exchange rate risk associated with the conversion of accounts in euros;
- 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 the Company was unaware of them or considered them immaterial as of the date of this Registration Document.

Description of principal risk factors

Risks associated with Danone's business sector

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

Laws and regulations

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

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

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

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

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

In addition, Danone developed and implemented internal policies and procedures relating to compliance detailed in section 6.6 *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.

In addition, to comply with applicable environmental regulations, Danone has established organizations and implemented procedures and tools, in addition to setting targets for reducing its environmental footprint. These various initiatives as well as the measures taken in 2016 are described in section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*.

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

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

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

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

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

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

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.

Consumer health is at the heart of Danone's history and its mission of "bringing health through food to as many people as possible."

Danone's strategy in the nutrition and health area and is consistent with the main orientations set by health authorities in various countries. It is formalized in the Danone Engagement Commitments. 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 Development 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 internationally renowned scientific organizations and an ongoing dialogue with public health authorities, and (iii) the establishment of an internal procedure to ensure the consistency, credibility and scientific foundation of health and nutrition claims that are disseminated in its communications (see section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law* relating *to Fair trade practices*).

Danone's absolute priority is to avoid any contamination risk.

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

- the risk of product contamination is classified into four categories (microbiological, chemical, physical and allergic) and depends on the nature of the products;
- it is controlled at each stage of the production and selling cycle: at the time of the purchase and delivery of raw materials, the production process, the packaging of products, the storage and delivery of finished products to distributors and food retailers, the storage and shelving of finished products at the final sales points.

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

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Consumer tastes, preferences, and environmental preferences	
Consumers' purchasing preferences are influenced by tastes and eating customs, and also increasingly by environmental concerns (in particular (i) greenhouse gas emissions, mainly methane emissions by cows producing milk, and (ii) the preservation of water resources), and such preferences are at times supported by NGOs. Distributors also pay increasing attention to communications with consumers (in particular the labeling of the products' carbon footprint). If Danone is unable to anticipate changes in preference in terms of consumer tastes, eating customs and environmental expectations, its activities, results and reputation could be negatively impacted.	Danone has developed a broad portfolio of product lines that allows it to offer a wide variety of products to respond to different consumption needs and situations. In addition Danone strives to foster ongoing dialogue with its consumers by adapting to new ways of communications and consumer patterns. Danone undertakes continuous efforts to reinforce its societal and environmental commitment and to improve the management of its business activities throughout the entire product life cycle, notably through its Nature strategy. Danone's Nature strategy, its implementation and achievements in 2016 are described in section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*.
Raw materials: price volatility and availability	
Danone's principal raw material needs consist primarily of: • materials needed to produce food and beverage products, mainly milk and fruits (the "food raw materials"); • product packaging materials, in particular plastics and cardboard ("packaging"); • energy supplies. They account for only a limited portion of Danone's purchases. Variations in supply and demand at global or regional levels, weather conditions, government controls, regulatory changes and geopolitical events (changes in production methods, trade saturation, etc.) could substantially impact the price and availability of (i) raw materials, and (ii) materials needed to package certain Danone products, which could have an adverse effect on its results. In particular, a potential increase in the prices of these raw materials (especially milk) and other materials may not be passed on, either in full or in part, in the sales price of Danone's products, notably in countries whose economic environment has deteriorated, which could have a significant adverse effect on Danone's activities and results.	In the context of high raw materials price volatility and to limit its impact on Danone's activity and results to the greatest extent possible, Danone manages this cost inflation through actions described in section 2.5 *Other elements related to Danone's activity and organization*. Danone's supply policy and exposure to principal raw materials risks, including milk, are described in Note 5.7 of the Notes to the consolidated financial statements.
Concentration of distribution	
While the end customers of Danone products are individual consumers, Danone sells its products mainly to major retail and grocery chains. Overall, the distribution market has become increasingly concentrated globally and locally. A continuation of the trend to concentrate distribution at the global level along with the emergence of key players at the local level would result in a smaller number of customers for Danone companies and could lead to retailers demanding better terms. This could in particular affect these companies' and therefore Danone's operating margins, and impact their market share.	The presence of Danone brands in different types of distribution channels helps to mitigate the potential negative impact of the concentration risk. Danone has also taken measures that help to reduce this risk, in particular action programs related to the trade policy towards key customer accounts (see section 2.5 *Other elements related to Danone's activity and organization*).

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Competition	
Danone conducts its business in highly competitive markets that include large multinational companies and numerous local players of different sizes. This competition could lead Danone to lose market share, increase its advertising and promotional expenditures, reduce its prices in order to defend its market shares or prevent it from raising its prices in order to overcome cost increases, which could have a significant adverse effect on Danone's strategy and results.	Danone limits the effects of competition from the leading players in its markets, notably through its strategy of (i) differentiation relative to its competitors, especially in terms of product lines, price/quality ratios and positioning, and (ii) development through organic and external growth. These elements of Danone's strategy are described in sections 2.3 *Strategic growth areas* and 2.5 *Other elements related to Danone's activity and organization.*
Natural and climate change risks	
Natural risks Danone's geographic expansion sometimes leads it to be present in regions exposed to natural risks, notably seismic. Natural disasters could therefore cause damage to persons, property or the environment, and directly affect Danone or its consumers or the regions where it is present and potentially have a negative impact on the Group's activities, financial situation and image. **Climate change risks** Danone's businesses are directly related to nature and agriculture, and are naturally faced with climate change which could have negative effects on the natural water cycles, soil, biodiversity and ecosystems. Climate change could therefore affect the activity of Danone, its suppliers and its customers, which could have negative impacts on its results and financial situation.	For its new site development projects, Danone conducts a risk exposure analysis for such risks in order to choose the site with the least possible exposure. If, however, the site chosen (or the existing site in the case of an expansion) is exposed to these risks, the building construction and equipment installation take into account recommendations from prevention/protection experts to limit the potential impacts of these natural risks. In addition, each year, Danone conducts a screening of its production sites' localization to identify its exposure to water cycles and climate change risks. Danone is developing and implementing actions, procedures, tools and policies that seek to prevent and reduce these risks, notably its Climate Policy which aims in particular to reduce its greenhouse gas emissions, foster "carbon positive" solutions, offer healthy and sustainable products, reinforce the resiliency of its water and food cycles, and eliminate deforestation from its supply chain by 2020. Lastly, to strengthen the resiliency of its food chain, Danone is co-developing solutions together with all its stakeholders and local communities. These initiatives are described in sections 5.1 *Danone's social, societal and environmental approach* and 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law.*
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 varies depending on Danone's Divisions. Moreover, Danone's international growth results in a geographical distribution of its activities that helps to diversify and limit the concentration of this risk of weather changes for a given region. Lastly, Danone relies on its operating experience (notably through the development of its product lines and management of its markets) to limit the impact of weather conditions as much as possible.

Risks associated with Danone's strategy

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Intellectual property Danone owns rights to brand names, registered designs and patterns, copyrights and domain names throughout the world. Intellectual property represents a significant portion of Danone's net assets. The territorial extent of the protection depends on the significance of the products and activities concerned: The protection is global for products intended for the international arena, and local or regional for other products. Danone also owns patents, licenses, proprietary recipes and substantial expertise related to its products and packaging, as well as to their manufacturing processes. Finally, the Company has established licensing agreements with its subsidiaries and partners that use these intellectual property rights. Danone cannot be certain that third parties will not attempt to infringe on its intellectual property rights. Moreover, Danone's potential recourse to intellectual property rights protection varies by country. The degree of protection may be different, as may be Danone's implementation of a defense strategy. If Danone was unable to protect its intellectual property rights against such infringement or misuse, its results and growth could be negatively affected, as could its reputation. In addition, certain employees have access to confidential documents in the course of their work. The loss or dissemination of sensitive and/or confidential information could harm Danone's interests and reputation, and have an adverse effect on its results.	In order to monitor its assets and ensure the protection, management and defense of its rights in a coherent and optimal manner, Danone has drawn up an Intellectual Property charter. The Company regularly contacts each of its subsidiaries in order to update its intellectual property rights portfolio and thereby protect and defend, to the best of its ability, the brand names, graphic design, forms, packaging, advertisements, websites, etc. that are used by the Danone. Danone also takes all appropriate legal measures, notably through actions for infringement and/or unfair competition, to protect and defend its intellectual property rights at both international and local level. Danone is continuing its efforts to develop awareness among staff with access to and/or in possession of sensitive and/or confidential information and provides updates to employees on best practices with a view to limiting this risk, notably as regards the use of information systems and social networks.
Risks adversely affecting Danone's image and reputation In addition to the aforementioned risks linked to its products, Danone is exposed to criticisms of all types and origin, whether well-founded or not and whether in good or bad faith, that could affect its image and reputation. Danone may therefore face negative publicity that could result from an actual situation, or even a simple allegation, concerning its activities, its brands or its practices in commercial affairs or its societal responsibilities toward its suppliers. The media publicity of such criticisms, whether they are founded or not, is facilitated by the development of social networks, which can amplify the impact considerably. Such events could adversely affect Danone's image and have repercussions on sales, activities, results and growth prospects.	In order to limit the risk of criticism, the Company has developed governance rules and best practices – which are communicated to the subsidiaries – notably with respect to (i) business conduct, (ii) societal responsibility toward suppliers, (iii) relations with local communities, and (iv) 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 5.1 *Danone's social, societal and environmental approach*, 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*, and 6.6 *Internal control and risk management*. Danone has also established procedures to manage (i) risks so as to avoid and anticipate potential crisis, and (ii) crisis in order to prevent the spread and scope of such criticisms and to limit their impacts as much as possible.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT

External growth

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

In addition, for an acquisition and in the case of the 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 achieve 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 for the purpose of impairment tests for 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 2010 acquisition of the Unimilk group's companies, for example (the companies now known as Danone Russia, Danone Ukraine, Danone Belarus and Danone Kazakhstan), had been subject to an integration plan and have since been integrated, both into Danone's internal control system and in terms of achievement of synergies with Danone's pre-existing subsidiaries.

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

Principal markets

Geopolitical environment

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

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

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

IDENTIFICATION OF RISK

Lastly, Danone conducts business in certain countries, notably Iran and Russia, which may be targeted by economic and financial sanctions imposed in particular by U.S. or European regulations. These regulations prohibit notably 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 the subject of 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 Medical Nutrition Division, a reduction in the insurance reimbursement of medical products and/or pressure on prices and contraction in healthcare expenditures.

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

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

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

RISK MONITORING AND MANAGEMENT

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

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

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Danone's position in certain markets Danone is market leader in some of its markets. As a consequence, the Company may be accused by third parties of abusing a dominant position in these markets and/or of engaging in anti-competitive practices. More generally, the provisions of competition law apply to Danone in the vast majority of countries where Danone does business. Actual or alleged violations of competition law could affect Danone's reputation, and result in investigations by competition authorities in countries where Danone is present, legal proceedings or even criminal and/or significant financial penalties. This could have an adverse effect on Danone's activities and results.	In its Compliance department, Danone has put together a specialized team of competition law experts who are responsible for developing and deploying a competition law policy for the Group's entities. Meanwhile, the Company has developed an international network of competition law specialists within the legal function to monitor this risk. Danone also pays close attention to this matter and seeks to limit the corresponding risk, mainly by communicating and promoting the Business Conduct Principles and Code of Conduct dedicated to the sales functions, and Danone has integrated these rules and best practices into its Danone Way approach in order to ensure that they are communicated and followed. Further information is available in sections 5.1 *Danone's social, societal and environmental approach*, 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*, and 6.6 *Internal control and risk management*.

Risks associated with Danone's organization and operation

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
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 Fresh Dairy Products Division or powdered milk for the Early Life Nutrition Division 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 commitment of Danone's employees play an essential role in Danone's success. If Danone's ability to attract and retain employees with the necessary skills or talents – notably in the emerging countries, Danone's principal markets, newly acquired companies and/or during times of transformation for the Company – were to diminish or be insufficient – especially in an environment marked by efforts to control wage and salary costs and/or in light of the impact of the economic crisis on Danone's various annual and multi-year variable compensation plans – then Danone's ability to achieve its objectives could be adversely affected, which could also negatively affect its results. Moreover, mobilizing Danone's management and staff to successfully implement these restructuring projects and, more generally, the Company's transformation projects could affect their availability and focus on the Company's business and its operational projects, which could have a negative impact on its activities and results. This is particularly the case of the transformational project towards Danone 2020 implemented starting in 2015.	As described in section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law* related to Compensation and promotion, Danone offers competitive and fair compensation, and to that end has developed appraisal systems and procedures that are also described in this section. Danone has also developed a social, societal and environmental responsibility approach that it has rolled out in its subsidiaries, including in emerging countries. Danone believes that its approach and the actions implemented contribute to the Group's appeal. This approach and the related actions are described in sections 5.1 *Danone's social, societal and environmental approach* and 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law.*
Ethical and non-compliance risks	
Certain Danone products belong to food categories subject to regulation (early life nutrition and medical nutrition) in which respect for ethical values and integrity is of particular importance. Behaviors contrary to ethical principles or violation of applicable laws and regulations, in particular situations involving non-compliance with food standards, product ingredient regulations or, more generally, anti-fraud or corruption measures by Danone, its partners, employees or any other person acting on its behalf, could engender consumer mistrust toward Danone's products, expose Danone to criminal or civil liability and could have adverse effects on Danone's results and reputation.	Danone has established the Business Conduct Principles as well as an Ethical Code that applies to all Danone employees and formalizes its commitment to integrity and compliance with applicable legal requirements. It sets demanding compliance rules as well as action and conduct principles applicable to employees for Danone activities in all countries where Danone does business. Furthermore, the RESPECT approach aims to extend this commitment to its suppliers. Ethics and compliance are part of the mission of the Audit Committee and Social Responsibility Committee, which ensure the application of ethical rules defined by Danone.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Information systems	
Danone is increasingly dependent upon common 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. 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 accidental or intentional 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 effect on Danone's activities and results. In addition, former Numico subsidiaries, as well as more recently acquired companies, rely on different information systems, which may increase the complexity of the monitoring and management of these risks by Danone.	Danone's policy is to consolidate data centers. In particular, Danone's central applications are hosted in a highly-secured data center managed by IBM. In addition, Danone is developing and implementing specific information systems (SAP/Themis, etc.) in its subsidiaries to optimize and streamline information technology investment while promoting global synergies and reducing risks. The former Numico subsidiaries and recently acquired subsidiaries are gradually benefitting from the implementation of SAP/Themis, Danone's integrated information system. Additional information can be found in section 6.6 *Internal control and risk management*.
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 6.6 *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 activities and the existence of a widely disseminated anti-fraud program that covers all aspects for reducing the risk of fraud or the potential impact of any fraud (awareness, prevention, detection, investigation, penalty, reporting and continuous improvements of the internal control system) (see section 6.6 *Internal control and risk management)* limit Danone's exposure to this risk.

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

Financial market risks

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

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

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Liquidity Danone does not use debt in either a recurring or a significant way in connection with its operating activities. Operating cash-flows are generally sufficient to finance Danone's business operations and organic growth. Danone may, however, take on additional debt to finance external growth transactions or, occasionally to manage its cash cycle, particularly when dividends are paid to the Company's shareholders. The Company's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources. Liquidity risk arises mainly from the maturities of its (i) interest-bearing liabilities (bonds, bank debt, etc.), and (ii) non-interest-bearing liabilities (liabilities on put options granted to non-controlling interests), and from payments on derivative instruments. As part of its debt management strategy, Danone regularly seeks new financing, especially to refinance its existing debt. In countries where centralized financing is not accessible, when medium-term financing is unavailable and/or in cases where certain 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.

IDENTIFICATION OF RISK	RISK MONITORING AND MANAGEMENT
Interest rates	
Danone is exposed to interest rate risk on its financial liabilities as well as its cash and cash equivalents. Through its interest-bearing debt, for example, Danone is exposed to the risk of interest rate fluctuations that affect the amount of its financial expense. In addition, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, interest rate fluctuations may have an impact on Danone's consolidated results and consolidated equity (see Note 10.8 of the Notes to the consolidated financial statements).	Danone has established a policy for monitoring and managing interest rate risk aimed at limiting the volatility of its financial result through the use of hedging instruments.
Counterparty, credit	
Danone is exposed to counterparty risk, especially on 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 Note 5.4 and 12.5 of the Notes to the consolidated financial statements.

Insurance and risk coverage

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

Insurance programs for property damage, business interruption and commercial general liability risk are negotiated at the 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 €32.5 million in 2016.

Insurance programs for "traditional" risks, which require local management, such as coverage of vehicle fleets, merchandise transportation guarantees, 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 Company. Total premiums came to approximately €23 million in 2016.

Lastly, insurance programs for potentially significant special risks, which require centralized management, such as the liability of the Company's corporate officers, fraudulent acts, and assorted risks (product recalls, credit risk, environmental risk, etc.) are negotiated according to market availability, on the basis of scenarios estimating the probable impact of any claims. The total cost of this category of coverage amounted to approximately €3.5 million in 2016.

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.

3.1 BUSINESS HIGHLIGHTS IN 2016 42
Highlights of 2016 42
Other business activities in 2016 43

3.2 CONSOLIDATED NET INCOME REVIEW 46
Sales 46
Recurring operating income and recurring operating margin 50
Net financial income (expense) 52
Tax rate 52
Recurring net income – Group share and recurring EPS 52
Dividend for the 2016 fiscal year 54

3.3 FREE CASH FLOW 55
Free cash flow 55
Consolidated statement of cash flows 56

3.4 BALANCE SHEET AND FINANCIAL SECURITY REVIEW 57
Simplified consolidated balance sheet 57
Financing structure and financial security 57
Liabilities related to put options granted to non-controlling interests 59
Net debt and net financial debt 59
Shareholder's equity 60
Off-balance sheet commitments 60

3.5 OUTLOOK FOR 2017 61
Material change in financial or trading position 61
Financial outlook for 2017 61

3.6 FINANCIAL INDICATORS NOT DEFINED BY IFRS 61

3.7 DOCUMENTS AVAILABLE TO THE PUBLIC 62

3.8 WHITEWAVE ACQUISITION PROJECT: UNAUDITED PRO FORMA CONSOLIDATED INFORMATION 62
Transaction background 62
Status as of December 31, 2016 63
Unaudited pro forma consolidated information 63

3

DANONE'S BUSINESS HIGHLIGHTS IN 2016 AND OUTLOOK FOR 2017

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 the Danone's business sectors or to Danone's activity and organization, are described in section 2.7 Risk factors.

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.

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 by IFRS:

- *like-for-like changes in sales, recurring operating income, recurring operating margin, recurring net income and recurring EPS;*
- *recurring operating income;*
- *recurring operating margin;*
- *recurring net income;*
- *recurring income tax rate;*
- *recurring EPS;*
- *free cash flow;*
- *free cash flow excluding exceptional items;*
- *net financial debt.*

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 2016

Highlights of 2016

Highlights were detailed in the main press releases issued by Danone during 2016.

- On April 13, Danone announced the appointment of Bridgette HELLER as Executive Vice President, Early Life Nutrition, and member of the Executive Committee with effect from July 1, 2016.
- On June 7, Danone announced its entrance into the FTSE4Good Index, a global responsible investment index designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices.
- On June 28, Danone announced that Danone and the shareholders of Michel et Augustin have entered into exclusive negotiations to allow Danone to acquire a minority interest in Michel et Augustin, alongside Artémis and Michel et Augustin's founders.
- On July 7, Danone announced having entered into a definitive merger agreement to acquire WhiteWave, a USD 4 billion sales global leader in organic foods, plant-based milks and related products.
- On October 25, Danone announced the successful launch of a 6.2 billion euros bond issue in euros structured in 5 tranches from 2 to 12 years.
- On October 26, Danone announced the successful launch of a 5.5 billion dollars bond issue structured in 4 tranches from 3 to 10 years.

Other business activities in 2016

Acquisitions, disposal of shares in companies

Main changes in fully consolidated companies

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

(a) Month in the 2016 fiscal year.
(b) Danone exercised a call option on 2% of the share capital of Fan Milk in 2016.
(c) Dumex Baby Foods Co. Ltd.

Main changes in investments in associates

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

(a) Month of the 2016 fiscal year.

Reduction of carbon footprint

Danone products depend on natural ecosystems. It is therefore key for Danone to actively contribute to the preservation of the environment in which it operates.

Since carbon footprint is a global indicator that reflects a wide range of environmental criteria, for the past several years, Danone has been committed to significantly reducing the carbon intensity of its products. As a result of its efforts to this end, the Company effectively decoupled business growth and CO_2 emissions by reducing its carbon intensity by -50% 2008 to 2016, based on operations under its direct responsibility.

In November 2015, as part of the COP21 of the United Nations, Danone decided to take these efforts even further by adopting a new climate policy that targets "zero net carbon" emissions within its full scope, thus including areas where it shares responsibility with other parties, especially in agriculture. This new climate policy aims at achieving zero net carbon emissions by 2050, starting with a 50% reduction in carbon intensity between 2015 and 2030, and to accelerate Danone's carbon positive initiatives. Danone has also committed to starting to reduce its full scope emissions in absolute terms before 2025. Within the framework of this commitment, the *evian* brand will be the first to achieve zero net carbon in 2020.

See also section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law.*

Social and societal responsibility

These activities are described in sections 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law* and 5.3 *Funds sponsored by Danone*.

New phase in the transformation of Danone

A new organization to create best conditions for growth and efficiency

Since 2014, Danone has achieved a series of deep transformation to balance its growth model. The Company has adopted a new way of managing its strategic resources as cycles, rolled out its "One Danone" organizational change and replaced its annual budget with an ongoing quarterly reallocation process ("Beyond Budget" project).

Danone is now entering into a new chapter of its journey towards its 2020 ambition. In a fast-evolving context, and with regards to the upcoming WhiteWave transaction, Danone will create the best conditions to reinforce its capacity to capture growth opportunities and tackle costs for a more efficient and effective growth model.

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

The three main organization principles are:

- One Danone 30 clusters implementation;
- a newly-empowered regional business leadership team that will be the best point of leverage to make decisions as close as possible to consumers. This will be composed of all the Regional business Vice Presidents, who are currently in charge of executing the businesses' regional agendas and are accountable for results in their region. By delegating extended responsibility to RVPs, Danone will ensure its new Executive Committee is completely focused on strategic topics;
- a tighter, more integrated Executive Committee team, extending the accountability of each of the executive members.

The changes to the structure of the Executive Committee are set out below, with each member having a larger scope, combining business and/or functional role:

- creation of a Strategic Business Unit for North America, gathering the Dairy business and North America WhiteWave, after the closing of the pending WhiteWave transaction. **Lorna DAVIS** will be appointed CEO of the expected new entity of over USD 6 billion of revenues. In this perspective, following the closing of the WhiteWave acquisition, the current WhiteWave businesses in Europe, Latin America, and China and in other geographies will also join forces with the Danone Dairy Division under the overall leadership of **Gustavo VALLE**;
- creation of a Growth and Innovation Officer role at Company level to fuel the growth, by placing the consumer at the heart of the Company's innovation and activation. This new team will bring together Research & Development, Quality, Innovation, Digital, Marketing and Customers' relationship, thus accelerating decision-making by fostering seamless collaboration. **Francisco CAMACHO** besides his current responsibility for the Waters category will take the leadership of this integrated team;
- creation of a Resources Efficiency function to support Danone's strong move to ensure the Company accelerates on cost efficiencies and protects and gets the most from its essential resources. In addition to his Dairy business responsibility, excluding Noram, and his leadership for the Dairy category worldwide, **Gustavo VALLE** will take charge of Danone Cycles management and Operations, Sourcing and Efficiencies. He will manage the efficiency program Protein;
- **Bridgette HELLER**, already EVP for Early Life Nutrition, will also have responsibility for the Advanced Medical Nutrition category after mid-2017 to foster synergies and accelerate momentum for both businesses;
- **Pierre-André TÉRISSE**, aside from his current responsibility as EVP for the Africa Strategic Business Unit, will additionally lead all of Danone's businesses in India. Pierre-André will also design and implement Danone's strategy of accessibility through sustainable business solutions (including danone.communities);
- **Bertrand AUSTRUY**, besides his current role as EVP General Secretary, is also appointed EVP, Human Resources;
- **Cécile CABANIS**, besides her current responsibility as EVP Chief Financial Officer, will take leadership for Information Systems and Information Technology (IS/IT), as well as the responsibility for Danone Business Services (One Danone).

Protein: launch of a €1 billion efficiency program

In an increasingly volatile and complex environment, Danone has decided to address its efficiency agenda in a radically new way.

Danone is therefore launching a comprehensive program of efficiency on its Selling General & Administrative (SG&A) Expenses, called "Protein", designed to deliver €1 billion savings by 2020. The objective of Protein is to enhance Danone's competitiveness by amplifying its efficiencies. It consists in creating the best conditions to spend better, buy better and work more efficiently in a sustainable manner.

Danone will consider how best to re-invest part of those savings into relevant growth projects to fuel its strategy and mission.

Governance

See sections 6.1 *Governance bodies* and 6.2 *Positions and responsibilities of the Directors and Nominees to the Board of Directors*.

Research and Development

Fresh Dairy Products

In 2016, the Fresh Dairy Products Division continued its research activities on the impact of yogurt consumption on diet and health, which was confirmed by independent studies by academic researchers covering, in particular:

- the link between yogurt consumption and a better quality diet in Italy and France;
- the potential action mechanisms that could explain the benefits of yogurt on cardiometabolic risk;
- the link between yogurt consumption and a better lifestyle among children in Europe.

In 2016, the Division also continued its research on understanding intestinal flora, its changes and the impact of diet and probiotics on its richness, in collaboration with scientific institutions such as INRA (French National Institute for Agricultural Research) in Paris, Harvard Medical School in Boston, USA and the Institut Pasteur in Paris.

Finally, the Division pursued its plan to revitalize its global brands and reduce the overall sugar content in its products, notably with the launch of an easily transportable, resealable Danonino pouch that keeps unrefrigerated contents fresh for eight hours. The product contains only 4.9 grams of added sugar per portion.

With respect to innovation, the Division continued to develop its strong position in the Greek yogurt segment in the United States with the deployment of numerous product line extensions on *Oikos Triple Zero* and *Light & Fit Crunch*. The Division also accelerated the development of its indulgence segment products by extending the *Oikos* line in Spain and *Danissimo* in Russia.

Finally, the *Activia* brand was relaunched in the fourth quarter of 2016, with a new global image and renovated products for certain regions (Europe, Brazil, Russia, etc.). A renovated and extended line of cereals was successfully launched in Spain.

Waters

In 2016, the Waters Division Research and Development department pursued its strategy of developing innovative solutions to encourage consumers to switch to healthier hydration practices, notably with respect to aquadrinks and packaging:

- the aquadrinks product line has been enhanced with new flavors in order to better satisfy consumer expectations. *evian* launched its first line of aquadrinks combining its natural mineral water with a Fruits and Plants flavor range. In Argentina, a new diet beverage named *Brio* was created, and the *Villa del Sur* brand launched a lemonade line. Poland and Argentina diversified their product lines by offering aquadrinks designed specifically for children. Lastly, Spain launched its first line of tea;
- in the packaging area, Danone is continuing its efforts to develop a 100% plant-based and 100% recyclable plastic bottle. Danone under *evian* brand carried out a major launch in 2016, with the creation of a more environmentally-friendly multipack that does not use shrink bundling film. The Company also continues to develop format innovations with the launch of cans in Spain. The fun format aimed at getting children to drink more water has also grown not only in Spain but also in Turkey, France, Germany, the United Kingdom, Poland, Mexico and Brazil.

Danone is also continuing its research into the health benefits of water and hydration, with an emphasis on pregnant and nursing mothers.

Danone has also strengthened its partnerships in order to promote knowledge on hydration and public health initiatives, for example through the creation of the Hydration for Kidney Health joint initiative with the International Society of Nephrology (ISN).

Early Life Nutrition

Danone pursued its research on diet in the first 1,000 days of life, particularly in the following areas:

- benefits of breast milk and lactation;
- maternal physiology during pregnancy and lactation;
- metabolism of infants and young children;
- development of gut function and microbiota, the immune system and the brain;
- development of healthy eating habits;
- product development and technology to apply science to products.

To that end, Danone Nutricia Research works closely with a global network – from opinion leaders in a specific area to healthcare professionals, scientists and policymakers – in order to create adapted products that are nutritionally optimal for each stage of the first 1,000 days of life.

In 2016, the research teams at Danone Nutricia Research launched research projects in the fields of immune development, gut development and metabolism of infants and young children.

Medical Nutrition

The Medical Nutrition Division's Research and Development department strives to develop products whose nutritional benefits help people live longer, healthier lives.

Danone's researchers focus on the development of medical nutrition products adapted to special illnesses or clinical situations, for example patients afflicted with inborn errors of metabolism or stroke victims. In these areas, Danone conducts research with numerous partners in the scientific community. In 2016, the results of a research project on allergies (Assign) were presented at scientific conferences (WCPGHAN, FAAM). Research results were also published on Alzheimer's disease (LipiDiDiet) and the loss of muscle mass, strength and function that comes with aging (Provide).

For children suffering from cow's milk protein intolerance, Danone launched Neocate Syneo, an innovation that provides a unique combination of prebiotics and probiotics. This innovative product was launched in the United States.

Legal arbitration proceedings

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

Proceedings related to the false safety alert issued by Fonterra with respect to certain ingredients supplied to Danone in Asia in 2013

See Note 14.3 of the Notes to the consolidated financial statements.

Other proceedings

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

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 of their investment in these subsidiaries.

As of December 31, 2016, financial liabilities related to these options totaled €699 million and are classified as financial debt.

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

See also section 6.7 *Statutory auditors' special report on related party agreements and commitments*.

3.2 CONSOLIDATED NET INCOME REVIEW

Year ended December 31

(in € millions unless otherwise indicated)	2015	2016	Change as reported	Change Like-for-like
Sales	22,412	21,944	(2.1)%	2.9%
Recurring operating income [(a)]	2,892	3,022	4.5%	8.4%
Recurring operating margin [(a)]	12.91%	13.77%	+87 bps	+70 bps
Recurring net income – Group share [(a)]	1,791	1,911	6.7%	10.4%
Net income – Group share	1,282	1,720	34.1%	35.1%
Recurring EPS (in €) [(a)]	2.93	3.10	5.6%	9.3%
EPS (in €)	2.10	2.79	32.7%	
Free cash flow excluding exceptional items [(a)]	1,529	1,786	16.8%	

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

Sales

Consolidated sales

Consolidated sales stood at €21,944 million in 2016, down -2.1% from the figures reported in 2015. Excluding the impact of changes in the basis for comparison (*i.e.* exchange rates and scope of consolidation) sales were up +2.9%. This organic growth reflects a +3.1% rise in value and a -0.2% decline in volume.

The -5.5% exchange-rate effect reflects negative trends in currencies including the Argentine peso, the Mexican peso, and the Russian ruble.

The +0.6% impact of the change in scope of consolidation results primarily from full consolidation of Fan Milk group companies since December 2015.

Sales by Division

Year ended December 31

(in € millions except percentage)	2015	2016	Change [a]	Volume growth [a]
Fresh Dairy Products	11,057	10,736	2.0%	(2.6)%
Waters	4,768	4,574	2.9%	2.9%
Early Life Nutrition	4,994	5,017	3.5%	0.6%
Medical Nutrition	1,593	1,618	7.4%	4.8%
Total	**22,412**	**21,944**	**2.9%**	**(0.2)%**

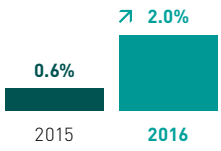
(a) Like-for-like.

Fresh Dairy Products

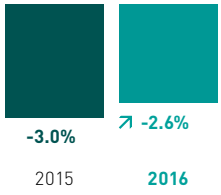
Sales

The Fresh Dairy Products Division recorded sales of €10,736 million in 2016, up +2.0% on a like-for-like basis. This growth resulted from the combined impacts of a -2.6% decline in volume and a +4.6% increase in value. This performance illustrates a global improvement despite variations from one market to another.

Like-for-like sales growth



Like-for-like volume growth



Main Markets

In Europe, sales trends have been impacted by aggravated market conditions in Spain and *Activia*'s performance below expectations, which relaunch has not delivered the brand's turnaround in the fourth quarter. Given the ambition of the transformation, this turnaround will take time. Local execution plans are being reworked and teams have already started to implement them country by country.

In the United States, Danone generated solid growth throughout the year benefiting from a solid momentum, thanks to successful brand innovation and investments behind its brands. Despite a more competitive environment, in particular in the second half of 2016, Danone continued to reinforce its leadership and more generally its fundamentals.

In the CIS, Danone demonstrated the resilience of its business model for the third consecutive year, in a difficult economic environment. The enhancement of its brand portfolio's value through mix management and the strength of its brands has offset lower volumes and generated solid sales growth.

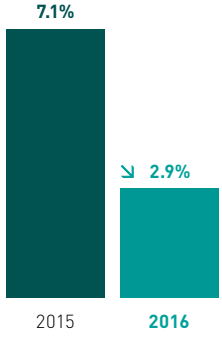
The ALMA region generated strong growth in 2016. However, in an economic context experiencing high inflation and fragile consumer spending in Latin America, volumes recorded a negative performance in 2016, particularly in Brazil.

Waters

Sales

The Waters Division recorded a solid performance in 2016, with sales up +2.9% on a like-for-like basis to €4,574 million. This growth reflected the combined impact of a +2.9% increase in volume and a stable price mix effect. Excluding China, the Division's overall performance was at mid to high single digit, supported by strong category dynamics related to consumers' switch to healthier hydration options and a constant focus on brand innovation and activation.

Like-for-like sales growth



Like-for-like volume growth

Main markets

Europe generated solid growth throughout the year and did particularly well in the fourth quarter, supported by successful innovations.

The ALMA region (excluding China) also generated a strong performance in 2016, supported by various growth platforms such as Indonesia and Mexico.

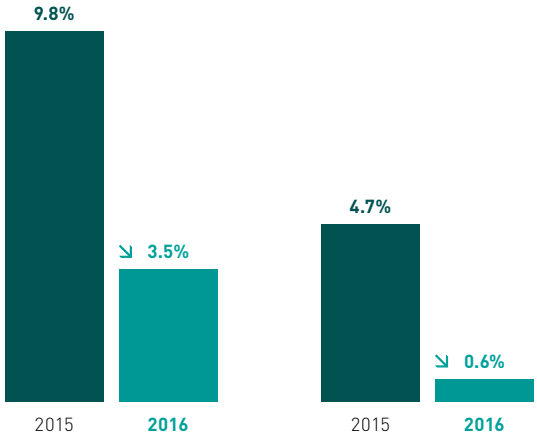
In China, in this weakening consumer environment, non-alcoholic beverage category continued its transition and *Mizone* sales were impacted by inventory adjustments. In this context, Danone continued to focus on protecting its market share through targeted investments, aimed at securing its future growth while protecting the profitability of *Mizone*.

Early Life Nutrition

Sales

The Early Life Nutrition Division recorded sales of €5,017 million in 2016, up +3.5% on a like-for-like basis. This increase resulted from 0.6% growth in volume and a +2.9% value increase. This performance includes a decline in 'indirect' sales to China. Excluding these, Division growth remained strong at mid-single digit growth.

Like-for-like sales growth **Like-for-like volume growth**



Main markets

In Europe (excluding "indirect" sales to China), sales from domestic demand were flat, reflecting some contrasted performances: solid growth in the United Kingdom, Germany and Benelux and more difficult markets in France, Italy and Turkey.

Growth in the ALMA region (excluding China) remained very strong, benefiting from dynamic markets such as Brazil and Australia.

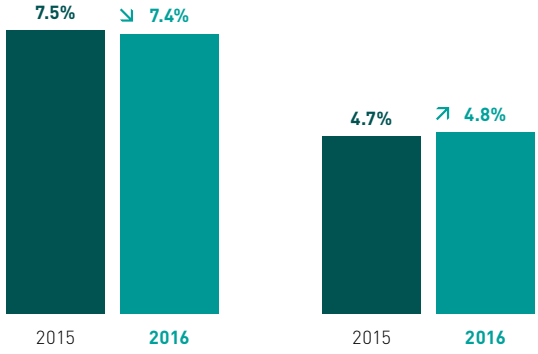
In China, the transition of the overall indirect channel induced by a fast-changing regulatory environment led to further stock adjustments by traders. In a category marked by rapid distribution channel shifts and stock adjustments, the transition observed in the "indirect" channel will continue to impact sales until the new regulations are fully enforced at the beginning of 2018. At the same time, Danone is successfully developing its direct distribution model in China. All the initiatives implemented throughout the year to ensure its growing presence and visibility in specialized stores and direct e-commerce have led to another strong rise in 2016 local sales.

Medical Nutrition

Sales

The Medical Nutrition Division recorded an excellent performance in 2016, with sales rising by +7.4% on a like-for-like basis to €1,618 million. This growth consisted of a +4.8% increase in volume and a price mix effect of +2.6%.

Like-for-like sales growth **Like-for-like volume growth**



Main markets

Medical Nutrition growth was balanced evenly across the Division's geographical areas.

In Europe, Danone reported growth above mid-single digit, driven by solid gains in the United Kingdom and Benelux, while the Alma region reported low teens growth, benefiting from further strong expansion in China and Brazil.

All segments helped fuel this overall performance, with pediatric and adult ranges delivering solid growth supported by the contribution of its blockbusters *Neocate*, *Nutrison* and *Fortimel*.

Sales by geographical area

Year ended December 31

(in € millions except percentage)	2015	2016	Like-for-like change	Volume growth like-for-like	Sales breakdown by geographical area in 2015	Sales breakdown by geographical area in 2016
Europe	8,900	8,571	(1.4)%	(1.8)%	40%	39%
CIS & North America [a]	4,471	4,486	4.6%	(2.4)%	20%	20%
ALMA [b]	9,041	8,887	6.7%	2.7%	40%	40%
Total	**22,412**	**21,944**	**2.9%**	**(0.2)%**	**100%**	**100%**

(a) North America = United States and Canada.
(b) ALMA = Asia-Pacific / Latin America / Middle-East / Africa.

Europe

Europe recorded sales of €8,571million in 2016, down -1.4% on a like-for-like basis. This performance reflects a sequential improvement of trends in the Fresh Dairy Products Division and a decline in "indirect" sales exported to China in Early Life Nutrition linked to the fast-changing China regulation.

CIS & North America

The CIS & North America zone recorded sales of €4,486 million in 2016, up +4.6% on a like-for-like basis with two different market dynamics.

In the United States, Fresh Dairy Products generated solid growth throughout the year despite the competitive environment. Successful brand innovation and activation contributed to reinforcing Danone's leadership.

In the CIS, Fresh Dairy Products also generated a solid performance despite a difficult economic environment. The enhancement of its brand portfolio's value through mix management and the strength of its brands offset lower volumes and generated solid sales growth.

ALMA

The ALMA region generated sales of €8,887 million in 2016, up +6.7% on a like-for-like basis. This robust growth relied on different pillars of growth that has allowed absorbing the effect of Danone's transitioning of the *Mizone* brand in China.

Sales by quarter

	First quarter		Second quarter		Third quarter		Fourth quarter		Total	
(in € millions)	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
By Division										
Fresh Dairy Products	2,807	2,676	2,857	2,701	2,711	2,682	2,682	2,677	11,057	10,736
Waters	1,065	1,020	1,438	1,373	1,312	1,237	953	944	4,768	4,574
Early Life Nutrition	1,220	1,226	1,225	1,269	1,217	1,204	1,332	1,317	4,994	5,017
Medical Nutrition	380	384	401	403	400	414	413	417	1,593	1,618
By geographical area										
Europe	2,156	2,127	2,290	2,241	2,286	2,165	2,167	2,038	8,900	8,571
CIS & North America [a]	1,108	1,096	1,197	1,120	1,102	1,115	1,064	1,155	4,471	4,486
ALMA [b]	2,207	2,082	2,434	2,385	2,252	2,258	2,147	2,162	9,041	8,887
Total	**5,471**	**5,306**	**5,921**	**5,746**	**5,641**	**5,537**	**5,379**	**5,355**	**22,412**	**21,944**

(a) North America = United States and Canada.
(b) ALMA = Asia-Pacific / Latin America / Middle-East / Africa.

	First quarter 2016		Second quarter 2016		Third quarter 2016		Fourth quarter 2016		Total 2016	
(in percentage)	Reported change	Like-for-like change	Reported change	Like-for-like change	Reported change	Like-for-like change	Reported change	Like-for-like change	Reported change	Like-for-like change
By Division										
Fresh Dairy Products	(4.7)%	2.3%	(5.5)%	3.0%	(1.1)%	2.2%	(0.2)%	0.7%	(2.9)%	2.0%
Waters	(4.2)%	3.9%	(4.5)%	2.7%	(5.7)%	(0.1)%	(1.0)%	6.3%	(4.1)%	2.9%
Early Life Nutrition	0.5%	4.8%	3.6%	7.2%	(1.1)%	1.7%	(1.1)%	0.6%	0.5%	3.5%
Medical Nutrition	1.2%	6.6%	0.4%	7.1%	3.6%	9.7%	0.9%	6.1%	1.5%	7.4%
By geographical area										
Europe	(1.3)%	0.0%	(2.1)%	(0.2)%	(5.3)%	(2.7)%	(6.0)%	(2.9)%	(3.7)%	(1.4)%
CIS & North America [(a)]	(1.1)%	5.1%	(6.4)%	4.8%	1.2%	2.8%	8.5%	5.7%	0.3%	4.6%
ALMA [(b)]	(5.6)%	6.3%	(2.0)%	8.0%	0.2%	6.8%	0.7%	5.4%	(1.7)%	6.7%
Total	**(3.0)%**	**3.5%**	**(3.0)%**	**4.1%**	**(1.8)%**	**2.1%**	**(0.5)%**	**2.1%**	**(2.1)%**	**2.9%**

(a) North America = United States and Canada.
(b) ALMA = Asia-Pacific / Latin America / Middle-East / Africa.

Recurring operating income and recurring operating margin

Consolidated recurring operating income and recurring operating margin

Recurring operating income totaled €3,022 million in 2016, compared with €2,892 million in 2015.

Danone's recurring operating margin stood at 13.77%, up +87 bps as reported, reflecting:

- a +70 bps rise like-for-like;
- a +10 bps rise due to changes in the scope of consolidation that mainly reflected deconsolidation of Dumex activity in China and full consolidation of Fan Milk group companies;
- a +6 bps rise due to trends in exchange rates (favorable geographical mix).

As part of its 2020 transformation plan, Danone continued to focus in 2016 on building a more resilient and balanced model through disciplined resource allocation, efficiency gains and cost optimization.

Throughout the year, with trends in raw material costs still favorable, Danone pursued structural efforts to enhance the value of its brand portfolio through mix management, to optimize its cost basis and to capture further sources of efficiency from its model.

In parallel, in an even more volatile and complex environment where dynamics in some key emerging markets are changing rapidly, Danone decided last June to prioritize margin improvement and consequently adjust the pace of topline refueling, funding short-, mid- and long-term initiatives appropriately. The company thus remained focused on strategic growth initiatives that create long-term value rather than purely tactical initiatives for the short term.

Lastly, this very strong performance also includes the positive impact of a favorable basis of comparison in Early Life Nutrition. The first half of 2015 was hit by the costs associated with Dumex's adaptation plan and costs linked to a fire in Cuijk production plant in the Netherlands.

As a result, the company's margin rose by a very strong +70 bps like-for-like, well above the initial guidance, with a positive contribution from all Divisions.

Cost of goods sold totaled €10,744 million in 2016 (€11,212 million in 2015), or 49.0% of consolidated sales (50.0% in 2015). This favorable evolution reflects the deflationary trend of milk and milk ingredients based prices as well as cost optimization of raw materials.

As per 2016 roadmap, Danone has stepped up its amounts spent on marketing and sales compared with 2015, especially in the Fresh Dairy Products Division and the Early Life Nutrition Division.

Selling expense was €5,562 million in 2016 (€5,677 million in 2015), or 25.3% of consolidated sales (25.3% in 2015).

General and administrative expense was €2,004 million in 2016 (€1,944 million in 2015), or 9.1% of consolidated sales (8.7% in 2015).

Research and Development costs totaled €333 million in 2016 (€307 million in 2015), or 1.5% of consolidated sales (1.4% in 2015) (see section 3.1 *Business highlights in 2016*).

Other operating income and expenses stood at €(99) million, including in particular €(51) million of expenses related to Danone's 2020 transformation plan (notably One Danone) as well as €(57) million of expenses related to the future acquisition of WhiteWave.

Recurring operating income and recurring operating margin by Division

Year ended December 31

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Like-for-like change
	2015	2016	2015	2016	
Fresh Dairy Products	1,100	1,083	9.95%	10.09%	+38bps
Waters	542	521	11.37%	11.38%	+15bps
Early Life Nutrition	965	1,099	19.32%	21.91%	+167bps
Medical Nutrition	286	319	17.95%	19.71%	+93bps
Total	**2,892**	**3,022**	**12.91%**	**13.77%**	**+70bps**

The Fresh Dairy Products Division's recurring operating margin was 10.09% in 2016, up +38bps on a like-for-like basis. This favorable evolution of margin reflects structural efforts to optimize its brand portfolio and efficiency gains in an environment marked with favorable price trends in milk price in Europe and the United-States.

The Waters Division's recurring operating margin was 11.38% in 2016, up +15bps on a like-for-like basis, benefiting from mix improvement and efficiency gains.

The Early Life Nutrition Division's recurring operating margin was 21.91% in 2016, up +167bps on a like-for-like basis, driven by structural and circumstantial elements: on one side, growth and favorable brand mix effect and on the other side, a favorable milk price impact as well as the benefit of the positive reverse of 2015 costs, mainly related to Dumex and the fire in Cuijk.

The Medical Nutrition Division's recurring operating margin was 19.71% in 2016, up +93bps on a like-for-like basis relative to 2015. This strong improvement reflects the continued geographical expansion and growth in innovative brands of the Division. This level of profitability is accretive for Danone and contributes to long-term value creation.

Recurring operating income and recurring operating margin by geographical area

Year ended December 31

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Like-for-like change
	2015	2016	2015	2016	
Europe	1,536	1,512	17.26%	17.64%	+45bps
CIS & North America [a]	388	460	8.67%	10.26%	+161bps
ALMA [b]	969	1,050	10.71%	11.82%	+79bps
Total	**2,892**	**3,022**	**12.91%**	**13.77%**	**+70bps**

(a) North America = United States and Canada.
(b) ALMA = Asia-Pacific / Latin America / Middle-East / Africa.

The recurring operating margin of Europe was 17.64% in 2016, up +45bps on a like-for-like basis. The region's profitability benefited from structural efforts to optimize its brand portfolio and the favorable milk trend.

The recurring operating margin of the CIS & North America region was 10.26% in 2016, up +161bps on a like-for-like basis illustrating on one side all the work done by Danone to protect the CIS region profitability, and on the other side a solid growth in a favorable context regarding milk price evolution in North America in the Fresh Dairy Products Division.

The recurring operating margin of the ALMA zone was 11.82% in 2016, up +79bps on a like-for-like basis. This rise reflects the good performance of Asia and Latin America zones, a favorable margin development in Waters China thanks to strong efforts to protect *Mizone* brand's profitability, as well as a favorable comparison base in Early Life Nutrition Division that had been impacted in 2015 by exceptional negative costs, mainly related to Dumex and the fire in Cuijk.

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)	**2015**	**2016**
Interest income on cash, cash equivalents and short term investments	122	130
Interest expense on financial debt	(274)	(276)
Cost of net financial debt	**(152)**	**(146)**
Other financial income	1	67
Other financial expense	(134)	(214)
Other financial income or expense	**(133)**	**(146)**
Net financial income (expense)	**(285)**	**(293)**

Cost of net financial debt

The cost of net debt declined from € (152) million in 2015 to € (146) million despite the extra charges related to the financing of the WhiteWave acquisition (*i.e.* financial charges linked to the new bonds issued on October 25 and 26, 2016). This decline is due in particular to lower interest rates.

Besides, those new bond issuances enabled Danone to extend the average maturity of its debt at favorable market conditions.

Tax rate

The underlying tax rate for the full year was 31.1% in 2016, stable from 2015. Including the non-recurring items, Danone's effective tax rate was 30.6% in 2016 (32.5% in 2015) and the differential with the legal tax rate in France in 2016 and 2015 is provided in Note 8 of the Notes to the consolidated financial statements.

Recurring net income – Group share and recurring EPS

The net income amounted to €1,827 million in 2016 (€1,398 million in 2015). The net income – Group share amounted to €1,720 million in 2016 (€1,282 million in 2015).

Share of profit of associates

The net income from associates amounted to € 129 million in 2016, up +4.5% compared with 2015.

Recurring net income – Group share

Recurring net income – Group Share stood at €1,911 million in 2016, up +10.4% like-for-like, and up +6.7% as reported compared with 2015. Recurring EPS stood at €3.10, up +9.3% like-for-like and up +5.6% as reported compared with 2015.

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

Year ended December 31

	2015			2016		
(in € millions except percentage)	**Recurring**	**Non-recurring**	**Total**	**Recurring**	**Non-recurring**	**Total**
Recurring operating income	**2,892**		**2,892**	**3,022**		**3,022**
Other operating income and expenses		(682)	(682)		(99)	(99)
Operating income	**2,892**	**(682)**	**2,210**	**3,022**	**(99)**	**2,923**
Cost of net debt	(152)		(152)	(146)		(146)
Other financial income and expenses	(129)	(4)	(133)	(134)	(13)	(146)
Income before taxes	**2,611**	**(686)**	**1,925**	**2,742**	**(112)**	**2,630**
Income tax	(818)	193	(626)	(852)	48	(804)
Effective tax rate	31.2%		32.5%	31.1%		30.6%
Net income from fully consolidated companies	**1,792**	**(493)**	**1,299**	**1,890**	**(64)**	**1,826**
Net income from associates	123	(25)	99	129	(128)	1
Net income	**1,915**	**(518)**	**1,398**	**2,019**	**(191)**	**1,827**
• Group share	1,791	(508)	1,282	1,911	(191)	1,720
• Non-controlling interests	125	(9)	115	108	–	107

Transition from EPS to Recurring EPS

Year ended December 31

	2015		2016	
	Recurring	**Total**	**Recurring**	**Total**
Net Income – Group share *(in € millions)*	1,791	1,282	1,911	1,720
Number of shares				
• Before dilution	609,647,527	609,647,527	616,442,041	616,442,041
• After dilution	610,155,241	610,155,241	616,700,618	616,700,618
EPS *(in €)*				
• Before dilution	2.94	2.10	3.10	2.79
• After dilution	2.93	2.10	3.10	2.79

Additional information on consolidated income statement: transition from reported to like-for-like figures

	Previous period	Period under review	Reported change	of which impact of changes in scope of consolidation	Total	Of which impact of fluctuations in exchange rates		Like-for-like growth
						of which treatment of over-inflation	*of which other impact of fluctuations in exchange rates*	
Sales *(in € millions except percentage)*								
2015	21,144	22,412	6.0%	(0.4)%	2.0%	*0.3%*	*1.7%*	4.4%
2016	22,412	21,944	(2.1)%	0.5%	(5.5)%	*0.2%*	*(5.7)%*	2.9%
Recurring operating margin								
2015	12.59%	12.91%	+32 bps	+6 bps	+9 bps	*-1 bps*	*+10 bps*	+17bps
2016	12.91%	13.77%	+87bps	+10 bps	+6 bps	*-17 bps*	*+23 bps*	+70bps
Recurring EPS *(in € except percentage)*								
2015	2.62	2.93	12.0%	1.9%	3.5%	*0.3%*	*3.2%*	6.5%
2016	2.93	3.10	5.6%	1.5%	(5.2)%	*(1.3)%*	*(3.9)%*	*9.3%*

Dividend for the 2016 fiscal year

At the Annual General Meeting on April 27, 2017, Danone's Board of Directors will ask shareholders to approve the distribution of a €1.70 dividend per share in respect of the 2016 fiscal year, up +6.3% from 2015. This dividend reflects the confidence of both the Board and management in the Company's agenda towards strong profitable and sustainable growth.

Shareholders will be asked to opt for full payment of their dividend in either cash or in Danone shares. New shares would be issued at a price set at 90% of the average opening Danone share price on Euronext over the twenty trading days prior to the General Meeting on April 27, 2017 less the amount of the dividend.

Assuming this proposal is approved, the ex-dividend date will be May 5, 2017. The period during which shareholders may opt to receive dividends in cash or in shares will begin on May 5 and run through May 19. Dividends will be payable in cash or in shares on June 1, 2017.

3.3 FREE CASH FLOW

At the date of this Registration Document, Danone is confident that the cash flows generated by its operating activities, its cash and cash equivalents and the funds available under committed credit facilities managed at Corporate level will be sufficient to cover the expenditures and investments necessary for its operations, service its debt (including the financing during the year of the exercise of all put options granted to non-controlling interests) and pay dividends.

Free cash flow stood at €1,760 million in 2016, including €26 million (net of tax) in outlays related to the Company's cost-reduction and adaptation plan in Europe. These costs had been incurred or provisioned in 2015 and were paid in 2016.

Free cash flow excluding exceptional items thus came to €1,786 million (8.1% of sales), up +16.8% from 2015, buoyed by the rise in sales and in recurring operating margin, and by favorable exchange-rate effects. This will fund Danone's roadmap for growth.

Capital expenditure for 2016 came to €925 million, or 4.2% of sales.

Free cash flow

Transition from operating cash flow to free cash flow

Year ended December 31

(in € millions)	**2015**	**2016**
Cash flow from operating activities	**2,369**	**2,652**
Capital expenditure	(937)	(925)
Disposal of tangible assets	31	27
Transaction fees related to business combinations [(a)]	5	6
Earn-outs related to business combinations [(b)]	–	–
Free cash flow	**1,468**	**1,760**
Cash flows related to plan to generate savings and adapt organization in Europe [(c)]	61	26
Free cash flow excluding exceptional elements	**1,529**	**1,786**

(a) Represents acquisition costs related to business combinations paid during the period.
(b) Represents earn-outs related to business combinations and paid subsequently to acquisition date and over the period.
(c) Net of tax.

Consolidated statement of cash flows

(in € millions)	2015	2016
		Year ended December 31
Net income	**1,398**	**1,827**
Share of profit of associates net of dividends received	(58)	52
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	1,217	786
Increases in (reversals of) provisions	148	51
Change in deferred taxes	(179)	(65)
(Gains) losses on disposal of property, plant and equipment and financial investments	29	(74)
Expense related to stock-options and Group performance shares	27	24
Cost of net financial debt	152	149
Net interest paid	(182)	(148)
Net change in interest income (expense)	(30)	–
Other components with no cash impact	1	13
Other net cash outflows	–	–
Cash flows provided by operating activities, before changes in net working capital	**2,552**	**2,615**
(Increase) decrease in inventories	(66)	(24)
Increase (decrease) in trade receivables	(418)	(110)
Increase (decrease) in trade payables	174	298
Change in other receivables and payables	128	(127)
Change in working capital requirements	(182)	37
Cash flows provided by (used in) operating activities	**2,369**	**2,652**
Capital expenditure [a]	(937)	(925)
Proceeds from the disposal of property, plant and equipment [a]	31	27
Net cash outflows on purchases of subsidiaries and financial investments [b]	(596)	(66)
Net cash inflows on disposal of subsidiaries and financial investments [b]	2	110
(Increase) decrease in long-term loans and other long-term financial assets	(19)	6
Cash flows provided by (used in) investment activities	**(1,519)**	**(848)**
Increase in share capital and additional paid-in capital	39	46
Purchase of treasury shares (net of disposals) and DANONE call options [c]	198	32
Dividends paid to Danone shareholders	(314)	(985)
Buyout of non-controlling interests	(1,929)	(295)
Dividends paid	(97)	(94)
Contribution from non-controlling interests to capital increases	(3)	6
Transactions with non-controlling interests	(2,029)	(383)
Net cash flows on hedging derivatives [d]	22	50
Bonds issued during the period	2,049	11,237
Bonds repaid during the period	(603)	(638)
Net cash flows from other current and non-current financial debt	(101)	(442)
Net cash flows from short-term investments	(242)	(10,531)
Cash flows provided by (used in) financing activities	**(982)**	**(1,616)**
Effect of exchange rate and other changes [e]	(228)	(151)
Increase (decrease) in cash and cash equivalents	**(361)**	**38**
Cash and cash equivalents as of January 1	**880**	**519**
Cash and cash equivalents as of December 31	**519**	**557**
Supplementary disclosures		
Income tax payments during the year	(804)	(891)

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

3.4 BALANCE SHEET AND FINANCIAL SECURITY REVIEW

Simplified consolidated balance sheet

As of December 31

(in € millions except percentage)	**2015**	**2016**
Non-current assets	24,715	24,836
Current assets	7,998	19,113
Total assets	**32,712**	**43,949**
Equity – Group share	**12,606**	**13,109**
Non-controlling interests	63	85
Non-current liabilities	10,841	21,705
Current liabilities	9,202	9,050
Total liabilities and equity	**32,712**	**43,949**
Net debt	7,799	7,472
Net financial debt	6,937	6,773

Financing structure and financial security

Liquidity risk exposure and management policy

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

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

Financing situation and liquidity risk

Main financing transactions in 2016

Year ended December 31

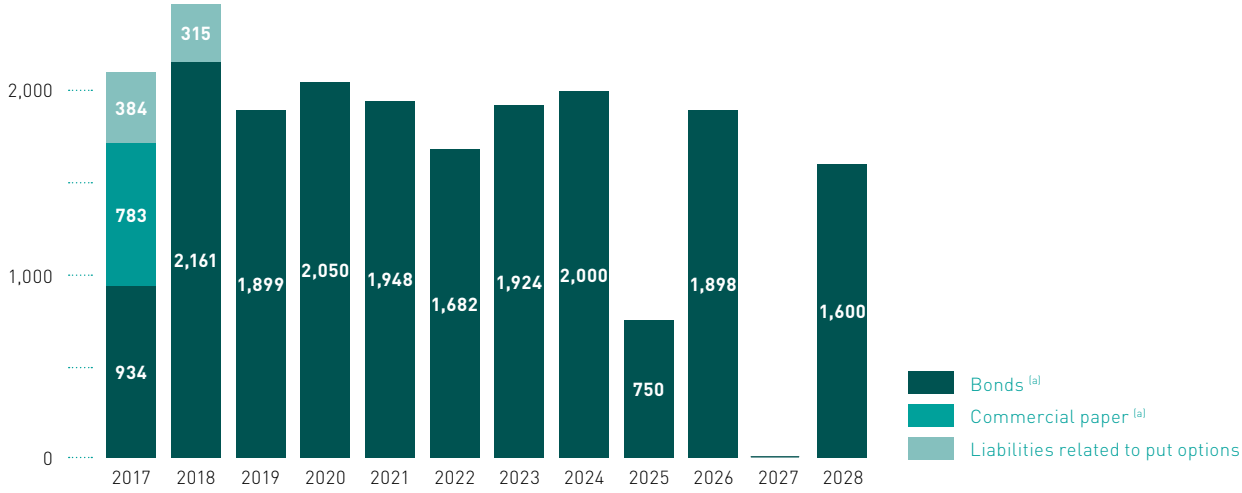
			2016
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
	EUR	1,350	2018
	EUR	1,000	2020
	EUR	1,000	2022
	EUR	1,250	2024
	EUR	1,600	2028
Euro bonds		6,200	
	USD	1,200	2019
	USD	800	2021
	USD	1,500	2023
	USD	2,000	2026
U.S. dollar bonds		5,500	
Repayments			
Swiss franc bonds	CHF	225	2016
Euro bond	EUR	500	2016

Main financial debt repayment schedule

It consists in financing managed at Company level.

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

(in € millions)

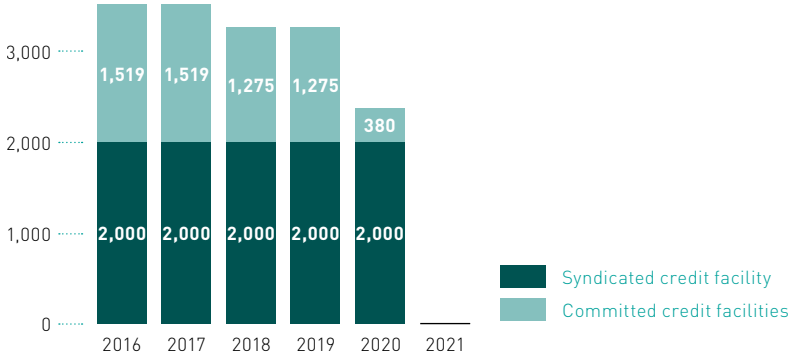


(a) Includes the value of derivatives hedging bonds and commercial paper.

Sources of financing available at any time

The sources of financing available at any time established by Danone 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

	2015		2016	
	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	A-	Baa1 [c]	BBB+
Outlook	Stable	Negative	Stable	Negative [d]

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

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.

Change during the period

(in € millions)	2015	2016
As of January 1	2,558	862
New options and options recognized previously in accordance with IAS 39	207	–
Options exercised [a]	(1,851)	(285)
Change in the present value of the options	(52)	121
As of December 31 [b]	**862**	**699**

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

See also Note 3.6 of the Notes to the consolidated financial statements.

Net debt and net financial debt

Net debt

As of December 31

(in € millions)	2015	2016
Non-current financial debt	8,087	18,771
Current financial debt	2,991	2,510
Short-term investments	(2,514)	(13,063)
Cash and cash equivalents	(519)	(557)
Derivatives – assets – Non-current [a]	(125)	(148)
Derivatives – assets – Current [a]	(120)	(42)
Net debt	**7,799**	**7,472**

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

Change in net debt in 2016

Danone's net debt decreased by €327 million from December 31, 2015 and stood at €7,472 million on December 31, 2016. This includes €699 million in put options granted to minority shareholders, down €163 million from December 31, 2015.

Transition from net debt to net financial debt

		As of December 31
(in € millions)	**2015**	**2016**
Net debt	**7,799**	**7,472**
Liabilities related to put options granted to non-controlling interests – Non-current	(248)	(315)
Liabilities related to put options granted to non-controlling interests – Current	(614)	(384)
Financial debt excluded from net debt	**(862)**	**(699)**
Net financial debt	**6,937**	**6,773**

Shareholder's equity

Change in shareholder's equity – Group share

(in € millions)	**2015**	**2016**
As of January 1	**11,696**	**12,606**
Net income	1,282	1,720
Other comprehensive income	146	134
Dividends paid [(a)]	(317)	(986)
Cumulative translation adjustments	325	(283)
Other	(526)	(83)
As of December 31	**12,606**	**13,108**

(a) Impact on the Group share of the equity, the impact of the dividends paid on the consolidated equity amounting to € (1,079) million in 2016 (€ (411) million in 2015) and corresponding to the portion paid in cash, the portion paid in shares in 2015 having no impact on equity.

Off-balance sheet commitments

Commitments given as of December 31, 2016 relating to operating activities

						Amount of financial flows for the year
(in € millions)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021 and after**
Commitments to purchase goods and services [(a)]	(2,995)	(1,960)	(541)	(261)	(95)	(139)
Capital expenditure commitments	(226)	(199)	(18)	(9)	–	–
Operating lease commitments	(694)	(213)	(132)	(102)	(68)	(179)
Guarantees and pledges given	(46)	(26)	(11)	(8)	–	–
Other	–	–	–	–	–	–
Total	**(3,962)**	**(2,398)**	**(702)**	**(380)**	**(163)**	**(318)**

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

3.5 OUTLOOK FOR 2017

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 2016 fiscal year.

Financial outlook for 2017

In 2017, Danone assumes that economic conditions will remain particularly volatile and uncertain overall, with persistently fragile or even deflationary consumer trends in Europe, and specific contextual difficulties in a few major markets, including the CIS, China and Brazil.

In addition, Danone anticipates a year-on-year mid-single digit rise in the cost of its strategic raw materials. In this context, the Company will continue to strengthen the resilience of its model through a range of initiatives aimed at offsetting inflation and limiting its exposure to volatility in some raw materials while ensuring the competitiveness of its products.

More specifically, Danone anticipates a steep rise in milk prices over the year, with variations from one geographical area to the next:

- a low to mid-single digit increase in Europe and the United States;
- a strong rise in emerging countries such as the CIS and Latin America.

Regarding other raw materials, including plastics, sugar and fruits, Danone also anticipates inflationary conditions overall.

In this context, Danone will continue to give priority this year to improving margins and strengthen its growth model. It will rely on successful execution of its growth plans, optimization of its business model reinforced by the "Protein" program, and disciplined resource allocations that promote strategic growth opportunities over short term tactical allocations.

As a result, Danone targets to deliver a recurring EPS growth above 5% for 2017, excluding any element related to WhiteWave transaction. Danone will also continue to focus on increasing its free cash flow.

Lastly, Danone indicates that, following the closing of the WhiteWave transaction, it will review its annual targets to include the accretive impact of WhiteWave in its financial objectives for 2017.

3.6 FINANCIAL INDICATORS NOT DEFINED BY IFRS

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

- like-for-like changes in sales, recurring operating income, recurring operating margin, recurring net income and recurring EPS;
- recurring operating income;
- recurring operating margin;
- recurring net income;
- recurring income tax rate;
- recurring EPS;
- free cash flow;
- free cash flow excluding exceptional items;
- net financial debt.

Given severe deterioration in consumer spending in Europe, Danone has set a target for savings and adaptation of its organization to regain its competitive edge. Starting in the first half of 2013, the Company has published a free cash flow indicator excluding cash flows related to initiatives deployed within the framework of this plan.

Calculation of financial indicators not defined in IFRS and used by Danone is as follows:

Like-for-like changes in sales, recurring operating income, recurring operating margin, recurring net income and recurring EPS reflect Danone's organic performance and essentially exclude the impact of:

- changes in consolidation scope with indicators related to a given fiscal year calculated on the basis of previous-year scope;
- changes in applicable accounting principles;
- changes in exchange rates, (i) with both previous-year and current-year indicators calculated using the same exchange rates (the exchange rate used is a projected annual rate determined by the Company for the current year and applied to both previous and current year), and (ii) correcting differences caused by the exceptional volatility of inflation in countries that are structurally subject to hyperinflation, which would otherwise distort any interpretation of Danone's organic performance.

Since inflation in Argentina—already structurally high—accelerated further in 2014, in particular following the sharp, steep devaluation of the peso in January, using an identical exchange rate to compare 2014 figures with those for the prior year did not reflect Danone's organic performance in that country accurately. As a result, the Company fine-tuned the definition of like-for-like changes to include in its exchange-rate impact the differences caused by the exceptional volatility in structurally hyperinflationary countries. Danone is applying this methodology, which is applicable only to Argentina starting with the release of 2014 full-year results. More specifically, this methodology leads to (a) limit the inflation of price and cost of goods sold per kilo to their average level for the past three years and (b) cap Recurring operating margin at its prior-year level; this methodology has been applied to each division operating in Argentina. With respect to 2014, adjustment for the full year had been recorded in the fourth quarter of 2014.

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, and (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

Recurring operating margin is defined as recurring operating income over net sales ratio.

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 in the Total Recurring net income. Total Recurring net income measures Danone's recurring performance and excludes significant items that, because of their exceptional nature, cannot be viewed as inherent to its recurring performance. Such non-recurring income and expenses mainly include Other income and expenses, non-recurring results from associates, capital gains and losses on disposals and impairments of Other non-fully-consolidated entities and tax income and expenses related to non-recurring income and expenses. Such income and expenses excluded from Net income are defined as Total Non-recurring net income and expenses.

Recurring income tax rate measures the income tax rate related to Danone's recurring performance and corresponds to the ratio Tax income and expenses related to recurring income and expenses over Total Recurring net income.

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

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.

Free cash flow excluding exceptional items represents free cash flow before cash flows related to initiatives deployed within the framework of the plan to generate savings and adapt Danone's organization in Europe.

Net financial debt represents the net debt portion bearing interest. It corresponds to current and non-current financial debt (i) excluding Liabilities related to put options granted to non-controlling interests and (ii) net of Cash and cash equivalents, Short term investments and Derivatives – assets managing net debt.

3.7 DOCUMENTS AVAILABLE TO THE PUBLIC

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

3.8 WHITEWAVE ACQUISITION PROJECT: UNAUDITED PRO FORMA CONSOLIDATED INFORMATION

Transaction background

On July 7, 2016, Danone announced the signature of an agreement to acquire WhiteWave. With sales of USD 4 billion in 2015 and USD 4.2 billion in 2016, WhiteWave is a global leader in plant-based foods and beverages and organic produce.

The acquisition is a cash transaction with a price of USD 56.25 per share, representing a total enterprise value of USD 12.5 billion, including WhiteWave's debt and certain other liabilities. It represents an approximately 24% premium relative to the average closing price of WhiteWave's stock during the 30 trading days leading up to the agreement.

The transaction was approved unanimously by the respective boards of directors of the two companies. It is subject to the approval of the WhiteWave shareholders' meeting, the requisite authorizations from competition authorities and the usual conditions precedent.

The WhiteWave acquisition will be financed entirely through debt.

Status as of December 31, 2016

On October 4, 2016, WhiteWave announced that the company's shareholders approved the agreement at a special shareholders' meeting in anticipation of the acquisition by Danone of all outstanding shares of WhiteWave.

On December 16, 2016, the European Commission cleared the pending acquisition of WhiteWave by Danone, under the condition that Danone divest part of its "growing-up milk" business in Belgium (less than €10 million in sales).

The closing of the transaction remains subject to the completion by the US antitrust authorities of their review of the transaction. Both WhiteWave and Danone have been working with the United States Department of Justice ("DOJ") and target to close the transaction in Q1 2017. However, there can be no assurance regarding the timing of the completion of the regulatory process.

Unaudited pro forma consolidated information

The unaudited pro forma consolidated information hereafter presents main items of the unaudited pro forma consolidated income statement for the fiscal year ended December 31, 2016 and the unaudited pro forma consolidated balance sheet as of December 31, 2016 of WhiteWave and Danone.

Such information is provided to show the effects that the acquisition of WhiteWave by Danone and its related financings would have had on main items of Danone's consolidated income statement and consolidated balance-sheet for fiscal year ended December 31, 2016, as if they had occurred as of January 1, 2016. It is not indicative of the financial position or the result of operations that the Group would have had if they had occurred as of January 1, 2016 nor indicative of the future operating results. It is provided for illustrative purposes only.

Basis of preparation

The unaudited pro forma consolidated financial information has been established in accordance with Annex II of the European Commission regulation EC No 809/2004, ESMA 2013 recommendations and AMF recommendation n° 2013-08 related to pro forma financial information.

It is based upon public information only, is derived from audited consolidated financial statements for 2016 fiscal year *i.e.* established in euros under IFRS for Danone and established in dollars under US GAAP for WhiteWave, and includes the following adjustments:

- presentation and conversion into euros of WhiteWave financial statements;
- accounting for the business combination;
- adjustment of Danone cost of net debt to reflect WhiteWave acquisition related financings as if they had occurred as of January 1, 2016 and related tax impact.

Presentation and conversion into euros of WhiteWave financial statements

WhiteWave historical financial statements under US GAAP have been converted into euros using December 31, 2016 closing rate for balance sheet items and 2016 average rate for income statement items (respectively 1.054 and 1.107 dollar for 1 euro).

As IFRS and US GAAP may differ in certain aspects, Danone analyzed the accounting principles as applied by WhiteWave and by Danone, based upon public information and taking into account already known differences between IFRS and US GAAP. Based on this analysis, Danone did not identify any material difference, for which, a restatement could have a material impact on the pro forma financial information. Nevertheless, it is not a full reconciliation of WhiteWave's financial statements into IFRS and there can be no assurance that the detailed and comprehensive review to be performed once both companies are combined will not require any element to reconcile nor any restatement.

Accounting for the business combination

The acquisition price corresponds to the agreed share price (56.25 dollars per share) applied to WhiteWave diluted number of common shares (181.2 million of shares). It has been converted into euros using December 31, 2016 closing rate (1.054 dollar for 1 euro). The acquisition price then valued at €9.7 billion is paid using dedicated short term investments.

In addition, information currently available to Danone is not sufficient to perform the purchase price allocation to acquired assets and assumed liabilities. As a consequence, this pro forma financial information does not take into account the effects of the application of IFRS 3, *Business combinations*, notably the depreciation of intangible assets, which may be recognized and of tangible assets, which may be revalued, in the process of the purchase price allocation. For the purpose of this pro forma financial information, the goodwill has been estimated using the historical value of the assets and liabilities acquired as shown in WhiteWave's financial statements. As a consequence, the preliminary goodwill to be allocated and recognized in Danone consolidated financial statements after completion of the acquisition will therefore mechanically differ.

Adjustment of Danone cost of net debt to reflect WhiteWave acquisition related financings as if they had occurred as of January 1, 2016

Danone cost of net debt has been adjusted by €(114) million to reflect the financing of the acquisition price through the bonds issued in October 2016:

- as if their issue had occurred on January 1, 2016;
- based on the average annual interest rate of the bonds, *i.e.* 1.4%.

In addition, income tax has been adjusted accordingly, using 2016 Danone effective tax rate (30.6%).

Pro forma financial information

Presentation and conversion into euros of certain WhiteWave consolidated items

Year ended December 31, 2016

(in currency millions)	Audited		
WhiteWave headings [a]	**in USD**	**in EUR**	**Danone headings [a]**
Income statement items			
Net sales	4,198	3,792	Net sales
Operating income	402	363	Operating income
Interest and other expenses, net	(75)	(67)	Financial result
Net income	215	194	Net income – Group share
Balance sheet items			
Goodwill & Identifiable intangible and other assets, net	2,451	2,326	Intangible assets
Other assets	2,018	1,915	Other assets
Total shareholder's equity	1,431	1,358	Total shareholder's equity
Long-term debt and capital lease obligations, net of debt issuance & Current portion	2,140	2,031	Financial debt
Other liabilities	898	852	Other liabilities

(a) Except for Other Assets and Other Liabilities, calculated as the gap with respectively Total assets and Total liabilities.

Pro forma consolidated information of Danone and WhiteWave

Year ended December 31, 2016

(in € millions)	Danone audited	WhiteWave audited	Pro forma adjustments	Pro forma Danone and WhiteWave, unaudited
Income statement items				
Net sales	21,944	3,792	-	25,736
Operating income	2,923	363	-	3,286
Financial result	(292)	(67)	(114)	(473)
Net income – Group share	1,720	194	(79)	1,835
Balance sheet items				
Intangible assets	15,803	2,326	8,315	26,444
Other assets	28,146	1,915	(9,673)	20,389
Total shareholder's equity	13,194	1,358	(1,358)	13,194
Financial debt	21,281	2,031	-	23,312
Other liabilities	9,474	852	-	10,326

Information about non-recurring elements related to the acquisition project

Main non-recurring elements correspond to costs relating to financial risk management transactions and to acquisition-related costs for an amount totaling €70 million recognized in 2016.

Statutory auditors report on the pro forma financial information

This is a free translation into English of the Statutory auditors' report on the forma financial information issued in French and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Chief Executive Officer,

In our capacity as Statutory auditors of your Company and in accordance with Commission Regulation (EC) no.809/2004, we hereby report to you on the pro forma financial information of the company Danone relative to 2016 fiscal year set out in section 3.8 of the registration document.

The pro forma financial information has been prepared for the sole purpose of illustrating the impact that the acquisition of The WhiteWave Foods Company might have had on the consolidated income statement and consolidated balance sheet of the company Danone relative to 2016 fiscal year, had it taken place with effect from January 1, 2016 for the income statement and on December 31, 2016 for the balance sheet. By nature, this information corresponds to a hypothetical situation and does not represent the financial position or performance that would have been reported, had the operation taken place at an earlier date than the actual or contemplated date.

It is your responsibility to prepare the pro forma financial information in accordance with the provisions of Commission Regulation (EC) n°809/2004 and ESMA's recommendations on pro forma financial information.

It is our responsibility to express an opinion, based on our work, in accordance with Annex II, item 7 of Commission Regulation (EC) n°809/2004, as to the proper compilation of the pro forma financial information.

We performed those procedures that we deemed necessary in accordance with the professional auditing standards applicable in France to such engagements. These procedures, which did not include audit or a review of the financial information used as a basis to prepare the pro forma financial information, mainly consisted in ensuring that the information used to prepare the pro forma information was consistent with the underlying financial information, as described in the notes to the pro forma financial information, reviewing the evidence supporting the pro forma adjustments and conducting interviews with the management of the company Danone to obtain the information and explanations that we deemed necessary.

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated; and
- that basis is consistent with the accounting policies of the issuer.

This report has been issued solely for the purposes of filing the registration document with the AMF, and, when applicable, upon the issue of financial instruments whose admission to trading on a regulated market is requested and/or offer of Danone securities to the public in France and in countries of the European Union where the prospectus approved by the AMF has been distributed. This report may not be used for any other purpose.

Neuilly-sur-Seine and Paris-La Défense, March 16, 2017

The Statutory auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

4.1 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 68

Consolidated financial statements 68

Notes to the consolidated financial statements 75

Statutory auditors' report on the consolidated financial statements 136

4.2 FINANCIAL STATEMENTS OF DANONE SA, THE DANONE PARENT COMPANY 138

Financial statements of Danone SA 138

Notes to the financial statements of the parent company Danone 140

Statutory auditors' report on the financial statements of the parent company Danone 158

4.3 INFORMATION ORIGINATING FROM THIRD PARTIES, EXPERT OPINIONS AND DECLARATIONS OF INTEREST 159

4

FINANCIAL STATEMENTS

4.1 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements

Consolidated income statement and earnings per share

		Year ended December 31	
(in € millions, except earnings per share in €)	Notes	**2015**	**2016**
Net sales	5.2	**22,412**	**21,944**
Cost of goods sold		(11,212)	(10,744)
Selling expense		(5,677)	(5,562)
General and administrative expense		(1,944)	(2,004)
Research and Development expense		(307)	(333)
Other income (expense)	5.3	(380)	(278)
Trading operating income		**2,892**	**3,022**
Other operating income (expense)	6.1	(682)	(99)
Operating income		**2,210**	**2,923**
Interest income on cash equivalents and short-term investments		122	130
Interest expense		(274)	(276)
Cost of net debt	10.7	(152)	(146)
Other financial income	11.3	1	67
Other financial expense	11.3	(134)	(214)
Income before tax		**1,925**	**2,630**
Income tax expense	8.1	(626)	(804)
Net income from fully consolidated companies		**1,299**	**1,826**
Share of profit of associates	4.8	99	1
Net income		**1,398**	**1,827**
Net income – Group share		**1,282**	**1,720**
Net income – Non-controlling interests		115	107
Net income – Group share, per share	13.4	**2.10**	**2.79**
Net income – Group share, per share after dilution	13.4	**2.10**	**2.79**

Consolidated statement of comprehensive income

	Year ended December 31	
(in € millions)	**2015**	**2016**
Net income – Group share	**1,282**	**1,720**
Translation adjustments	67	(33)
Cash flow hedge derivatives		
Gross unrealized gains and losses[a]	121	385
Tax effects	(13)	(134)
Available-for-sale financial assets		
Gross unrealized gains and losses	(10)	–
Amount recycled to profit or loss in the current year	–	–
Tax effects	8	(1)
Other comprehensive income, net of tax	–	–
Items that may be subsequently recycled to profit or loss	**173**	**217**
Actuarial gains and losses on retirement commitments		
Gross gains and losses	58	(134)
Tax effects	(19)	19
Items not subsequently recyclable to profit or loss	**40**	**(116)**
Total comprehensive income – Group share	**1,495**	**1,821**
Total comprehensive income – Non-controlling interests	91	99
Total comprehensive income	**1,586**	**1,920**

(a) In 2016, relates mainly to the impact of the effective portion of the hedges of the acquisition price of WhiteWave (see Note 2.2 of the Notes to the consolidated financial statements).

Consolidated balance sheet

		As of December 31	
(in € millions)	Notes	**2015**	**2016**
Assets			
Goodwill		11,653	11,620
Brands		3,833	3,879
Other intangible assets		292	304
Intangible assets	9.1 to 9.3	15,779	15,803
Property, plant and equipment	5.5	4,752	5,036
Investments in associates	4.1 to 4.8	2,882	2,730
Investments in other non-consolidated companies		70	81
Long-term loans and long-term financial assets		204	208
Other financial assets	11.1, 11.2	274	288
Derivatives – assets [(a)]	2.2, 12.2, 12.3	125	148
Deferred taxes	8.2	902	831
Non-current assets		**24,715**	**24,836**
Inventories	5.4	1,374	1,380
Trade receivables [(b)]	5.4	2,466	2,524
Other current assets [(b)]	5.4	793	1,061
Short-term loans		40	18
Derivatives – assets [(c)]	2.2, 12.2, 12.3	120	419
Short-term investments	2.2, 10.5	2,514	13,063
Cash and cash equivalents		519	557
Assets held for sale		171	92
Current assets		**7,998**	**19,113**
Total assets		**32,712**	**43,949**

(a) Derivatives used to manage net debt.
(b) Regarding the balance as of December 31, 2015, €237 million were reclassified from Other current assets to Trade receivables.
(c) Derivatives used to manage net debt. As of December 31, 2016, also includes instruments used to hedge the acquisition price of WhiteWave, whose fair value was €377 million (see Note 2.2 of the Notes to the consolidated financial statements).

		As of December 31	
(in € millions)	Notes	**2015**	**2016**
Equity and liabilities			
Share capital		164	164
Additional paid-in capital		4,132	4,178
Retained earnings		11,454	12,035
Cumulative translation adjustments		(1,177)	(1,460)
Accumulated other comprehensive income		(260)	(126)
Treasury shares and DANONE call options [a]	13.2	(1,707)	(1,682)
Equity – Group share		**12,606**	**13,109**
Non-controlling interests	3.6	63	85
Consolidated equity		**12,669**	**13,194**
Financing	2.2, 10.1 to 10.4	7,835	18,438
Derivatives – liabilities [b]	2.2, 12.2, 12.3	4	19
Liabilities related to put options granted to non-controlling interests	3.6	248	315
Non-current financial debt		8,087	18,771
Provisions for retirement obligations and other long-term benefits	7.3	793	959
Deferred taxes	8.2	1,126	1,090
Other non-current provisions and liabilities	14.2	834	885
Non-current liabilities		**10,841**	**21,705**
Financing	2.2, 10.1 to 10.4	2,374	2,119
Derivatives – liabilities [b]	2.2, 12.2, 12.3	3	8
Liabilities related to put options granted to non-controlling interests	3.6	614	384
Current financial debt		2,991	2,510
Trade payables [c]	5.4	3,624	3,772
Other current liabilities [c]	5.4	2,570	2,741
Liabilities directly associated with assets held for sale		18	26
Current liabilities		**9,202**	**9,050**
Total equity and liabilities		**32,712**	**43,949**

(a) DANONE call options acquired by the Company.
(b) Derivative instruments used to manage net debt.
(c) Regarding the balance as of December 31, 2015, €289 million were reclassified from Other current liabilities to Trade payables.

Consolidated statement of cash flows

Year ended December 31

(in € millions)	Notes	2015	2016
Net income		**1,398**	**1,827**
Share of profit of associates net of dividends received	4.8	(58)	52
Depreciation, amortization and impairment of tangible and intangible assets	5.5, 9.2	1,217	786
Increases in (reversals of) provisions	14.2	148	51
Change in deferred taxes	8.2	(179)	(65)
(Gains) losses on disposal of property, plant and equipment and financial investments		29	(74)
Expense related to stock-options and Group performance shares	7.4	27	24
Cost of net financial debt	10.7	152	149
Net interest paid		(182)	(148)
Net change in interest income (expense)		(30)	–
Other components with no cash impact		1	13
Other net cash outflows		–	–
Cash flows provided by operating activities, before changes in net working capital		**2,552**	**2,615**
(Increase) decrease in inventories		(66)	(24)
(Increase) decrease in trade receivables		(418)	(110)
Increase (decrease) in trade payables		174	298
Change in other receivables and payables		128	(127)
Change in working capital requirements	5.4	(182)	37
Cash flows provided by (used in) operating activities		**2,369**	**2,652**
Capital expenditure [a]	5.5	(937)	(925)
Proceeds from the disposal of property, plant and equipment [a]	5.5	31	27
Net cash outflows on purchases of subsidiaries and financial investments [b]	3.2, 4.3	(596)	(66)
Net cash inflows on disposal of subsidiaries and financial investments [b]	3.2	2	110
(Increase) decrease in long-term loans and other long-term financial assets		(19)	6
Cash flows provided by (used in) investment activities		**(1,519)**	**(848)**
Increase in share capital and additional paid-in capital		39	46
Purchase of treasury shares (net of disposals) and DANONE call options [c]	13.2	198	32
Dividends paid to Danone shareholders	13.5	(314)	(985)
Buyout of non-controlling interests	3.6	(1,929)	(295)
Dividends paid		(97)	(94)
Contribution from non-controlling interests to capital increases		(3)	6
Transactions with non-controlling interests		(2,029)	(383)
Net cash flows on hedging derivatives [d]		22	50
Bonds issued during the period	2.2, 10.3	2,049	11,237
Bonds repaid during the period	10.3, 10.4	(603)	(638)
Net cash flows from other current and non-current financial debt	10.3	(101)	(442)
Net cash flows from short-term investments		(242)	(10,531)
Cash flows provided by (used in) financing activities		**(982)**	**(1,616)**
Effect of exchange rate and other changes [e]		(228)	(151)
Increase (decrease) in cash and cash equivalents		**(361)**	**38**
Cash and cash equivalents as of January 1		**880**	**519**
Cash and cash equivalents as of December 31		**519**	**557**
Supplementary disclosures			
Income tax payments during the year		(804)	(891)

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

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

Consolidated statement of changes in equity

			Movements during the period								
(in € millions)	Notes	**As of January 1, 2015**	**Other comprehensive income**	**Capital increase**	**Other transactions involving treasury shares and DANONE call options [a]**	**Counterpart entry to expense relating to Group performance shares and stock-options [b]**	**Dividends paid in shares**	**Dividends paid in cash**	**Other transactions with non-controlling interests**	**Other changes**	**As of December 31, 2015**
Share capital		**161**					3				**164**
Additional paid-in capital		**3,505**		39			588				**4,132**
Retained earnings		**11,817**	1,282		21	27	(591)	(317)	(457)	(328)	**11,454**
Cumulative translation adjustments		**(1,501)**	67						(1)	259	**(1,177)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax		**(109)**	108							21	**21**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	12	**45**	(2)						(1)	(1)	**42**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	7	**(363)**	40								**(323)**
Other comprehensive income		**(427)**	**146**	**–**	**–**	**–**	**–**	**–**	**(1)**	**21**	**(261)**
Treasury shares and DANONE call options	13	**(1,859)**			157				(5)		**(1,707)**
Equity – Group share		**11,696**	**1,495**	**39**	**178**	**27**	**–**	**(317)**	**(464)**	**(48)**	**12,606**
Non-controlling interests		**49**	91					(95)	(2)	20	**63**
Consolidated equity		**11,745**	**1,586**	**39**	**178**	**27**	**–**	**(411)**	**(466)**	**(28)**	**12,669**

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

			Movements during the period								
(in € millions)	Notes	As of January 1, 2016	Other comprehensive income	Capital increase	Other transactions involving treasury shares and DANONE call options[a]	Counterpart entry to expense relating to Group performance shares and stock options[b]	Dividends paid in shares	Dividends paid in cash	Other transactions with non-controlling interests	Other changes	As of December 31, 2016
Share capital		**164**									**164**
Additional paid-in capital		**4,132**		46							**4,178**
Retained earnings		**11,454**	1 720		(5)	24		(986)	(118)	(56)	**12,035**
Cumulative translation adjustments		**(1,177)**	(33)							(250)	**(1,460)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax		**21**	251								**272**
Unrealized gains and losses on available-for-sale financial assets, net of tax	12	**42**	(1)								**41**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	7	**(323)**	(116)								**(439)**
Other comprehensive income		**(261)**	**134**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(126)**
Treasury shares and DANONE call options	13	**(1,707)**			28				(2)		**(1,682)**
Equity – Group share		**12,606**	**1,821**	**46**	**23**	**24**	**–**	**(986)**	**(120)**	**(306)**	**13,109**
Non-controlling interests		**63**	99					(93)	(11)	27	**85**
Consolidated equity		**12,669**	**1,920**	**46**	**23**	**24**	**–**	**(1,079)**	**(131)**	**(279)**	**13,194**

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

Notes to the consolidated financial statements

Contents

NOTE 1. ACCOUNTING PRINCIPLES 77
Note 1.1. Basis for preparation 77
Note 1.2. Accounting framework applied 77

NOTE 2. TRANSACTION ANNOUNCED IN 2016 AND NOT YET COMPLETED: ACQUISITION OF THE WHITEWAVE FOODS COMPANY 78
Note 2.1. Transaction background 78
Note 2.2. Management of financial risks related to the acquisition 78
Note 2.3. Impacts on the consolidated financial statements as of December 31, 2016 79

NOTE 3. FULLY CONSOLIDATED COMPANIES AND NON-CONTROLLING INTERESTS 80
Note 3.1 Accounting principles 80
Note 3.2. Main changes during the period 81
Note 3.3. Main fully consolidated companies 82
Note 3.4. Accounting for acquisitions resulting in control being obtained in 2016 82
Note 3.5. Finalization in 2016 of the accounting for the acquisitions carried out in 2015 resulting in control being obtained 82
Note 3.6. Non-controlling interests 82

NOTE 4. ASSOCIATES 83
Note 4.1. Accounting principles 83
Note 4.2. Main associates in terms of net income and consolidated net assets 84
Note 4.3. Main changes during the period 84
Note 4.4. Mengniu (Fresh Dairy Products, China) and Yashili (Medical Nutrition, China) 85
Note 4.5. Yakult (Fresh Dairy Products, Japan) 87
Note 4.6. Carrying amount and change during the period 88
Note 4.7. Impairment review of Investments in associates other than Mengniu and Yashili 88
Note 4.8. Share of profit of associates 88

NOTE 5. INFORMATION CONCERNING THE GROUP'S OPERATING ACTIVITIES 89
Note 5.1. Accounting principles 89
Note 5.2. Operating segments 89
Note 5.3. Other components of trading operating income 91
Note 5.4. Working capital 91
Note 5.5. Property, plant and equipment and capital expenditures 93
Note 5.6. Off-balance sheet commitments relating to operating activities 95
Note 5.7. Financial risks associated with operating activities 96

NOTE 6. EVENTS AND TRANSACTIONS OUTSIDE THE GROUP'S ORDINARY ACTIVITIES 97
Note 6.1. Other operating income (expense) 97
Note 6.2. Danone 2020 transformational plan 98
Note 6.3. Savings and adaptation plan for the Group's organizations in Europe 98

NOTE 7. NUMBER OF EMPLOYEES, PERSONNEL COSTS AND EMPLOYEE BENEFITS 99
Note 7.1. Number of employees at fully consolidated companies 99
Note 7.2. Personnel costs of fully consolidated companies 99
Note 7.3. Retirement obligations and other long-term benefits 100
Note 7.4. Group performance shares and stock-options granted to certain employees and corporate officers 104
Note 7.5. Company Savings Plan 105

NOTE 8. INCOME TAX 106
Note 8.1. Income tax 106
Note 8.2. Deferred taxes 107
Note 8.3. Tax loss carryforwards 108

NOTE 9. INTANGIBLE ASSETS 108
Note 9.1. Accounting principles 108
Note 9.2. Carrying amount and change during the period 109
Note 9.3. Impairment review 110

NOTE 10. FINANCING AND FINANCIAL SECURITY, NET DEBT AND COST OF NET DEBT 113
Note 10.1. Accounting principles 113
Note 10.2. Liquidity risk and management policy 114
Note 10.3 Financing structure and changes during the period 115
Note 10.4. Group's financing and financial security managed at the Company level 115
Note 10.5. Short-term investments 118
Note 10.6. Net debt 118
Note 10.7. Cost of net debt 119
Note 10.8. Financial risks associated with the net debt and the financing activity 119

NOTE 11. OTHER FINANCIAL INVESTMENTS, OTHER FINANCIAL INCOME (EXPENSE) 120
Note 11.1. Accounting principles 120
Note 11.2. Other financial investments 121
Note 11.3. Other financial income and other financial expense 121

NOTE 12. ORGANIZATION OF FINANCIAL RISKS AND DERIVATIVES MANAGEMENT 121
Note 12.1. Organization of financial risks management 121
Note 12.2. Accounting principles 122
Note 12.3. Derivatives 122
Note 12.4. Counterparty risk 125
Note 12.5. Securities risk 125
Note 12.6. Reconciliation of the consolidated balance sheet by class and accounting category 126

NOTE 13. DANONE SHARES, DIVIDEND, EARNINGS PER SHARE 127
Note 13.1. Accounting principles 127
Note 13.2. Transactions and changes involving DANONE shares 127
Note 13.3. Outstanding DANONE shares 128
Note 13.4. Earnings per share – Group share 128
Note 13.5. Dividend 129

NOTE 14. OTHER NON-CURRENT PROVISIONS AND LIABILITIES AND LEGAL AND ARBITRATION PROCEEDINGS 130
Note 14.1. Accounting principles 130
Note 14.2. Carrying amount and change during the period 130
Note 14.3. Legal and arbitration proceedings 130

NOTE 15. RELATED PARTY TRANSACTIONS 131
Note 15.1. Accounting principles 131
Note 15.2. Transactions with associates 131
Note 15.3. Compensation and benefits granted to members of the Executive Committee and Board of Directors 131
Note 15.4. Related party agreements 131

NOTE 16. SUBSEQUENT EVENTS 131

NOTE 17. LIST OF SUBSIDIARIES AS OF DECEMBER 31, 2016 132
Note 17.1. Fully consolidated holding companies and financial companies held directly by the Company 132
Note 17.2. Main fully consolidated companies of the Fresh Dairy Products Division 132
Note 17.3. Main fully consolidated companies of the Waters Division 133
Note 17.4. Main fully consolidated companies of the Early Life Nutrition Division 133
Note 17.5. Main fully consolidated companies in the Medical Nutrition Division 134
Note 17.6. Main investments in associates 134

NOTE 18. FEES TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS 135

NOTE 1. ACCOUNTING PRINCIPLES

Note 1.1. Basis 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, 2016 were approved by Danone's Board of Directors on February 14, 2017 and will be submitted for approval to the Shareholders' Meeting on April 27, 2017.

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

	Notes
Measurement of intangible assets	9.3
Measurement of investments in associates	4.1, 4.4, 4.7, 4.8
Measurement of deferred tax assets	8.3
Recognition of financing and derivative instruments related to the WhiteWave acquisition	2.2
Recognition of liabilities related to put options granted to non-controlling interests	1.2, 3.1, 3.6
Determination of the amount of provisions for risks and charges	14.1, 14.2, 14.3
Determination of the amount of rebates, trade supports and other deductions related to agreements with customers	5.1

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

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

Note 1.2. Accounting framework applied

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

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2016

No amendment or interpretation whose application is mandatory as of January 1, 2016 had a material impact on the 2016 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, 2016

- IFRS 15, *Revenue from contracts with customers;*
- IFRS 9, *Financial instruments*.

Danone did not exercise the option to apply these standards, amendments and interpretations in advance to the consolidated financial statements for the year ended December 31, 2016 and does not expect them to have a material impact on its results and financial position.

Regarding IFRS 15, based on the work carried out, the Group expects that its application will result primarily in the reclassification of certain services received or performed by the Group as well as certain expense items between sales and the corresponding operating income lines. The Group will assess these potential impacts in the interim consolidated financial statements for the six-month period ending June 30, 2017.

Main standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

- IFRS 16, *Leases*.

The Group is currently assessing the impact of these standards and amendments on its results and financial position.

Other standards

The Group is closely monitoring the economic conditions that could, in 2017, result in Argentina being qualified as a hyperinflationary economy, with the result that IAS 29 *Financial Reporting in Hyperinflationary Economies* would become applicable. This standard would require the balance sheets and net income of the subsidiaries concerned to be (i) restated to reflect the changes in the general purchasing power of the local currency by using official inflation rate indices applicable at the end of the reporting period, and (ii) translated into euros at the exchange rate ruling at the end of the reporting period.

Other IASB and IFRIC projects

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

NOTE 2. TRANSACTION ANNOUNCED IN 2016 AND NOT YET COMPLETED: ACQUISITION OF THE WHITEWAVE FOODS COMPANY

Note 2.1. Transaction background

On July 7, 2016, Danone announced the signature of an agreement to acquire The WhiteWave Foods Company ("WhiteWave"). With sales of USD 4 billion in 2015 and USD 4.2 billion in 2016, WhiteWave is a global leader in plant-based foods and beverages and organic produce.

The acquisition is a cash transaction with a price of USD 56.25 per share, representing a total enterprise value of USD 12.5 billion, including WhiteWave's debt and certain other liabilities. It represents an approximately 24% premium relative to the average closing price of WhiteWave's stock during the 30 trading days leading up to the agreement.

The transaction was approved unanimously by the respective Boards of Directors of the two companies. It is subject to the approval of the WhiteWave Shareholders' meeting, the requisite authorizations from competition authorities and the usual conditions precedent.

The WhiteWave acquisition will be financed entirely through debt.

Status as of December 31, 2016

On October 4, 2016, WhiteWave announced that the company's shareholders approved the agreement at a special Shareholders' Meeting in anticipation of the acquisition by Danone of all outstanding shares of WhiteWave.

On December 16, 2016, the European Commission cleared the pending acquisition of WhiteWave by Danone, under the condition that Danone divest part of its "growing-up milk" business in Belgium (less than €10 million in sales).

The closing of the transaction remains subject to the completion by the US antitrust authorities of their review of the transaction. Both WhiteWave and Danone have been working with the United States Department of Justice ("DOJ") and target to close the transaction in Q1 2017. However, there can be no assurance regarding the timing of the completion of the regulatory process.

Note 2.2. Management of financial risks related to the acquisition

See also Notes 10.1 and 12.2 of the Notes to the consolidated financial statements for the accounting principles pertaining to, respectively (i) bond debt and investments, and (ii) derivative instruments.

Financing

In order to secure the transaction, in July 2016 Danone entered into a bridge loan agreement with its major banks. The maximum loan amount under this agreement was USD 13.1 billion.

Danone then refinanced this bridge loan in advance by carrying out two multi-tranche bond offerings in October 2016 and subsequently, early terminated the bridge loan at end-2016. Danone therefore did not draw on this facility at all.

Danone borrowed a total of €6.2 billion in the euro bond market (through the EMTN program) and USD 5.5 billion through a private placement with institutional investors (notably qualified investors in the United States).

Danone then modified the currency composition of these financing transactions by swapping into euros:

- a portion of certain tranches and over their lifespan through cross currency swaps;
- in anticipation of the acquisition payment, the balance through short-term foreign exchange swaps.

Situation as of December 31, 2016: nominal amount by tranche

			Effect of swaps					
	At issue date		Cross currency swaps		Short-term foreign exchange swaps		As of December 31, 2016	
(in € billions)	EUR	USD	EUR	USD	EUR	USD	EUR	USD
2018	1.4						**1.4**	–
2019		1.2	1.1	(1.2)			**1.1**	–
2020	1.0						**1.0**	–
2021		0.8	0.3	(0.3)	0.5	(0.5)	**0.7**	–
2022	1.0						**1.0**	–
2023		1.5			1.4	(1.5)	**1.4**	–
2024	1.3						**1.3**	–
2026		2.0			1.8	(2.0)	**1.8**	–
2028	1.6						**1.6**	–
Total	**6.2**	**5.5**	**1.4**	**(1.5)**	**3.7**	**(4.0)**	**11.2**	**–**

In addition, since the transaction involved acquisition financing, these bond offerings include a clause stipulating their mandatory early redemption if the acquisition was not completed by October 31, 2017, with the exception of the tranche maturing in 2018. The redemption amount would be 101% of the nominal amount plus accrued interest.

Accounting treatment

The bond borrowings are presented under Non-current financing and recognized at their amortized cost. The revaluation of the U.S. dollar tranches had no net impact on the consolidated income statement, since the Group used either a natural hedge or applied hedge accounting.

Because the short-term foreign exchange swaps and cross-currency swaps are instruments used to manage net debt:

- their fair value is presented under Derivative instruments on the balance sheet;
- the change in their fair value due to currency effects had no impact on the consolidated income statement, since the Group used a natural hedge or applied hedge accounting;
- the short-term swap points and net interests on cross currency swaps are recognized under Cost of net financial debt.

Investment of funds pending the payment of the acquisition

Pending the acquisition payment, all proceeds from the bond offerings converted into euros after the effect of swaps were invested in risk-free money market funds which can be converted into cash at any time.

The subscribed money market funds are qualified as held for trading as defined by IAS 39, *Financial instruments: recognition and measurement* and are presented under Short-term investments on the consolidated balance sheet (see Note 10.5 of the Notes to the consolidated financial statements).

Hedging of the acquisition price

In order to hedge against changes in the U.S. dollar against the euro, in 2016 Danone purchased call options and short-term forwards for a total amount USD of 8.0 billion.

Since the acquisition was highly probable to be completed and these positions would not be maintained beyond the acquisition date, they were recognized as future cash flow hedges:

- their fair value is presented on the consolidated balance sheet under Derivatives – current assets;
- the effective portion (unrealized foreign exchange gain and losses on transactions outstanding as of December 31, 2016 and foreign exchange gains and losses on transactions expired in 2016) is recognized in equity under Accumulated other comprehensive income;
- the ineffective portion (change in option premiums and forward points) is recognized through profit or loss under Other financial income (expense).

Note 2.3. Impacts on the consolidated financial statements as of December 31, 2016

Since the acquisition was not completed as of December 31, 2016, the only accounting impacts are as follows:

- financial risk management transactions related to the acquisition described above;
- acquisition-related costs in Other operating income (expense) (see Note 6.1 of the Notes to the consolidated financial statements).

NOTE 3. FULLY CONSOLIDATED COMPANIES AND NON-CONTROLLING INTERESTS

Note 3.1. Accounting principles

Fully consolidated companies

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

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

Business combinations: acquisitions resulting in control being obtained, partial disposal 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 transactions 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 3.2. Main changes during the period

2016 fiscal year

					Ownership as of December 31	
(in percentage)	**Notes**	**Division**	**Country**	**Transaction date [a]**	**2015**	**2016**
Main companies consolidated for the first time during 2016						
Halayeb		Fresh Dairy Products	Egypt	February	–	100.0%
Main consolidated companies with change in ownership percentage						
Fan Milk Group's companies [b]		Fresh Dairy Products	West Africa	February	49.0%	51.0%
Danone Spain		Fresh Dairy Products	Spain	March	92.4%	99.7%
Danone-Unimilk group	3.6	Fresh Dairy Products	CIS	January	70.9%	92.9%
Centrale Danone	3.6	Fresh Dairy Products	Morocco	March	95.9%	99.7%
Main companies no longer fully consolidated as of December 31						
Dumex China [c]	4.4	Early Life Nutrition	China	May	100.0%	–

(a) Month in the 2016 fiscal year
(b) Danone exercised a call option on 2% of the share capital of Fan Milk in 2016
(c) Dumex Baby Foods Co. Ltd.

2015 fiscal year

				Ownership as of December 31	
(in percentage)	**Division**	**Country**	**Transaction date [a]**	**2014**	**2015**
Main companies consolidated for the first time during 2015					
Fan Milk Group's companies	Fresh Dairy Products	West Africa	December	49.0%	49.0%
Main consolidated companies with change in ownership percentage					
Danone-Unimilk group	Fresh Dairy Products	CIS	December	50.9%	70.9%
Danone Spain	Fresh Dairy Products	Spain	February/ March	76.9%	92.4%
Centrale Danone	Fresh Dairy Products	Morocco	December	90.9%	95.9%
Main companies no longer fully consolidated as of December 31					
–					

(a) Month in the 2015 fiscal year.

Regarding the Fan Milk group, accounted for as an associate as of December 31, 2014, its companies have been fully consolidated since December 2015 pursuant to IFRS 10, *Consolidated Financial Statements*, since the Group has had the contractual right to exercise exclusive control over them since that date.

Note 3.3. Main fully consolidated companies

The Group's main fully consolidated companies are listed in Notes 17.1 to 17.5 of the Notes to the consolidated financial statements. The list of companies included in the Group's consolidation scope, whether they are fully consolidated directly or indirectly or recognized as investments in associates as of December 31, 2016, is available on the Group's website (www.danone.com).

Note 3.4. Accounting for acquisitions resulting in control being obtained in 2016

The business combinations carried out in 2016 have been accounted for on a provisional basis since the amounts allocated to the acquired identifiable assets and liabilities and to goodwill may be adjusted during a period of one year from the respective date of each of these combinations. They are not material.

Note 3.5. Finalization in 2016 of the accounting for the acquisitions carried out in 2015 resulting in control being obtained

In 2016, the Group finalized the accounting treatment of the business combinations that took place during 2015. The amount of intangible assets (brands) was adjusted upward by €61 million. This did not result in any other material adjustment to the purchase price allocation in the consolidated financial statements for 2016 as compared with the consolidated financial statements for 2015.

Purchase price allocation

	As of the acquisition date
(in € millions)	**2015**
Fair value of net assets at 100% [a]	75
Net assets attributable to non-controlling interests [b]	(27)
Goodwill on the portion attributable to the Group [c]	94
Fair value, at the date when control was obtained, of the consideration paid or to be paid to the sellers	**142**

(a) The assets correspond mainly to intangible assets, while liabilities correspond mainly to financial debt.
(b) For each of the transactions involving less than 100%, non-controlling interests are recognized at their share of the fair value of the entity's assets and liabilities.
(c) Residual goodwill represents mainly human capital, expected synergies in terms of industrial activity, cost savings and the securing of the milk supply.

Note 3.6. Non-controlling interests

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

				Ownership percentage of non-controlling interests as of December 31	
(in percentage)	**Division**	**Country**	**Listing market [a]**	**2015**	**2016**
Danone-Unimilk group [b]	Fresh Dairy Products	CIS		29.1%	7.1%
Danone Spain[b]	Fresh Dairy Products	Spain		7.6%	0.3%
Centrale Danone [b]	Fresh Dairy Products	Morocco	Casablanca	4.1%	0.3%

(a) If the company is listed.
(b) As of December 31, 2016, non-controlling interests had no representatives on the Company's Board of Directors.

Each of these companies operates the Group's Fresh Dairy Products activities in a given country or group of countries.

In 2016 as in 2015, the non-controlling interests' shares in these companies did not exceed 5% of the Group's net sales or assets and liabilities (excluding liabilities related to put options), which is deemed to be not material.

Finalization of transactions relating to non-controlling interests still pending as of December 31, 2015

Danone-Unimilk (Fresh Dairy Products, CIS)
Some non-controlling shareholders in the Danone-Unimilk group exercised their put option representing 42.0% of the company's share capital.

As of December 31, 2015, a portion of the transaction corresponding to 22.0% of the share capital was still subject to the approval of the competition authorities. Danone then held 70.9% of the share capital of the Danone-Unimilk group and had recorded €284 million in current financial liabilities, corresponding to the amount remaining to be paid to non-controlling interests if Danone's acquisition of the remaining 22.0% interest in the company was approved.

The transaction was approved and finalized in January 2016, with no impact on consolidated equity as of December 31, 2016. Danone now owns 92.9% of the Group.

Centrale Danone (Fresh Dairy Products, Morocco)
In 2015, non-controlling shareholders holding a put option over their interest exercised their option, increasing Danone's interest to 95.9% as of December 31 and making mandatory the submission of a squeeze-out proposal on all of the shares making up Centrale Danone's free float, *i.e.* 4.1% of its share capital and voting rights.

Obligated to purchase the shares tendered by non-controlling shareholders to the squeeze-out, the Group recognized a current liability of €43.5 million as of December 31, 2015. The liability is presented under the heading Liabilities related to put options granted to non-controlling interests.

The squeeze-out offer was held from February 8 through February 26, 2016. As part of this transaction, Danone purchased 3.8% of Centrale Danone's share capital for a total of €41 million, with the difference between the purchase price and the amount recognized as a liability as of December 31, 2015 shown under equity.

Liabilities related to put options granted to non-controlling interests

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

In accordance with IAS 32, *Financial instruments: presentation*, when non-controlling interests hold put options enabling them to sell their investment in 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 by IFRS, the Company has applied the recommendations issued by the AMF (*Autorité des Marchés Financiers*) in November 2009.

Changes during the period

(in € millions)	**2015**	**2016**
As of January 1	2,558	862
New options and options recognized previously in accordance with IAS 39	207	–
Options exercised [(a)]	(1,851)	(285)
Change in the present value of the options	(52)	121
As of December 31 [(b)]	**862**	**699**

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

NOTE 4. ASSOCIATES

Note 4.1. Accounting principles

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

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

The main components of Net income of associates are:

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

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

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

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

As of December 31

				2015	2016	
(in € millions, except percentage)	Notes	**Country**	**Listing market [a]**	**Ownership**	**Ownership**	**Market capitalization [a] [b]**
Mengniu [c]	4.4	China	Hong Kong	9.9%	9.9%	7,177
Yashili [d]	4.4	China	Hong Kong	25.0%	25.0%	865
Yakult [e]	4.5	Japan	Tokyo	21.3%	21.3%	7,731

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

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

In 2016, these companies accounted for more than 70% in total of Investments in associates (other investments in associates did not, individually, account for more than 10% of the total). In addition, none of these companies accounted for more than 5% of the net income or consolidated net assets.

Note 4.3. Main changes during the period

2016 fiscal year

Ownership as of December 31

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

(a) Month of the 2016 fiscal year.

2015 fiscal year

Ownership as of December 31

(in percentage)	Notes	**Country**	**Transaction date [a]**	**2014**	**2015**
Main companies accounted for using the equity method for the first time during 2015					
Yashili	4.4	China	February	–	25.0%
Main associates with change in ownership percentage					
–					
Main companies no longer accounted for using the equity method as of December 31					
Fan Milk group companies [b]		West Africa	December	49.0%	49.0%

(a) Month of the 2015 fiscal year.
(b) Companies fully consolidated since December 2015 pursuant to IFRS10, *Consolidated Financial Statements*.

Note 4.4. Mengniu (Fresh Dairy Products, China) and Yashili (Medical Nutrition, China)

Background to the acquisition of these equity interests

On May 20, 2013, Danone announced that the Group had signed agreements with COFCO and Mengniu to join forces 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 October 2014, Danone, Mengniu and Yashili announced the extension of their strategic alliance into infant milk formula in China through the signing of an agreement allowing Danone to take part in a reserved capital increase by Yashili totaling around €437 million on that date. Completed in February 2015, this transaction enabled Danone to hold a 25% stake in Yashili and become its second-largest shareholder behind Mengniu, which owns a 51% stake. Under the terms of this agreement, Danone has recommended a candidate to serve as Yashili's Chief Executive Officer.

Lastly, in July 2015, Danone announced it had entered into an agreement with Mengniu and Yashili for the primary purpose of merging Dumex activity in China with Yashili, thereby building a strong local infant milk formula brand platform. The sale was completed in May 2016 and gave rise to a €91 million capital gain largely due to the recycling of unrealized currency translation differences, recorded under Other operating income (expense), whereas the related assets and liabilities had been classified as held for sale as of December 31, 2015.

Mengniu (Fresh Dairy Products, 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

	2015		2016
(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]	3,971	3,998	4,015
Current assets [a]	3,252	3,175	2,944
Equity [a]	3,782	3,769	3,631
Non-current liabilities [a]	1,183	1,142	986
Current liabilities [a]	2,258	2,263	2,341
Sales [a]	3,683	7,035	3,736
Net income [a]	206	362	162
Other comprehensive income [a]	(15)	(25)	(8)

(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, 2016

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

As of December 31, 2016, the carrying amount of the investment in Mengniu (€786 million) was subjected to an impairment test based on estimated future cash flows.

The assumptions used for the discount rate and long-term growth rate were 9.1% and 3.0%, respectively.

Since the value in use calculated on these bases was greater than the carrying amount of the investment, no impairment was recorded on December 31, 2016. 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)*
(200) bps	Sales growth (applied each year for five years)	–
(100) bps	Trading operating margin (applied each year for five years)	–
(100) bps	Long-term growth rate	–
+100 bps	Discount rate	–

Impairment review as of December 31, 2015
The Group noted a significant fall in the share price of the Mengniu group as compared with the average purchase price paid by the Group for its shareholding. This resulted from a financial performance in 2015 that was below expectations and the general decline in the Chinese stock market, said decline constituting an indication of impairment.

As of December 31, 2015, the carrying amount of the Group's stake in Mengniu (€843 million) was subjected to an impairment test based on estimated future cash flows.

The assumptions used for the discount rate and long-term growth rate were 9.2% and 3.0%, respectively.

Since the value in use calculated on these bases was higher than the stake's carrying amount, no impairment provision was recognized as of December 31, 2015.

Yashili (Medical Nutrition, China)

This shareholding, acquired under the terms of its strategic agreement with Mengniu, is recognized under Investments in associates. As of December 31, 2016, 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, 2016
The Group noted a significant fall in the share price of Yashili compared to the average purchase price paid by the Group for its shares, which was due to the 2016 financial performance that fell short of expectations as well as its profit warning issued on December 15, a decline that constituted an indication of impairment.

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

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

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

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)	(27)
(200) bps	Trading operating margin (applied each year for five years)	(19)
(100) bps	Long-term growth rate	(6)
+100 bps	Discount rate	(24)

Impairment review as of December 31, 2015
The Group noted a significant fall in Yashili's share price as compared with the average purchase price paid by the Group for its shareholding. This resulted from a financial performance in 2015 that was below expectations and the general decline in the Chinese stock market, said decline constituting an indication of impairment.

As of December 31, 2015, the carrying amount of the Group's stake in Yashili (€502 million) was subject to an impairment test based on estimated future cash flows.

The forecasts used reflected the results expected from strategic changes decided by Yashili's management and implemented gradually since the end of 2015, *i.e.* dynamic sales growth during the period from 2016 to 2020 and a significant increase in profitability. In addition, the assumptions used as regards the discount rate and long-term growth rate were 10.2% and 3.0% respectively.

Since the value in use calculated on these bases corresponded to the stake's carrying amount, no impairment provision was recognized as of December 31, 2015.

Note 4.5. Yakult (Fresh Dairy Products, Japan)

Main characteristics of the investment

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

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

As of December 31, 2016, Danone had 21.3% of the voting rights and two representatives on the company's Board of Directors. Consequently, its shareholding is recognized within Investments in associates.

It should be noted that, as Yakult's fiscal year closing date is March 31, the amounts prepared for Group consolidation purposes as of December 31 are estimated on the basis of the most recent financial statements published for each fiscal year (interim financial statements for the six months ended September 30, 2015 for 2015 and interim financial statements for the six months ended September 30, 2016 for 2016).

Main financial information

	2015		2016	
(in € millions)	**Financial statements for the year ended March 31**	**Interim financial statements as of September 30**	**Financial statements for the year ended March 31**	**Interim financial statements as of September 30**
Non-current assets [a]	2,740	2,676	2,783	2,994
Current assets [a]	1,752	1,717	1,733	1,935
Equity [a]	2,809	2,785	2,857	3,039
Non-current liabilities [a]	786	731	785	837
Current liabilities [a]	897	877	873	1,053
Sales [a]	2,750	1,442	3,074	1,562
Net income [a]	228	147	227	124
Other comprehensive income [a]	179	(10)	(121)	(260)

(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 and the market capitalization have been translated into euros at the exchange rate in effect at the end of the reporting period.

Carrying amount

	As of December 31	
(in € millions)	**2015**	**2016**
Carrying amount	780	785

Note 4.6. Carrying amount and change during the period

		2015			2016		
(in € millions)	Notes	**Net goodwill**	**Group's share in net assets and net income**	**Total**	**Net goodwill**	**Group's share in net assets and net income**	**Total**
As of January 1		**1,024**	**1,123**	**2,146**	**1,414**	**1,468**	**2,882**
Acquisitions, influence acquired during the year and capital increase	4.3	280	185	465	24	10	34
Disposals and losses of influence during the year and change in ownership percentage	4.3	(55)	(29)	(84)	(38)	58	21
Share of profit of associates before impact of disposals, revaluation and other			126	126		104	104
Dividends paid			(40)	(40)		(53)	(53)
Translation adjustments		65	105	171	(12)	18	6
Impairment	4.4				(98)		(98)
Adjustment in 2015 for acquisitions made in 2014 and adjustment in 2016 of the Group's share in net assets		101	(3)	98		(165)	(165)
As of December 31		**1,414**	**1,468**	**2,882**	**1,290**	**1,440**	**2,730**

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

Impairment review as of December 31, 2016

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

Impairment review as of December 31, 2015

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

Note 4.8. Share of profit of associates

		Year ended December 31	
(in € millions)	Notes	**2015**	**2016**
Share of profits of associates before gains (losses) on disposal, revaluation and other		126	104
Impairment charges	4.4	–	(98)
Gains (losses) on disposal, revaluation and other [(a)]	4.4	(28)	(5)
Total		**99**	**1**

(a) Includes the withholding tax applied to dividends paid by Yakult.

NOTE 5. INFORMATION CONCERNING THE GROUP'S OPERATING ACTIVITIES

Note 5.1. Accounting principles

Sales

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

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

Cost of goods sold

The cost of goods sold mainly comprises industrial costs (including raw material costs, depreciation of industrial assets and overheads dedicated 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 overheads and administrative costs.

Research and development expense

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

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

Note 5.2. Operating segments

General principles

Danone's strategy is in line with its mission of "bringing health through food to as many people as possible". Since 2007 and the acquisition of Numico, this mission has been implemented through four divisions:

- Fresh Dairy Products (production and distribution of yogurts, fermented dairy products and other fresh dairy specialties);
- Waters (production and distribution of packaged natural, flavored and vitamin-enriched water);
- Early Life Nutrition (production and distribution of specialized food for babies and young children to complement breast-feeding);
- Medical Nutrition (production and distribution of specialized food for people afflicted with certain illnesses or frail elderly people).

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

- sales;
- trading operating income;
- trading operating margin, which is defined as the ratio of trading operating income to sales;
- free cash flow, which represents cash flows provided or used by operating activities less capital expenditure net of disposals and, in connection with Revised IFRS 3, excluding (i) acquisition costs related to business combinations, and (ii) cash flows related to earn-outs related to business combinations and paid subsequently to the acquisition date;
- free cash-flow excluding exceptional items, an indicator published by the Group since the first half of 2013, in connection with its plan to generate savings and adapt its organizations in Europe corresponding to free cash flow before cash flows related to initiatives that may be taken by the Group in connection with the plan;
- net financial debt, which represents the interest-bearing portion of net debt. It corresponds to Current and non-current financial debt, excluding Liabilities related to put options granted to non-controlling interests and net of Short-term investments, Cash and cash equivalents and Derivatives – assets used to manage net debt.

Among the key indicators reviewed and used internally by the Group's primary operational decision-makers, only Net sales, Trading operating income and Trading operating margin are monitored by Division, the other indicators being monitored at the Group level. The primary operational decision-makers monitor the four Divisions: it should be noted that the Group has not carried out a reorganization of its operating segments.

As for the geographical segments (Europe, CIS & North America, ALMA), the decision to combine the CIS and North America regions into a single zone for reporting purposes was made in 2013 in order to adapt the reporting to the Company's changes. It was based on the fact that the respective regions presented similar characteristics: predominance of the Fresh Dairy Products activity, margins below the Danone average and similar growth rates. This choice remains relevant in 2016.

Information by Division

Year ended December 31

	Sales [a]		Trading operating income		Trading operating margin	
(in € millions, except percentage)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Fresh Dairy Products	11,057	10,736	1,100	1,083	9.9%	10.1%
Waters	4,768	4,574	542	521	11.4%	11.4%
Early Life Nutrition	4,994	5,017	965	1,099	19.3%	21.9%
Medical Nutrition	1,593	1,618	286	319	17.9%	19.7%
Group total	**22,412**	**21,944**	**2,892**	**3,022**	**12.9%**	**13.8%**

(a) Sales to third parties.

Information by geographical area

Sales, trading operating income, trading operating margin

Year ended December 31

	Sales [a]		Trading operating income		Trading operating margin	
(in € millions, except percentage)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Europe [b]	8,900	8,571	1,536	1,512	17.3%	17.6%
CIS & North America [c]	4,471	4,486	388	460	8.7%	10.3%
ALMA [d]	9,041	8,887	969	1,050	10.7%	11.8%
Group total	**22,412**	**21,944**	**2,892**	**3,022**	**12.9%**	**13.8%**

(a) Sales to third parties.
(b) Of which, €2,174 million in sales realized in France in 2016 (€2,204 million in 2015).
(c) North America = United States and Canada.
(d) Asia-Pacific / Latin America / Middle East / Africa

Top ten countries contributing to sales

Year ended December 31

(in percentage)	**2015**	**2016**
United States	11%	11%
France	10%	10%
China	7%	7%
Russia	7%	7%
Indonesia	6%	6%
United Kingdom	6%	5%
Spain	5%	5%
Mexico	5%	5%
Argentina	6%	4%
Germany	4%	4%

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

	As of December 31	
(in € millions)	**2015**	**2016**
Europe	10,621	10,380
Of which, France	*1,931*	*2,011*
CIS & North America [a]	2,731	3,038
ALMA [b]	7,178	7,422
Group total	**20,531**	**20,839**

(a) North America = United States and Canada.
(b) Asia-Pacific / Latin America / Middle East / Africa.

Note 5.3. Other components of trading operating income

Other income (expense)

		Year ended December 31	
(in € millions)	Notes	**2015**	**2016**
Employee benefits [a]	7.2, 7.3	(165)	(164)
Various taxes [b]		(81)	(56)
Restructuring costs [c]		(73)	(42)
Capital gains on disposals of property, plant and equipment and intangible assets		4	7
Other [d]		(64)	(23)
Total		**(380)**	**(278)**

(a) Employee profit-sharing, Group performance shares and stock options, defined benefit retirement plans and other employee benefits.
(b) Comprises mainly sales taxes.
(c) Excluding restructurings implemented in connection with (i) the plan for savings and adaptation of the Group's organizations in Europe; (ii) the Danone 2020 transformation plan; and (iii) the plan for restructuring the Group's activities in Argentina.
(d) Comprises mainly currency translation differences, asset impairment, provisions for doubtful receivables, insurance payouts received and several other components.

Note 5.4. Working capital

Accounting principles

Inventories

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

Trade receivables

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

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

Transactions in foreign currencies

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

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

Carrying amount

As of December 31

(in € millions, except percentage)	**2015**	**2016**
Goods purchased for resale	93	66
Raw materials and supplies	601	655
Semi-finished goods and work-in-progress	98	130
Finished goods	645	617
Non-refundable containers	44	46
Impairment provisions	(108)	(134)
Inventories, net	1,374	1,380
Trade and other receivables from operations	2,542	2,622
Impairment provisions	(76)	(99)
Trade receivables, net	2,466	2,524
State and local authorities	564	695
Derivatives – assets [a]	70	67
Other	160	298
Total other current assets	793	1,061
Total current assets	**4,633**	**4,964**
Trade payables	(3,624)	(3,772)
Year-end rebates payable to customers	(1,049)	(1,032)
State and local authorities	(284)	(293)
Personnel costs, including social security charges	(855)	(872)
Derivatives – liabilities [a]	(33)	(44)
Other	(349)	(500)
Total other current liabilities	(2,570)	(2,741)
Total current liabilities	**(6,193)**	**(6,513)**
Working capital	**(1,561)**	**(1,549)**
As a percentage of consolidated sales	7.0%	7.1%

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

Credit risk on trade receivables

Credit risk exposure

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

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

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

	Year ended December 31	
(in percentage)	**2015**	**2016**
Portion of sales made to the Group's largest customers		
Group's largest customer	4.2%	4.9%
Group's five largest customers	12%	13%
Group's ten largest customers	18%	19%
Portion of overdue trade receivables for which no impairment provisions has been recognized [(a)]	**4.3%**	**5.8%**

(a) More than 30 days overdue.

The increase between 2015 and 2016 is mainly due to transactions for which payment was delayed for administrative reasons but with no risk for non-payment.

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

	As of December 31	
(in € millions)	**2015**	**2016**
Total trade receivables derecognized in connection with the non-recourse factoring program [(a)]	111	107

(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 recertified. They remain commitments to suppliers and are carried as operating liabilities under Trade payables until paid by Danone, which has the effect of clearing the commitment.

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

Note 5.5. Property, plant and equipment and capital expenditures

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: five to 20 years;
- other: three 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 Division) 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 change during the period

	2015				2016			
(in € millions)	Land and buildings	Machinery and equipment	Others and assets in progress	Total	Land and buildings	Machinery and equipment	Others and assets in progress	Total
Gross amount								
As of January 1	**2,443**	**5,787**	**1,762**	**9,992**	**2,541**	**5,994**	**1,917**	**10,452**
Capital expenditure [a]	60	137	672	869	64	189	721	974
Disposals	(45)	(203)	(98)	(346)	(33)	(158)	(95)	(286)
Reclassification of assets held for sale	(60)	(24)	(8)	(92)	47	(8)	4	43
Changes in consolidation scope	35	35	13	84	(45)	(22)	(12)	(78)
Translation adjustments	(1)	(104)	(42)	(147)	34	87	(29)	92
Other [b]	109	364	(382)	92	150	466	(501)	115
As of December 31	**2,541**	**5,994**	**1,917**	**10,452**	**2,758**	**6,547**	**2,006**	**11,312**
Depreciation								
As of January 1	**(1,018)**	**(3,539)**	**(852)**	**(5,410)**	**(1,058)**	**(3,737)**	**(904)**	**(5,701)**
Depreciation charges and impairment	(115)	(461)	(126)	(703)	(122)	(432)	(130)	(684)
Disposals	35	167	85	287	24	137	90	250
Reclassification of assets held for sale	45	23	8	75	(37)	(3)	(6)	(46)
Changes in consolidation scope	(1)	(3)	(1)	(4)	30	20	8	58
Translation adjustments	(6)	54	16	64	(14)	(46)	26	(34)
Other	2	22	(34)	(10)	(12)	(46)	(63)	(121)
As of December 31	**(1,058)**	**(3,737)**	**(904)**	**(5,701)**	**(1,190)**	**(4,107)**	**(979)**	**(6,276)**
Carrying amount								
As of December 31	**1,483**	**2,257**	**1,013**	**4,752**	**1,569**	**2,440**	**1,027**	**5,035**
Including assets in progress			*668*	*668*			*668*	*668*

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

Impairment review of property, plant and equipment

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

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

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

Capital expenditures during the period

		Year ended December 31
(in € millions, except percentage)	**2015**	**2016**
Related cash flows	(937)	(925)
As a percentage of sales	*4.2%*	*4.2%*

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

Commitments given in 2016

		Amount of financial flows for the year				
(in € millions)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021 and after**
Commitments to purchase goods and services [a]	(2,995)	(1,960)	(541)	(261)	(95)	(139)
Capital expenditure commitments	(226)	(199)	(18)	(9)	–	–
Operating lease commitments	(694)	(213)	(132)	(102)	(68)	(179)
Guarantees and pledges given	(46)	(26)	(11)	(8)	–	–
Other	–	–	–	–	–	–
Total	**(3,962)**	**(2,398)**	**(702)**	**(380)**	**(163)**	**(318)**

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

Commitments given in 2015

		Amount of financial flows for the year				
(in € millions)	**Total**	**2016**	**2017**	**2018**	**2019**	**2020 and after**
Commitments to purchase goods and services [a]	(3,452)	(1,904)	(680)	(338)	(255)	(275)
Capital expenditure commitments	(198)	(179)	(9)	(10)	–	–
Operating lease commitments	(767)	(208)	(142)	(106)	(82)	(229)
Guarantees and pledges given	(284)	(234)	(2)	(12)	(1)	(35)
Other	(35)	(24)	(7)	(3)	(1)	–
Total	**(4,738)**	**(2,548)**	**(841)**	**(469)**	**(340)**	**(539)**

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

Other commitments

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

Note 5.7. Financial risks associated with operating activities

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

Foreign exchange risk

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

Risk identification

The Group mainly operates on a local basis and consequently in the currency of the country in which it is operating, thereby incurring no currency risk. However, the location of some of the Group's production units may result in intercompany billings in foreign currencies. This applies particularly to the Early Life Nutrition and Medical Nutrition Divisions and, to a lesser extent, to the Fresh Dairy Products Division. Similarly, some raw materials are billed or indexed in foreign currencies, in particular as regards the Waters and Fresh Dairy Products Divisions. 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, 2016, the main hedged currencies in terms of value included the British pound, Mexican peso, U.S. dollar, Australian dollar, Russian ruble and Brazilian real (see Note 12.2 of the Notes to the consolidated financial statements).

Commodities risk

Danone's raw materials needs consist mainly of:

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

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

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

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

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

	Year ended December 31	
	2015	**2016**
(in € millions)	**Gain (loss)**	**Gain (loss)**
Increase of 5%		
Liquid milk, milk powder and other milk-based ingredients	(166)	(111)
Plastics, including PET	(78)	(75)
Decrease of 5%		
Liquid milk, milk powder and other milk-based ingredients	166	111
Plastics, including PET	78	75

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

Note 6.1. Other operating income (expense)

Accounting principles

Other operating income (expense) is defined under Recommendation 2013-03 of the French CNC relating to the format of consolidated financial statements prepared under international accounting standards, and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to Danone's current activities. These mainly include capital gains and losses on disposals of fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major external growth transactions, and incurred or estimated costs related to major crisis 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 2016

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

(in € millions)	Notes	**Related income/(expenses)**
Profit on disposal of the Dumex activity in China	4.4	91
Costs associated with the WhiteWave acquisition project		(57)
Danone 2020 transformational plan		(51)
Impairment of intangible assets	9.3	(31)
Restructuring of the Group's activities in Argentina as a result of the economic climate		(12)

Other operating income (expense) in 2015

In 2015, the net Other operating expense of €(682) million consisted mainly of expenses, including:

(in € millions)	**Related income/(expenses)**
Impairment of the Dumex brand in China and its property, plant and equipment	(337)
Impairment of several intangible assets of the Fresh Dairy Products, Waters and Early Life Nutrition Divisions	(127)
Danone 2020 transformational plan	(77)
Plan for savings and adaptation of the Group's organizations in Europe	(54)
Restructuring of the Group's activities in Argentina as a result of the economic climate	(29)
Fine notified by the Spanish National Commission on Markets and Competition	(23)

Note 6.2. Danone 2020 transformational plan

In order to generate strong, profitable and sustainable growth between now and 2020, Danone launched its "Danone 2020" transformation plan, the foundations for which were laid in 2015.

The expenses relating to this plan concerned mainly (i) the costs of employee-related measures (measures with respect to internal mobility, redundancy and support for departing employees) and (ii) other reorganization costs (notably compensation for the early termination of property leases and consulting fees).

As this plan consists in a strategic restructuring, costs incurred directly in connection with the plan are recognized as Other operating income (expense). Costs recognized consist of costs paid, incurred or provisioned.

The cash flows relating to this plan are shown within Cash flow from operating activities in the Consolidated statement of cash flows.

Costs relating to this plan

	Year ended December 31	
(in € millions)	**2015**	**2016**
Reorganization costs excluding employee-related measures	(30)	(50)
Employee-related measures	(47)	(1)
Total	**(77)**	**(51)**

Note 6.3. Savings and adaptation plan for the Group's organizations in Europe

On December 13, 2012, Danone announced the preparation of a cost reduction and adaptation plan to win back its competitive edge in order to address a lasting downturn in the economy and the consumer trends in Europe. On February 19, 2013, Danone presented the organizational part of its plan for savings and adaptation in Europe.

All of the expenses relating to this plan have been recognized in the 2013, 2014 and 2015 financial statements.

During 2016, Danone did not incur any further costs relating to this plan. The cash flows relating to this plan totaled €26 million, corresponding to costs incurred or provisioned as of December 31, 2015 and paid during 2016. They are shown within Cash flow from operating activities in the Consolidated statement of cash flows.

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

Note 7.1. Number of employees at fully consolidated companies

Number of employees as of December 31 and breakdown by Division and geographical area

As of December 31

	2015	2016
Total number of employees	**99,781**	**99,187**
By geographical area		
France	9%	9%
Rest of Europe	28%	27%
China	10%	9%
Rest of Asia-Pacific	18%	18%
North and South America	27%	26%
Africa and Middle East	9%	9%
Total	**100%**	**100%**
By Division		
Fresh Dairy Products	40%	39%
Waters	39%	38%
Early Life Nutrition	14%	14%
Medical Nutrition	6%	6%
Corporate functions	2%	3%
Total	**100%**	**100%**

Note 7.2. Personnel costs of fully consolidated companies

Year ended December 31

(in € millions)	2015	2016
Salaries and social security charges [(a)]	(3,385)	(3,433)
Retirement obligations – defined benefit plans [(b)]	(34)	(33)
Expenses relating to Group performance shares and stock-options	(21)	(25)

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

Note 7.3. Retirement obligations and other long-term benefits

General principles

The Group contributes to employee retirement benefit plans in accordance with the laws and usual practices of countries where 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 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 Trading 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 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 Trading operating income of the fiscal year in which they are incurred.

Defined benefit retirement plans

Provisions for retirement and other long-term benefits

	As of December 31	
(in € millions)	**2015**	**2016**
Defined benefit retirement plans	769	932
Other long-term benefits	25	27
Total	**794**	**959**

Defined benefit retirement plans and other post-employment benefits

Carrying amount of gross obligations

As of December 31

(in percentage)	2015	2016
Retirement plan for senior managers	33%	33%
Other	16%	16%
France	49%	49%
Germany	14%	13%
United States	7%	7%
United Kingdom	6%	4%
Indonesia	7%	8%
Ireland	6%	7%
Other [(a)]	11%	12%
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, 2016, 119 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 one particular subsidiary in one particular 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

	2015			2016		
(in € millions)	**Retirement plan for senior managers**	**Other plans**	**Total**	**Retirement plan for senior managers**	**Other plans**	**Total**
Vested rights with projected salaries	418	836	1 255	484	968	1,452
Fair value of plan assets	(165)	(321)	(486)	(156)	(364)	(520)
Vested rights net of fair value of plan assets	**254**	**515**	**769**	**328**	**604**	**932**
Impact of ceiling on assets	–	–	–	–	–	–
Obligations for which provisions have been recorded on the balance sheet	**254**	**515**	**769**	**328**	**604**	**932**

In addition, the total amount of contributions/benefits to be paid out in 2017 in connection with these plans is estimated at €35 million.

Actuarial assumptions

Methodology

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

The discount rates used in 2016 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	
(as a percentage, except for ages in number of years)	**2015**	**2016**
Discount rate	2.4%	1.7%
Expected return on plan assets	2.4%	1.7%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Sensitivity analysis to the key assumption: the discount rate

Year ended December 31

	Retirement plan for senior managers	
	2015	**2016**
(in € millions)	**Increase (decrease)**	**Increase (decrease)**
50 bps increase	(39)	(47)
50 bps decrease	44	53

Changes in carrying amounts of provisions

	2015				2016			
(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	**1,272**	**(475)**	**–**	**796**	**1,255**	**(486)**	**–**	**769**
Service cost	34	–	–	34	33	–	–	33
Interest cost	37	–	–	37	38	–	–	38
Expected return on plan assets	–	(13)	–	(13)	–	(13)	–	(13)
Other	(4)	–	–	(4)	(1)	–	–	(1)
Expense for the year	66	(13)	–	54	69	(13)	–	57
Payments made to retirees	(44)	27	–	(18)	(44)	27	–	(18)
Contributions to plan assets	–	(13)	–	(13)	–	(19)	–	(19)
Changes in demographic assumptions	(26)	–	–	(26)	(2)	–	–	(2)
Changes in economic assumptions	(41)	–	–	(41)	134	–	–	134
Experience effects	15	(3)	–	12	41	(35)	–	6
Actuarial gains and losses	(52)	(3)	–	(55)	173	(35)	–	138
Translation adjustments	12	(9)	–	3	(2)	7	–	5
Other	1	–	–	1	1	–	–	1
As of December 31	**1,255**	**(486)**	**–**	**769**	**1,452**	**(520)**	**–**	**932**

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)	2015	2016
Fair value of plan assets	**(165)**	**(156)**
Main class of plan assets		
Bonds [(a) (b)]	98%	91%
Equities [(b)]	–	3%
Real estate and other asset classes [(b)]	2%	6%

(a) These assets are diversified, and in particular exposure to individual sovereign credit 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 Trading operating income.

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

Group policy

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

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

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

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

General principles applicable to stock-options

Stock-options are options to purchase shares in the Company that were granted to certain employees and corporate officers up until the Combined Shareholders' Meeting of April 22, 2010. No stock-options have been granted since then and since the end of 2013, all stock-options are exercisable: the last plans expire in 2017.

Group performance shares and stock-options in effect

	Year ended December 31	
(number of shares)	**2015**	**2016**
Group performance shares		
As of January 1	**1,950,995**	**1,987,707**
Shares granted during the year	645,372	624,828
Shares that lapsed or were cancelled during the year	(141,003)	(90,538)
Shares delivered during the year	(467,657)	(222,430)
As of December 31	**1,987,707**	**2,299,567**
Stock-options		
As of January 1	**5,688,697**	**1,345,171**
Options that lapsed or were cancelled during the year	(201,173)	(117,116)
Options exercised during the year	(4,142,353)	(895,039)
As of December 31 [(a)]	**1,345,171**	**333,016**

(a) As of December 31, 2016 and December 31, 2015, all options can be exercised and most are in the money.

Accounting treatment of Group performance shares and stock-options

Accounting principles

The benefits relating to stock-options and Group performance shares granted to certain employees and corporate officers are written off as an expense on the Other income (expense) item of the consolidated income statement. The corresponding entry to this charge is an equivalent increase in consolidated equity on the Retained earnings item of the consolidated balance sheet. The charge corresponds to the fair value, determined on the grant date, of the stock-options and Group performance shares granted.

The fair value of the stock-options is determined using the Black & Scholes valuation model, based on assumptions determined by management. The corresponding charge is expensed over the vesting period (*i.e.* 2 to 4 years).

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 (either 3 or 4 years). To the extent that performance conditions are based on internal performance, charges recognized in respect of shares that lapse due to the failure to achieve said performance conditions are written back in the income statement for the period in which it is probable they will lapse.

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

Valuation

	Year ended December 31	
(in € per share except number of shares)	**2015**	**2016**
Number of shares granted during the year	645,372	624,828
Fair value of Group performance shares granted during the year [(a)]	56.5	58.8
Average DANONE share price during the year	60.7	63.4

(a) Fair value as of the grant date.

Expense related to Group performance shares and stock-options

	Year ended December 31	
(in € millions)	**2015**	**2016**
Group performance shares	(21)	(25)
Stock-options [(a)]	–	–
Total expense	**(21)**	**(25)**

(a) In 2015 and in 2016, all options can be exercised and therefore no longer result in expense recognition

Note 7.5. Company Savings Plan

General and accounting principles

Employees of the Group's French entities can, on an annual basis, subscribe a capital increase in the Company through a Company Savings Plan. The purchase price of the shares corresponds to 80% of the average DANONE share price over the 20 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 2016, under the terms of the Company Savings Plan, the Group implemented a capital increase involving 940,800 new shares issued at a price of €48.66 per share.

NOTE 8. INCOME TAX

Note 8.1. Income tax

Income before tax and tax expense

	Year ended December 31	
(in € millions except tax rate in percentage)	**2015**	**2016**
Income before tax	**1,925**	**2,630**
Current tax (expense) income	(805)	(869)
Deferred tax (expense) income	179	65
Current and deferred tax (expense) income	**(626)**	**(804)**
Effective tax rate	32.5%	30.6%
Amount (paid) received during the year	(804)	(891)

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 €250 million was raised to 38% in 2013 following a temporary increase in the surtax on corporate income from 5% to 10.7%. This measure was applicable for two years, *i.e.* until 2015. Nevertheless, the current and deferred tax rates of these companies was maintained at 34.43% since the tax loss carryforwards were expected to be recovered beyond this two-year period.

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.

Effective tax rate

In 2016, the Group effective tax rate was 30.6%, a slightly lower than the 2015 rate due to the inclusion of non-recurring elements relating to the disposal of the Dumex activity in China.

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

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

		Year ended December 31	
(in percentage)	Notes	**2015**	**2016**
Statutory tax rate in France		34.4%	34.4%
Differences between French and foreign tax rates [a]		(12.3)%	(10.8)%
Tax on dividends and royalties [b]		3.6%	2.9%
Permanent differences		2.2%	1.3%
Tax loss carryforwards [c]	8.3	4.2%	0.8%
Tax adjustments and unallocated taxes [d]		1.6%	3.8%
Impact of capital gains and losses on disposal and asset impairment [e]	4.4	(0.2)%	(1.1)%
Other differences		(1.0)%	(0.7)%
Effective income tax rate		**32.5%**	**30.6%**

(a) Various countries, none of which generates a significant difference with the French tax rate.
(b) Includes the impact of the 3% dividends tax and the contribution of costs and expenses and withholding taxes on dividends and royalties.
(c) In 2015, this includes the impacts of deferred tax asset impairment on Dumex's activity in China.
(d) In 2016, the increase corresponds mainly to the impact of the decrease in the French tax rate to 28.9%, as planned by the law, on the valuation of long-term deferred tax assets and liabilities.
(e) In 2016, this corresponds mainly to the recycling to profit of the unrealized foreign exchange gains and losses in respect of the disposal of the Dumex activity in China.

Note 8.2. Deferred taxes

Accounting principles

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

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

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

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

Carrying amount

		As of December 31	
(in € millions)	Notes	**2015**	**2016**
Breakdown by type of deferred tax			
Property, plant and equipment and intangible assets		(1,185)	(1,151)
Tax loss carryforwards	8.3	516	469
Provisions for retirement and other long-term benefits		220	242
Employee profit-sharing provisions		17	17
Restructuring provisions		17	10
Other		190	154
Net deferred taxes		**(224)**	**(259)**
Deferred tax assets		902	831
Deferred tax liabilities		(1,126)	(1,090)
Net deferred taxes		**(224)**	**(259)**

Change during the period

(in € millions)	Notes	**2015**	**2016**
As of January 1		**(389)**	**(224)**
Changes recognized in Other comprehensive income		(16)	(89)
Changes recognized in profit or loss		179	52
Changes in consolidation scope [a]	3.2, 4.4	(3)	17
Other		5	(15)
As of December 31		**(224)**	**(259)**

(a) See Note 3.2 of the Notes to the consolidated financial statements.

Note 8.3. Tax loss carryforwards

Accounting principles

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

Carrying amount

	As of December 31	
(in € millions)	**2015**	**2016**
Tax losses – recognized portion		
Recognized tax loss carryforwards [a] [b]	1,569	1,623
Tax savings [c]	516	469
Tax losses – unrecognized portion		
Tax loss carryforwards and tax credits not yet used [a]	480	468
Potential tax savings	130	118

(a) Basis amount.
(b) In 2016, 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, 2016 can be carried forward indefinitely. The probable consumption horizon for most of these losses is less than ten years.

NOTE 9. INTANGIBLE ASSETS

Note 9.1. Accounting principles

Goodwill

When control of a company is acquired, the fair value of the consideration given to the seller is allocated to the acquired identified assets and the liabilities and contingent liabilities assumed, which are measured at fair value. The difference between the consideration given to the seller and the Group's share of the fair value of the acquired identified assets and the liabilities and contingent liabilities assumed represents goodwill. When the option of recognizing non-controlling interests at fair value is applied, a corresponding premium is allocated to goodwill. Goodwill is recognized in the consolidated balance sheet as an asset under the heading Goodwill.

Goodwill arising from the acquisition of a foreign entity is recognized in the functional currency of the entity acquired and translated at the exchange rates prevailing on the closing date.

Goodwill is not amortized but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to the Cash generating units (CGU) or groups of CGUs most likely to benefit from the synergies of the business combination and to the lowest level at which goodwill is monitored by the Group. The CGUs correspond to subsidiaries or groups of subsidiaries that are included in the same Division 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 have indefinite useful lives are recorded under the heading Brands in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and their contribution to earnings. These brands, which are legally protected, are not amortized but are tested for impairment annually or more frequently if signs of impairment exist (see hereafter).

Other brands

Other acquired brands that are deemed to have finite useful lives are presented under the heading Brands in the consolidated balance sheet. They are amortized on a straight-line basis over their estimated useful lives, which do not exceed 60 years. The amortization charges in respect of brands with finite useful lives are allocated to various headings in the income statement on the basis of the nature and utilization of the brands concerned.

Development costs

Development costs are only recognized under assets in the consolidated balance sheet if all the recognition criteria set by IAS 38, *Intangible Assets* are met before the products are launched on the market. They are amortized over the term of their legal protection granted to the Group as from the date the corresponding products are launched on the market.

Development costs are generally expensed as incurred (see Note 5.1 of the Notes to the consolidated financial statements).

Technologies, development costs and other intangible assets

The following elements are recognized in the balance sheet under the heading Other intangible assets:

- acquired technologies, which are generally valued with the assistance of specialized consultants and amortized over the average duration of the patents;
- acquired development costs meeting the criteria for the recognition of an intangible asset in accordance with IAS 38, *Intangible Assets* (see above);
- other acquired intangible assets are recognized at their acquisition cost. They are amortized on a straight line basis over their estimated economic lives, which do not exceed 40 years.

The amortization charges in respect of these assets are allocated to various headings in the income statement on the basis of their nature and utilization.

Note 9.2. Carrying amount and change during the period

					2015				2016
(in € millions)	Notes	**Goodwill**	**Brands [a]**	**Other intangible assets**	**Total**	**Goodwill**	**Brands [a]**	**Other intangible assets**	**Total**
Gross value									
As of January 1		**11,582**	**4,351**	**842**	**16,775**	**11,653**	**3,848**	**856**	**16,357**
Changes in consolidation scope	3.2, 4.4	94	–	–	94	(63)	(79)	–	(142)
Capital expenditures		–	–	43	43	–	–	58	58
Disposals		–	–	(33)	(33)	–	–	(41)	(41)
Translation adjustments		47	23	(11)	60	20	(16)	8	13
Impairment	9.3	(2)	(443)	–	(444)	(31)	–	–	(31)
Reclassification of assets held for sale	4.4	(72)	(83)	–	(155)	67	79	(1)	145
Other [b]	3.5	3	–	14	18	(25)	66	26	66
As of December 31		**11,653**	**3,848**	**856**	**16,357**	**11,620**	**3,898**	**908**	**16,426**
Amortization									
As of January 1		**–**	**(14)**	**(527)**	**(541)**	**–**	**(14)**	**(564)**	**(579)**
Charges		–	(2)	(67)	(69)	–	(2)	(68)	(70)
Disposals		–	–	31	31	–	(1)	31	30
Other		–	1	(1)	1	–	(2)	(2)	(4)
As of December 31		**–**	**(14)**	**(564)**	**(579)**	**–**	**(19)**	**(603)**	**(623)**
Carrying amount									
As of December 31		**11,653**	**3,833**	**292**	**15,779**	**11,620**	**3,879**	**304**	**15,803**

(a) Includes brands with indefinite useful lives and the other brands.
(b) As of December 31, 2016, includes mainly the impact of completing in 2016 the allocation of the acquisition price of transactions undertaken in 2015.

Note 9.3. Impairment review

Methodology

The carrying amounts of goodwill and brands with indefinite useful lives are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. These events or circumstances are linked to significant, unfavorable and lasting changes that have an impact on the economic environment and the assumptions or targets set at the time of acquisition.

Impairment tests are carried out on all property, plant and equipment and intangible assets of the CGUs and groups of CGUs. When the carrying amount of all the property, plant and equipment and intangible assets of the CGUs and groups of CGUs becomes greater than their recoverable amount, an impairment provision is recognized and first charged against goodwill.

The recoverable amount of the CGUs or groups of CGUs to which the tested assets belong is the higher of the fair value net of disposal costs, which is generally estimated on the basis of earnings multiples, and the value in use, which is assessed with reference to expected future discounted cash flows of the CGU or group of CGUs concerned.

Annual impairment testing of brands with indefinite useful lives is based on an individual recoverable amount established using the royalties method, with the exception of certain brands for which the Group has a third-party valuation. In the case of the major brands, the Group re-estimates the royalty rate of the brands concerned in accordance with a method applied each year and based on the brand's parameters including awareness of the brand, its profitability, market shares, etc.

The cash flows used to determine value in use of the CGUs or groups of CGUs and the recoverable amount of the brands with indefinite useful lives are derived from the annual budgets and strategic plans of the CGUs or groups of CGUs, which are drawn up by Management and cover a period of three years, and are extended, where appropriate, on the basis of the most recent forecasts, to:

- five years for the Fresh Dairy Products and Waters Divisions;
- eight years for the Early Life Nutrition and Medical Nutrition Divisions, to better reflect the expected development of the Divisions' activity on the estimation of the value in use. The Group uses projections over eight years to better reflect the Division'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 trading 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.

Carrying amount and assumptions concerning the long-term growth rate and discount rate in respect of the CGUs or groups of CGUs comprising material assets

As of December 31

	Carrying amount of goodwill and brands with indefinite useful lives		Long-term growth rate [h]		Discount rate after tax [h]	
(in € millions)	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Fresh Dairy Products						
Centrale Danone	914	921	3%	3.5%	10.0%	9.1%
Danone CIS [a]	279	349	3%	3%	11.0%	9.0%
Europe [b]	576	567	0%	0%	8 to 10%	7 to 15%
Other CGUs [c]	627	680	0 to 3%	0 to 3%	8 to 17%	7 to 13%
Total Fresh Dairy Products	**2,395**	**2,517**				
• of which, goodwill	1,774	1,821				
• of which, brands with indefinite useful lives [d]	621	696				
Waters						
Danone Eaux France	428	428	1%	1%	7.9%	6.9%
Other CGUs [e]	389	340	0 to 3%	0 to 3%	8 to 17%	7 to 13%
Total Waters	**817**	**767**				
• Of which, goodwill	613	569				
• Of which, brands with indefinite useful lives [d]	204	198				
Early Life Nutrition						
Early Life Nutrition Asia	2,680	2,755	2.5%	2.5%	7.8%	7.9%
Early Life Nutrition Rest of the World	5,037	4,956	2.5%	2.5%	8.3%	8.3%
Other CGUs	187	193	2.5%	2.5%	7.9%	7.4%
Total Early Life Nutrition	**7,904**	**7,903**				
• Of which, goodwill	5,894	5,919				
• Of which, brands with indefinite useful lives [f]	2,010	1,984				
Medical Nutrition	**4,280**	**4,199**	**2.5%**	**2.5%**	**7.6%**	**7.7%**
• Of which, goodwill	3,372	3,311				
• Of which, brands with indefinite useful lives [g]	908	889				
Total	**15,396**	**15,387**				
• Of which, goodwill	11,653	11,620				
• Of which, brands with indefinite useful lives	3,743	3,767				

(a) Consists mainly of Russia and Ukraine.
(b) Combines the Division's entire activity in Europe.
(c) More than 10 CGUs, the largest of which is the United States CGU, with none exceeding €300 million as of December 31, 2016 or December 31, 2015.
(d) Several brands, none of which is material individually.
(e) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €200 million as of December 31, 2016 or December 31, 2015.
(f) Consists of several brands, the largest of which is *Milupa*.
(g) Consists of several brands, the largest of which is *Nutricia*.
(h) For CGUs whose recoverable value is determined on the basis of their value in use, except for the CGUs corresponding to the companies consolidated for the first time in 2015 or 2016.

Goodwill of the groups of CGUs in the Early Life Nutrition and Medical Nutrition Divisions

As of December 31, 2016, the recoverable amount exceeded the carrying amount by €2.0 billion in the case of the Medical Nutrition group of CGUs, €3.2 billion in the case of the Early Life Nutrition Rest of the World group of CGUs and €2.6 billion in the case of the Early Life Nutrition Asia group of CGUs.

In addition, an analysis of the sensitivity of the value in use to the key assumptions was carried out for each of the three groups of CGUs. The assumptions used in the valuation model used by the Group are (i) the growth in Sales, (ii) the Trading operating margin (corresponding to the ratio Trading operating income over Sales), (iii) the long-term growth rate used to calculate the terminal value, and (iv) the discount rate.

Results of sensitivity analysis

	Year ended December 31			
	Impact on recoverable amount *(in € billions)*		**Annual decrease to make recoverable amount equal carrying amount** *(in percentage)*	
	2015	**2016**	**2015**	**2016**
Sales – 50 bps decrease [(a)]				
Early Life Nutrition Asia	(0.2)	(0.2)	(7)%	(9)%
Early Life Nutrition Rest of the World	(0.3)	(0.3)	(6)%	(6)%
Medical Nutrition	(0.2)	(0.2)	(4)%	(5)%
Trading operating margin – 100 bps decrease [(b)]				
Early Life Nutrition Asia	(0.3)	(0.3)	(6)%	(9)%
Early Life Nutrition Rest of the World	(0.5)	(0.5)	(6)%	(7)%
Medical Nutrition	(0.3)	(0.3)	(6)%	(6)%
Long-term growth rate – 50 bps decrease				
Early Life Nutrition Asia	(0.2)	(0.3)		
Early Life Nutrition Rest of the World	(0.3)	(0.4)		
Medical Nutrition	(0.3)	(0.3)		
Discount rate – 50 bps increase				
Early Life Nutrition Asia	(0.2)	(0.3)		
Early Life Nutrition Rest of the World	(0.3)	(0.4)		
Medical Nutrition	(0.3)	(0.3)		

(a) Decrease applied, each year, to the assumed growth in Sales, including the final year, based on (i) the 2016 projections for tests performed in 2015, and (ii) the 2017 projections for the tests performed in 2016.

(b) Decrease applied, each year, to the assumed Trading operating margin, including the final year, based on (i) the 2016 projections for tests performed in 2015, and (ii) 2017 projections for tests performed in 2016.

Goodwill of other CGUs

As of December 31, 2016, the CGUs of the Fresh Dairy Products and Waters Divisions represented in total 21% of the carrying amount of the Group's goodwill and comprised more than 20 CGUs located in diverse geographic regions and in different countries.

As of December 31, 2016, following the impairment review of intangible assets with indefinite useful life of these CGUs, the Group recognized impairment on a Waters Division CGU in the amount €31 million, which was recorded under Other operating income (expense) for the period.

As of December 31, 2015, following the impairment review of intangible assets with indefinite useful life of these CGUs, the Group recognized impairment on a Waters Division CGU in the amount of €2 million.

Brands with indefinite useful lives

The Group's main brands are *Nutricia* and *Milupa*. As of December 31, 2016, they represented more than 50% of the carrying amount of the Group's brands with indefinite useful lives and none represented individually more than 40% of this amount. The other brands are spread over all Divisions and located in diverse geographic regions and different countries and none represented individually more than 10% of the carrying amount of the Group's brands with indefinite useful lives as of December 31, 2016.

Impairment review of the main brands with indefinite useful lives

As of December 31, 2016, the Group reviewed the value of the *Nutricia* and *Milupa* brands in accordance with the methodology and the valuation model described above and on the basis of assumptions based on those of the groups of CGUs concerned. This review did not result in the recognition of any impairment provisions.

In addition, analysis of the sensitivity of the value in use to the key assumptions was carried out on each of these other main brands. The key assumptions involved in the valuation model used by the Group are (i) the growth in Sales, (ii) the royalty rate, (iii) the long-term growth rate used to calculate the terminal value, and (iv) the discount rate. The following changes, deemed reasonably possible, in the key assumptions do not alter the findings of the impairment review, *i.e.* the absence of any impairment:

- 100 bps decrease in Sales (decrease applied, each year, to the assumptions concerning growth in Sales, including the final year, on the basis of the 2017 projections);
- 50 bps decrease in the royalty rate (decrease applied, each year, to the assumptions concerning royalty rate, including the final year, on the basis of the 2017 projections);
- 50 bps decrease in the long-term growth rate;
- 50 bps increase in the discount rate.

Other brands with indefinite useful lives

As of December 31, 2016, following the impairment review of the other brands with indefinite useful lives, the Group did not recognize any impairment provision.

As of December 31, 2015, following the impairment review of the other brands with indefinite useful lives, the Group recognized impairment provisions on certain brands in the Fresh Dairy Products, Waters and Early Life Nutrition Divisions in an aggregate amount of €125 million, which was recorded under Other operating income (expense) for the period.

NOTE 10. FINANCING AND FINANCIAL SECURITY, NET DEBT AND COST OF NET DEBT

Note 10.1. 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 change in 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 change in fair value of the derivative instrument.

When future cash flows of a debt are hedged by a derivative, the change 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.

Short-term investments

Short-term investments comprise marketable securities and other short-term investments.

Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are measured as securities held for trading within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement and are carried at their fair value.*

Other short-term investments are measured at their fair value as securities held for trading within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement.*

Changes in fair value of short-term investments are recognized directly under the heading Interest income in the consolidated income statement.

Translation of transactions denominated in foreign currencies

At period-end, trade receivables and trade payables denominated in foreign currencies are translated using exchange rates on that date. Foreign exchange gains and losses arising from the translation of borrowings or other instruments denominated in foreign currencies that are used to hedge long-term investments denominated in the same currencies are recognized in consolidated equity under the heading Cumulative translation adjustments.

Note 10.2. Liquidity risk and management policy

Risk identification

Danone does not use debt in either a recurring or a significant way in connection with its operating activities. Operating cash flows are generally sufficient to finance the Group's business operations and organic growth.

Danone may, however, take on additional debt to finance acquisitions or, occasionally to manage its cash cycle, particularly when dividends are paid to the Company's shareholders.

The Company's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources.

Liquidity risk arises mainly from the maturities of its (i) interest-bearing liabilities (bonds, bank debt, etc.), and (ii) non-interest-bearing liabilities (liabilities 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 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 could result in higher financing costs and affect its access to financing.

Lastly, most of the financing agreements entered into by the Company (bank lines of credit and bonds) include a change of control provision, which offers creditors a right of early repayment in the event a change in control of the Company causes its rating by the financial rating agencies to fall below investment grade.

Risk monitoring and management

Under its refinancing policy, Danone reduces its exposure to financing risk by (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium-term financing, (iv) maintaining financing sources available at all times, (v) spreading maturities on the basis of projected need and cash flow generation, and (vi) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts.

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, certain Group companies may, for operational reasons, be required to borrow from local sources. From a Group perspective, the amounts borrowed are relatively small, whether considered individually or in total, given the level of operating cash flow that is generally sufficient to finance their operations and organic growth.

Use of its financing sources

The Group's policy consists of keeping its financing sources available and managing them at the Company level. The Group may need to use (i) its commercial paper program and syndicated credit facility to manage its cash cycle, notably when paying out the dividend to Danone shareholders, and (ii) alternatively, its commercial paper and EMTN programs or its syndicated credit facility to optimize its financing cost while still ensuring its financial security, such that the maturity and currency of its financing raised may vary without changing the net debt level or the Group's financial security.

Note 10.3 Financing structure and changes during the period

(in € millions)	As of December 31, 2015	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of changes in exchange rates and other non-cash impacts [c]	Non-current portion becoming current	As of December 31, 2016
Financing managed at Company level							
Bonds – non-current portion	7,551	11,237	–	–	254	(929)	18,113
Bonds – current portion	712	–	(638)	–	(68)	929	934
Short-term debt instruments [a]	974	–		(187)	1	–	788
Total	9,236	11,237	(638)	(187)	187	–	19,835
Other financing arrangements [b]	–						
Non-current portion	284	–	–	23	166	(147)	325
Current portion	689	–	–	(277)	(162)	147	397
Total	972	–	–	(254)	4	–	722
Total	**10,209**	**11,237**	**(638)**	**(442)**	**191**	**–**	**20,557**

(a) As of December 31, 2015 and 2016, 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 change in finance leases.

Note 10.4. Group's financing and financial security managed at the Company level

See also Notes 2.1 and 2.2 of the Notes to the consolidated financial statements.

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

As of December 31

	2015		2016	
(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]	2,477	–	1,519	–
Capital markets financing [a]				
EMTN financing [d] [e]	9,000	7,481	21,000	13,020
U.S. dollars bonds [e]	NA	781	NA	6,027
Short-term debt instruments	3,000	974	3,000	788

(a) The Group's financial structure and financial security are managed at the Company level.
(b) Syndicated credit facility (revolving) maturing in December 2021.
(c) A portfolio of back-up facilities entered into with major credit institutions, with maturities ranging from 2017 to 2021.
(d) Euro Medium Term Notes.
(e) Bonds issued by the Company are disclosed on the Group's website.

Main financing transactions in 2016

	Year ended December 31		
			2016
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
	EUR	1,350	2018
	EUR	1,000	2020
	EUR	1,000	2022
	EUR	1,250	2024
	EUR	1,600	2028
Euro bonds		6,200	
	USD	1,200	2019
	USD	800	2021
	USD	1,500	2023
	USD	2,000	2026
U.S. dollar bonds		5,500	
Repayments			
Swiss franc bonds	CHF	225	2016
Euro bond	EUR	500	2016

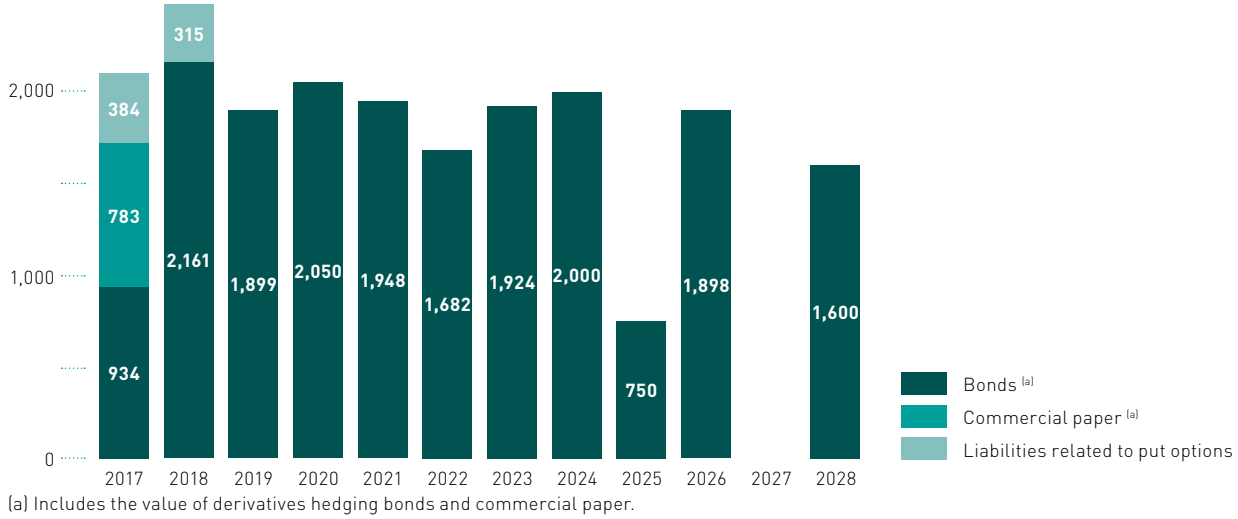
Main financing transactions in 2015

	Year ended December 31		
			2015
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Euro bond	EUR	550	2020
Euro bond	EUR	750	2025
Euro bond	EUR	750	2024
Repayment			
Euro bond	EUR	604	2015

Repayment schedule for financial debt managed at the 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

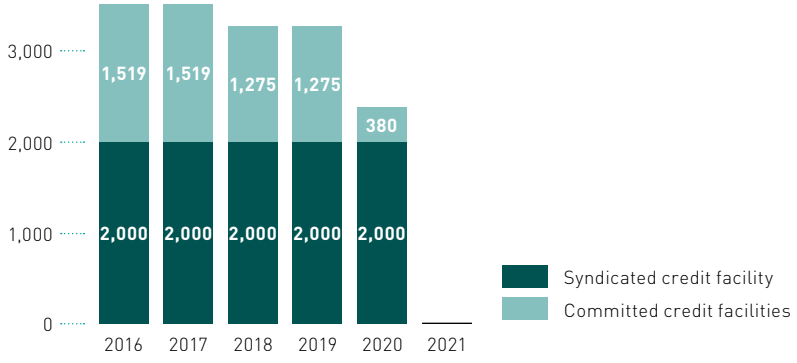
(in € millions)	Cash flows 2017	Cash flows 2018	Cash flows 2019	Cash flows 2020	Cash flows 2021 and after
Interest on debt [a]	(285)	(271)	(260)	(239)	(796)
Flows on derivatives [a] [b] [c]	45	48	45	28	58

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2016.
(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

	2015		2016	
	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	A-	Baa1 (c)	BBB+
Outlook	Stable	Negative	Stable	Negative (d)

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

Note 10.5. Short-term investments

Carrying amount

As of December 31

(in € millions)	Note	2015	2016
Money market funds		2,003	12,682
Including funds (French SICAV) associated with the WhiteWave acquisition project	2.2	–	*11,429*
Bank deposits, negotiable debt instruments and other short-term investments		512	380
Total		**2,514**	**13,063**

Counterparty risk in respect of short-term investments

The Group invests primarily in money market funds (French SICAV *monétaires*) or short-term money market funds (French SICAV *monétaires court terme*), which are highly liquid, diversified and not rated.

Bank deposits, negotiable debt instruments and other short-term instruments are subscribed from first-tier financial institutions.

Note 10.6. Net debt

As of December 31

(in € millions)	2015	2016
Non-current financial debt	8,087	18,771
Current financial debt	2,991	2,510
Short-term investments	(2,514)	(13,063)
Cash and cash equivalents	(519)	(557)
Derivatives – assets – Non-current [a]	(125)	(148)
Derivatives – assets – Current [a]	(120)	(42)
Net debt	**7,799**	**7,472**

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

Change in net debt in 2016

Danone's net debt totaled €7,472 million as of December 31, 2016, €327 million lower than as of December 31, 2015. It included €669 million of put options granted to non-controlling shareholders, *i.e.* €163 million lower than as of December 31, 2016.

Change in net debt in 2015

Danone's net debt was stable relative to 2014, as operating cash flows made it possible to finance the acquisitions carried out in 2015.

Net debt includes €862 million in put options granted to non-controlling interests. The liability related to these options decreased by €1,696 million relative to December 31, 2014. This change reflects in particular the acquisition of 15.7% of Danone Spain's share capital and the exercise of put options by certain shareholders of the Danone-Unimilk combined entity.

Note 10.7. Cost of net debt

Accounting principles

Cost of net debt comprises mainly interest charges (calculated at the effective interest rate) on current and non-current financing and the effects of the derivatives relating to said financing.

Interest income comprises mainly interest received and, if applicable, the effects of the measurement at fair value through profit or loss of the short-term investments and cash and cash equivalents.

The related cash flows are presented within Cash flows provided by (used in) operating activities.

Cost of net debt in 2016

Cost of net debt declined slightly despite additional costs associated with the financing of WhiteWave (*i.e.* financial expenses associated with the new bonds issued in October 2016). This decline was linked in particular to lower interest rates. These new bond issues enabled Danone to extend the average maturity of its debt at favorable market conditions.

Cost of net debt in 2015

Cost of net debt declined despite higher net financial debt than in 2014. This decline was linked in particular to lower interest rates and the benefits of bond issues that enabled Danone to extend the average maturity of its debt at favorable market conditions.

Note 10.8. Financial risks associated with the net debt and the financing activity

Interest rate risk

Interest rate risk exposure

The Group is exposed to interest rate risk on its financial liabilities as well as its cash and cash equivalents. Through its interest-bearing debt, the Group is exposed to the risk of interest rate fluctuations that affect the amount of its financial expense.

In addition, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, interest rate fluctuations may have an impact on the Group's consolidated results and consolidated equity.

The Group has implemented a policy to monitor and manage this interest rate risk for the purpose of limiting the volatility of its net financial income or 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 for the purpose of managing interest rate risk and are either eligible to be used as hedges or not in accordance with IAS 39.

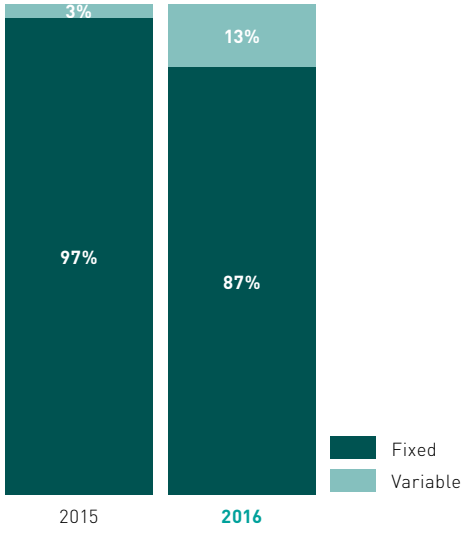
Sensitivity of net income to changes in the cost of net debt resulting from changes in the short-term interest rate

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

Fixed and floating rate net debt breakdown



Sensitivity of the cost of net debt to a change in the short-term interest rate

In 2016 as in 2015, the impact of a change in short-term interest rates would not have a significant impact on the cost of the Group's net debt.

Financial currency risk

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities.

In application of its financial currency risk hedging policy, the Group's residual exposure (after hedging) is not material.

As part of these policies, the Group uses cross-currency swaps as described in Note 12.3 of the Notes to the consolidated financial statements.

NOTE 11. OTHER FINANCIAL INVESTMENTS, OTHER FINANCIAL INCOME (EXPENSE)

Note 11.1. Accounting principles

Investments in other non-consolidated companies

Investments in other non-consolidated companies are measured as available-for-sale investments within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*. They are recognized at fair value in the consolidated balance sheet, with changes in fair value recognized under consolidated equity in Accumulated other comprehensive income, except for unrealized losses that are considered to be significant or prolonged, which are recognized directly in profit or loss in Other financial income (expense).

Fair value

For listed companies, fair value is assessed according to the stock price as of the end of the period.

For unlisted companies, fair value is assessed based on recent transactions entered into with third parties, put or call options negotiated with third parties or external appraisals.

When such elements do not exist, the fair value of investments in unlisted companies is deemed to be equivalent to the acquisition cost of the investments.

Gains or losses on disposal of non-consolidated investments are recognized under the heading Other financial income (expense) in the consolidated income statement.

Other long-term financial assets

Other long-term financial assets mainly comprise bonds and money-market funds and security deposits required by the tax regulations of certain countries in which the Group operates.

Bonds and money-market funds are classified as available-for-sale financial assets within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*. They are recognized at fair value in the consolidated balance sheet, with changes in fair value recognized under consolidated equity in Accumulated other comprehensive income, except for unrealized losses that are considered to be significant or prolonged, which are recognized directly in profit or loss in Other financial income (expense). Their fair value is calculated on the basis of listed prices on active markets.

Long-term loans

Long-term loans are measured at amortized cost using the effective interest rate method within the meaning of IAS 39, *Financial Instruments: Recognition and Measurement*.

Note 11.2. Other financial investments

Main changes during the period

In 2016 as in 2015, the Group did not carry out any material transactions.

Carrying amount

As of December 31

(in € millions)	2015	2016
Investments in non-consolidated companies	70	81
Bonds and money-market funds [a]	124	122
danone.communities	13	13
Other [b]	52	52
Other long-term financial assets	189	187
Long-term loans	15	21
Other financial assets	**204**	**208**

(a) Bonds and money-market funds held as the counterpart to certain "damage and personal protection" provisions.
(b) Comprises mainly security deposits required by the tax regulations of some countries in which the Group operates.
(c) Pre-tax amount, recognized under consolidated equity in Accumulated other comprehensive income.

Note 11.3. Other financial income and other financial expense

Accounting principles

Other financial income and other financial expense correspond to financial income and expense other than income and expenses related to net financial debt. They include, in particular, the following:

- the ineffective portion of the hedges, in particular hedges of currency risk related to operations and hedges in respect of the acquisition or disposal of companies or other equity investments in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*;
- the impact of the accretion of the present value of commitments net of the expected return on plan assets of retirement commitments and other long-term benefits;
- bank commissions, including commissions for the non-use of committed credit facilities (recognized in Other financial expense);
- gains or losses on disposals of Investments in other non-consolidated companies and Other long-term financial assets.

NOTE 12. ORGANIZATION OF FINANCIAL RISKS AND DERIVATIVES MANAGEMENT

Note 12.1. Organization of financial risks management

As part of its normal business, the Group is exposed to financial risks, especially foreign currency, financing and liquidity, interest rate, counterparty risks, securities-related risks and commodity risks.

The Group's policy consists of (i) minimizing and managing the impact that its exposure to financial market risks could have on its results and, to a lesser extent, on its balance sheet, (ii) monitoring and managing such exposure centrally, (iii) whenever the regulatory and monetary frameworks so allow, executing the financial transactions locally or centrally, and (iv) using derivative instruments only for the purpose of economic hedging.

Through its Treasury and Financing Department, which is part of the Group Finance Department, the Group possesses the expertise and tools (trading room, front and back office software) to act on different financial markets following the standards generally implemented by first-tier companies. In addition, the Internal Control and Internal Audit Departments review the organization and procedures applied. Lastly, a monthly treasury and financing report is sent to the Group Finance Department, enabling it to monitor the decisions taken to implement the previously approved management strategies.

The Group is also exposed to price volatility and to a potential shortage of the commodities that it purchases, mainly to produce its finished products. To manage this exposure, the Group has implemented a commodity purchasing policy (Market Risk Management). This policy as well as the impact of a price change in the two main commodity categories on the Group's annual cost of purchases are presented in Note 5.7 of the Notes to the consolidated financial statements.

Note 12.2. Accounting principles

Derivatives are recognized in the consolidated balance sheet at their fair value:

- derivatives used to manage net debt and hedges of net investments in foreign operations are recognized in the financial debt or current and non-current asset lines;
- foreign exchange derivatives related to operations are recognized in the heading Derivatives – assets within Other receivables or in the heading Derivatives – liabilities within Other current liabilities.

When derivatives are designated as fair value hedges of assets or liabilities in the consolidated balance sheet, changes in the fair value of both the derivatives and the hedged items are recognized in profit or loss in the same period.

When derivatives are designated as hedges of net investments in foreign operations, changes in the fair value of the derivatives are recognized in equity under Cumulative translation adjustments.

When derivatives are designated as future cash flow hedges, changes in the value of the effective portion of the derivative are recognized in equity under Accumulated other comprehensive income. This effective portion is recycled to profit or loss, in the same heading, when the hedged item itself is recognized in profit or loss. However, changes in the value of the ineffective portions of derivatives are recognized directly in profit or loss, in the heading Other financial income (expense). Changes in the fair value of derivative financial instruments that do not meet the conditions for classification as hedging instruments are recognized directly in profit or loss for the period, in a heading within operating income or financial income depending on the nature of the hedge.

Note 12.3. Derivatives

Group's policy

Operational currency risk management

The Group's policy is to hedge its highly probable commercial transactions so that, as of December 31, its residual exposure in respect of the whole of the following fiscal year is significantly reduced. However, when the hedging conditions of certain currencies have deteriorated (less availability, high cost, etc.), the Group may be required to limit the hedging of its highly probable commercial transactions in its currencies, by not hedging or only partially hedging the exposure. The Group uses forward currency contracts and currency options to reduce its exposure.

The execution of the hedging policy for currency risk related to operations consists of providing the necessary hedges to subsidiaries through a centralized management system, or, in the case of subsidiaries where such hedges are legally prohibited, through a monitoring and control process.

The Group mainly applies cash flow hedge accounting.

Based on pending transactions as of December 31, 2016, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2017, the main currencies partially hedged being the Russian ruble, the Brazilian real and the Turkish lira.

Currency risk related to financing activities and translation risk on net assets management

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 to hedge accounting or not in accordance with IAS 39.

Hedging acquisitions and disposals of companies or other equity investments

The Group's policy is, generally, not to hedge amounts payable or receivable in connection with acquisitions of 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 WhiteWave acquisition project (see Notes 2.1 and 2.2 of the Notes to the consolidated financial statements).

Portfolio of derivatives

Notional and fair value amounts

As of December 31

	2015			2016		
(in € millions)	**Notional**	**Fair value**	**Of which, recognized in equity**	**Notional**	**Fair value**	**Of which, recognized in equity**
Derivatives used to hedge operational currency risk	**(1,376)**	**35**	**51**	**(1,554)**	**20**	**42**
CFH – currency options	(222)	2	4	(253)	2	7
CFH – forward currency contracts	(1,117)	32	47	(1,278)	19	36
No hedge accounting applied	(36)	–	–	(23)	(1)	–
Derivatives used to manage net debt	**2,036**	**202**	**73**	**6,896**	**148**	**86**
FVH	888	71	–	750	26	–
CFH	863	92	12	2,142	121	71
NIH	132	61	61	111	15	15
No hedge accounting applied	153	(22)	–	3,893	(14)	–
Derivatives used to hedge WhiteWave's acquisition price	**–**	**–**	**–**	**7,612**	**377**	**356**
CFH	–	–	–	7,612	377	356
No hedge accounting applied	–	–	–	–	–	–
Total	**660**	**237**	**124**	**12,954**	**546**	**485**

Additional information

Operational currency risk management

Net notional amount of derivative instruments hedging main currencies

As of December 31

	2015			2016		
(in € millions)	**Forward contracts, net [a]**	**Currency options, net [b]**	**Total**	**Forward contracts, net [a]**	**Currency options, net [b]**	**Total**
(Sales)/Purchases of currencies						
GBP	(485)	(167)	(652)	(511)	(158)	(669)
MXN [c]	(137)	–	(137)	(258)	–	(258)
USD [c]	408	(39)	369	260	(40)	220
AUD [c]	(115)	–	(115)	(115)	(31)	(146)
RUB [c]	(88)	–	(88)	(96)	–	(96)
BRL [c]	(117)	–	(117)	(81)	–	(81)
Other [c]	(620)	(17)	(636)	(500)	(24)	(524)
Total	**(1,153)**	**(222)**	**(1,376)**	**(1,301)**	**(253)**	**(1,554)**

(a) Spot portion of notional amount, based on closing rates.
(b) Spot portion of notional amount, includes in- and out-of-the-money options.
(c) Transactions denominated with the EUR or other currencies as counterpart.

Sensitivity of equity and net income to changes in fair value
A change in the fair value of the derivative financial instruments hedging the operating currency risk, induced by a change in foreign exchange rates, could impact the Group's equity and net income. The impact recognized in profit or loss relates to:

- the time value and swap point variations, when they are excluded from the hedging relationship;
- transactions to which hedge accounting is not applied.

Sensitivity to a change in the euro against currencies exposed to exchange rates fluctuation

As of December 31

	2015		2016	
(in € millions)	**Equity**	**Gain (loss)**	**Equity**	**Gain (loss)**
10% increase in EUR [(a)]				
GBP	59	(2)	60	(2)
MXN [(b)]	1	–	1	–
USD [(b)]	(2)	–	14	2
AUD [(b)]	10	–	12	–
RUB [(b)]	6	–	7	–
BRL [(b)]	2	1	2	1
10% decrease in EUR [(a)]				
GBP	(60)	(4)	(65)	(2)
MXN [(b)]	(1)	–	(2)	–
USD [(b)]	4	(1)	(20)	1
AUD [(b)]	(12)	–	(14)	–
RUB [(b)]	(8)	–	(8)	–
BRL [(b)]	(3)	(1)	(2)	(1)

(a) Increase/decrease in EUR applied to transactions that are outstanding and at constant interest rate volatility.
(b) Transactions denominated with the EUR or other currencies as counterpart. In the case of transactions denominated in currencies other than the EUR, the increase or decrease in the EUR is applied to the base currency and the secondary currency.

These instruments and the hedged items typically have maturities of less than one year. Consequently the cash flows related to these instruments will, for the most part, be recognized in the consolidated income statement in 2017.

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 change in fair value of instruments designated as cash flow hedges: in 2016 as in 2015, the amounts are not material;
- the effective portion deferred in equity the previous year of instruments designated as cash flow hedges and recycled to income during the year: in 2016 as in 2015, 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.

Currency risk related to financing activities and translation risk on net assets management

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 as of 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 2016 as in 2015, a rate change applied to the yield curve would not have a material impact on consolidated equity or net income.

Gains and losses related to fair value changes and shown through profit or loss
Gains and losses shown through profit or loss are related to:

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

In 2016 as in 2015, the corresponding amounts are not material.

Note 12.4. Counterparty risk

Counterparty risk inherent in 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.

Exposure related to derivative instruments

The Group's banking policy aims to apply deposit limits per counterparty and emphasize the importance of its credit rating quality by concentrating its transactions among first-tier counterparties that (i) have credit ratings at least in the Single A 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 (*SICAV monétaires*) or short-term money-market funds (*SICAV monétaires court terme*), which are not rated. These funds are very liquid and diversified. The other short-term investments are made in accordance with the Group's above-mentioned banking policy.

Finally, in certain countries, the Group may be obliged to conduct transactions with local banks that have lower credit ratings.

Exposure related to short-term investments
See Note 10.4 of the Notes to the consolidated financial statements.

	As of December 31	
(as a percentage of the total fair value as of December 31) [a]	**2015**	**2016**
Counterparty rating (Standard & Poor's)		
AAA, AA and A	77%	85%
BBB, BB and B	23%	15%
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, 2016 and December 31, 2015, the impact associated with the adjustment required by IFRS 13 is not material.

Note 12.5. Securities risk

		As of December 31	
(in € millions)	Notes	**2015**	**2016**
Risk on Company shares			
Treasury shares and DANONE call options [a]	13.3	1,707	1,682
Risk on other shares			
Investments in associates	4	2,882	2,730
Other non-consolidated investments	11.2	70	81

(a) DANONE call options acquired by the Company.

Note 12.6. Reconciliation of the consolidated balance sheet by class and accounting category

(in € millions)	Assets recorded at fair value	Assets available for sale	Loans and receivables	Liabilities recorded at fair value	Liabilities at amortized cost	Carrying amount	Fair value	Fair value level [b]
As of December 31, 2016								
Financial assets								
Investments in other non-consolidated companies	–	81	–	–	–	81	81	1-3
Long-term loans and other long-term financial assets	–	187	21	–	–	208	208	1-3
Derivatives – assets	567	–	–	–	–	567	567	2
Trade receivables [a]	–	–	2,524	–	–	2,524	2,524	–
Other current assets [a]	67	–	994	–	–	1,061	1,061	–
Short-term loans	–	–	18	–	–	18	18	–
Money market funds	12,682	–	–	–	–	12,682	12,682	1
Other short-term investments	380	–	–	–	–	380	380	2
Cash and cash equivalents	557	–	–	–	–	557	557	1
Carrying amount of financial assets by category	**14,254**	**268**	**3,557**	**–**	**–**	**18,079**	**18,079**	
Financial liabilities								
Financing	–	–	–	783	19,774	20,557	21,226	2
Derivatives – liabilities	–	–	–	27	–	27	27	2
Trade payables [a]	–	–	–	–	3,772	3,772	3,772	–
Other current liabilities [a]	–	–	–	44	2,697	2,741	2,741	–
Carrying amount of financial liabilities by category	**–**	**–**	**–**	**854**	**26,243**	**27,097**	**27,766**	
As of December 31, 2015								
Financial assets								
Investments in other non-consolidated companies	–	70	–	–	–	70	70	1-3
Long-term loans and other long-term financial assets	–	189	15	–	–	204	204	1-3
Derivatives – assets	245	–	–	–	–	245	245	2
Trade receivables [a]	–	–	2,466	–	–	2,466	2,466	–
Other current assets [a]	70	–	723	–	–	793	793	–
Short-term loans	–	–	40	–	–	40	40	–
Money market funds	2,003	–	–	–	–	2,003	2,003	1
Other short-term investments	512	–	–	–	–	512	512	2
Cash and cash equivalents	519	–	–	–	–	519	519	1
Carrying amount of financial assets by category	**3,350**	**259**	**3,244**	**–**	**–**	**6,853**	**6,853**	
Financial liabilities								
Financing	–	–	–	986	9,223	10,209	11,379	2
Derivatives – liabilities	–	–	–	7	–	7	7	2
Trade payables [a]	–	–	–	–	3,624	3,624	3,624	–
Other current liabilities [a]	–	–	–	33	2,537	2,570	2,570	–
Carrying amount of financial liabilities by categories	**–**	**–**	**–**	**1,026**	**15,384**	**16,410**	**17,580**	

(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 purchases and sales or currency options. The model integrates diverse data such as spot and forward exchange rates and the yield curve.

NOTE 13. DANONE SHARES, DIVIDEND, EARNINGS PER SHARE

Note 13.1. Accounting principles

DANONE shares

DANONE shares held by the Company and its fully-consolidated subsidiaries are recognized as a reduction in consolidated equity, under the heading Treasury shares and DANONE call options, and are measured at effective cost.

DANONE call options

DANONE call options are options held by the Company to purchase DANONE shares to hedge certain of its stock-option plans granted to certain employees and corporate officers. They do not constitute financial assets but are instead equity instruments in accordance with IAS 32, *Financial instruments: Presentation*. They are recognized upon acquisition as a deduction from consolidated equity, under the heading Treasury shares and DANONE call options. They are measured at effective cost, *i.e.* the premium paid plus transaction expense, and are not subsequently remeasured.

Note 13.2. Transactions and changes involving DANONE shares

2016 changes involving treasury shares in terms of transactions and use according to the Company's purpose

		Changes during the period					
(number of shares)	**As of December 31, 2015**	**Buyback**	**Exercise of DANONE call options**	**Sales / Transfers**	**Delivery following exercise of stock options**	**Delivery of Group performance shares**	**As of December 31, 2016**
Acquisition transactions	**30,769,360**	–	–	–	–	–	**30,769,360**
Liquidity agreements	**–**	665,385	–	(665,385)	–	–	**–**
Hedging of performance shares and stock-options	**3,176,810**	1,040	299,457	–	(895,039)	(222,430)	**2,359,838**
Cancellation of shares	**–**	–	–	–	–	–	**–**
Shares held by the Company	**33,946,170**	**666,425**	**299,457**	**(665,385)**	**(895,039)**	**(222,430)**	**33,129,198**
Shares held by Danone Spain	**5,780,005**	–	–	–	–	–	**5,780,005**
Total shares held by the Group	**39,726,175**	**666,425**	**299,457**	**(665,385)**	**(895,039)**	**(222,430)**	**38,909,203**

2016 changes involving DANONE call options, in terms of transactions

(number of shares, except percentage)	As of December 31, 2015	Changes during the period: Acquisitions	Expired options	Exercises	As of December 31, 2016
Number of call options	**375,736**	–	–	(299,457)	**76,279**
Percentage of the Company's share capital as of December 31	**0.06%**				**0.01%**

Note 13.3. Outstanding DANONE shares

Year ended December 31

(number of shares)	Notes	2015 Share capital	Treasury shares	Outstanding	2016 Share capital	Treasury shares	Outstanding
As of January 1		643,792,000	(43,713,300)	600,078,700	654,951,200	(39,726,175)	615,225,025
Dividend in shares	13.5	10,321,148	–	10,321,148	–	–	–
Other capital increases	7.5	838,052	–	838,052	940,800	–	940,800
Change in treasury shares	13.2	–	3,987,125	3,987,125	–	816,972	816,972
As of December 31		**654,951,200**	**(39,726,175)**	**615,225,025**	**655,892,000**	**(38,909,203)**	**616,982,797**

Note 13.4. Earnings per share – Group share

Accounting principles

Earnings per share correspond to the ratio of Net income – Group share divided by the Number of shares. 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 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 exercise of stock-options, taking into account only those options in the money on the basis of the average price during the reference period,
  - 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*.

Diluted earnings per share do not take into account DANONE call options held by the Company.

Earnings per share

		Year ended December 31	
(in € per share, except for number of shares)	Notes	**2015**	**2016**
Net income – Group share		1,282	1,720
Number of outstanding shares			
As of January 1		600,078,700	615,225,025
Effect of changes during the year	13.3	15,146,325	1,757,772
As of December 31		615,225,025	616,982,797
Average number of outstanding shares			
• Before dilution		609,647,527	616,442,041
Dilutive impact			
Dividend in shares		394,921	–
Group performance shares and stock options		112,794	258,577
Other capital increase		–	–
• After dilution		610,155,241	616,700,618
Net income – Group share, per share			
• Before dilution		2.10	2.79
• After dilution		2.10	2.79

Note 13.5. Dividend

Distributable reserves of the parent company Danone

The legally distributable reserves of subsidiaries and associated companies may differ from their reported retained earnings as a consequence of (i) consolidation adjustments applied to their separate financial statements, and (ii) the laws applicable in the countries where 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 2015 dividend in cash

The Shareholders' Meeting on April 28, 2016 in Paris approved the dividend proposed with respect to the 2015 fiscal year, *i.e.* €1.60 per share, payable in cash.

.

NOTE 14. OTHER NON-CURRENT PROVISIONS AND LIABILITIES AND LEGAL AND ARBITRATION PROCEEDINGS

Note 14.1. Accounting principles

Other non-current provisions and liabilities consist mainly of:

- provisions;
- investment subsidies.

Other non-current provisions and liabilities also include the short-term portion due in less than one year since it is deemed immaterial.

Provisions are recognized:

- when the Group has a present obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Group. The timing or amount of the net outflow may be uncertain, but the amount must be estimated in a reliable manner;
- on the basis of management's best estimate, as of the reporting date, of the outflow of resources deemed probable to cover these obligations.

A provision is reversed when it no longer appears probable that the corresponding payment or an outflow of resources will occur (provision not used).

Note 14.2. Carrying amount and change during the period

		Changes during the period					
(in € millions)	**As of December 31, 2015**	**Increase**	**Reversal of provisions used**	**Reversal of provisions not used**	**Translation differences**	**Other**	**As of December 31, 2016**
Tax risks	420	89	(30)	(34)	10	(10)	445
Corporate and commercial disputes and other provisions	310	99	(24)	(42)	(1)	26	368
Restructuring provisions	90	29	(35)	(26)	–	3	60
Investment subsidies	14	(2)	–	–	–	–	13
Total [a]	**834**	**215**	**(89)**	**(102)**	**9**	**18**	**885**

(a) The portion due in less than one year totaled €62 million as of December 31, 2016 (€64 million as of December 31, 2015).

Changes to Other non-current provisions and liabilities in 2016 were as follows:

- increases result primarily from lawsuits against the Company and its subsidiaries in the normal course of business;
- reversals of provisions used occur when corresponding payments are made. Reversals of provisions not used relate mainly to reassessments and situations where some risks cease to exist. They relate to a number of provisions, none of which is material when considered individually;
- other changes correspond primarily to reclassifications and changes in scope.

As of December 31, 2016, provisions for tax risks and for corporate, commercial and other disputes comprised several provisions for legal, financial and tax risks as well as provisions for multi-year compensation granted to some employees, with these provisions established in the context of the normal course of business.

Also as of this date, Danone believes that it is not subject to known risks that could, individually, have a material impact on its financial situation or profitability.

Note 14.3. Legal and arbitration proceedings

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

Proceedings related to the false alarm given by Fonterra on certain ingredients supplied to the Group in Asia in 2013

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

Other proceedings

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

NOTE 15. RELATED PARTY TRANSACTIONS

Note 15.1. Accounting principles

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

Note 15.2. Transactions with associates

Transactions with these companies are generally carried out at arm's length. They mainly involve:

- management fees and royalties paid to the Group;
- services, mainly logistics;
- financing.

As in 2015, the amounts pertaining to 2016 are not material.

Note 15.3. Compensation and benefits granted to members of the Executive Committee and Board of Directors

Compensation paid

	Year ended December 31	
(in € millions)	**2015**	**2016**
Compensation paid to corporate officers and members of the Executive Committee [a]	16.5	17.0
Attendance fees paid to Directors [b]	0.6	0.8
Total	**17.1**	**17.8**
Severance pay	–	–
Carrying amount of shares subject to performance conditions granted during the year [c]	8.2	7.8

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €7.9 million in 2016 (€8.4 million in 2015).

(b) Amount paid to eligible Directors, in respect of the retirement plan for their benefit for positions they held previously in the Group.

(c) For 2012, the carrying amount represented the full value estimated as of the grant date in accordance with IFRS 2 on the assumption that the performance conditions had been satisfied.

Danone's commitment to the corporate officers and Executive Committee members with respect to the retirement plan

As of December 31, 2016, the portion of the total amount of Danone's obligation relating to Danone's corporate officers and Executive Committee members under this defined benefit retirement plan amounted to €58 million.

In addition, the corporate officers benefit also from the executives' supplementary retirement plan (defined contribution retirement plan set up for executives whose gross annual compensation is greater than or equal to three times the French social security ceiling). Contributions for this plan in respect of 2016 amounted to €16,219 for Mr. Franck RIBOUD and Mr. Emmanuel FABER respectively. The plan rules stipulate that the benefit derived from this plan will be deducted in full from the possible defined benefit retirement plan.

Loans and guaranties

In 2016, as in 2015, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

Note 15.4. Related party agreements

See section 6.7 *Statutory auditors' special report on related party agreements and commitments.*

NOTE 16. SUBSEQUENT EVENTS

To the Company's knowledge, no material events occurred after the approval date of the 2016 consolidated financial statements (approved by the Board of Directors on February 14, 2017).

NOTE 17. LIST OF SUBSIDIARIES AS OF DECEMBER 31, 2016

Note 17.1. Fully consolidated holding companies and financial companies held directly by the Company

Main fully consolidated companies	**Country**	**Control** *(in %)*	**Ownership** *(in %)*
DANONE	France	Parent company	
Holding and financial companies			
DANONE FINANCE INTERNATIONAL	France	100.0	100.0
COMPAGNIE GERVAIS DANONE	France	100.0	100.0
DANONE CORPORATE FINANCE SERVICES	France	100.0	100.0
DAN INVESTMENTS	France	100.0	100.0
DANONE BABY AND MEDICAL HOLDING	France	100.0	100.0
HOLDING INTERNATIONALE DE BOISSONS	France	100.0	100.0
DANONE FINANCE NETHERLANDS B.V.	Netherlands	100.0	100.0
DANONE SINGAPORE HOLDINGS PTE LTD.	Singapore	100.0	100.0
DANONE ASIA PTE LTD.	Singapore	100.0	100.0

Note 17.2. Main fully consolidated companies of the Fresh Dairy Products Division

Main fully consolidated companies [a]	**Country**	**Control** *(in %)*	**Ownership** *(in %)*
DANONE SOUTHERN AFRICA PTY LTD	South Africa	100.0	100.0
DANONE DJURDJURA ALGÉRIE	Algeria	100.0	100.0
DANONE GMBH	Germany	100.0	100.0
DANONE ARGENTINA SA	Argentina	99.8	99.8
NV DANONE SA	Belgium	100.0	100.0
DANONE LTDA.	Brazil	100.0	100.0
DANONE INC.	Canada	100.0	100.0
DANONE SA	Spain	99.8	99.8
STONYFIELD FARM INC.	United States	100.0	100.0
THE DANNON COMPANY INC. [b]	United States	100.0	100.0
DANONE PRODUITS FRAIS FRANCE	France	100.0	100.0
DANONE SPA	Italy	100.0	100.0
DANONE JAPAN	Japan	100.0	100.0
CENTRALE DANONE	Morocco	99.7	99.7
DANONE DE MEXICO SA	Mexico	100.0	100.0
DANONE SP Z.O.O.	Poland	100.0	100.0
DANONE PORTUGAL SA	Portugal	97.6	97.3
DANONE LTD.	United Kingdom	100.0	100.0
JOINT STOCK COMPANY DANONE RUSSIA [b]	Russia	100.0	92.9
DANONE DNIPRO LLC	Ukraine	100.0	92.9

(a) Corresponds to the 20 largest companies of the Division in terms of net sales (non-Group sales). They generated more than three-fourths of the Division's sales in 2016.

(b) For this consolidated company, the business is spread over several legal entities in its country.

Note 17.3. Main fully consolidated companies of the Waters Division

Main fully consolidated companies [a]	**Country**	**Control** *(in %)*	**Ownership** *(in %)*
DANONE WATERS DEUTSCHLAND GMBH	Germany	100.0	100.0
AGUAS DANONE DE ARGENTINA SA [b]	Argentina	100.0	100.0
DANONE WATERS BENELUX	Belgium	100.0	100.0
DANONE LTDA.	Brazil	100.0	100.0
DANONE (CHINA) FOOD & BEVERAGE CO. LTD. [b]	China	92.0	92.0
SHENZHEN DANONE YILI DRINKS CO. LTD. (b)	China	100.0	100.0
AQUA D'OR MINERAL WATER	Denmark	100.0	100.0
AGUAS FONT VELLA Y LANJARON SA	Spain	99.7	99.7
DANONE WATERS OF AMERICA INC.	United States	100.0	100.0
ÉVIAN RESORT [c]	France	100.0	100.0
SAEME SOCIÉTÉ ANONYME DES EAUX MINÉRALES D'ÉVIAN	France	100.0	100.0
PT TIRTA INVESTAMA [b]	Indonesia	74.0	74.0
BONAFONT SA DE CV	Mexico	100.0	100.0
GRUPO CUZCO INTERNATIONAL S DE RL DE CV [b]	Mexico	70.0	70.0
ZYWIEC ZDROJ SA	Poland	100.0	100.0
DANONE WATERS (UK & IRELAND) LTD.	United Kingdom	100.0	100.0
ÉVIAN-VOLVIC SUISSE SA	Switzerland	100.0	100.0
DANONE HAYAT IÇECEK VE GIDA SA	Turkey	100.0	100.0
SIRMAGRUP IÇECEK AS	Turkey	50.1	50.1
COMPANIA SALUS SA	Uruguay	94.1	94.1

(a) Corresponds to the 20 largest companies of the Division in terms of net sales (non-Group sales). They generated more than three-fourths of the Division's sales in 2016.
(b) For this consolidated company, the business is spread over several legal entities in its country.
(c) Évian Resort operates the Évian casino. In that capacity, it is subject to the control of the French Ministry of the Interior and all regulations applicable to games of chance in casinos.

Note 17.4. Main fully consolidated companies of the Early Life Nutrition Division

Main fully consolidated companies [a]	**Country**	**Control** *(in %)*	**Ownership** *(in %)*
MILUPA GMBH	Germany	100.0	100.0
NUTRICIA-BAGO SA [b]	Argentina	51.0	51.0
NUTRICIA AUSTRALIA PTY LTD. [b]	Australia	100.0	100.0
SUPPORT PRODUTOS NUTRICIONAIS LTDA. [b]	Brazil	100.0	100.0
NUTRICIA EARLY LIFE NUTRITION (SHANGHAI) CO. LTD.	China	100.0	100.0
NUTRICIA MIDDLE EAST DMCC [b] [c]	United Arab Emirates	100.0	100.0
HAPPY FAMILY HOLDING COMPANY [c]	United States	91.9	91.9
BLÉDINA	France	100.0	100.0
DANONE NUTRICIA AFRICA & OVERSEAS	France	100.0	100.0
DANONE NUTRICIA EARLY LIFE NUTRITION (HONG KONG) LTD	Hong Kong	100.0	100.0
PT NUTRICIA INDONESIA SEJAHTERA	Indonesia	100.0	100.0
PT SARIHUSADA GENERASI MAHARDHIKA	Indonesia	100.0	100.0
MELLIN SPA	Italy	100.0	100.0
DANONE DUMEX (MALAYSIA) SDN. BHD.	Malaysia	100.0	100.0
NUTRICIA NEDERLAND B.V. [b]	Netherlands	100.0	100.0
NUTRICIA POLSKA SP Z.O.O. [b]	Poland	100.0	50.0
NUTRICIA LTD. [b]	United Kingdom	100.0	100.0
JSC ISTRA-NUTRICIA BABYFOODS [c]	Russia	100.0	100.0
DUMEX LTD. [b]	Thailand	98.9	98.9
NUMIL GIDA ÜRÜNLERI AS [b]	Turkey	100.0	100.0

(a) Corresponds to the 20 largest companies of the Division in terms of net sales (non-Group sales). They generated more than three-fourths of the Division's sales in 2016.
(b) This company also has a medical nutrition activity presented in the financial statements of the Medical Nutrition Division.
(c) For this consolidated company, the business is spread over several legal entities in its country.

Note 17.5. Main fully consolidated companies in the Medical Nutrition Division

Main fully consolidated companies [a]	**Country**	**Control** *(in %)*	**Ownership** *(in %)*
NUTRICIA GMBH	Germany	100.0	100.0
NUTRICIA AUSTRALIA PTY LTD. [b]	Australia	100.0	100.0
NV NUTRICIA BELGIE [b]	Belgium	100.0	100.0
SUPPORT PRODUTOS NUTRICIONAIS LTDA. [b]	Brazil	100.0	100.0
NUTRICIA PHARMACEUTICAL (WUXI) CO. LTD.	China	100.0	100.0
NUTRICIA TRADING (SHANGHAI) CO. LTD.	China	100.0	100.0
NUTRICIA A/S	Denmark	100.0	100.0
NUTRICIA MIDDLE EAST DMCC [b] [c]	United Arab Emirates	100.0	100.0
NUTRICIA SRL	Spain	100.0	100.0
NUTRICIA NORTH AMERICA INC.	United States	100.0	100.0
NUTRICIA NUTRITION CLINIQUE S.A.S.	France	100,0	100.0
NUTRICIA IRELAND LTD. [b]	Ireland	100,0	100.0
NUTRICIA ITALIA SPA	Italy	100.0	100.0
NUTRICIA NORGE AS	Norway	100.0	100.0
NUTRICIA NEDERLAND B.V. [b]	Netherlands	100.0	100.0
SORGENTE B.V. [c]	Netherlands	100.0	100.0
NUTRICIA POLSKA SP Z.O.O. [b]	Poland	100.0	50.0
NUTRICIA LTD. [b]	United Kingdom	100.0	100.0
NUTRICIA NORDICA AB	Sweden	100.0	100.0
NUMIL GIDA ÜRÜNLERI AS [b]	Turkey	100.0	100.0

(a) Corresponds to the 20 largest companies of the Division in terms of net sales (non-Group sales). They generated more than three-fourths of the Division's sales in 2016.
(b) This company also has an early life nutrition activity presented in the financial statements of the Early Life Nutrition Division.
(c) For this consolidated company, the business is spread over several legal entities in its country.

Note 17.6. Main investments in associates

Main investments in associates [a]	**Country**	**Control** *(in %)*	**Ownership** *(in %)*
Fresh Dairy Products			
ALSAFI DANONE COMPANY LTD [b]	Saudi Arabia	17.0	17.0
INNER MONGOLIA MENGNIU DAIRY (GROUP) CO LTD [b]	China	9.9	9.9
INNER MONGOLIA MENGNIU DANONE DAIRY CO LTD [b]	China	20.0	20.0
STRAUSS HEALTH LTD	Israel	20.0	20.0
YAKULT HONSHA CO LTD	Japan	20.0	21.3
BROOKSIDE AFRICA LIMITED [b]	Kenya	40.0	40.0
SOCIÉTÉ TUNISIENNE DES INDUSTRIES ALIMENTAIRES (STIAL)	Tunisia	50.0	50.0
Other			
YASHILI INTERNATIONAL HOLDINGS LTD	China	25.0	25.0
BAGLEY LATINO-AMERICA SA [b]	Spain	49.0	49.0
LIVELIHOODS FUND	Luxembourg	36.4	38.5

(a) Corresponds to the 10 largest companies in terms of the share of net assets. They accounted for more than 90% of Investments in associates in 2016.
(b) For this consolidated company, the business is spread over several legal entities in its country.

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

(in € millions except percentage)	PricewaterhouseCoopers Audit				Ernst & Young Audit			
	2015 Fees		2016 Fees		2015 Fees		2016 Fees	
Statutory audits: certification of the individual and consolidated financial statements	4.9	60%	4.7	89%	4.5	79%	4.6	72%
Services other than the certification of the financial statements	3.3	40%	0.6	11%	1.2	21%	1.8	28%
Total [(a)]	**8.3**	**100%**	**5.3**	**100%**	**5.7**	**100%**	**6.4**	**100%**

(a) Fees invoiced in foreign currencies have been translated into euros on the basis of the annual average rates used by Danone.

Services other than the certification of the financial statements for the year ended December 31, 2016 included, in particular:

- due diligence performed in connection with proposed corporate acquisitions or disposals, fees for which totaled €0.3 million (PricewaterhouseCoopers Audit, €2.2 million in 2015) and €1.4 million (Ernst & Young Audit, €0.7 million in 2015);
- tax services provided by the networks to some foreign Danone subsidiaries, fees for which totaled €0.1 million (Ernst & Young Audit, €0.3 million in 2015) and €0.1 million (PricewaterhouseCoopers Audit, €0.4 million in 2015). These services related mainly to the review or technical analysis of tax positions adopted by some foreign subsidiaries.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of Danone;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. It also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 of December 31, 2015, 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.

II. Justification of assessments

In accordance with the requirements of Article L. 823-9 of the French commercial code relating to the justification of our assessments, we bring to your attention the following matters:

- your company presented under the "Other operating income (expense)" heading in the Consolidated income statement the disposal result of the Dumex activity in China, the costs associated with the WhiteWave acquisition project and the costs associated with the transformational Danone 2020 plan, as described in Notes 6.1 and 6.2 of the Notes to the consolidated financial statements. Management is of the opinion that these were material items that, due to their exceptional nature, cannot be regarded as inherent to the Group's ordinary activities.

  Our work involved examining the items making up these amounts and assessing the appropriateness, in the light of Recommendation R 2013-03 of the French National Accounting Board (*Conseil National de la Comptabilité CNC*), of their presentation in the Consolidated income statement and of the disclosures in Note 6 of the Notes to the consolidated financial statements.

- your company performed at the reporting date an impairment test on goodwill and brands with indefinite useful life as described in Notes 9.1 and 9.3 of the Notes to the consolidated financial statements, and also assessed whether there was any indication of impairment of associates and of other tangible and intangible assets, in accordance with the procedures described in Notes 4.1, 4.4 and 5.5 of the Notes to the consolidated financial statements. We have reviewed the procedures for identifying indications of impaired value and for implementing the impairment test of these assets, and verified that Notes 4.4, 4.7 and 9.3 give appropriate information, in particular in relation to the assumptions adopted and the sensitivity analysis in respect of goodwill, brands with indefinite useful life and associates.

  As indicated in Note 1.1 of the Notes to the consolidated financial statements, the valuation of intangible assets and associates was based on estimates prepared in accordance with information and circumstances existing on the date the financial statements were drawn up. Such estimates may differ from the actual amounts.

- your company has recorded and evaluated the Other non-current provisions and liabilities as described in Notes 14 of the Notes to the consolidated financial statements.

  Our work involved assessing the data and the assumptions on which these estimates were based, reviewing, on a test basis, the calculations made by the Company and verifying that Note 14 of the Notes to the consolidated financial statements provides appropriate information

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

III. Specific verification

As required by law, we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no observations to make as to its fair presentation and consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, March 1, 2017

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 DANONE PARENT COMPANY

Financial statements of Danone SA

Income statement

		Year ended December 31	
(in € millions)	Notes	**2015**	**2016**
Net sales		492	648
Other income		42	31
Total operating income	**3**	**534**	**679**
Personnel costs	4	(257)	(244)
Other operating expense	5	(503)	(632)
Total operating expense		**(760)**	**(876)**
Net operating expense		**(226)**	**(197)**
Income from equity interests		2,427	1,596
Interest on loans and receivables and similar income		25	61
Interest on borrowings and similar expense		(145)	(171)
Other financial income (expense)		40	(1)
Net financial income	**6**	**2,347**	**1,485**
Net income before non-recurring items and tax		**2,121**	**1,288**
Net non-recurring income (expense)	**7**	**(15)**	**1**
Income tax	8	111	59
Net income		**2,217**	**1,347**

Balance sheet

Assets

As of December 31

		2015			2016
(in € millions)	Notes	**Net amount**	**Gross amount**	**Depreciation, amortization and provisions**	**Net amount**
Intangible assets		22	100	(66)	34
Property, plant and equipment		14	31	(15)	16
Equity interests		18,526	21,936	(81)	21,855
Other long-term financial assets		2,301	6,686	–	6,686
Financial assets	9	20,827	28,622	(81)	28,541
Non-current assets		**20,863**	**28,753**	**(162)**	**28,591**
Short-term loans and receivables	10	2,284	294	(1)	293
Marketable securities	11	140	11,535	–	11,535
Cash and cash equivalents		5	63	–	63
Current assets		**2,429**	**11,892**	**(1)**	**11,891**
Deferrals and prepaid expense		99	476	–	476
Total assets		**23,391**	**41,120**	**(163)**	**40,957**

Equity and liabilities

As of December 31

(in € millions)	Notes	2015	2016
Share capital		164	164
Share premium		3,929	3,975
Revaluation adjustment		4	4
Other reserves		3,781	3,781
Retained earnings		2,752	3,974
Net income for the year		2,217	1,347
Regulated provisions		1	2
Equity	**12**	**12,848**	**13,247**
Provisions for risks and charges	13	53	59
Bonds	14	8,127	18,961
Other financial debt	14	1,974	6,065
Other liabilities	15	335	2,424
Deferrals and accrued expenses		54	201
Total equity and liabilities		**23,391**	**40,957**

Notes to the financial statements of the parent company Danone

The financial statements of the parent company Danone ("the Company") for the year ended December 31, 2016 were approved by Danone's Board of Directors on February 14, 2017 and will be submitted for approval to the Shareholders' Meeting on April 27, 2017. 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

GENERAL INFORMATION: ACCOUNTING PRINCIPLES AND HIGHLIGHTS OF THE YEAR

Note 1. Accounting principles 141
Note 2. Highlights of the year 143

INCOME STATEMENTS ITEMS

Note 3. Operating income 143
Note 4. Personnel costs and compensation of the members of the management bodies and the Board of Directors 144
Note 5. Other operating expense 144
Note 6. Net financial income (expense) 144
Note 7. Net non-recurring income (expense) 145
Note 8. Income tax 145

BALANCE SHEET ITEMS – ASSETS

Note 9. Financial assets 146
Note 10. Short-term loans and receivables 148
Note 11. Marketable securities 148

BALANCE SHEET ITEMS – EQUITY AND LIABILITIES

Note 12. Equity 148
Note 13. Provisions for risks and charges 149
Note 14. Bonds and other financial debt 149
Note 15. Other liabilities 152

OTHER INFORMATION

Note 16. Net debt 153
Note 17. Post-employment benefit commitments and commitments to management bodies and the Board of Directors 153
Note 18. Off-balance sheet commitments 154
Note 19. Personnel 155
Note 20. Related party transactions 155
Note 21. Summary of shares held in portfolio 156
Note 22. Results and other significant information relating to the last five years 157
Note 23. Subsequent events 157

NOTE 1. ACCOUNTING PRINCIPLES

The Company's financial statements are prepared in accordance with French statutory and regulatory provisions and generally accepted accounting principles.

The main accounting methods used are detailed hereafter.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are valued at acquisition cost (including acquisition-related costs) and are amortized or depreciated on a straight-line basis according to the duration of their estimated use, as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other property, plant and equipment	4 to 10 years
Software	1 to 7 years

Long-term financial assets

Financial assets comprise Equity interests and Other long-term financial assets.

Equity interests are shares in companies, the long-term possession of which is deemed to be useful for the Company's activity, notably because it enables the Company to exercise an influence on or control over the issuing company. Investments that do not meet this definition are classified as Other long-term financial assets.

Equity interests are recognized at acquisition cost, including acquisition-related costs, which are amortized over five years as of the date of acquisition. For tax purposes, these assets are subject to accelerated tax amortization rates. An impairment provision is recognized when the recoverable amount of Equity interests is below their carrying amount.

Recoverable amount is determined using various criteria including:

- market value;
- value in use based on forecast discounted cash-flows;
- revalued equity.

Assumptions, estimates or appraisals used to determine the net realizable value are made on the basis of available information and conditions at the end of the financial period presented, which may differ from the reality, particularly in an economically and financially volatile context. Impairment provisions are recognized as Other financial income (expense), with the exception of reversals of impairment in connection with disposals of equity interests, which are recognized as Non-recurring income (expense). Gains or losses on disposals of equity interests are recognized as Non-recurring income (expense).

Other long-term financial assets consist mainly of a portion of the DANONE treasury shares held in connection with the authorizations given by the Shareholders' Meeting (see hereafter) and long-term loans and receivables granted by the Company.

DANONE treasury shares

DANONE shares repurchased by the Company are recognized under the heading:

- Other long-term financial assets, when they are repurchased in connection with corporate acquisitions, to be cancelled or to be held under the terms of a liquidity contract;
- Marketable securities, when they are repurchased to hedge stock-option plans or 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 stock-option plans or Group performance share plans.

DANONE shares recognized as Other long-term financial assets

In the case of DANONE shares recognized as Long-term financial assets that are not to be cancelled, an impairment provision is recognized when their recoverable amount (assessed at the average price for the last month of the fiscal year) falls below their carrying amount.

DANONE shares recognized as Marketable securities

Hedging of out-of-the-money stock-option and Group performance share plans

In the case of treasury shares allocated to hedge plans that cannot be exercised (the market value of DANONE shares is less than the option exercise price in the case of the stock-option plans or it is probable that the performance conditions will not be met in the case of the Group performance share plans), 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 stock-option and Group performance share plans

In the case of treasury shares allocated to hedge plans that can be exercised (the market value of DANONE shares exceeds the option exercise price in the case of the stock-option plans or it is probable that the performance conditions will be met in the case of the Group performance share plans), 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:

- in the case of stock-option plans, to the difference between the carrying amount of the shares allocated to these plans and the exercise price set under the terms of the plan if lower;
- in the case of Group performance share plans, 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.

DANONE call options held by the Company

The DANONE call options (calls) held by the Company are allocated in full to hedge stock-option plans granted to certain Danone employees and corporate officers. The premiums paid in respect of these options are recognized in Marketable securities.

Hedging of out-of-the-money stock-option plans

In the case of call options allocated to plans that cannot be exercised (the market value of DANONE shares is less than the option exercise price set under the terms of the plan), a provision for impairment is recognized when the market value of the call options, determined by banks, is less than their carrying amount.

Hedging of in-the-money stock-option plans

In the case of call options allocated to plans that can be exercised (the market value of DANONE shares exceeds the option exercise price set under the terms of the plan), 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 difference between the exercise price set under the terms of the stock-option plan and the call premium paid plus the forward DANONE share price.

The provision is booked *prorata* to the rights vesting period. It is recognized in Personnel costs in the income statement.

Loans and receivables

Loans and receivables are stated at their nominal value. An impairment provision is recognized when the recoverable amount is less than the carrying amount.

Recognition of transactions in foreign currencies

Expense and income in foreign currencies are recorded at their exchange value in euros at the date of the transaction.

Liabilities, receivables and cash denominated in foreign currencies are recorded in the balance sheet at their exchange value in euros at the year-end rate. The differences resulting from translation at this latter rate are recorded in the balance sheet in the line items Deferrals and prepaid expense and Deferrals and accrued expense in the case of liabilities and receivables. A provision for risks is recognized for non-hedged unrealized exchange losses.

Marketable securities

Marketable securities comprise a portion of the treasury shares and DANONE call options held by the Company 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 and DANONE call options reclassified as Marketable securities, see the above section *DANONE shares recognized as Marketable securities*.

Bonds

Bonds consist in borrowings raised by Danone, on debt and capital markets, notably under its EMTN (Euro Medium Term Note) program, through public issues and private placements, denominated in euros or foreign currencies. Bonds denominated in foreign currencies may be maintained in those currencies or swapped into euros:

- foreign currency bonds that are not swapped into euros are recognized at their nominal value, translated at the closing exchange rate;
- foreign currency bonds that are swapped into euros are recognized at their nominal value, which continues to be translated at the historical exchange rate.

Derivatives

Danone hedges part of its bonds denominated in foreign currencies by cross-currency swaps. For each bond hedged, Danone applies hedge accounting, which involves recognizing at the historical rate (hedged rate resulting from the implementation of the cross-currency swap) the interest relating to the bond and the cross-currency swap. Since Danone is not ultimately exposed to foreign exchange risk on repayment of the bonds, said bonds are not revalued at the closing rate. Conversely, unhedged bonds are revalued at the closing rate at each balance sheet date.

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 stock-option plans and 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

Transaction announced in 2016 but not yet finalized: acquisition of The WhiteWave Foods Company

Background to the acquisition

On July 7, 2016, Danone announced the signature of an agreement to acquire The WhiteWave Foods Company ("WhiteWave"). With sales of USD 4 billion in 2015 and USD 4.2 billion in 2016, WhiteWave is a global leader in plant-based foods and beverages and organic produce.

The acquisition is a cash transaction with a price of USD 56.25 per share, representing a total enterprise value of USD 12.5 billion, including WhiteWave's debt and certain other liabilities. It represents an approximately 24% premium relative to the average closing price of WhiteWave's stock during the 30 trading days leading up to the agreement.

The transaction was approved unanimously by the respective Boards of Directors of the two companies. It is subject to the approval of the WhiteWave Shareholders' meeting, the requisite authorizations from competition authorities and the usual conditions precedent.

The WhiteWave acquisition will be financed entirely through debt.

Status as of December 31, 2016

On October 4, 2016, WhiteWave announced that the company's shareholders approved the agreement at a special Shareholders' Meeting in anticipation of the acquisition by Danone of all outstanding shares of WhiteWave.

On December 16, 2016, the European Commission cleared the pending acquisition of WhiteWave by Danone, under the condition that Danone divest part of its "growing-up milk" business in Belgium (less than €10 million in sales).

The closing of the transaction remains subject to the completion by the US antitrust authorities of their review of the transaction. Both WhiteWave and Danone have been working with the United States Department of Justice ("DOJ") and target to close the transaction in Q1 2017. However, there can be no assurance regarding the timing of the completion of the regulatory process.

Managing the financial risks associated with the acquisition during the 2016 fiscal year

Direct and indirect financing of the subsidiary making the acquisition

To facilitate the acquisition, Danone granted loans totaling €5.5 billion in 2016.

Financing

In order to secure the transaction, in July 2016 Danone entered into a bridge loan agreement with its major banks. The maximum loan amount under this agreement was USD 13.1 billion.

By means of two multi-tranche bond issues in October 2016, Danone was able to refinance this bridging finance early and then to cancel it before the end of 2016. As a result, Danone did not draw down any of this bridging facility.

Danone borrowed a total of €6.2 billion in the euro bond market and USD 5.5 billion in the U.S. bond market.

Danone then modified the currency composition of these financing transactions by swapping into euros a portion of certain tranches and over their lifespan through cross currency swaps.

In addition, since the transaction involved acquisition financing, these bond offerings include a clause stipulating their mandatory early redemption if the acquisition was not completed by October 31, 2017, with the exception of the tranche maturing in 2018. The redemption amount would be 101% of the nominal amount plus accrued interest.

Other transactions pending completion of the acquisition

Pending completion of the acquisition:

- in order to hedge its exposure to currency risk and to manage the amounts available in euros, the Company has implemented hedges (forward currency agreements and short-term currency swaps);
- the amounts available, now denominated in euros, have been invested in money market funds (French SICAV *monétaires*) that are risk free and can be converted into cash at any time.

Other highlights

- Danone received an interim dividend in the amount of €650 million from one of its holding company subsidiaries for Early Life Nutrition and Medical Nutrition activities;
- Danone recapitalized certain subsidiaries for a total amount of €3,353 million in order to refinance the acquisition of shares;
- the Shareholders' Meeting held in Paris on April 28, 2016 approved the proposed dividend for 2015 of €1.60 per share. The total cash dividend paid to shareholders was €995 million.

NOTE 3. OPERATING INCOME

Operating income comprises mainly the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries. It totaled €648 million in 2016 (€492 million in 2015).

Other operating income totaled €31 million (€42 million in 2015) and comprised mainly the reversal of a provision for risks and charges relating to hedging of the stock-option and Group performance share plans granted by the Company (See Note 1 of the Notes to the financial statements of the parent company Danone).

NOTE 4. PERSONNEL COSTS AND COMPENSATION OF THE MEMBERS OF THE MANAGEMENT BODIES AND THE BOARD OF DIRECTORS

Personnel costs

Personnel costs comprise the gross compensation of the Company's employees and senior executives and the related social charges as well as the charges relating to the stock-option plans and Group performance share plans under which shares are allocated to certain Danone employees and corporate officers subject to performance conditions.

Company's share of the compensation paid to the members of the Board of Directors and the Executive Committee

Year ended December 31

(in € millions)	**2015**	**2016**
Compensation paid to corporate officers and members of the Executive Committee [a]	12	10
Attendance fees paid to non-executive members of the Board of Directors [b]	1	1
Total	**13**	**11**

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

See Note 17 of the Notes to the financial statements of the parent company Danone.

NOTE 5. OTHER OPERATING EXPENSE

Other operating expense comprised mainly fees paid to external service providers and charges for rent and services provided and totaled €632 million in 2016 (€503 million in 2015). The increase as compared with 2015 was due mainly to the costs associated with the WhiteWave acquisition project.

NOTE 6. NET FINANCIAL INCOME (EXPENSE)

Net financial income totaled €1,485 million in 2016 (€2,347 million in 2015).

Income from equity interests

Income from equity interests consisted mainly of dividends received from the Company's equity interests. In 2016, these dividends amounted to €1,596 million (€2,427 million in 2015). The €831 million decrease was due mainly to the interim dividend received, which totaled €650 million in 2016 compared with €1,464 million in 2015 (see Note 2 of the Notes to the financial statements of the parent company Danone).

Interest on loans and receivables and similar income

Interest on loans and receivables and similar income comprised, on the one hand, interest received on the loans and receivables granted by the Company to Zywiec Zdroj and Danone Poland totaling €12 million in 2016 (€16 million in 2015) and, on the other hand, interest received in respect of the new financing arrangements totaling €42 million (see Note 2 of the Notes to the financial statements of the parent company Danone).

Interest on borrowings and similar expense

As of December 31

(in € millions)	**2015**	**2016**
Bonds [a] [b]	129	155
Medium-term loan from and current account with Danone Finance International [a]	14	14
Short-term borrowings from indirect subsidiaries [a]	–	4
Commercial paper [a]	2	2
Total	**145**	**175**

(a) Interest paid and accrued in respect of the year.
(b) The increase in 2016 was due mainly to the bond issues associated with the WhiteWave acquisition (see Note 2 of the Notes to the financial statements of the parent company Danone).

Other financial income (expense)

As regards Other financial income (expense), the Company generated net expense of €1 million in 2016, comprising mainly the allocation of a provision on equity interests. The decrease as compared with 2015 was due mainly to the fact that sales of treasury shares were lower in 2016 than in 2015.

NOTE 7. NET NON-RECURRING INCOME (EXPENSE)

As regards net non-recurring income (expense), in 2016 Danone generated net income of €1 million, consisting mainly of provision reversals.

In 2015, Danone generated net non-recurring expense of €15 million, which consisted mainly of non-recurring costs related to the Danone 2020 transformational plan.

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 2016

	As of December 31, 2016
BLEDINA	HELDINVEST 9
COMPAGNIE GERVAIS DANONE	HOLDING INTERNATIONALE DE BOISSONS
DANONE CORPORATE FINANCE SERVICES	LES 2 VACHES RESTO
DANONE PRODUITS FRAIS FRANCE	NUTRICIA NUTRITION CLINIQUE SAS
DANONE DAIRY ASIA	PRODUITS LAITIERS FRAIS EST EUROPE
DANONE NUTRICIA AFRICA ET OVERSEAS	PRODUITS LAITIERS FRAIS SUD EUROPE
DANONE BABY AND MEDICAL HOLDING	PRODUITS LAITIERS FRAIS ESPAGNE
DANONE [(a)]	SOCIETE ANONYME DES EAUX MINERALES D'EVIAN
DANONE RESEARCH	SOCIETE DES EAUX DE VOLVIC
DAN INVESTMENTS	STEP SAINT JUST
FERMINVEST	STONYFIELD FRANCE
DANONE MANIFESTO VENTURE EUROPE	

(a) The Company.

The subsidiaries that are members of the tax group recognize and pay their tax to the Company as if they were taxed separately, in compliance with the rules set by the French tax authorities.

The savings (or additional charges) – based on the difference between the sum of the tax charges recorded by the different subsidiaries of the tax group and the tax charge resulting from the computation of the consolidated tax results of the tax group – are recognized in the income statement under Income tax. The amount booked in this line for 2016 relates exclusively to these savings.

At year end 2016, the tax group recorded a taxable loss. As of December 31, 2016, tax loss carry-forwards accumulated within the tax group in France amounted to €1,277 million, compared with €1,286 million as of December 31, 2015.

Other information

In accordance with Article 39.4 of the French Tax Code, in 2016 the Company recognized €453,846 as taxable income in respect of tourism vehicle depreciation and rental.

The application of Article 39.5 of the French Tax Code did not result in any add-backs to taxable income in 2016.

As of December 31, 2016, items likely to result in a reduction of future tax liabilities consisted mainly of accrued charges. They totaled €55 million and would reduce future tax charges by €19 million.

NOTE 9. FINANCIAL ASSETS

Carrying amount and changes during the period

		Changes during the period			
(in € millions)	**As of December 31, 2015**	**Increase [a]**	**Decrease**	**Reclassification, translation**	**As of December 31, 2016**
Gross amount					
Equity interests	18,583	3,353	–	–	21,936
Long-term loans and receivables	710	4,383	(19)	21	5,095
DANONE treasury shares [b]	1,578	–	–	–	1,578
Other	14	–	(1)	–	14
Other financial assets	2,302	4,383	(19)	21	6,686
Total	**20,885**	**7,736**	**(19)**	**21**	**28,622**
Provisions [c]	(58)	(24)	–	–	(81)
Net total	**20,827**	**7,712**	**(19)**	**21**	**28,541**

(a) See Note 2 of the Notes to the financial statements of the parent company Danone.
(b) Portion of DANONE treasury shares recognized as Long-term financial assets (See Note 1 of the Notes to the financial statements of the parent company Danone).
(c) Consists mainly of provisions for impairment of Equity interests.

Equity interests

Equity interests held in portfolio as of December 31, 2016

(in € millions, except percentages)	Share capital [a]	Other equity [a][c]	Share of equity held	Number of shares held	Carrying amount of shares held – Gross	Carrying amount of shares held – Net	Maximum authorized amount of guarantees security interests and endorsements given by the Company	Previous year's sales [b]	Previous year's net income (loss) [b]	Dividends received by the Company during the year
Subsidiaries (at least 50% of the share capital held by the Company)										
French investments										
DANONE CORPORATE FINANCE SERVICES	142	127	100%	8,875 000	179	179	750	–	179	–
COMPAGNIE GERVAIS DANONE	3,535	637	100%	140,268 429	3,165	3,165	–	–	256	834
DANONE BABY AND MEDICAL HOLDING	13,619	(535)	100%	13,618 704,074	13,615	13,615	–	–	753	650
DAN INVESTMENTS	6	(1)	100%	300,000	6	3	–	–	(2)	–
HOLDING INTERNATIONALE DE BOISSONS	324	1,040	100%	161,768 722	1,116	1,116	–	–	(13)	–
Foreign investments										
DANONE SINGAPORE HOLDINGS PTE LTD	160	18	61%	144,830 596	115	115	–	–	9	6
FPS DANONE COMMUNITIES		11	64%	14,392	8	8			–	–
DANONE ASIA PTE LTD	1,409	420	88%	1,951 114,726	1,226	1,226	–	–	157	65
DANONE FINANCE NETHERLANDS	8	1	100%	800,000	94	24	–	–	–	–
Investments in associates (at least 10% to 50% of the share capital held by the Company)										
NV DANONE SA	983	851	23%	21,988	400	400	–	318	40	–
DANONE FINANCE INTERNATIONAL	965	4,971	33%	4,034 154	2,012	2,004	2,000	–	118	41
Total					**21,936**	**21,855**				

(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.

Long-term loans and receivables

The change in Long-term loans and receivables was due mainly to loans granted to the subsidiaries for the purposes of the WhiteWave acquisition (see Note 2 of the Notes to the financial statements of the parent company Danone).

Foreign currency loans

Foreign currency loans are translated at the closing rate, resulting in the recognition of translation differences at the year end, which are presented in the balance sheet under Deferrals and prepaid expense and Deferrals and accrued expense.

As of December 31, 2016

(in € millions, except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value	Translation difference	Carrying amount
Yen	43,000	381	(32)	349

NOTE 10. SHORT-TERM LOANS AND RECEIVABLES

As of December 31, 2016, this balance sheet item comprised mainly €294 million of receivables due to the Company within less than one year, including tax receivables totaling €98 million (€89 million as of December 31, 2015) and receivables from customers totaling €82 million (€80 million as of December 31, 2015).

NOTE 11. MARKETABLE SECURITIES

Carrying amount and changes during the period

		Changes during the period				
(in € millions)	**As of December 31, 2015**	**Increase [c]**	**Decrease (exercised)**	**Reallocation**	**Reclassification**	**As of December 31, 2016**
DANONE shares						
DANONE shares hedging stock-option plans [a]	51	–	(18)	–	–	34
DANONE shares hedging Group performance shares [a]	67	–	(9)	–	–	57
Total	**118**	**–**	**(27)**	**–**	**–**	**91**
DANONE call options	9	–	(6)	–	–	3
Short-term investment	–	11,429	–	–	–	11,429
danone.communities [b]	13	–	–	–	–	13
Total	**140**	**11,429**	**(33)**	**–**	**–**	**11,536**

(a) Portion of DANONE treasury shares recognized as Marketable securities (see Note 1 of the Notes to the financial statements of the parent company Danone).
(b) danone.communities is a mutual fund (French SICAV) aimed at financing certain social projects through an investment that generates a return nearly comparable to the money market rate.
(c) Increase related to the WhiteWave acquisition project (see Note 2 of the Notes to the financial statements of the parent company Danone).

NOTE 12. EQUITY

Carrying amount and changes during the period

		As of December 31,2015		**Changes during the period**		**As of December 31, 2016**
(in € millions)	**Before allocation**	**After allocation [b]**	**Net income**	**Capital decrease**	**Capital increase [c]**	**Before allocation**
Share capital	164	164	–	–	–	164
In number of shares [a]	*654,951,200*	*654,951,200*	–	–	*940,800*	*655,892,000*
Share premium	3,929	3,929	–	–	46	3,975
Legal reserve	16	16	–	–	–	16
Other reserves	3,769	3,769	–	–	–	3,769
Retained earnings	2,752	3,974	–	–	–	3,974
Net income for the year	2,217	–	1,347	–	–	1,347
Regulated provisions	1	1	1	–	–	2
Total	**12,848**	**11,853**	**1,348**	**–**	**46**	**13,247**

(a) Ordinary shares with a par value of €0.25.
(b) Following shareholder approval at the Shareholders' Meeting of April 28, 2016, some of the 2015 net income was allocated to the dividend (see Note 2 of the Notes to the financial statements of the parent company Danone).
(c) Issue carried out on May 17, 2016 under the terms of the Company savings plan (*Plan d'Épargne Entreprise*).

NOTE 13. PROVISIONS FOR RISKS AND CHARGES

Carrying amount and changes during the period

		Changes during the period			
(in € millions)	**As of December 31, 2015**	**Allocation**	**Reversal used**	**Reversal not used**	**As of December 31, 2016**
Provisions in respect of stock-option and Group performance share plans [a]	43	21	(17)	–	47
Other provisions	10	7	(4)	–	12
Total	**53**	**28**	**(22)**	**–**	**59**

(a) Provisions in respect of stock-option plans hedged by DANONE call options and Group performance share plans.

NOTE 14. BONDS AND OTHER FINANCIAL DEBT

Bonds

Carrying amount

	As of December 31	
(in € millions)	**2015**	**2016**
Nominal value	8,093	18,896
Accrued interest	34	65
Total	**8,127**	**18,961**

The increase as compared with 2015 was due to the transactions carried out for the purposes of the WhiteWave acquisition (see Note 2 of the Notes to the financial statements of the parent company Danone).

Bonds issued by the Company are disclosed on Danone's website.

Most of the financing agreements entered into by the Company (bank credit facilities and bonds) include a change of control provision, which offers creditors a right of early repayment in the event a change in control of the Company causes its rating by the financial rating agencies to fall below investment grade.

2016 transactions

Year ended December 31

			2016
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
	EUR	1,350	2018
	EUR	1,000	2020
	EUR	1,000	2022
	EUR	1,250	2024
	EUR	1,600	2028
Euro bonds		6,200	
	USD	1,200	2019
	USD	800	2021
	USD	1,500	2023
	USD	2,000	2026
U.S. dollar bonds		5,500	
Repayments			
Swiss franc bond	CHF	225	2016
Euro bond	EUR	500	2016

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, 2015**	**New borrowings**	**Repayment**	**Change in accrued interest**	**Revaluation**	**As of December 31, 2016**
Fixed rate portion						
Bonds	7,255	9,887	(500)	–	204	16,846
Accrued interest	34	–	–	31	–	65
Floating rate portion						
Bonds	838	1,350	(138)	–	–	2,050
Accrued interest	–	–	–	–	–	–
Total	**8,127**	**11,237**	**(638)**	**31**	**204**	**18,961**

Breakdown by currency with interest accrued as of the reporting date

As of December 31, 2016

(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	12,645	12,645	12,674	12,674
U.S. dollar	6,350	5,719	5,937	5,937
Bonds denominated in other currencies				
Yen	43,000	381	350	350
Total		**18,745**	**18,961**	**18,961**

Portfolio of cross-currency swaps and short-term currency swaps hedging certain foreign-currency denominated bonds

As of December 31, 2016

(in € millions, except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value in euros
Euro – U.S. dollar	6,350	5,719
Total		**5,719**

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, 2015	Changes during the period: New borrowings	Repayment	Change in accrued interest	Revaluation	As of December 31, 2016
Fixed rate portion						
Loan from Danone Finance International [a]	1,000		(1,000)			–
Floating rate portion						
Commercial paper [b]	969		(187)			782
Short-term loan from subsidiaries		5,094			189	5,283
Other	5		(5)			–
Total	**1,974**	**5,094**	**(1,192)**	**–**	**189**	**6,065**

(a) Fixed rate medium-term loan maturing in June 2019.
(b) Changes in commercial paper are net changes.

Maturity of Bonds and Other financial debt

As of December 31

(in € millions)	2015	2016
Due date less than 1 year	1,646	7,064
Due date between 1 and 5 years	4,586	8,108
Due date more than 5 years	3,869	9,854
Total	**10,101**	**25,026**

NOTE 15. OTHER LIABILITIES

Composition of Other liabilities

As of December 31

(in € millions)	2015	2016
Amounts owed by the Company to certain subsidiaries and affiliates	28	1,842
Trade payables	68	61
Unrealized foreign exchange gains	–	205
Accrued expenses	239	316
Total	**335**	**2,424**

Composition of Accrued charges

As of December 31

(in € millions)	2015	2016
Services provided	114	192
Personnel costs	83	89
Social charges	37	30
Tax liabilities	4	3
Financial debt	1	2
Total	**239**	**316**

Maturity of Other liabilities

The majority of Other liabilities have a maturity of less than one year. The maturity dates of Trade payables are shown in the following table:

As of December 31, 2016

(in € millions)	Due date 30 days or less	Due date between 31 and 60 days	Due date more than 60 days	Total
Trade payables	36	26	–	61

NOTE 16. NET DEBT

Composition of net debt

As of December 31

(in € millions)	2015	2016
Bonds	8,127	18,961
Other financial debt	1,974	6,065
Amounts owed by the Company to certain subsidiaries and affiliates [a]	28	1,842
Total debt	**10,129**	**26,868**
Amounts owed to the Company by certain subsidiaries and affiliates [b]	2,049	–
Marketable securities	140	11,535
Cash	5	63
Total cash and cash equivalents	**2,194**	**11,598**
Total net debt	**7,935**	**15,270**

(a) Portion of the amounts owed by the Company to subsidiaries and affiliates presented in Other liabilities.
(b) Portion of amounts owed to the Company by subsidiaries and affiliates presented in Short-term loans and receivables.

Change during the period

The increase in net debt was mainly due to (i) financings set-up in connection with the WhiteWave acquisition project, and (ii) the exercise of put options held by certain minority shareholders.

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

Post-employment benefit commitments

As of December 31

(in € millions)	2015	2016
Supplementary benefits in addition to defined benefit retirement plans [a]		
Gross commitments	493	579
Commitments net of retirement plan assets	299	390

(a) Commitments measured using the actuarial method.

These net commitments are presented off-balance sheet (see Note 18 of the Notes to the financial statements of the parent company Danone). The main commitment involves the retirement plan granted to some Danone senior managers.

Retirement plan granted to some Danone senior managers

Commitments measured using the actuarial method

	As of December 31	
	Retirement plan for senior managers	
(in € millions)	**2015**	**2016**
Gross commitments	418	484
Commitments net of plan assets	254	328

The €74 million increase in commitments net of plan assets was due mainly to the decrease in discount rates.

Main actuarial assumptions

	Year ended December 31	
	Retirement plan for senior managers	
(as a percentage, except for age in years)	**2015**	**2016**
Discount rate	2.4%	1.7%
Expected return on plan assets	2.4%	1.7%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Commitments to management bodies and the Board of Directors

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

	As of December 31	
(in € millions)	**2015**	**2016**
Supplementary benefits in addition to defined benefit retirement plans [a]		
Gross commitments	47	58

(a) Commitments measured using the actuarial method.

Severance pay for Executive Committee members

Severance pay for members of the Executive Committee in certain cases where they cease to continue their terms of office or exercise their functions were set at twice the annual gross compensation (fixed, variable, and in-kind) they received over the 12 months preceding the date on which they cease to continue their functions, and, in the case of the Company's two corporate officers, the Board of Directors decided on February 14, 2017 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)	**2015**	**2016**
Put options held by non-controlling interests over some of the Company's direct and indirect equity interests [a]	862	699
Post-employment benefits [b]	299	390
Rents	107	78
Services provided	14	6
Derivative instruments [c]	820	7,143
Security interests [d]	2,000	2,000
Guarantees [e]	750	750
Total	**4,852**	**11,066**

(a) Commitments given directly or indirectly by the Company (see details hereafter in section *Put options over the Company's direct and indirect equity interests*).
(b) Net commitments in respect of defined benefit retirement plans (see Note 17 of the Notes to the financial statements of the parent company Danone).
(c) Corresponds to cross-currency swaps for €5,719 million and forward currency agreements for €1,424 million.
(d) The Company acted as joint and several guarantors for Danone Finance International.
(e) The Company may grant a guarantee or security interest for the various financial risk management transactions to be carried out by its subsidiary Danone Corporate.

Put options over the Company's direct and indirect equity interests

The Company or certain of its direct or indirect subsidiaries granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all of their investment in these subsidiaries. Their exercise price is generally based on the profitability and financial position of the company concerned at the exercise date of the put option.

Commitments received

Commitments received by the Company concerned €3.5 billion in available committed credit facilities as of December 31, 2016.

Other commitments

The Company and certain of its subsidiaries are parties to a variety of legal and arbitration proceedings arising in the ordinary course of business. Some of these proceedings involve claims for damages, and liabilities are provided for when a loss is probable and can be reliably estimated.

NOTE 19. PERSONNEL

Average number of Company employees during the year

Year ended December 31

(in number, except percentages)		2015		2016
Executives and managers	636	80%	683	81%
Supervisors and technicians	113	14%	121	14%
Clerical staff	49	6%	40	5%
Total	**798**	**100%**	**844**	**100%**

NOTE 20. RELATED PARTY TRANSACTIONS

Transactions with related parties

Year ended December 31

(in € millions)	2015	2016
Operating income	467	581
Income from equity interests	2,427	1,596
Interest on loans and receivables and similar financial income	25	61
Total income	**2,919**	**2,238**
Operating expense	(77)	(59)
Interest on borrowings and similar financial expense	(14)	(16)
Total expense	**(91)**	**(75)**

Balances with related parties

	As of December 31	
(in € millions)	**2015**	**2016**
Long-term loans and receivables	–	4,746
Short-term loans and receivables [a]	2,238	293
Total assets	**2,238**	**5,039**
Other financial debt [b]	1,000	–
Other liabilities	36	57
Total liabilities	**1,036**	**57**

(a) The current account balance due from Danone Finance International as of December 31, 2015 became a current account balance due to that company as of December 31, 2016.
(b) The medium-term borrowing due to Danone Finance International was repaid early in 2016.

NOTE 21. SUMMARY OF SHARES HELD IN PORTFOLIO

Securities of subsidiaries and associates

	As of December 31	
(in € millions)	**2015**	**2016**
Gross amounts	18,583	21,936
Provisions for impairment	(57)	(81)
Carrying amount	**18,526**	**21,855**

DANONE treasury shares

(in € millions, except number of shares)	**2015**		**2016**	
	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]	3,176,810	118	2,359,838	91
Total	**33,946,170**	**1,696**	**33,129,198**	**1,669**

(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

	2012	2013	2014	2015	2016
Capital at year-end					
Share capital *(in €)*	160,790,500	157,757,000	160,948,000	163,737,800	163,973,000
Number of shares issued	643,162,000	631,028,000	643,792,000	654,951,200	655,892,000
Operations and results for the year *(in € millions)*					
Net sales	478	520	474	492	648
Net income before tax, depreciation, amortization and provisions	395	686	482	2,070	1,318
Income tax [a]	112	77	76	111	59
Income after tax, depreciation, amortization and provisions	442	762	541	2,217	1,347
Dividends paid [b]	857	860	915	995	1,115
Earnings per share *(in € per share)*					
Income after tax but before depreciation, amortization and provisions	0.79	1.19	0.85	3.33	2.10
Net income after tax, depreciation, amortization and provisions	0.69	1.16	0.84	3.38	2.05
Dividend per share	1.45	1.45	1.50	1.60	1.70
Personnel					
Average number of employees for the year	746	740	725	798	844
Payroll expense *(in € millions)*	170	149	159	180	160
Amounts paid in respect of employee benefits [c] (social security, social benefit schemes, etc.) *(in € millions)*	71	66	71	77	90

(a) Income (expense).
(b) Amount relative to the 2016 fiscal year estimated as of December 31, 2016 based on the number of treasury shares held on that date by the Company. The 2015 dividend corresponds to the amount actually paid out during the 2016 fiscal year.
(c) Includes personnel expense excluding social charges (see Note 4 of the Notes to the financial statements of the parent Company Danone) as well as provisions related to stock-options and Group performance shares (see Note 13 of the Notes to the financial statements of the parent company Danone).

NOTE 23. SUBSEQUENT EVENTS

To the best of the Company's knowledge, no significant events occurred between the end of the reporting period and February 14, 2017, the date on which the Board of Directors approved the financial statements of the parent company Danone for the year ended December 31, 2016.

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE PARENT COMPANY DANONE

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 shareholders,

Pursuant to the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Danone;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the annual financial statements. It also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 of December 31, 2016, and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the provisions of Article L. 823-9 of the French commercial code relating to the justification of our assessments, we bring to your attention the following matters:

- the section *Financial assets* in Note 1 of the Notes to the financial statements of the parent company Danone describes the methods for accounting for equity interests as well as the methods used to calculate impairment losses. We performed sample tests to confirm that these methods were applied correctly and we reviewed the methods used to determine the amount of the impairment losses. We have assessed the data and assumptions on which these estimates are based: as indicated in Note 1 of the Notes to the financial statements of the parent company Danone, these estimates were prepared in accordance with information and circumstances existing on the date the financial statements were drawn up and such estimates may differ from the actual amounts.

These assessments were made as part of our audit of the parent company financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no observations to make as to the fair presentation of the information given in the management report of the Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements or its consistency with the parent company financial statements.

Regarding the information provided in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code relating to compensation and benefits granted to the corporate officers 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 companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this 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.

Neuilly-sur-Seine and Paris-La Défense, March 1, 2017

The Statutory auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

4.3 INFORMATION ORIGINATING FROM THIRD PARTIES, EXPERT OPINIONS AND DECLARATIONS OF INTEREST

Nil.

5.1 DANONE'S SOCIAL, SOCIETAL AND ENVIRONMENTAL APPROACH 162

General policy 162

Danone's CSR policy in detail 162

Primary programs, policies and actions implemented by Danone with regard to social, societal and environmental responsibility 163

5.2 INFORMATION CONCERNING DANONE'S SOCIAL, SOCIETAL AND ENVIRONMENTAL PERFORMANCE IN COMPLIANCE WITH THE GRENELLE II LAW 166

Serving everyone 167

For a more sustainable world 174

A new kind of entrepreneurship 184

Methodology Note 189

Report of one of the Statutory auditors, appointed as independent third-party body's, on consolidated social, environmental and societal information presented in the management report 192

5.3 FUNDS SPONSORED BY DANONE 195

danone.communities 195

Danone Ecosystem Fund (Fonds Danone pour l'Écosystème) 196

Livelihoods Fund 197

Livelihoods Fund for Family Farming 199

5

SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

This section describes Danone's policy and accomplishments in the area of social, societal and environmental responsibility. It is organized as follows:

- *description of Danone's approach to social, societal and environmental responsibility;*
- *information concerning Danone's social, societal and environmental performance in compliance with the provisions of Article 225 of law No. 2010-788 of July 12, 2010 ("Grenelle II") and its implementing decree;*
- *other information related to Danone's social, societal and environmental responsibility: Funds sponsored by Danone.*

More extensive information concerning Danone's strategy and performance with regard to Sustainable Development can be found in Danone's Integrated Report available at danone.com. Practices and quantitative results are described there, based in particular on the Global Reporting Initiative (GRI G4) indicators.

Certain data is rounded to the nearest unit. As a result, the sum of the rounded data may vary slightly from the reported total. Moreover, ratios and differences are calculated on the basis of the underlying amounts, not of the rounded figures.

5.1 DANONE'S SOCIAL, SOCIETAL AND ENVIRONMENTAL APPROACH

General policy

As a direct result of Danone's dual economic and social project, Corporate Social Responsibility (CSR) is deeply anchored in Danone's business activity (see section 2.5 *Other elements related to Danone's activity and organization*).

In 1972, Antoine RIBOUD noted that "corporate responsibility does not stop at the factory gate or the office door." This vision led to the dual economic and social project that forms the basis for Danone's development and organizational model.

In 2006, Danone redefined its mission: "bringing health through food to as many people as possible." This mission requires that Danone take concrete steps with regard to today's major societal challenges:

- the challenges related to products and consumers with the launch of safe, healthy products, efforts to promote a healthy lifestyle and nutritional education;
- environmental challenges, because for Danone, healthy food starts with a healthy natural environment;
- social challenges, including employment, enhancement of employability and occupational skills, employee commitment, social dialogue and awareness of the specific characteristics of the regions in which Danone operates and their social cohesion.

To continue to meet these challenges and grow in accordance with its mission, Danone has set the objective to contribute to a healthier future around four main themes:

- "Unique Business Approach": in some ways Danone is different, and wants to remain different to pursue its different entrepreneurship;
- "Better Health": bringing health through food to as many people as possible;
- "Better World": food produced sustainably can help protect and restore the health of our planet;
- "Better Lives": every day Danone touches the lives of millions of people, and works for that impact to be positive.

Danone's CSR policy in detail

Danone's CSR approach is characterized by the depth of its integration into the business activities and by the constant effort to create value for shareholders and for all stakeholders.

To achieve this, Danone has integrated its CSR approach into its main processes and business activities across the various stages of the value chain, and particularly into the following processes:

- production, with the direct participation of the industrial functions in achieving targets related to safety and reduced water and energy consumption and waste;
- purchasing, based on a policy of responsible procurement;
- human resources, through diversity, social dialogue and individual employee development;
- marketing, Research and Development and sales, by developing synergies between CSR and these functions.

Danone has, in particular, created an organization and specific governance, including:

Social Responsibility Committee and Sustainability Integration Steering Committee

Formed from the Board of Directors, the Social Responsibility Committee examines non-financial information and ratings, as well as social policy and investments related to social aspects implemented by Danone (see section 6.1 *Governance bodies* related to the *Social Responsibility Committee*).

The Sustainability Integration Steering Committee's mission is to oversee the integration of sustainable development issues within Danone's strategy and to ensure their operating implementation and communication. It gathers representatives of environmental, social, health and nutrition functions of each Division. Its decisions are communicated to the Social Responsibility Committee.

Danone's CSR goals

General Management sets CSR goals for the Company and its consolidated subsidiaries which may be defined annually or over the medium term, such as the carbon footprint reduction goal and staff safety.

Variable compensation system

Since 2008, Danone has integrated societal performance into its variable compensation system with the introduction of criteria to evaluate the performance of around 1,500 senior executives. This system is based on performance objectives along three lines: (i) economic portion, (ii) social and/or environmental portion, and (iii) individual performance portion (see section 6.3 *Compensation and benefits of governance bodies*).

Funds sponsored by Danone

These are funds created at Danone's initiative: danone.communities created in 2007, the Danone Ecosystem Fund created in 2009, the Livelihoods fund created in 2011 and the Livelihoods Fund for Family Farming created in 2015 (see section 5.3 *Funds sponsored by Danone*).

Implementation of the CSR approach in all Danone's subsidiaries through the design and implementation of policies and framework agreements

The main framework agreements and policies implemented by Danone are detailed in the section hereafter and described in section 5.2 *Information concerning Danone's social, societal and environmental performance in compliance with the Grenelle II law*.

Primary programs, policies and actions implemented by Danone with regard to social, societal and environmental responsibility

Danone Way

The Danone Way program, launched in 2001, is a key component of Danone's sustainable development strategy, with the goal of supporting all subsidiaries in the implementation of best practices. In 2016, the subsidiaries covered by the program represented 94.1% of Danone's consolidated net sales.

It defines best practices for social, societal and environmental responsibility in the various stages of Danone's businesses, from purchasing raw materials to recycling the packaging of finished products. To evaluate the subsidiaries' level of maturity with regard to sustainable development, the Danone Way program measures their performance in terms of compliance with these best practices. This program is verified by an independent third-party organization.

Every year, each subsidiary self-assesses its sustainable development performance based on 20 key sustainability topics, organized into the following four areas:

- "Unique Business Approach": business ethics, take into account sustainable strategy, responsible sourcing;
- "Better Health": food safety and quality management, nutritional improvement, healthier choice, adaptation to local nutritional context and food culture, local public health cause, nutrition governance and responsibility;
- "Better Lives": social dialogue, health and safety, working time and organization, learning, diversity and inclusion, talent development;
- "Better World": climate, water, packaging, sustainable agriculture, environmental management.

Main Social Programs

WISE "Work In Safe Environment" and WISE²

WISE is a global program implemented by Danone since 2004 which aims to develop a robust health and safety culture at all its subsidiaries and reduce workplace accidents.

This program defines health and safety rules and best practices. It is deployed in all the Divisions around the world, at the Group's plants and logistics warehouses and in distribution. It also applies to subcontractors working at Danone sites. The program is led by the Human Resources Department, with designated managers at each level: Division, subsidiary and site.

To ensure that the health and safety culture is disseminated, the WISE program relies on WISE audits to evaluate the subsidiaries in the following 13 categories: integrated safety organization, communication, supervisor responsibility, ambitious objectives and indicators, dialogue and observations, gradual motivation, policies and principles, training, standards, support for safety personnel, accident surveys and analysis, visible engagement and involvement of management, and subcontractor management.

In 2015, Danone decided to expand the WISE program, renamed WISE², with more far-reaching goals by 2020: zero fatal accidents and 50% fewer workplace accidents with medical absence compared to the reference year 2014. To this end, WISE², currently being implemented, aims to ensure Danone's compliance with workplace safety standards for the most critical high-risk situations and promote a more comprehensive prevention approach that includes, in particular, health risks, ergonomics and well-being in the workplace.

IUF agreements

Danone has signed framework agreements with the IUF (International Union of Food workers) since 1988. As of December 31, 2016, ten global agreements and one European agreement between Danone and the IUF were in effect.

These agreements define rules and best practices, particularly with regard to (i) diversity, (ii) social dialogue, (iii) steps to be taken for business changes impacting employment or working conditions, (iv) combating all forms of discrimination and encouraging diversity, (v) trade union rights, and (vi) procedures for consulting employee representatives in case of business changes that impact employment, health, safety, working conditions and stress.

The most recent global agreement between Danone and the IUF was signed on March 15, 2016 regarding long-term employment and access to rights. It applies to all Danone subsidiaries worldwide and is designed to encourage long-term employment in places where Danone operates. Danone and the IUF have both agreed to reduce unstable employment thanks to definitions, a methodology and specific processes.

These framework agreements between Danone and the IUF are implemented at each subsidiary level and their application is evaluated jointly each year by a representative from Danone and a representative from the IUF.

Main Societal Commitments

Danone Nutrition Commitments

The Danone Nutrition Commitments describe the concrete action guidelines based on Danone's mission of "bringing health through food to as many people as possible." In keeping with the Nutrition Health Charter introduced in 2005 and updated in 2009, the Danone Nutrition Commitments set out six concrete, quantified commitments through to 2020:

- continuously improve the nutritional quality of products;
- design healthier, more relevant alternatives for consumers;
- improve Danone's knowledge of local dietary practices and local public health conditions;
- meet public health challenges wherever Danone, along with its partners, is able to have a significant impact;
- develop responsible communication practices, especially regarding children;
- use appropriate nutrition labeling to encourage consumers to make healthier choices.

RESPECT

The RESPECT policy aims to protect the Sustainable Development Principles across Danone's entire supply chain and in particular with regard to Danone's suppliers.

This policy was launched in 2005 and has been implemented since 2006 in all Divisions to ensure compliance with the seven fundamental labor principles formalized by Danone since 2001 based on standards defined by the International Labor Organization: child labor; forced labor; non-discrimination; freedom of association and the right to collective bargaining; workplace health and safety; working hours; compensation.

These fundamental principles have been completed by environmental and business ethics principles, named today Danone's Sustainable Development Principles.

The RESPECT methodology is based on a system of controls that includes: suppliers' signature of the Sustainable Development Principles, a map of supplier risks drawn up by purchasing managers, external labor audits of the most at risk suppliers, corrective action plans in case of non-compliance identified during the audit, and monitoring of this action plan by Danone's purchasing managers.

RESPECT is based on a specific tool called Sedex (Supplier Ethical Data Exchange), a dedicated online information-sharing and pooling platform used by many companies in the food and beverage sector which allows their suppliers to enter information regarding their production sites, sustainable development and societal responsibility policies, and share this information with several customers at once.

In 2009, the scope of the RESPECT policy was expanded to include environmental and ethical sections.

Based on these three pillars – social, environmental and ethical – RESPECT constitutes a global policy for managing sustainable development standards with suppliers.

Main Environmental Policies

Danone has identified four key areas – climate, water, packaging and agriculture:

- Fight climate change by reducing Danone's footprint while helping nature sequester carbon;
- Protect water resources, particularly when water is scarce, and use it in harmony with the local ecosystems and communities;
- Transform waste into a resource and use materials made from sustainable resources;
- Promote and encourage agriculture that produces a healthy, balanced diet.

Climate Policy

Published in 2015, Danone's Climate Policy defines the path for reducing its greenhouse gas emissions and contributing to a "carbon-free" economy. For Danone's entire scope of emissions, the target is zero net carbon over the long term and consists of five key objectives:

- reduce emissions intensity by 50% between 2015 and 2030;
- encourage "carbon positive" solutions;
- eliminate deforestation of the supply chain by 2020;
- strengthen the resilience of the water and food cycles;
- offer healthy, sustainable products.

Packaging Policy

In November 2016, Danone published its Packaging Policy to promote the circular packaging economy by purchasing sustainable materials and creating a second life for all plastics.

This policy includes five main commitments that cover the life cycle of packaging, from the initial choice of raw materials to consumers' behaviors at the end of the packaging's life:

- use sustainable resources;
- optimize packaging weight and the ecodesign of packaging;
- achieve Zero landfill for plastic industrial waste;
- innovate to simplify consumers' lives and get them involved in sorting and recycling;
- co-create a second life for all plastics.

5.2 INFORMATION CONCERNING DANONE'S SOCIAL, SOCIETAL AND ENVIRONMENTAL PERFORMANCE IN COMPLIANCE WITH THE GRENELLE II LAW

This section presents information concerning Danone's social, societal and environmental performance in compliance with the provisions of Article 225 of law No. 2010-788 of July 12, 2010 ("Grenelle II") and its implementing decree.

Scopes and definitions related to Danone's social, societal and environmental performance data are described in the Methodology Note, at the end of this section.

Contents

Serving everyone **167**
Employment 167
Work organization 169
Social relations 170
Health and safety 170
Employee training and development 172
Inclusive Diversity as a Business Driver 173
Promotion of and compliance with the fundamental conventions of the ILO 174

For a more sustainable world **174**
General environmental policy 174
Pollution and waste management 176
Sustainable use of resources 178
Climate change 181
Protecting biodiversity 183

A new kind of entrepreneurship **184**
Regional, economic and social impact of Danone's activities 184
Relationships with people and organizations with an interest in Danone's activities 185
Subcontracting and suppliers 185
Fair trade practices 187

Methodology Note **189**
Consolidation scope and coverage 189
Data collection 189
Information regarding methodologies 190

Report of one of the Statutory auditors, appointed as independent third-party body's, on consolidated social, environmental and societal information presented in the management report **192**

Serving everyone

Employment

Danone's workforce

Breakdown by geographical area and by Division

Number of employees, breakdown by geographical area and by Division

Year ended December 31

	2015	2016
Total Workforce		
Group Total Workforce Scope	99,781	99,187
Social Indicators Scope	**99,771**	**99,091**
By geographical area		
France	9%	9%
Rest of Europe	27%	27%
China	10%	10%
Rest of Asia Pacific	18%	18%
North and South America	27%	26%
Africa and Middle East	9%	10%
Total	**100%**	**100%**
By Division		
Fresh Dairy Products	40%	39%
Waters	39%	38%
Early Life Nutrition	13%	14%
Medical Nutrition	6%	6%
Central function	2%	3%
Total	**100%**	**100%**

Workforce by age and gender

By gender

Year ended December 31

	Women		Men		Total	
	2015	2016	2015	2016	2015	2016
Total Workforce [a]	**29,331**	**29,321**	**70,440**	**69,770**	**99,771**	**99,091**
Percentage of the total [a]	29%	30%	71%	70%	100%	100%

(a) Social Indicators Scope (see *Methodology Note*).

5

By age

As of December 31, 2016, 88% of Danone employees (Social Indicators Scope, see *Methodology Note*) were under age 50.

	Year ended December 31
(Workforce percentage [a])	**2016**
< 20 years old	0.4%
from 20 to 29 years old	22.4%
from 30 to 39 years old	39.8%
from 40 to 49 years old	25.1%
from 50 to 59 years old	11.0%
> 60 years old	1.3%
Total	**100%**

(a) Social Indicators Scope (see *Methodology Note*).

By geographical area

	Year ended December 31		
			2016
(Workforce percentage [a])	**Less than 30 years old**	**From 30 to 49 years old**	**50 years and older**
By geographical area			
Africa and Middle East	16%	72%	12%
Asia-Pacific	25%	69%	6%
Eastern Europe	24%	63%	13%
Western Europe	17%	56%	27%
Latin America	27%	66%	7%
North America	16%	57%	27%

(a) Social Indicators Scope (see *Methodology Note*).

New hires and dismissals

In a tense international economic environment, Danone must adjust as necessary to changes in the market, ongoing projects and competition and adapt its organization in order to return to sustainable growth and ensure its long-term viability. As part of an employee support system, an ongoing social dialogue is in place to minimize the impacts of these adjustments on employment. Alternative solutions to layoffs are routinely sought, such as changing the organizations and related activities, discontinuing the use of temporary workers, re-insourcing activities and providing training or leave periods. When layoffs become inevitable, an employee support system is set up to minimize the consequences for individuals. For example, when sites have been sold, the guarantees implemented by Danone have allowed employees to remain in their jobs.

In 2016, there were 6,203 dismissals compared to 7,010 in 2015 (Social Indicators Scope, see *Methodology Note*), along with 13,016 new hires.

Compensation and promotion

Compensation

Danone fosters competitive and equitable compensation based on its own system of evaluating and classifying jobs to support human resources development worldwide and create an individualized compensation management approach that takes into account the local requirements and situations of the various subsidiaries.

This policy is updated annually within each subsidiary based on (i) market studies by country of external compensation levels and (ii) decision-making tools and processes that guarantee equitable compensation. Median salaries by classification level and wage increase rules are defined relative to local job market conditions and subsidiaries' needs, and based on the ability of Danone's subsidiaries to generate growth and profits as well as social and societal performance.

The compensation policy is also based on an overall compensation approach related to economic, social and managerial performance goals (see section 6.3 *Compensation and benefits of governance bodies*).

Incentive and profit-sharing plans for employees of certain Danone companies

The Company's employees benefit from a three-year profit-sharing plan, which was renewed in 2014 and is mainly based on Danone's results.

Danone's other French subsidiaries and some of its foreign subsidiaries have implemented employee profit-sharing and/or incentive plans based on their own results.

In 2016, expenses recognized by Danone and its fully consolidated subsidiaries in connection with employee incentive and profit-sharing plans totaled €106 million (€114 million in 2015).

Employee shareholding and Company Savings Plan for certain Danone companies

The employees of Danone's French subsidiaries may subscribe for an annual capital increase as part of a Company Savings Plan. The share subscription price corresponds to 80% of the average listed Danone share price during the 20 trading days prior to the Board of Directors' meeting at which the capital increase is approved (see section 7.3 *Authorizations to issue securities giving access to the share capital*).

Retirement commitments, retirement indemnities and personal protection

Danone contributes to state-sponsored and/or private retirement funds to build up its employees' retirement benefits, in accordance with the laws and customary practices of countries where its companies operate. As no actuarial liability exists, no provision is recorded for these retirement benefits in the consolidated financial statements.

Danone also has contractual commitments related to supplementary retirement, severance pay, retirement indemnities and personal protection, most of which are managed by independent funds responsible for their service and fund administration, where applicable. These commitments take the form of defined contributions or benefits. Commitments related to defined benefits generate an actuarial liability, which results in a provision being recorded in the consolidated financial statements.

The amount provisioned for these commitments as of December 31, 2016 and the expenses for the year are presented in Note 7.3 to the consolidated financial statements.

Work organization

Organization of working hours

The organization of working hours varies according to the local environment of each subsidiary, with different work schedules, such as employees opting for a transition to part-time work (number of work hours below that legally defined for full-time employment or the number of hours generally worked at the subsidiary) or the implementation of work-at-home practices at various Danone companies, which helps to improve the employees' quality of life.

Breakdown of full-time and part-time employees by geographical area and by Division

Year ended December 31

	Full-time employees		Part-time employees	
(Workforce percentage [a])	**2015**	**2016**	**2015**	**2016**
By geographical area				
Africa and Middle East	99.7%	99.8%	0.3%	0.2%
Asia-Pacific	99.5%	99.8%	0.5%	0.2%
Eastern Europe	97.6%	97.6%	2.4%	2.4%
Western Europe	86.9%	86.3%	13.1%	13.7%
Latin America	99.5%	99.9%	0.5%	0.1%
North America	99.1%	99.2%	0.9%	0.8%
By Division				
Fresh Dairy Products	98.2%	98.3%	1.8%	1.7%
Waters	98.0%	98.1%	2.0%	1.9%
Early Life Nutrition	95.0%	95.8%	5.0%	4.2%
Medical Nutrition	90.1%	88.7%	9.9%	11.3%
Central functions	93.6%	91.2%	6.4%	8.8%

(a) Social Indicators Scope (see *Methodology Note*).

Danone also promotes the application by its subsidiaries of best practices for work organization, particularly through the Danone Way initiative based on the "Working hours and Organization" key topic (see section 5.1 *Danone's social, societal and environmental approach*), which includes:

- evaluating the policies implemented by the subsidiaries, particularly with regard to introducing (i) procedures and information systems for measuring work time and employee surveys to assess workload, and (ii) targeted action plans if excess work time is noted with regard to the standards set or wishes expressed by employees;
- monitoring indicators such as average weekly time worked per employee (including overtime) and the number of days off per week for each employee.

Absenteeism

The absenteeism rate (see *Methodology Note*) was estimated at 2.4% in 2016. Given the limited availability of data in certain countries, Danone made estimates for this indicator as of December 31, 2016.

The absenteeism rate was used in 2016 to assess the benefit of a systematic program to promote health and quality of life in the workplace, which would result in a lower illness-related absenteeism rate. Illness-related absenteeism will become one of the key indicators of Danone's workplace health and well-being strategy.

Social relations

Organization of social dialogue

The attention given to its employees in a fast-changing economic environment is at the heart of Danone's culture and its dual economic and social project. Social dialogue is therefore one of the key elements to Danone's long-term success as well as a means of supporting its transformation to benefit the company's performance.

Social dialogue at Danone is organized around:

- a worldwide social dialogue body, the Information and Consultation Committee (ICC) as well as its Steering Committee (*Comité de Pilotage*);
- the negotiation and monitoring of international framework agreements with the IUF (International Union of Food Workers) (see section 5.1 *Danone's social, societal and environmental approach*);
- active social dialogue at the subsidiaries with union and employee representatives.

Danone also promotes the application by its subsidiaries of best practices related to social dialogue, particularly through the Danone Way initiative based on the "Social Dialogue" key topic (see section 5.1 *Danone's social, societal and environmental approach*), which includes:

- evaluating the policies implemented by the subsidiaries, particularly (i) the application of the IUF agreement on social dialogue, (ii) the creation of a favorable framework for social dialogue, (iii) the organization of elections for independent employee representatives, and (iv) the organization of discussions with employee representatives and negotiation of agreements;
- monitoring indicators such as the number of economic and employment information sessions for all employees, the proportion of employees represented by employee representatives and the number of annual meetings between site management and employee representatives.

Review of collective agreements

Ten global agreements between Danone and the IUF were in effect as of December 31, 2016 (see section 5.1 *Danone's social, societal and environmental approach*). They mainly concern diversity, social dialogue and steps to be taken when changes in business activity affect employment or working conditions. The most recent agreement was signed on March 15, 2016 and addresses sustainable employment and access to rights.

The ten global agreements are deployed at each Danone subsidiary and their application is jointly assessed each year at several subsidiaries by a representative from Danone and a representative from the IUF. Between 2009 and 2016, more than 50 visits were made to fully consolidated subsidiaries.

In addition, collective agreements may also be signed at the subsidiary and country level, such as the amendment to the agreement on the donation of leave time for a seriously ill child or spouse signed in April 2015 for Danone Produits Frais France (Fresh Dairy Products, France) or the extension of the agreement on work-at-home for Danone SA (Danone's parent company).

Health and safety

Workplace safety

Since 2004, Danone has been committed to a worldwide program known as WISE (see section 5.1 *Danone's social, societal and environmental approach*), with the goal of developing a safety culture at all its sites in order to significantly reduce the number of workplace accidents. This program is deployed worldwide in each Division, at the plants and logistics warehouses and within the distribution network. It also applies to subcontractors working at Danone sites.

In 2015, changes were made to the WISE program, now called WISE², to include monitoring of the sites' compliance (mainly operations) with safety standards applicable to the most critical high-risk situations, on the one hand, and a convergence between health and safety, on the other.

The WISE program and health and safety management are coordinated by the Human Resources Department with the support of designated managers at each level of Danone's organization.

Workplace accidents

The annual frequency rate of workplace accidents with medical absence (FR1 rate, see *Methodology Note*) remained constant at 2.0 between 2015 and 2016. Danone's 2016 severity rate (SR rate, see *Methodology Note*) for workplace accidents with medical absence was 0.1 for the Safety Scope (see *Methodology Note*).

Danone tracks its workplace accidents including accidents with and without medical absence by monitoring the FR2 rate (accident frequency rate without medical absence). In this way, Danone manages safety improvements at each of its sites and subsidiaries by measuring the decline in both types of accidents.

In 2016, the improvement in the results of the Fresh Dairy Products (-15%), Medical Nutrition (-21%) and Early Life Nutrition (-23%) Divisions contributed to the decrease in Danone's FR1 rate (-2%) despite the increase in the FR1 of the Waters Division, which had reached a lowest rate record in 2015. This increase was due to the situation in Turkey (consolidation of Sirma), China and France.

At constant scope, the FR1 rate was 1.8, which represents a decrease of 10%.

Danone's 2016 frequency rate (FR2 rate, see *Methodology Note*) for workplace accidents without medical absence was 3.0 for the Safety Scope (see *Methodology Note*).

In 2016, Danone declared three fatal accidents that occurred consecutively in the distribution, sales and production functions: two of them are traffic accidents and one other is linked to activity of industrial production. Following these accidents specific prevention and action plans have been implemented in the concerned subsidiaries.

Fatal accidents, accidents with at least one day of medical absence and frequency rate 1 by Division

Year ended December 31

	2015			2016		
(in number of accidents except frequency rate)	Fatal accidents [a]	Accidents with at least one day of medical absence [a]	Frequency Rate 1 (FR1) [a]	Fatal accidents [a]	Accidents with at least one day of medical absence [a]	Frequency Rate 1 (FR1) [a]
By Division						
Fresh Dairy Products	–	258	2.9	1	213	2.4
Waters	–	72	0.8	2	112	1.3
Early Life Nutrition	–	53	1.9	–	42	1.5
Medical Nutrition	–	25	2.3	–	20	1.8
Central functions	–	31	6.8	–	47	8.3
Total	–	**439**	**2**	**3**	**434**	**2**

(a) Safety Scope (see *Methodology Note*).

Working conditions

Use of the WISE program to promote improved working conditions

For the past three years, as an extension of the WISE program (see section 5.1 *Danone's social, societal and environmental approach*) and due to the increase in musculoskeletal disorders resulting from workplace accidents at various types of Danone sites, working conditions have been an integral part of the safety action plans.

The initiatives launched over the past several years have been continued in terms of:

- training: motion and posture training, ergonomics training for technical and engineering teams and training on risks associated with the use of chemicals;
- workstation adaptations;
- new project design: dedicated investments and participatory projects.

and have been expanded in the following areas:

- measures regarding employee turnover and working hours (particularly for employees involved in local distribution);
- engineering guidelines at the Fresh Dairy Products Division, currently being disseminated to the other Divisions.

Promotion of well-being at work and stress prevention

In 2015 and 2016, to achieve the convergence between workplace health and safety covered by the WISE² program, working groups in several countries collected existing initiatives to build the various dimensions of a systematic approach promoting health and safety in the workplace.

Certain basic elements of this approach are already being implemented (feedback units, assistance programs, training, project-related human feasibility studies, work safety standards, health and well-being measures, surveys, etc.).

Danone is aware that developing a culture of health and quality of life at work entails a dramatic shift in the mentalities and work practices of individuals, teams and the entire Company. Danone also believes that it will ensure the consistency and solidity of its mission of bringing health through food to as many people as possible and, therefore, the Company's long-term success. In this context, Danone is implementing more and more initiatives, including:

- the human feasibility studies carried out pursuant to the agreement signed in September 2011 with the IUF on health, safety, working conditions and stress (see section 5.1 *Danone's social, societal and environmental approach*), which are intended to analyze, manage and monitor the human components of organizational projects, were integrated into the Health and Well-Being strategy and continued to be carried out, in 2016, as part of local projects of the various subsidiaries and projects related to Danone's transformation;
- certain subsidiaries have established workplace health committees to enable formal coordination of initiatives for quality of life at work, in concert with the trade unions;
- committees were set up at a growing number of sites to identify situations of workplace isolation in order to anticipate risk situations and take multidisciplinary preventive measures;
- management training programs are gradually being enhanced with stress detection and prevention modules for team managers. Specialized coaches are made available to some teams to remedy situations that have deteriorated;
- launched in 2015, the implementation of the One Danone transformation program resulted in the implementation of psychosocial risk prevention initiatives during periods of change.

Health at work

In addition, the WISE² program's strategy of convergence between workplace health and safety aims to create coherence among the programs promoting Health at Danone. It therefore includes the following pre-existing programs:

Ensure the health and well-being of Danone employees by promoting good nutrition and a healthy lifestyle

Danone has also promoted health through food among its employees for several years through its subsidiaries' *Health@Work* initiatives (training, sports rooms, workplace nutritionist, discussions, etc.).

Most subsidiaries have rolled out programs in the workplace to encourage employees to take responsibility for their health through a balanced diet and regular physical activity. For example, the Early Life Nutrition subsidiary in Germany leads the Global Corporate Challenge program centered around four areas of focus (physical activity, food, balance and sleep) whose effect is measured.

Provide quality social welfare and medical coverage to all employees, notably through the Dan'Cares program

In 2010, Danone launched the Dan'Cares program with the goal of providing all Danone employees with basic healthcare coverage: hospitalization and surgery, maternity care, medical exams and pharmacy services. In 2012, Danone decided to extend Dan'Cares to all the countries in which it operates.

Dan'Cares' specificity lies in its scope of application: it is designed to be implemented at all Danone subsidiaries, including in countries where such coverage is not traditionally provided (for example, maternity care). All employees are covered, including those with long-term, short-term and, in some cases, temporary contracts. As of December 31, 2016, more than 70,000 employees in over 25 countries received healthcare coverage in line with the standards defined by Dan'Cares.

Work-related illness

The rate of work-related illness and associated absenteeism is monitored only at the local level, mainly to take each country's legislation into account.

Employee training and development

Develop the employability of all employees

Ensuring the development and employability of all its employees is one of Danone's priorities. To this end, Danone creates training plans to ensure each employee's development and promotes the setup of work structures that combine well-being, efficiency and autonomy of its employees.

In 2016, 85,870 employees participated in at least one training course (83,071 in 2015 for the Social Indicators Scope, see *Methodology Note*) and a total of 2,336,262 training hours were provided (2,400,009 hours in 2015 for the Social Indicators Scope). Training was provided to 91% of employees (87% in 2015 for the Social Indicators Scope), which represented an average of 25 training hours per person trained (25 hours in 2015 for the Social Indicators Scope).

Making Danone training programs available to as many employees as possible

Danone seeks to reach a maximum number of employees through the Danone Academy training programs.

Danone provides functional training courses, many of which are developed internally and, in most cases, are offered by Danone managers from various functions and countries. Danone invests in a network of in-house trainers, as well as in appropriate training equipment and tools, to encourage local implementation of these courses and facilitate access to a maximum number of people.

Danone also develops training kits in the area of management, which are distributed to the training managers in the various countries to strengthen the quality of local management, for example via the Proximity Management at Danone program. Cross-functional training tools are also developed and made available, such as for integrating new employees into the Danone culture (Dan'Discovery: animation kit and digital serious game).

In addition, several Campus for all events were organized in 2016 (Malaysia, India, Indonesia, China, United States, Mexico, Argentina) with the goal of mobilizing a larger number of employees, particularly non-managers. These included organizing training courses and exchanges for a large number of employees of all levels in a country, at one or more sites simultaneously, using several methods, such as training sessions, on-site conferences or conferences broadcast live or pre-recorded, digital training modules, sessions to raise awareness about a cross-functional topic (safety, savings, personal development, marketplace for exchanging practices, etc.).

All in all, 13 Danone Academy events, including seven Campus for all events, involving 31,436 employees were held in 2016.

Finally, numerous training programs were launched in digital format (*e-learning* modules, short topical modules using videos and editorial resources, etc.) to make them more accessible. To distribute these programs, Danone continued the global implementation of the Campus 2.0 web platform in order to provide employees with digital training materials and allow the sharing of knowledge and practices among employees. In 2016, more than 40,000 employees used this platform, which is accessible at over 95% of Danone's subsidiaries.

Danone Leadership CODES

In addition to the functional training courses, Danone places special emphasis on developing a culture of leadership based on the principle that every employee can develop leadership skills.

Following the success of the CODE leadership model launched in 2008 (Committed, Open, Doer, Empowered) and offered to a large number of employees (more than 75% of employees trained at the end of 2014), Danone reviewed this model in 2015 to adapt it to new challenges and to its strategy.

The new model, called CODES, emphasizes self-awareness (thus the letter "S") to help employees be more aware of their skills and develop them. In 2016, a first digital module (Understanding CODES) was offered to raise employee awareness. Programs have been developed to gradually train and develop the skills of managers, starting in 2017, and then as many employees as possible.

Promoting best training practices

Danone promotes at its subsidiaries the application of best practices related to training, particularly through the Danone Way initiative (see section 5.1 *Danone's social, societal and environmental approach*) based on the Training and Skills Development key practices, which include:

- evaluating the policies implemented by the subsidiaries, particularly with regard to a training plan tailored to their needs, a budget and information system dedicated to training, a training policy and joint monitoring of employee development;
- monitoring indicators, such as the percentage of employees who (i) received at least 24 hours of training during the year or (ii) had a formal individual meeting with their supervisors to review their performance and development.

Inclusive Diversity as a Business Driver

A new step in the diversity approach

Since 2007 with the signing of the Global Agreement with the IUF, Danone has committed to promote equal opportunity and greater diversity within its organization.

Danone's Chief Executive Officer and Executive Committee promised to meet the following objectives by 2020:

- 30% female executives;
- 30% of executives representing emerging markets.

In 2016 the proportion of female executives and executives representing emerging markets have increased to 21% and 22% consecutively.

In addition to establishing these indicators, in 2016 Danone has redefined Diversity to become Inclusive Diversity (ID). Danone believes that inclusiveness is a pre-requisite for diversity to make real business impact.

Danone believes that through inclusive diversity, collaborative performing teams will be developed and deliver breakthrough thinking and results as well as develop innovative and culturally-relevant solutions.

Danone wants to embrace and celebrate both the commonalities and differences, visible & invisible such as age, gender, nationality, disability, background, education, thinking style, personality.

Governance has been formalized to make this happen as below:

- inclusive diversity (ID) has been embedded into our Manifesto and has been a key pillar in our Talent Roadmap;
- global ID Steering Committee has been established to formulate, track and monitor the implementation of Inclusive Diversity across the Company;
- ID declaration which shows key commitments to make ID happens has been formulated;
- ID Roadmap 2020 has been established to guide its implementation;
- key performance indicators and dashboard has been set up which will enable them to track progress regularly.

In addition to the dashboard, Danone Way will continue to be used to assess HR processes and act as indicators to show progress of ID implementation at subsidiaries level.

Gender equality

Danone closely monitors changes in the percentage of women in the overall workforce and by hierarchical level. The proportion of Danone female managers, directors and executives continued to grow in 2016. It went from 48% in 2015 to 49% in 2016. Danone achieved these results mainly as a result of its "Women Career Guidelines Plan" program launched in 2009 and communicated through the Danone Way initiative; see section 5.1 *Danone's social, societal and environmental approach* which is based on organizational and individual factors, as described hereafter.

Organizational

At the organizational level, Danone has implemented the following measures:

- measures supporting flexible working hours for men and women;
- wage equality.

Individual

At the individual level, Danone has implemented the following measures:

- support for women through ad hoc training programs (*Women in Leadership*), networking (EVE seminar, DSN Women Network@ Danone community, EVE the blog) and mentoring (Eve2Eve). In fact in 2010 in collaboration with partner companies, Danone created EVE seminar around the theme: Dare to be yourself to be able to act;
- inclusion of men in the diversity approach participation in EVE seminars and HeforShe.

HeforShe

HeforShe is a global UN Women campaign launched in 2014 aimed at empowering women with the support of men. The campaign globally empowers leaders from 3 different sectors as IMPACT champions, *i.e.* country, corporate and university champions.

In 2016, HeforShe was implemented by Danone in several countries (Indonesia, Brazil, the Netherlands) with Leadership Mentoring Program. This program gives the opportunity to women leaders recently named to be mentored by senior men leaders.

This has created a ground work for Danone globally to continue and strengthen its partnership with the UN Women, in order to take its gender equality journey to the next level.

Generational diversity

In 2016, Danone continued the intergenerational initiatives:

Octave seminar

The inter-company Octave seminar was introduced by Danone in 2012 as a follow-up to the EVE seminar. Octave is a training course that addresses corporate transformation in the digital age by involving all generations. The aim of this program is to make each employee an agent of change in an ever-changing world. This seminar is held each year.

Gen D program

This program launched by Danone in 2012 aims to share the Danone culture with Danone's youngest workers (employees under age 30) and increase their contact with Danone's senior executives. It is held twice a year.

Disabilities

In France, the percentage of persons with disabilities employed by Danone was 3.8% in 2016.

Promotion of and compliance with the fundamental conventions of the ILO

Danone's commitment to comply with and promote the fundamental conventions of the International Labor Organization (ILO) has been formalized, implemented and promoted among employees and suppliers through a variety of means and in several phases.

In 2003, Danone became a member of the United Nations Global Compact, which integrates the fundamental conventions of the ILO, and reconfirmed its commitment in 2009.

Additionally, in 2005, the seven Fundamental Social Principles (abolition of child labor, abolition of forced labor, principles of non-discrimination, freedom of association, workplace health and safety, working hours and compensation) defined in the ILO's conventions were the subject of an agreement between Danone and the IUF (see section 5.1 *Danone's social, societal and environmental approach*).

Proper application of these principles by Danone's subsidiaries is verified through audits carried out jointly by Danone and the IUF (see section *Review of collective agreements* above).

These principles are also implemented through the Danone Way initiative, which includes a Human Resources component "Working Time & Organization ", for which the prerequisite is the abolition of forced labor and child labor (see section 5.1 *Danone's social, societal and environmental approach*).

These seven Fundamental Social Principles also form the basis of the RESPECT program launched in 2005, one goal of which is to extend these principles to Danone's suppliers (see section 5.1 *Danone's social, societal and environmental approach*). The RESPECT policy is applied through evaluation and, for third parties identified as higher risk, external verification of supplier practices against the above fundamental principles.

Lastly, these commitments are rolled out to all Danone employees through a code of ethics known as the Business Conduct Policy, which is based on a certain number of principles that refer to the following international instruments:

- the Universal Declaration of Human Rights;
- the fundamental conventions of the International Labor Organization;
- the guiding principles of the Organization for Economic Cooperation and Development for multinational companies;
- the Global Compact on Human rights, labor rights, environmental protection and anti-corruption.

For a more sustainable world

General environmental policy

Danone's action is at the heart of the nutrition supply chain, which extends from the production of agricultural raw materials and water use to product end-of-life, and includes industrial processing, packaging, transport and distribution.

Danone adopted an Environmental Charter in 1996 and established goals and a 10-year roadmap in 2000. In 2008, Danone strengthened its commitment by setting a goal of reducing its greenhouse gas emissions intensity by 30% in five years for operations under its direct responsibility. This goal was exceeded at the end of 2012. In 2013, Danone raised this goal to more than 50% by 2020 in order to stabilize emissions while continuing to increase sales. This goal was reached at the end of 2016. In fact, Danone reduced its greenhouse gas emissions intensity by 50.1% for operations under its direct responsibility compared to 2007 and made its sales growth separate from the volume of its emissions.

In addition, a new approach to managing strategic resources (milk, water and plastic) is one of the areas of focus of the Danone 2020 transformation plan. For Danone, these resources are essential not only from an economic standpoint but also from an environmental and social standpoint. Danone's key raw materials come from nature and must therefore be protected by creating shared value for ecosystems and communities where Danone operates. These resources are therefore managed as cycles in order to ensure their long-term viability, limit their volatility and gain a true competitive advantage.

As specified in section 5.1 *Danone's social, societal and environmental approach*, related to *Main environmental policies*, Danone implements this approach on four key issues: climate, water, packaging and sustainable agriculture, namely via its environmental policies, its organization and other actions and means described hereafter.

Climate Policy & Packaging Policy

Refer to section 5.1 *Danone's social, societal and environmental approach*, related to *Main environmental policies*.

Danone organization to address environmental issues

Organization

The implementation of Danone's environmental strategy is supported by the Nature & Cycles Sustainability Department, which reports to a member of the Executive Committee, and by the Nature directors of each Division.

Danone has also developed a network of more than 100 environmental correspondents at its subsidiaries. At each subsidiary, a Carbon Master measures greenhouse gas emissions and defines and oversees action plans to reduce these emissions.

Information systems

Danone has developed an innovative solution to measure the carbon footprint of its products which is integrated into its ERP. Based on an analysis of the product's life cycle, this solution allows each product's carbon footprint to be measured. This module has been deployed at several subsidiaries equipped with the SAP/Themis integrated information system (see section 2.5 *Other information related to Danone's activity and organization*). At the end of 2016, 26 subsidiaries representing 36% of Danone consolidated sales measured their carbon footprint using this tool.

Internal evaluation

The progress of the various subsidiaries is evaluated and audited annually through the Danone Way initiative, in which five of the 20 key practices pertain to the Environment (see section 5.1 *Danone's social, societal and environmental approach*).

External evaluation

Danone is evaluated by various non-financial rating agencies:

- since the last evaluation of companies in the food and beverage sector, conducted in February 2015 by the Vigeo non-financial rating agency, Danone has been included in the ESI Excellence Europe, ESI Excellence Global, NYSE Euronext Vigeo Europe 120, NYSE Euronext Vigeo Eurozone 120, NYSE Euronext Vigeo France 20 and NYSE Euronext Vigeo World 120 indices. With a CSR (Corporate Social Responsibility) score of 64/100, Danone is considered an *advanced performer* and remains the *leader* in the food and beverage sector in terms of environmental performance (Vigeo's Global Food Universe);
- in 2016, Danone was recognized by the DJSI (Dow Jones Sustainability Index, which each year selects the best performing companies based on criteria such as social responsibility, innovation and economic performance) as a benchmark company in the food and beverage sector, particularly in terms of packaging, water-related risk management and health and nutrition;
- in 2016, based on the evaluations of the CDP (Carbon Disclosure Project), Danone received a score of B for its action against climate change, a score of B for palm oil, soybean and pulp in the Forest program and a score of A-, Leadership for water.

Certification

Danone bases its environmental management policy on the international ISO 14001 standard. ISO 14001 certification is therefore a prerequisite set by Danone to obtain the top performance rating during GREEN environmental risk audits (see section *Resources devoted to preventing environmental risks and pollution* hereafter).

ISO 14001-certified sites

	Year ended December 31	
(in number of sites except percentage)	**2015**	**2016**
Total number of sites in the Production Site Environment Scope [a]	186	187
Total number of ISO 14001-certified sites in this Scope [a]	92	90
Percentage of ISO 14001-certified sites in this Scope [a]	49%	48%

(a) Production Site Environment Scope (see *Methodology Note*).

Employee training and information initiatives in environmental protection

Danone has developed training and information modules tailored to the needs of the various businesses and functions and consistent with its environmental commitments, mainly through:

- the Nature training module developed and made available through Danone Campus (see section *Training* above). This module is intended primarily for the Carbon Masters but is also open to other Company functions to raise awareness and provide training on the various aspects of Danone's environmental protection strategy throughout the value chain (challenges, commitments, measurement tools and methodology, etc.);
- Zero Net Newsletter: a quarterly publication whose purpose is to provide clear, continuous information internally about the progress made with respect to the Climate Policy commitments;
- the Carbon Masters: they participate in videoconferences held by Division on a monthly or quarterly basis in order to coordinate and manage their initiatives centered around the Nature priorities and goals for the year as defined by Danone;
- a website dedicated to environmental claims for use by the marketing and communications teams and created by Danone is available at all subsidiaries that communicate on Nature issues to ensure that they have all the information needed for responsible communication regarding their environmental initiatives and to share best practices.

Resources devoted to preventing environmental risks and pollution

Information on risk management, particularly with respect to risks related to weather conditions and seasonality and industrial and environmental risks are detailed in section 2.7 *Risk factors*.

GREEN program

Danone has developed the GREEN (Global Risk Evaluation for the Environment) program, which it implements worldwide to monitor the main environmental risks related to the industrial sites (risks of accidents, reputation and non-compliance with environmental regulations) based on internal audits.

As of December 31, 2016, 64% of Danone's industrial sites (Production Sites Environment Scope, see *Methodology Note*), *i.e.* 120 sites, were subject to an external GREEN audit at least once. Of these 120 sites, 98 were in compliance with the Company's standards (score of more than 800 out of 1,000).

Noise pollution at Danone's production sites is also measured within the framework of the GREEN program.

Environmental investments and expenditures

In 2016, Danone's investments in environmental protection amounted to €25 million, approximately 3% of Danone's total capital expenditure.

The main categories of these investments in 2016 included:

- environmental compliance: waste treatment, wastewater treatment, treatment facilities, noise measurement, air quality, etc.;
- investments to reduce carbon emissions (energy savings, use of renewable energies, logistics and eco-design of packaging).

Operating expenditures related to the environment amounted to €116 million in 2016. They included €46 million for waste, water and air quality management and for environmental taxes other than taxes on packaging. Taxes on packaging amounted to €52 million in 2016.

Provisions and guarantees for environmental risks

No significant provision for environmental risks and charges was recognized in Danone's consolidated balance sheet as of December 31, 2016 (as for as of December 31, 2015).

Pollution and waste management

Measures to prevent reduce or repair direct discharges into the air, water and soil

Danone's activities result in discharges into the air (greenhouse gases and refrigerant gases, see section hereafter), water (wastewater) and soil (sludge from treatment facilities and livestock farming at certain subsidiaries). These discharges are monitored under the GREEN program (see section above).

Chemical Oxygen Demand (COD) after on-site treatment discharged by the production sites

	Year ended December 31	
	2015	**2016**
Final discharge of Chemical Oxygen Demand (COD) [(a)] *(in thousands of tons)*	6.3	7.8
Net COD ratio [(a)] *(kg/ton of product)*	0.18	0.22

(a) Production Site Environment Scope (see *Methodology Note*).

The Company's net Chemical Oxygen Demand (COD) (*i.e.* after treatment) per ton of product increased by 18.3% in 2016 relative to 2015. This increase was mainly linked to two industrial sites in the Africa region which had exceptional operational problems in 2016.

Measures to prevent, recycle, and eliminate waste

Waste management at Danone's production sites

Danone consolidates the quantities of waste generated according to the following categories: hazardous waste, wastewater treatment plant sludge, packaging waste, other non-hazardous waste and food waste collected on site.

In 2016, the measurement of Danone's waste included whey and food waste discharged with wastewater resulting from the application of a new Food Loss and Waste Protocol (see *Methodology Note*).

Danone also monitors the percentage of this waste when it is recovered; such recovery may occur through recycling, reuse, composting or waste-to-energy conversion. The production sites seek to maximize their waste recovery rate by taking the following measures: organizing on-site waste sorting and staff training, finding subcontractors capable of recovering the various types of waste generated and sharing best practices among sites.

Waste generated by Danone's production sites (including the new categories of food waste) (see Methodology Note)

			Year ended December 31
	2015	**2016**	**2016 [b]**
Waste generated [a]			
Total quantity *(in thousands of tons)*	331	338	434
Ratio of total quantity of waste per ton of product *(in kg/ton)*	9.7	9.5	12.2
Recovered waste [a]			
Total quantity *(in thousands of tons)*	272	293	361
Proportion of recovered waste *(in %)*	82.1%	86.7%	83.1%

(a) Production Site Environment Scope (see *Methodology Note*).
(b) Production Site Environment Scope including the new categories of food waste (see *Methodology Note*)

Based on the same methodology, the ratio of waste generated per ton of product was down by 2.3% between 2015 and 2016 thanks to the decrease in the losses of finished products at the Irapuato (Fresh Dairy Products, Mexico) and Poços de Caldas (Fresh Dairy Products, Brazil) plants. The recovery rate rose from 82.1% to 86.7%, due mainly to recovery efforts at all the Centrale Danone plants (Fresh Dairy Products, Morocco).

For the scope defined by the Food Loss and Waste Protocol, the ratio of waste per ton of finished products increased from 9.5 to 12.2 kg/ton between 2015 and 2016, and the recovery rate rose to 83.1% in 2016.

Fighting food waste

Following the resolution adopted by the Consumer Goods Forum (CGF) in 2015 aimed at fighting food waste, Danone pledged to reduce its unrecovered food waste (*i.e.* landfilled, incinerated without energy recovery or discharged with effluents) by 50% by 2025 compared with 2016.

The primary goal is to quantify losses based on the first international standard for evaluating food waste: Food Loss and Waste Protocol (see *Methodology Note*).

Food waste generated by Danone's production sites excluding the Waters Division based on the new standard

	Year ended December 31
	2016
Food waste generated [a]	
Total quantity *(in thousands of tons)*	290
Ratio of total quantity of food waste per ton of product *(in kg/ton)*	38.0
Food waste recovered [a]	
Total quantity *(in thousands of tons)*	242
Proportion of recovered waste *(in %)*	83.4%

(a) Production Site Environment Scope (see *Methodology Note*).

Danone has taken steps to fight food waste for many years.

For example, since 2013 the Fresh Dairy Products Division has made fighting food waste one of its priorities with the implementation of the Zero Waste program. The aim of this program is to eliminate waste by optimizing the production and distribution processes. It also aims to increase the volumes of donations to food banks and alternative social-purpose food channels and improve the product range and planning processes.

In 2016, the Fresh Dairy Products Division launched the Zero Waste campaign aimed at:

- making employees aware of environmentally-friendly practices by organizing anti-waste events;
- compiling best practices and ideas that can be implemented at the plants to reduce food loss.

Packaging end of life: turning waste into resources

In its new Packaging Policy, Danone promotes the circular packaging economy by purchasing sustainable materials and creating a second life for all plastics.

Danone seeks to expand collection and recycling of its packaging in order to:

- achieve the zero landfill objective for plastic industrial waste;
- innovate to simplify consumers' lives and get them involved in sorting and recycling;
- continue to support efforts to increase collection and recovery rates for recycling in countries where waste collection is already organized by environmental agencies;

- when waste collection is not organized, contribute to the collection of materials used in the packaging of Danone products and experiment with new collection systems. Four projects initiated by the Danone Ecosystem Fund are currently underway (see section 5.3 *Funds sponsored by Danone*);
- develop the use of recycled packaging.

To this end, Danone Brazil (Fresh Dairy Products), in partnership with Nenuca Institute for Sustainable Development (INSEA) and with the backing of the Danone Ecosystem Fund, has developed the Novo Ciclo project aimed at supporting waste management and improving the living and working conditions of waste collectors in Brazil.

Sustainable use of resources

Water consumption and water supply based on local constraints

Water withdrawn from surrounding areas and protection of springs

Of the 70,975,000 m³ of water withdrawn in 2016, Danone uses:

- 29,188,000 m³ of water in the composition of its finished products, primarily at its bottling sites (compared to 27,519,000 m³ in 2015);
- 41,602,000 m³ of water for the production process (compared to 43,811,000 m³ in 2015).

Danone water consumption fell by 0.5% in 2016 relative to 2015.

Water used in the composition of finished products increased by 6.1%.

Water used in the production process decreased by 5.0%.

On a like-for-like basis, total Danone water consumption fell by 0.3% in 2016 relative to 2015.

Water consumption at production sites

	Year ended December 31	
(in thousands of m³)	**2015**	**2016**
Well water withdrawn from surrounding area [a]	48,602	49,439
Municipal water withdrawn from surrounding area [a]	18,137	17,587
River water withdrawn from surrounding area [a]	4,626	3,949
Total water withdrawn from surrounding area [a]	**71,365**	**70,975**

(a) Production Site Environment Scope (see *Methodology Note*).

Moreover, in 2004 Danone developed an internal charter called Groundwater Protection Policy. This policy aims to ensure the sustainability of resources and protect and enhance the natural heritage of the sites. Danone's subsidiaries apply this policy through the following actions:

- take into consideration the resource's hydrogeology and the site's natural and human environment;
- develop sustainable relationships with local players and contribute to local development;
- take actions to protect each water resource based on local conditions;
- avoid withdrawing more than what the resource can naturally produce;
- provide the necessary tools under the responsibility of a designated manager;
- periodically verify and assess progress made to meet policy goals.

These application principles are systematically evaluated for each source and give rise to specific action plans. Site evaluation is conducted *via* SPRING (Sustainable Protection and Resources managING), an internal water resource management tool that covers the physical, regulatory and community management of aquifers (geological formations containing underground water) and their watershed. The SPRING method was assessed in 2013 and 2014 by the Ramsar Convention (United Nations international convention for wetlands protection) and the IUCN (International Union for Conservation of Nature) with the help of a panel of international experts.

Water consumption related to the production process

Water linked to the production process is not part of product composition. In 2016 Danone excluded indicators measuring the water passing through the once-through system (see *Methodology Note*).

Water consumption related to the sites' production process

	Year ended December 31	
	2015	**2016 [b]**
Water consumption related to the production process [a] *(in thousands of m³)*	43,811	41,602
Water consumption intensity related to the production process [a] *(in m³/ton of product)*	1.29	1.17

(a) Production Site Environment Scope (see *Methodology Note*).
(b) Excluding once-through system flows.

On a like-for-like basis and using the same method, the intensity ratio changed from 1.21 to 1.20 for a 1.3% improvement, mainly due to productivity efforts by the Waters Division.

Within the Fresh Dairy Products Division, best practices, particularly the use of water in cleaning cycles, are consolidated in the NEPTUNE application and deployed on industrial sites.

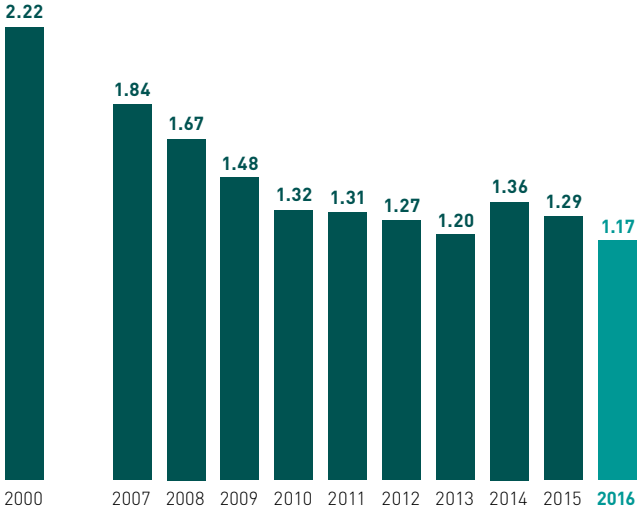
Within the Waters Division, the WaterWatcher tool helps monitor water use at bottling sites and identify areas of improvement. This tool has been implemented in all the Division's sites.

The sites measure water consumed for each use (production, cleaning, etc.) in order to identify loss-generating areas and come up with appropriate action plans to reduce these losses. The sites have annual targets to reduce their water losses. Their performance and rankings are published quarterly within each Division.

For example, Danone Bonafont Mexico HOD (Waters, Mexico) partnered up with CEMEX, a construction materials company, to develop the Concrete Water project, which aims to give wastewater a second life by sending it to a concrete plant.

The following graph shows changes in water consumption intensity related to Danone's industrial process since 2000, for the reporting scope of each of the years concerned.

Water consumption intensity related to the production process
(in m³/ton of product)



Measuring the water footprint and taking into consideration local water stress

In 2016, Danone continued its specific water footprint research, particularly as part of the WULCA (Water Use in Life Cycle Assessment) international research group.

This methodology for evaluating the Water Scarcity Footprint takes into account:

- the inventory of consumption at each stage of product development (ingredients, containers, production and packaging), transport, consumer use and end of life;
- local water stress factors (water stress is defined as the potential to deprive another user, human or ecosystem by consuming water in the area in question).

Consumption of raw materials and measures taken to improve their efficient use

Information on risk management, particularly with respect to risks related to seasonal fluctuations and raw materials availability, is provided in section 2.7 *Risk factors*.

Production at the production sites

	Year ended December 31	
(in thousands of tons)	**2015**	**2016**
Production [a]	34,094	35,577

(a) Production Site Environment Scope (see *Methodology Note*).

Danone's production sites produced the equivalent of 35 million tons in 2016, up by 4.4% in 2016 relative to 2015. The changes in scope accounted for 4.1% and are due to the integration of Sirma (Waters, Turkey) into the Waters Division (see *Methodology Note*). A slight increase in production volumes on a like-for-like basis accounted for 0.3%.

The main raw materials consumed in Danone's products are:

- water;
- liquid milk and powdered milk;
- packaging materials (plastic, cardboard, etc.);
- sugar;
- fruit.

The quantity of raw materials consumed per ton of finished product is one of the main criteria for production performance, as raw materials represent a large portion of the cost structure of Danone products. Numerous measures are therefore taken to use them more efficiently:

- liquid milk, sugar, fruit: in the Fresh Dairy Products Division, raw material losses are monitored daily at the industrial sites, and the results are consolidated monthly at the subsidiaries and Division level for comparison with the monthly loss reduction goals set during the Rolling Forecast process. The principal actions taken to reduce these losses include optimizing raw materials inventories, and optimizing production scheduling or production line scaling to reduce raw materials losses at the start and end of production runs;
- packaging materials: Danone's packaging development complies with the eco-design principles defined in the new Packaging Policy published in 2016.

Energy consumption, measures taken to improve energy efficiency and the use of renewable energies

Energy consumption

Danone's energy consumption intensity fell by 4.9% in 2016 relative to 2015. This decrease was mainly linked to the integration of Sirma (Waters, Turkey), which had a ratio lower than Danone's average.

On a like-for-like basis, Danone's energy consumption intensity increased slightly by 0.5% between 2015 and 2016.

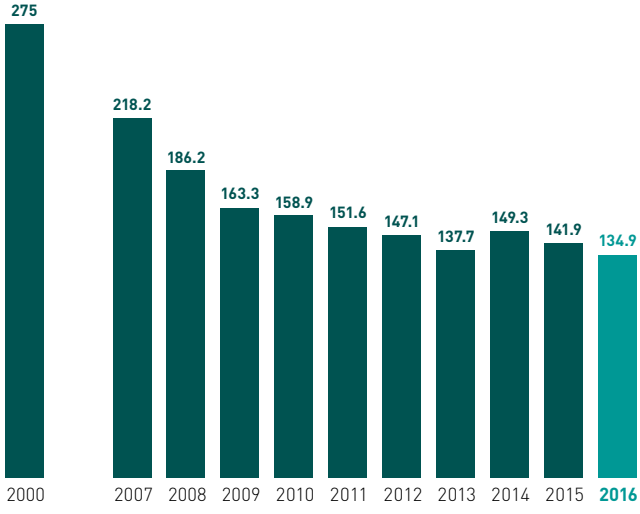
Energy consumption by production sites

	Year ended December 31	
(in MWh except intensity in KWh/ton of product)	**2015**	**2016**
Thermal energy [a]	2,825,972	2,783,591
Electricity [a]	2,011,464	2,016,770
Total	**4,837,437**	**4,800,360**
Energy consumption intensity	**141.9**	**134.9**

(a) Production Site Environment Scope (see *Methodology Note*).

The graph hereafter shows changes in energy consumption intensity in the production sites since 2000, for the reporting scope of each of the years concerned.

Total energy consumption intensity in the plants
(in KWh/ton of product)



Measures taken to improve energy efficiency

Danone achieved better energy management through two main approaches:

- optimizing energy production at the plants. For example, three sites in the Fresh Dairy Products Division have installed cogeneration facilities to produce electricity and heating from a single energy source, thereby improving the plant's energy performance. Up to 90% of energy can be recovered through cogeneration, compared to 40% to 55% for traditional systems;
- optimizing energy use. For example, in the Fresh Dairy Products Division in 2016, the goal of the water geothermal project in the Chekov plant (Fresh Dairy Products, Russia) is to save on thermal energy and electricity by using subterranean water for cooling in the heat transfer process.

Sharing best practices and fostering emulation between Danone's plants helped to strengthen this process in 2016:

- in the Waters Division, the WattWatcher tool, deployed at all the sites, allows for setting performance objectives tailored to each plant;
- in the Fresh Dairy Products Division, the Ideal Factory program's goal is to improve plant performance by including economic and environmental aspects. This program consists of building a benchmark for optimal energy and water consumption, as well as a tool for sharing best practices. This will help each plant build its own roadmap to reaching its objectives. In 2016, as part of the approach to continuously improve performance, a new program was started to research new technologies;
- in the Early Life Nutrition Division, monthly Energy network actions are implemented.

Use of renewable energies

Thermal energy from renewable sources
Danone is testing renewable energy production and usage projects at the local level, for instance:

- since 2012, the Early Life Nutrition Division's site in Wexford, Ireland has used a wood furnace that replaced heavy fossil fuels and helped to lower the site's fossil fuel energy bill and greenhouse gas emissions. The energy produced represents 50% of the thermal energy used at the site;
- in Russia, at the Chekhov plant in the Fresh Dairy Products Division, a methane digester was brought online in June 2013 to recover treatment plant sludge and produce biogas. The energy produced represents 8% of the thermal energy used at the site;
- in Indonesia, the Waters Division's Subang site, which produces 1.2 billion liters of water per year, uses 100% biofuel purchased for its thermal energy.

In all Divisions, thermal energy from renewable sources produced and used on-site represents 4% of the total thermal energy consumed by Danone.

Purchase of electricity specifically generated from 100% renewable sources
Each subsidiary is responsible for choosing its energy mix. In 2016, seventeen industrial sites purchased electricity from 100% renewable sources (wind power, hydropower, etc.). This represents 7% of Danone's total electricity purchases in 2016.

For example, 100% of the electricity used by the Spanish plants of the Fresh Dairy Products and Waters Divisions comes from 100% renewable sources.

Climate change

Greenhouse gas emissions

Danone applies two methodologies for measuring greenhouse gas emissions:

- a "product" approach based on a product and packaging life cycle analysis, which takes into account emissions at each stage: raw materials purchasing (including upstream agriculture and milk), packaging, production, transport and distribution, warehousing, product usage and end of life. This method makes it possible to identify the most significant means of reducing emissions;
- an "organization" approach that calculates greenhouse gas emissions generated by industrial activities and therefore a smaller scope than for the "product" approach, in compliance with the regulatory requirements of Article 75 of the Grenelle II law, which categorizes direct scope 1 emissions and indirect scope 2 emissions (see *Greenhouse gas emissions by organization* hereafter).

Greenhouse gas emissions through product lifecycle analysis

Measuring the carbon footprint
Danone has developed and deployed a carbon footprint measurement tool based on product lifecycle analysis (Greenhouse Gas Emissions Scope, see *Methodology Note*) at most of its subsidiaries. This tool was successfully integrated into Danone's information systems thanks to a solution jointly developed with software developer SAP.

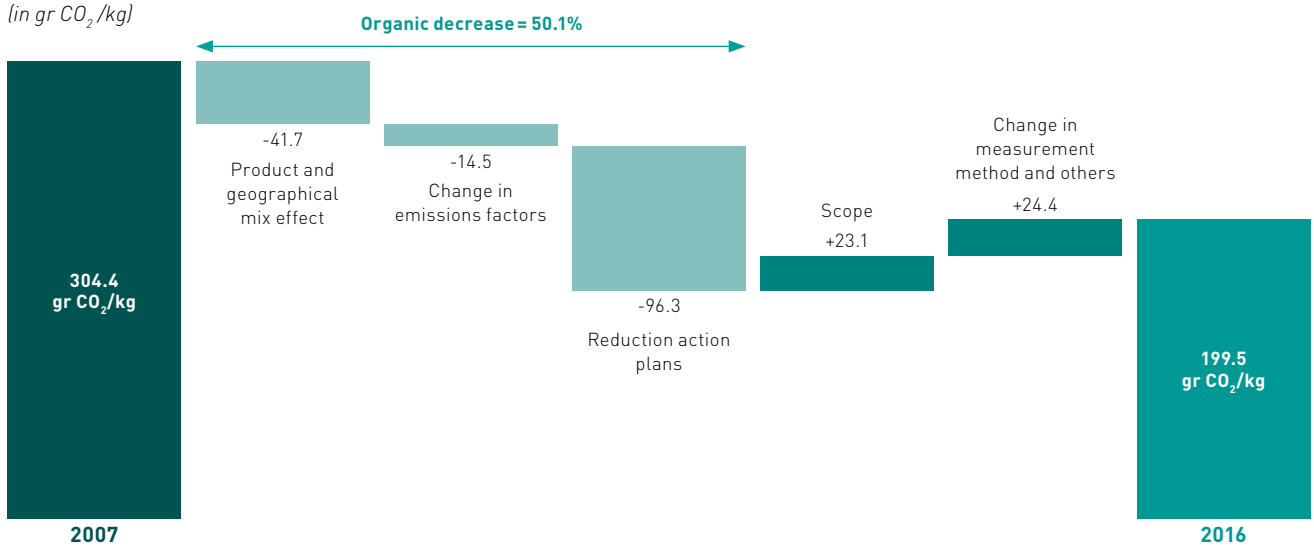
The goal is to allow the subsidiaries using this module to monitor their carbon emissions within their direct scope of activity, as well as the emissions of their suppliers and customers. As of the end of 2016, 26 subsidiaries representing 36% of Danone's consolidated sales measured their carbon footprint using this tool.

Reducing the carbon footprint: goals and results

For the direct responsibility scope
In 2008, Danone set the goal of reducing its carbon intensity by 30% by 2012 – a goal that it has exceeded – wherever Danone exercises direct responsibility (packaging, production, transport, distribution, warehousing and product end of life). A specific strategy and priorities have been set for each sub-part of the supply chain.

In 2013, Danone reaffirmed its commitment by setting a goal of a 50% reduction of its carbon intensity (for the same base year and scope) by 2020.

This goal was reached at the end of 2016 with a 50.1% decrease in intensity (on a like-for-like basis) in its scope of direct responsibility.



The most meaningful actions for reducing emissions are energy conservation measures at the plants, reduction of packaging and optimization of logistics supply routes.

In this context, to decrease transport-related direct emissions, starting in 2010 *evian* and *Volvic*'s Waters Division implemented a road-to-rail modal transfer, which substantially reduced the number of trucks on the road and their CO_2 emissions. In a second stage, to avoid having containers return to France empty, a strategy to avoid traffic was developed which uses delayed differentiation at the German platform level.

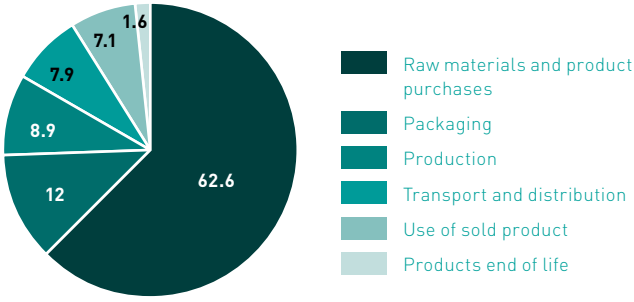
For the entire product lifecycle

Danone's total emissions in 2016 (including upstream agriculture) are estimated at approximately 23 million tons of CO_2 equivalent (on 94% of Danone's sales volume).

Expressed in grams of CO_2 equivalent per kilogram of product, Danone's emissions amount to:

- Danone's direct responsibility scope: 199.5 grams of CO_2 equivalent per kilogram of product (industrial activities, packaging, logistics, product and packaging end of life);
- total scope: 655.8 grams of CO_2 equivalent per kilogram of product (Greenhouse Gas Emissions Scope, see *Methodology Note*), which can be broken down by stage of the product lifecycle as follows:

Lifecycle breakdown
(in percentage)



Carbon offsets

Since 2011 Danone has teamed up with ten other large companies through the Livelihoods Fund, whose mission is to invest in projects that have a high environmental and social impact, including natural ecosystem restoration projects. These projects help to combat climate change by sequestering significant quantities of carbon (see section 5.3 *Funds sponsored by Danone*).

The *evian* brand actively works to reduce its carbon footprint as part of its continuous improvement approach. Beginning in 2013 and after consulting its stakeholders, Danone decided to compensate for the brand's emissions by using carbon credits issued by the Livelihoods Fund, as and when they are distributed. By ramping up these projects, Danone's goal is to fully offset the *evian* brand's emissions as of 2020.

Greenhouse gas emissions by organization

Greenhouse gas emissions by organization (scope 1 and 2, see description hereafter) for 2016 are calculated using the methodology described in the Greenhouse Gas Protocol (GHG Protocol) Corporate Standard (see *Methodology Note*).

The approach chosen by Danone consists in integrating all sources of emissions from its industrial sites into the measurement of its carbon footprint.

- direct emissions (scope 1) are emissions related to on-site fuel consumption (natural gas, fuel oil, etc.) and refrigerant leaks;
- indirect emissions (scope 2) are emissions related to the production of electricity, steam, heating and cooling purchased and consumed by Danone.

In January 2016, the GHG Protocol published a guidance document on the method used to account for scope 2 greenhouse gas emissions, which introduces "dual reporting":

- a location-based reporting, *i.e.* based on greenhouse gas emissions caused by the production of electricity in the geographical region in which it is consumed;
- a market-based reporting, *i.e.* companies operating in liberalized markets such as the European Union which must use the carbon emissions related to their electricity suppliers.

Year ended December 31

(in tons equivalent CO_2)	2015 Location-based	2015 Market- based	2016 Location-based	2016 Market-based
Scope 1 emissions	561,641	561,641	547,480	547,480
Scope 2 emissions	915,747	928,645	920,124	865,451
Total emissions	**1,477,387**	**1,490,286**	**1,467,604**	**1,412,931**
Ratio of total emissions in kg of CO_2 equivalent per ton of product	**43.3**	**43.7**	**41.3**	**39.7**

The ratio of total emissions in kg of CO_2 equivalent per ton of production (market-based ratio) fell by 9% between 2015 and 2016. On a like-for-like basis, this ratio fell by 4.8% due to the impact of purchasing renewable sources with guarantee of origin certificates.

Adapting to the consequences of climate change

Danone estimates the impacts of climate change to complete the overall risk identification and management policy described in section 2.7 *Risk factors*.

For example, Danone has identified medium-term risks in the following areas:

- supply of raw materials (milk, fruit, etc.) in certain regions of the world related to possible droughts and inclement weather;

- cold production at the Fresh Dairy Products Division's sites in case of a significant rise in temperatures;
- unusual climate events that could affect some industrial sites located near coastlines.

Moreover, Danone identified livestock farming as a key sector in its supply chain with respect to climate change (responsible for around 14.5% of the total greenhouse gas emissions around the world). Therefore, working in collaboration with the Global Research Alliance and the Sustainable Agriculture Initiative (SAI) platform, Danone participated in studies looking to scientifically analyze the methods used to reduce greenhouse gas emissions in dairy farms, for all the sector's stakeholders.

Protecting biodiversity

Measures taken to preserve or develop biodiversity

Sustainable agriculture

The impact of Danone's business on biodiversity is primarily related to upstream agriculture (soil erosion, water and soil contamination, ecosystem and habitat destruction, natural species contamination connected to the use of GMOs).

In 2014, Danone published its white paper on sustainable agriculture. This document listed the key guidance principles that must be used for agricultural supplies.

Improved requirements for animal well-being are included. In the composition of its products, Danone uses fresh or transformed products of animal origin, including milk, dairy ingredients, eggs, meats, and fish. In 2016, Danone committed itself to ensuring that 100% of its products of animal origin by 2020 will adhere to sustainable agriculture principles and maintain the highest standards in animal well-being.

In addition, Dannon Company Inc. (Fresh Dairy Products, USA) published the Dannon Pledge, which illustrates Danone's ambition and commitments:

- for sustainable agriculture: offer products based on more sustainable agriculture by working with food-crop and livestock farmers to implement more sustainable agricultural practices that target in particular improved soil health, better water management, increased biodiversity and reduced carbon emissions;
- favor a natural approach: use more natural ingredients in its flagship brands – without synthetic products, GMOs, or milk from cows fed with GMOs;
- be transparent: ensure full transparency and let its consumers have a choice by publishing on its product labels the presence of any ingredients from GMOs.

Tools and initiatives in the supply chain

In the area of agriculture and milk collection, in 1997 the Fresh Dairy Products Division, together with all its farmer partners, launched the FaRMS initiative, which evaluates farmers' performance based on economic, social and environmental criteria, including criteria related to biodiversity protection (see section *Relations with milk producers* hereafter). In 2013, Danone introduced a 360° evaluation tool developed by the University of Bern to assess a farm's sustainability. This tool is an enhancement to the Danone FaRMs tool, which remains the benchmark Danone tool for all dairy farms.

The Early Life Nutrition Division developed a program which targets responsible supply practices for raw materials (fruits, vegetables, and products of animal origin). Fruit and vegetable providers are assessed using a set of environmental criteria. Once the assessment is completed, an action plan is defined with the farmer and implemented to reduce the impact of its activity on the soil, water, air, and biodiversity. The program's efficiency relies on continuous improvement.

Preserving and developing biodiversity near Danone sites

Danone's sites are located in very diverse ecosystems and climates. Many benefit from an exceptional environment and specific protection, as is the case with the Waters Division's sites, whose rainwater catchment areas are very carefully managed:

- since 2009, the catchment area of the Évian spring has been included in the list of wetlands covered by the Ramsar Convention, the aim of which is to ensure the sustainability of these natural regions which are essential for maintaining biodiversity;
- to preserve its natural mineral water source in the pre-Andes in Argentina, the *Villavicencio* brand has created a natural reserve for its 72,000 hectares rich in biodiversity. Building on this experience, it is continuing its innovative partnership with the Banco de Bosques NGO through the *Deja tu Huella* (Leave your Footprint) operation, which invites consumers to participate in the creation of a new natural reserve: for every bottle purchased, *Villavicencio* pledges to protect one square meter of natural biotope. The brand has also launched initiatives to raise public awareness about the dangers of deforestation and the importance of biodiversity in the local ecosystem. The results of this operation are impressive: nearly 4,800 hectares protected, active public participation in the project, and increased consumer preference for the *Villavicencio* brand;
- in France, the subsidiary SAEME and its local partners launched the *Terragr'Eau Méthanisation* project to sustainably preserve the catchment areas for the Evian water source. A methane digester was built to transform manure into biogas to provide power to the Evian township, and compost to fertilize local farmlands. As part of this effort, a farmers' cooperative was created to encourage sustainable agricultural practices in the region while promoting the long-term viability of the family farm model;
- in Indonesia, Danone Aqua (Waters) invests in research on underground reservoirs and aquifers to optimize management and protection of the aquifers supplying its plants. With this program, the goal of Danone is to promote higher education in hydrogeology and to train the Indonesian water experts of the future.

Soil use

Danone commissioned a study to estimate the overall soil use related to its direct and indirect activities. This study showed that indirect activities (upstream agriculture) use more than 98% of the estimated surface area (3 million hectares).

These soil issues were then included in the sustainable agriculture initiative, and in its white paper Danone committed to promoting agricultural practices that help:

- preserve and improve the soil's biological and physical structure;
- maintain the soil's natural capacity to regulate water resources;
- limit the use of mineral fertilizers, pesticides and other chemical products.

Forest Footprint Policy

Conscious of the importance of preserving forests (particularly tropical forests in Indonesia and the Congo and Amazon river basins), Danone is committed to a strategy of eliminating deforestation as an impact of its supply chain and to a program of reforestation by 2020 (including the Livelihood Fund's natural ecosystem restoration program).

To achieve this, since 2012, Danone has implemented a Forest Footprint Policy that aims to:

- evaluate deforestation risks related to the raw materials used directly or indirectly by Danone's businesses;
- propose specific policies;
- implement prioritized actions based on risks and associated impacts. Six key materials have been prioritized: paper/cardboard packaging, palm oil, soybeans for animal feed, energy wood, sugar cane and bio-sourced raw materials for packaging.

This policy has been adapted to three categories of raw materials:

Specific palm oil policy

In November 2015, Danone implemented a palm oil policy and is committed to ensuring that all palm oil used:

- is traceable from the plantation of origin;
- comes from plantations whose expansion does not threaten High Conversation Value (HCV) or High Carbon Stock (HCS) forests;
- comes from plantations whose expansion does not threaten tropical peatlands, regardless of their depth;
- comes from plantations that respect the rights of indigenous populations and local communities to grant or refuse their free and prior consent to operate on land to which they hold legal, communal or customary rights;
- comes from plantations where the rights of all workers are respected.

Since 2014, Danone has purchased 100% of its palm oil from CSPO (Certified Sustainable Palm Oil) sources.

Moreover, Danone is convinced that the path to responsible palm oil requires innovative approaches that enable the various stakeholders to develop positive solutions. Danone plans over the longer term to replace palm oil with alternative resources on a case-by-case basis.

Specific soybean policy

Danone has made a commitment, along with key stakeholders – from farmers to producers of animal feed and leading soybean trading companies – to help develop a more responsible soybean industry.

Danone reflects its ambition in five priorities:

- aim for total transparency throughout the supply chain, from the animal to the land;
- wherever possible, encourage local crops that are high in protein as alternatives to soybean imports, thereby helping to make farmers more independent for animal feed production;
- promote supply from countries not at risk of deforestation (India, United States, etc.);
- if soybeans come from a South American country with a high risk of deforestation, ensure traceability from risk-free areas;
- help to drive change on a global scale through the Consumer Goods Forum, the Sustainable Agriculture Initiative and any other initiative that allows Danone to achieve its objectives.

Specific policy for paper/cardboard packaging

Jointly developed with several leading NGOs (including Rainforest Alliance), Danone's specific paper/cardboard packaging policy has three objectives:

- actively reduce the paper packaging weight of each product;
- give priority to the use of recycled fibers;
- when possible, give priority to FSC-certified virgin fibers.

Danone makes these policies publicly available on its website.

All these policies (palm oil, soybean and paper/cardboard packaging) were evaluated by the "Global Canopy Program", and Danone received the maximum score of 5/5 in the Forest500 ranking for the third year in a row.

This ranking is available at www.forest500.org.

A new kind of entrepreneurship

Danone's societal approach is characterized by a constant effort to create value for shareholders and for each of its stakeholders. Danone therefore ensures that its activities result in the development of societal benefits.

Dedicated vehicles have been created as part of this approach: the danone.communities mutual investment fund ("SICAV") and professional specialized investment fund ("FPS"), the Danone Ecosystem Fund, the Livelihoods Fund and the Livelihoods Fund for Family Farming. These vehicles are described in section 5.3 *Funds sponsored by Danone*.

Regional, economic and social impact of Danone's activities

Danone has decided to incorporate both economic issues (salaries paid, purchasing and subcontracting, local taxes, etc.) and societal issues (employment, contribution of know-how, training, support for local initiatives, contribution to education in areas of expertise, environmental partnerships) into its activities. The Company's ability to develop constructive relationships with its region or local environment plays an important role in its overall performance.

Danone's commitment to local communities is in line with its dual economic and social project, which involves:

- knowing local players and developing long-term relationships with them;
- participating in the economic and social development of its employment area;
- developing products that the majority of people can afford;
- helping to maintain business activity and employment by re-engineering Danone's sites that are being restructured.

Relationships with people and organizations with an interest in Danone's activities

Partnership initiatives

Danone's approach is based on a co-creation process that goes beyond partnerships and involves new forms of collaboration among many partners: the Company and/or its subsidiaries together with an institution, representatives from civil society and/or a local development organization. Most of them are introduced in chapter 5.3 *Funds sponsored by Danone*.

Given Danone's largely decentralized organization, the subsidiaries directly support and develop partnerships

Initiatives with schools

In addition to the partnership initiatives discussed above, Danone also undertakes initiatives with schools.

For instance, in France, Danone supports HEC Paris Social Business/Enterprise and Poverty Chair. This Chair aims at contributing to build a more inclusive, economic and societal value-creating economy.

In Spain, Danone has worked with experts from ESADE (a business school in Barcelona) and other experts in entrepreneurship and women's entrepreneurship (Ashoka, TedxBarcelonaWomen, etc.) to launch the Eres Impulso platform. This initiative seeks to promote, support and encourage women's entrepreneurship by assisting women whose projects have a social impact on their community. It does so by offering training, tools, mentorship and the financial backing that they need.

Subcontracting and suppliers

Recognition of suppliers' and subcontractors' social and environmental responsibility

Given that Danone works with thousands of suppliers around the world, these companies account for a significant portion of its environmental and social impact. The RESPECT program (see section 5.1 *Danone's social, societal and environmental approach*), stands for Danone's responsible sourcing program except for raw milk producers who have a specific program (see section *Relations with milk producers* hereafter).

Danone Commitments: Fundamental Sustainability Principles

Danone formalized in 2001 and committed to seven fundamental Social Principles based on standards defined by the International Labor Organization and in line with the UN Guiding Principles on Business and Human Rights:

- child labor;
- forced labor;
- non-discrimination;
- freedom of association and the right to collective bargaining;
- workplace health and safety;
- working hours;
- compensation.

Through the RESPECT program Danone commits to ensure that supplier contracts include the Fundamental Social Principles. In 2009, the scope of the RESPECT policy was expanded to include five Environmental Principles:

- preservation of resources;
- chemicals;
- climate change & greenhouse gases emissions;
- environmental management;
- animal testing.

At the same time Business Ethic Principles were included to address fair and lawful legal transactions.

In 2016, Danone issued a new Code of Conduct for Business Partners, approved by the Corporate Compliance and Ethics Board. It addresses notably Human Rights, health & safety at work, the environment, anti-bribery and corruption, money laundering, and audit. It also includes Danone Ethics Line (www.danoneethicsline.com), the tool that can be used anonymously by our business partners to report any ethical concerns.

Process and tools of the RESPECT program

Further, the RESPECT program's fundamentals include the following processes:

- contractualizing suppliers' Corporate Social Responsibility (CSR) performance through the signing of Sustainable Development Principles;
- evaluation of the suppliers CSR risk through information-sharing based on self-disclosures regarding their CSR performance. The RESPECT program integrates sector and region-specific social and environmental risk intelligence through Sedex (Supplier Ethical Data Exchange), a dedicated online information-sharing and pooling platform used by many companies in the food and beverage sector, and which allows their suppliers to enter information regarding their production sites' ethical management practices, sustainable development and societal responsibility policies, and share this information with several customers at once;
- external verification of suppliers identified as at risk by a certified third party organization, through SMETA audits (Sedex Members Ethical Trade Audit);
- corrective action plans in case of non-compliance identified during the audit, and monitoring by Danone's purchasing teams. In 2016, 108 SMETA audits were conducted among the suppliers identified, with improvement plans implementation being monitored. Danone also has access to over 2,000 supplier audits on the Sedex platform and over 15,000 audits thanks to the principles of mutual recognition through the AIM Progress consortium for responsible sourcing.

The RESPECT program compliance is monitored by the Nature and Cycles Sustainability team and reported to the Strategic Resources Cycles steering committee.

The suppliers involved cover all of Danone's purchasing categories (except raw milk), including raw materials (fruit preparations, powdered milk, etc.), packaging (plastic, cardboard, etc.), production machinery, transport and other services (promotional products, industrial services, etc.).

Subcontractors, *i.e.* suppliers that manufacture finished products on behalf of Danone, take part in the above-mentioned RESPECT initiative, although Danone uses very little subcontracting since the vast majority of its finished products are produced in its own plants.

RESPECT also contributes to the changing nature of the commercial relationships, in terms of completeness and transparency of the information to be formalized and shared.

Initiatives to ensure respect of Human Rights within Danone supply chain

Danone has included in its Fundamental Social Principles the seven major Human Rights risks defined by the International Labor Organization (see above).

The sustainability clause included in the supplier's contracts requires suppliers to respect workers fundamental rights and freedom:

- child labor: no children below age 15 are employed by the company or if the local law is set higher, that limit would apply;
- forced labor: the company does not use forced or compulsory labor, *i.e.* any work or service performed under threat or that is not consented to by the person concerned;
- non-discrimination: the company refuses to engage in any discriminatory practices;
- freedom of association and the right to collective bargaining: the company recognizes and respects employees freedom of association and their right to freely choose their representatives, employees' right to collective bargaining and ensures that employee representatives do not suffer any discrimination;
- workplace health and safety: the company ensures that the workplace and its environment do not endanger the physical integrity or health of employees. Action to reduce the causes of accidents and improve working conditions is the object of ongoing programs. As a minimum, appropriate sanitary and medical facilities and drinking water are made available;
- working hours: the company ensures that national legal restrictions applicable on working hours, including overtime are complied with;
- compensation: the company ensures that no wages paid are lower than the applicable legal minimum, all employees receive a payslip, employees receive a decent wage, as compared to standard pay practices in the country, wage rates for overtime are in all cases higher than for normal hours.

By complying with the above principles, Danone's suppliers ensure that the above principles are already in place in their own organization and undertake to ensure that their employees but also their agents, suppliers and sub-contractors respect the said principles.

Danone is aware of the fact that notwithstanding its willingness to conduct business in an ethical way, human rights infringements are common in complex supply chains. The company is determined to identify its areas of progress and to commit to address them. For instance, in 2016, Danone launched a global audit program for its top seven fruit purchase categories covering 75% of Danone's volumes of fruit purchased, mapping the fruit supply chain to the farm across eight geographical areas. The assessment is based on Farm Sustainability Assessment questionnaire by SAI platform and aim at developing a baseline, a gap analysis and a subsequent improvement plan to be implemented in 2017 onwards.

Stakeholder engagement

Danone collaborates with international and local stakeholders for their expertise, such as NGOs or other civil society organizations.

Since 2016 Danone has been part of a collaborative coalition in the berries sector in Morocco – the industry that has experienced strong production growth over the last three decades, while the working conditions have remained precarious, particularly with regards to respect of women's rights. Working together with Oxfam and direct suppliers, Danone's goal is to drive improvements in the sector, for example, eradicating child labor, non-compliance with minimum wage and legal working hours, difficult transport conditions and non-compliance with health and safety standards.

Danone also joins collective action in order to influence systemic change regarding forced labor. The company is taking part in the Consumer Goods Forum's initiative to eradicate forced labor from global supply chains, through the three Priority Industry Principles that have been approved in November 2016: every worker should have freedom of movement; no worker should pay for a job, and; no worker should be indebted or coerced to work.

Relations with milk producers

Milk collection organization

Danone procures milk from over 140,000 milk producers in some 50 countries around the world. More than 80% of these are small producers located mainly in emerging countries of Africa, Asia and Latin America that own fewer than ten cows. In this case, milk is collected from collection centers to which these small producers deliver their production daily. In many other regions such as Europe, Russia and South Africa, milk is produced by family farms that have anywhere from a few dozen to hundreds of cows. These producers represent 15% to 20% of Danone's milk suppliers but the bulk of the volume. Danone usually collects milk directly, and has often done so for several generations. In some regions where milk production does not have the same historical tradition, including some parts of the Middle East and North America, supply security, in terms of both quantity and quality, is ensured by much larger farms, which can have thousands of cows. Danone's milk collection therefore reflects the broad diversity of the world's production systems.

In addition, Danone encourages its suppliers to work toward sustainable milk production. For example, Danone Algeria created the H'Lib Dzair project jointly with its local partner Deutsche Gesellschaft für Internationale Zusammenarbeit (under the umbrella of the Danone Ecosystem Fund). This project promotes the small sustainable dairy farm agricultural model by offering producers technical expertise, along with individual audits and advice so they can increase their profitability and improve the quality of their milk.

Contractual relations in an improvement process

Danone's partnerships with its milk producers cover technical aspects, such as milk quality and the farm's economic performance, as well as environmental and societal impacts. Specific Danone tools such as FaRMs (Farmers Relationship Management) allow Danone's technicians to conduct regular reviews with each milk producer of all the criteria and best practices in these areas and to develop improvement plans along with the producer.

From an economic standpoint, in recent years Danone has developed innovative contracts with producers in the United States and Europe to reduce milk price volatility, thereby offering better visibility and financial stability. These CPM (Cost-Performance Model) contracts define the price of milk taking production costs into account and are developed in partnership with milk producers or their organizations.

Fair trade practices

Actions taken to prevent fraud and corruption

See section 6.6 *Internal control and risk management*.

A healthier diet

Consumer health is at the heart of Danone's history and its mission of "bringing health through food to as many people as possible".

Danone's nutrition strategy is in line with the guidelines issued by health authorities in the various countries and formalized in the Danone Nutrition Commitments (see section 5.1 *Danone's social, societal and environmental approach*).

A unique line of products that meet people's needs throughout their lifetime

Most of Danone's products can be consumed on a daily basis either because they are included in the recommended categories of the food pyramids used in many countries (fresh dairy products and waters) they fall under food categories governed by regulations (early life nutrition), or they are specialized nutrition foods intended for patients who cannot follow a normal diet (medical nutrition) (see section 2.4 *Description and strategy of the Divisions*).

In some cases, product composition is governed by strict regulations, while in other cases it is governed by Danone's internal nutritional standards based on the recommendations of public health authorities (World Health Organization and Eurodiet).

The Danone Nutrition Commitments set out target values for key nutrients that will now guide the innovation and reformulation projects. An initial evaluation of the degree to which these targets have been met at end-2016 will be published in the integrated report.

Responsible communication

In 2002 Danone introduced an internal procedure to ensure the consistency, credibility and scientific validity of the health and nutrition claims contained in its communications.

In terms of advertising, Danone is committed to applying the ICC Code (International Chamber of Commerce Code for Responsible Food and Beverage Marketing Communication). In the particular case of communications aimed at children, Danone is committed to restricting advertising exclusively to products adapted to their nutritional needs. To that end, Danone has joined numerous local and regional pledges (association of companies). In most of the countries involved, compliance with this commitment is certified by an external agency. For example, in 2016 Danone registered 99.1% overall compliance with its television advertising commitments in the seven countries audited (France, Germany, Hungary, Italy, Poland, Portugal and Spain); 14 of the 15 subsidiary websites audited were in compliance; and two out of four brand profiles in social media were in compliance.

Concerning early life nutrition, Danone has made a commitment to comply with the code developed by the World Health Organization (International Code of Marketing of Breastmilk Substitutes). To do so, it prepares internal documents that translate the code into principles and apply it to the operating activities. An independent auditor regularly evaluates Danone's compliance with this commitment. In 2016, Danone updated its policy and internal procedure manual and is now committed to performing three audits a year. The countries audited in 2016 were Turkey, Poland and Iran.

Detailed product nutrition information

Danone products include nutrition labels that comply with regulations. Danone's fresh dairy products and beverages (except bottled waters) have a more detailed label that shows the contribution of each portion to daily requirements, an initiative of the European inter-branch professional organization implemented at Danone through an internal document updated in June 2014 (Nutritional Information provided to consumers, Corporate Guidance). This nutrition information is also available from the subsidiaries' consumer relations departments and/or websites in Europe and some countries outside of Europe.

Promoting a balanced diet and overall health

A large number of Danone subsidiaries organize information and education programs intended for consumers and/or healthcare professionals. Most of these initiatives are developed in partnership with local institutions to ensure their relevance to the local healthcare context. Danone also creates global initiatives that are then rolled out locally. Each Division develops programs on topics that relate to it specifically and most subsidiaries have active programs.

Measuring Danone's nutrition and health performance

In 2011, Danone created a series of performance indicators (Scorecard) to measure improvements and progress made regarding health and nutrition, particularly product composition and responsible communication, with the results publicly disclosed annually. These indicators are consolidated for a scope of 15 countries covering Danone's four Divisions (a total of 48 subsidiaries in 2016 representing approximately 76% of consolidated net sales). Along with these performance indicators, the subsidiaries' application of best practices in the marketing of products that contribute to consumer health is monitored under the Danone Way initiative (see section 5.1 *Danone's social, societal and environmental approach*).

Measures taken to promote consumer safety

In an increasingly complex environment linked to the emergence of new challenges generated by, for example, the globalization of agricultural raw materials; damage caused to some natural environments and climate change; as well as fraud involving high-cost raw materials, and geopolitical issues related to food safety (governments' ability to manage enough good-quality food to feed its citizens in a healthy, sustainable way), Danone has a dedicated Food Safety department, which is independent of the teams responsible for Danone's operational activities and reports to the General Secretary.

Through its food safety policy, Danone is committed to developing, producing and delivering its products on a daily basis without compromising food safety in any way.

Danone's food safety policy is structured around three areas of focus:

- anticipation of risks related to raw materials and finished products through active monitoring of emerging risks, analysis of changes in international regulatory contexts and new scientific and technical discoveries;
- risk prevention, through the creation of a food safety management system that includes the very best preventive methods, from assessing risks (overseen by the food risk assessment scientific platform of Danone's food safety center) to measuring and controlling the quality and adherence to Danone's product specifications, as well as methods to control these risks;
- risk management, based on incident and accident management procedures to quickly identify any deviation from the standard and immediately take the appropriate corrective measures, which may include recalling the products involved.

Danone's food safety policy and governance apply a single standard for all its activities. They are based on:

- Danone's fundamental principles (Danone Operating Models), which are based on food safety criteria that define the actions to implement in order to ensure product safety and compliance with Danone's specifications at each stage of the distribution chain, from product design to consumption, in all countries and at all times. Each subsidiary must use these criteria as the basis of its quality management system and measure the level of compliance at each control point by doing an annual self-assessment in the DANgo management system;
- Danone's food safety standards, including the food safety directives, food safety reference documents, integrated management and assessment of risks, as well as Danone's specific control models and checklists. For each local situation, Danone's governance requires that the stricter of either local regulations or Danone's own food safety policy be applied.

Governance

The roles and responsibilities of the Food Safety@Danone teams and the Quality Departments of the respective Divisions are kept explicitly separate:

Establishment of the Food Safety policy and governance under the responsibility of the Food Safety team

The Food Safety teams draft the technical specifications to ensure the application of food safety rules for all types of products and processes used by Danone. These instructions cover Danone's entire distribution chain and are replicated for each activity, product and technology.

Danone integrates external best practices into its Food Safety policy, directives and reference documents. In that regard, Danone has always been an active member of the Global Food Safety Initiative (GFSI), a pillar of the Consumer Goods Forum, whose members include Danone's Chief Executive Officer. The current Chief Food Safety Officer is a member of the Board of Directors of the GFSI and is also the Vice President of the GFSI's local European unit (for more information on the GFSI, see http://www.mygfsi.com/).

Operational implementation under the responsibility of the Quality Department teams

The Quality Department teams are responsible for the strict implementation of food safety rules for each Division. To measure post-implementation performance and identify priorities and the necessary action plans, these teams perform regular on-site assessments and monitor food safety measurement indicators (Food Safety Index). These indicators are analyzed by Division and the results are presented to the Danone Committee responsible for product compliance (Product Compliance Board).

Internal food safety management system

From the certification standards recognized by the GFSI, Danone chose certification standard FSSC 22000 as its food safety benchmark, since it satisfies Danone's requirements and is also recognized by the authorities. Not content to simply implement and comply with international food safety certification standards, the Company developed an audit manual that takes into account the Company's own requirements, which extend beyond the provisions contained in the international standards.

In 2016, 120 external certification audits (compared with 48 in 2015) were assigned to independent certification bodies selected by Danone, and 66 food safety audits (compared with 77 in 2015) were conducted in-house by the Global Food Safety Audit team. It should be noted that in addition to these figures written up in official reports and archived, local on-site teams measure food safety performance on a day-to-day basis using the same audit grids.

Crisis management system

Danone has developed a system to notify its customers, block new sales and recall products with complete traceability at all levels of the distribution and marketing stage.

Each subsidiary must ensure compliance with Danone's crisis management procedures, which are also audited on a regular basis. In 2016, Danone updated its crisis management policy by including a program dedicated to food safety issues. The roles and responsibilities are defined for each stage in the process, which enables rapid crisis management.

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 (see Note 2.3 to the consolidated financial statements).

Nevertheless, some subsidiaries do not report all social, safety and environmental indicators. These entities were consolidated for financial reporting purposes as of December 31, 2016 and action plans are planned and/or in progress to ensure the availability and reliability of the employment, environmental and safety data reported. These are primarily the recently acquired entities in Africa, including in particular the companies in the Fan Milk group (Fresh Dairy Products, West Africa). Finally, as the subsidiaries that do not report certain social, safety or environmental indicators may differ depending on the types of indicators, the coverage scope varies according to the following categories of indicators, as described in the sections hereafter:

- Total Group Workforce scope;
- Social Indicators Scope;
- Safety Scope;
- Production Sites Environment Scope;
- Greenhouse Gas Scope.

Total Group Workforce Scope and Social Indicators Scope

In 2016, 177 entities representing more than 99% of Danone's total workforce reported social indicators (Social Indicators Scope).

Safety Scope

In 2016, 155 entities representing approximately 99.4% of Danone's total workforce reported safety-related indicators (Safety Scope).

In addition, the safety data of subsidiaries removed from the consolidation scope as of December 31, 2016 is reported up to the date of their deconsolidation but is not included in the workforce as of December 31, 2016. The main companies that were no longer fully consolidated as of December 31, 2016 are listed in Note 3.2 to the consolidated financial statements.

Production Sites Environment Scope

In 2016, 187 (of Danone's 197) production sites representing approximately 99% of the total production of the industrial sites reported environmental indicators (Production Sites Environment Scope).

The environmental impact of the administrative offices and logistics centers is not included in the consolidation scope (except for certain indicators, when the logistics centers are adjacent to the production sites).

Greenhouse Gas Scope (product approach)

In 2016, this scope covered approximately 94% of Danone's sales volumes.

Like-for-like changes in scope (constant scope)

Danone measures changes in certain environmental indicators on a like-for-like basis, *i.e.* at constant consolidation scope. The 2016 data has been restated using the same consolidation scope as that of 2015.

Data collection

To ensure the homogeneity of the indicators across the reporting scope, shared data reporting guidelines for social, safety and environmental data are transmitted and updated each year following data consolidation and comments of contributors. These guidelines specify the methodologies to be used for reporting the indicators, including definitions, methodology principles, calculation formulas and standard factors.

These reporting guidelines for environmental, social, safety and GHG data are available upon request from the Sustainability Integration Department.

The social, safety and environmental indicators are transmitted by the subsidiaries and/or production sites and consolidated at Group level by the relevant departments. The environmental data are checked at the subsidiary level and then at the Division level when reported. The social and safety data are checked at the end of the second quarter and at the time of consolidation as of December 31.

Social and safety indicators

The Human Resources Department is responsible for social and safety indicators. The subsidiaries' social data are generally derived from their payroll systems and reported via Danone's financial information consolidation software (SAP/Business Objects Financial Consolidation).

Safety indicators are reported monthly by each subsidiary in WISE, Danone's safety data consolidation system.

Environmental indicators

The Nature & Cycles Sustainability Department is responsible for environmental indicators. These indicators are reported by each production site's Environment manager using the Calame application. Data related to Greenhouse Gas emissions (product approach) is reported via the Danprint application and/or SAP Carbon.

Information regarding methodologies

The methodologies used for certain social and environmental indicators may have limits due to:

- the absence of common national and/or international definitions;
- necessary estimates, the representative nature of measurements taken or the limited availability of external data required for calculations.

For these reasons, the definitions and methodologies used for the following indicators are specified.

Workforce

A negligible portion of the managerial workforce data is not collected during the data reporting period (a few cases of internationally mobile employees on assignment at other Danone entities). Furthermore, some disparities may exist in the workforce accounting methods for expatriate employees (such is the case of expatriate employees who have three-party contracts between the employee, the home subsidiary and the host subsidiary).

Employees on long-term leave (more than nine months) are not counted in the total workforce at the end of the reporting period.

In China, employees paid by Danone but whose contracts are with a third-party company (equivalent to a temporary work agency) are not included in the workforce.

Fixed-term contracts and movements within Danone are not included in the entries/exits.

Number of training hours/Number of permanent employees trained/Percentage of permanent employees trained/Number of training hours per permanent employee

The training data of the French subsidiaries includes training that is categorized as ongoing professional training, as well as other types of training.

The number of permanent employees trained takes into account all permanent employees who received at least one training course during the year, including those who were no longer employed as of December 31, 2016.

The number of training hours takes into account all courses lasting an hour or longer during the year, including hours of training received by those who were no longer employed as of December 31, 2016.

Training courses for which supporting documents are not received by the reporting closing date are included in the following fiscal year.

The percentage of permanent employees trained is equal to the ratio of the number of permanent employees trained to the average permanent employee workforce.

The number of training hours per employee is equal to the ratio of the number of training hours to the average permanent employee workforce.

Employees with disabilities

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 for this indicator include sick leave (with or without hospitalization), absences due to work-related illness and injury, absences due to strikes and unauthorized absences. Absences due to maternity/paternity leave, other authorized leave and long-term absences (more than nine months) are not taken into account.

The assumptions used to calculate the theoretical hours worked are left to the discretion of the subsidiaries based on local specificities, which can lead to minor discrepancies.

Some subsidiaries monitor absenteeism only for employees who are paid on an hourly basis, while other employees are included in a program under which they receive a number of days that can be used for various reasons (vacation, sickness, special leave, etc.). That is the case in particular for The Dannon Company Inc. (Fresh Dairy Products, United States), Stonyfield (Fresh Dairy Products, United States), Danone Brazil (Fresh Dairy Products, Brazil), Danone's subsidiaries in Brazil, Danone Inc. (Fresh Dairy Products, Canada), Danone Argentina SA (Fresh Dairy Products, Argentina), Aguas de Argentina (Waters, Argentina), Grupo Cuzco International S de RL de CV (Waters, Mexico) and PT Sarihusada Generasi Mahardhika (Early Life 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 Nutricia Ivory Coast (Early Life Nutrition) and Danone Waters of America (Waters) subsidiaries.

Frequency rates of work accidents

The frequency rate of workplace accidents with lost time (FR1) represents the number of workplace accidents with lost time of one day or more that occur over a 12-month period for every one million hours worked.

The frequency rate of workplace accidents without lost time (FR2) represents the number of workplace accidents without lost time for every one million hours worked.

The severity rate (SR) represents the number of calendar days of absence due to workplace accidents with lost time for every 1,000 hours worked. Regarding the number of lost days taken into account in the calculation of the severity rate and given the limited availability of data in certain countries, Danone made estimates for this indicator as of December 31, 2016.

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 working at the sites as well as interns who have an internship agreement with Danone. Temporary employees are individuals who do not have a contract with Danone but are under its management, work on a temporary basis and for whom working time is available (in number of hours); this can create discrepancies in the scope of the workforce taken into account by the sites. This was true for Danone Bonafont Mexico HOD (Waters, Mexico), which has expanded its reporting scope and also takes into account third-party staff employed through staffing agencies or service providers for whom working time is available (in number of hours).

Production

The production of Danone's industrial sites is the total production of finished and semi-finished products of each of the sites. As some semi-finished products are used as ingredients at other Group plants, the total production of the industrial sites is greater than Danone's total production.

Waste

In 2015, waste was classified into four categories (hazardous waste, non-hazardous organic waste, non-hazardous inorganic waste and sludge from water treatment facilities).

In 2016, a new classification was introduced following adoption of the methodology defined by the Food Loss & Waste Protocol (version 1.0) of June 2016.

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 (CGF), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Environment Programme (UNEP), the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

Food waste includes sludge from water treatment facilities, whey that is not used for human consumption, food waste (raw material losses and finished product losses) collected on-site or discharged with wastewater and not recovered with the sludge from water treatment facilities.

Data related to waste recovery includes materials recovery (recycling, composting, reuse, animal feed, sludge used in agricultural applications, etc.) and energy recovery (methanation, incineration with energy recovery). Unused waste is waste that is sent to landfill, discharged to the sewer or incinerated without energy recovery.

Water consumption

Consumption of well water or surface water may be estimated when sites do not have meters. The definitions and the method of accounting for various uses of water (including run-off, water pumped from and discharged into streams) are specified in the technical environmental guide prepared by Danone and provided to its subsidiaries. Water consumption includes water used for industrial processes and in finished product formulation.

The methodology for metering cooling water was changed to account only for water used in open recirculating cooling-tower or closed loop-cooling systems. In contrast, 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.

Rainwater is taken into account only if it is used by the site.

When logistics centers are located adjacent to industrial sites, their water consumption is taken into account if the site is unable to subtract their consumption.

Energy consumption

By definition, the environmental indicators, with the exception of the GHG Protocol Corporate indicator, cover only the impacts of production sites. When Research and Development centers or warehouses are located adjacent to production sites, estimates may be made by the production sites to take into account only their own energy consumption (estimate and deduction of the amount of energy consumed by the non-industrial sites adjacent to the production site).

In some cases, the energy consumption of buildings located adjacent to industrial sites is taken into account if the site is unable to subtract their consumption.

Greenhouse gas emissions by organization

Greenhouse gas emissions by organization (scope 1 and scope 2) for 2016 are calculated using the methodology defined in the GHG Protocol Corporate Standard (revised version of January 2015).

The approach chosen by Danone is to integrate all emissions sources from its industrial sites into the measurement of its carbon footprint. The share of emissions from offices and warehouses remains low relative to the total (7% of total emissions in 2012). Vehicles produce a greater share of emissions (21% of total emissions in 2012). However, Danone focuses its actions on industrial activities (more than 70% of total emissions in 2012).

However, in the "product" approach based on product lifecycle analysis, Danone records emissions related to logistics and transportation.

Direct emissions (scope 1) are emissions related to on-site fuel consumption (natural gas, propane/butane/LPG, domestic heating oil, heavy fuel oil and coal) and refrigerant leaks (in accordance with the GHG Protocol Corporate Standard, only HFC and PFC consumption is taken into account). No Danone sites use PFCs.

Indirect emissions (scope 2) are emissions related to the production of electricity, steam, heating and cooling purchased by Danone.

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, *i.e.* based on greenhouse gas emissions caused by the production of electricity in the geographical region in which it is consumed;
- market-based reporting, *i.e.* companies operating in liberalized markets such as the European Union which must use the carbon emissions related to their electricity suppliers.

Emissions (scopes 1 and 2) are calculated by applying global warming potentials and emissions factors to the activity data.

The emissions factors used to calculate emissions related to energy consumption correspond to data in the 2006 IPCC Guidelines (2006 IPCC Guidelines for National Greenhouse Gas Inventories). The IPCC (Intergovernmental Panel on Climate Change) is a group of inter-governmental experts specializing in climate change. The electricity emissions factors are provided by the International Energy Agency (*CO_2 Emissions for Fuel Combustion*, 2014 Edition) for location-based reporting.

For market-based reporting, the emissions factors used follow the hierarchy defined in the new scope 2 guidance document of the GHG Protocol. 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 under the RE-DISS II 2015, Mixes for 2014.

The factors used for heating, steam and cooling are from the carbon database of the French Agency for the Environment and Energy Management (ADEME).

The emissions factors used to characterize the impact of fugitive refrigerant emissions are based on the IPCC report "Climate Change 2007, 4th Assessment Report, The Physical Science Basis" published in 2007.

Wastewater

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.

Report of one of the Statutory auditors, appointed as independent third-party body's, on consolidated social, environmental and societal information presented in the management report

This is a free translation into English of the statutory auditor's report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2016

To the shareholders,

In our capacity as statutory auditors of Danone, appointed as independent third-party body, accredited by the COFRAC (scope available on www.cofrac.fr) under the number n° 3-1060, we present our report on the consolidated social, environmental and societal information established for the year ended on the December 31, 2016, presented in the management report, hereafter referred to as the "CSR Information", pursuant to the provisions of the article L.225-102-1 of the French Commercial code (*Code de commerce*).

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105 of the French Commercial code (*Code de commerce*), prepared in accordance with the protocols used by the company (hereafter referred to as the "Criteria"), and available upon request at Danone's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11-3 of the French Commercial code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, applicable laws and regulations.

Responsibility of the Statutory auditor

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial code (Code de commerce) (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria.

Our verification work has mobilized expertise of ten people between July 2016 and February 2017 for an estimated duration of twenty five weeks.

We conducted the work described below in accordance with the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, but also standards (*doctrine professionnelle*) of the French statutory auditors association (*Compagnie nationale des commissaires aux comptes*) related to this intervention, and in relation to the opinion of fairness and the reasonable assurance report, in accordance with the international standard ISAE 3000 concerning *Assurance engagements other than audits or reviews of historical information*.

1. Attestation of presence of CSR Information

Nature and scope of the work

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial code.

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105-1, paragraph 3, of the French Commercial code (*Code de commerce*).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial code with the limitations specified in the Methodological Note in the management report.

Conclusion

Based on this work and given the limitations mentioned above, we confirm the presence in the management report of the required CSR information.

As mentioned in the Methodology Note, CSR information presented covers the scope of the Company, its subsidiaries, as well as entities that Danone controls and not the Company stand-alone as defined by the law, the company judging that such a presentation provides a more relevant information.

2. Limited assurance on CSR Information

Nature and scope of the work

We undertook around a dozen of interviews with 7 people responsible for the preparation of the CSR Information in the different departments, in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, understandability, taking into consideration, if relevant, industry standards;
- verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR information which we considered the most important (**Social information**: headcount, terminations (dismissals), absenteeism, health and safety in the work place, work accidents, their frequency and their severity, training policies, fundamentals ILO agreements; **Environmental information**: waste discharged directly into water and chemical oxygen demand (OCD), waste and their valorization, water consumption and local constraints, energy consumption and efficiency, greenhouse gas emissions):

- at the level of the consolidated entity and divisions, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;
- at the level of a representative selection of that we selected (Waters Division: Aguas de Argentina (Argentina), Aqua (Indonesia), Danone Waters China (China); Fresh Dairy Products Division: Centrale Danone (Morocco), Danone Dairy Brazil (Brazil), Danone Germany (Germany), Danone Russia (Russia), Danone South Africa (South Africa) ; Early Life Nutrition Division: Nutricia Indo Sejahtera Baby (Indonesia); Nutricia Macroom Baby (Ireland); Medical Nutrition Division: Nutricia Liverpool (England)) based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented on average 38.1% of the total workforce, considered as relevant and typical social indicators and between 17.7% and 18.4% of the environmental information, considered as relevant and typical environmental indicators.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Conclusion

Based on this piece of work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together has not been fairly presented in compliance with the Criteria.

Paris-La Défense, February 27, 2017

One of the Statutory auditors
PricewaterhouseCoopers Audit

Anik CHAUMARTIN Partner	François JAUMAIN Partner	Sylvain LAMBERT Sustainable Development Department Partner

Appendices: Information that we considered as the most important ones

Social information:

- Total workforce and employees breakdown by gender, age and geographical area, male/female breakdown, and by region;
- Number of dismissals;
- Organization of working hours;
- Organization of social dialogue, namely information procedures, workforce consultation and negotiation with the workforce;
- Health and safety conditions at the workplace, workplace accidents, namely their frequency and severity, as well as occupational diseases;
- Training policies, number of training hours;
- Measures taken to promote gender equality, to improve integration of disabled people and to fight against discriminations.

Environmental information:

- The Company's organization to understand environmental issues, and when applicable the assessment or certification processes in terms of environment;
- Measures to prevent, reduce or repair direct emissions into the air, water and soil damaging the environment;
- Measures to prevent, recycle, reuse, eliminate and recover waste;
- Actions to fight against food waste;
- Water consumption and water supply based on local constraints;
- Consumption of raw materials and measures taken to improve their efficient use;
- Energy consumption, measures taken to improve energy efficiency and the use of renewable energies;
- Significant greenhouse gas emission sources generated because of the company's activity, namely by the use of products and services produced, and the adaptation to the consequences of climate change;
- Measures taken to preserve or develop biodiversity.

Societal information:

- Regional, economic and social impact of Danone's activities on employment, regional development and local communities;
- Partnership and sponsorship initiatives;
- Taking into account social and environmental stakes in the procurement policy, as well as the importance of subcontracting and taking into account their social and environmental responsibility in the relationship with suppliers and subcontractors;
- Measures taken to promote consumer health and safety.

5.3 FUNDS SPONSORED BY DANONE

danone.communities

The danone.communities mutual investment fund (Société d'Investissement à Capital Variable – SICAV) and the danone.communities professional specialized investment fund (Fonds Professionel Spécialisé – FPS, formerly the fonds Commun de Placements à Risques – FCPR) were created in 2007 at Danone's initiative:

- along with several partners, the FPS invests in businesses with significant social impact located mainly in emerging countries, in accordance with Danone's mission;
- the SICAV invests (i) at least 90% of its assets in a selection of shares or units of mutual funds or investment funds invested in money market instruments, government bonds and bonds of companies in the euro zone that favor a Socially Responsible Investment (SRI) approach, and (ii) up to 10% of its assets in the danone.communities FPS.

As of December 31, 2016, the danone.communities SICAV had assets under management totaling approximately €72 million.

Investment by Danone and its employees in the danone.communities SICAV and FPS

At the time of the creation of the danone.communities SICAV in May 2007, 99.77% of Danone's shareholders approved the implementation of the danone.communities project and the Company subscribed for €20 million of its capital.

In 2015, Danone had reallocated a portion of its investment in the danone.communities SICAV – €7.5 million – to the danone.communities FPS. This reallocation ensures that the FPS has the additional resources needed to continue ongoing projects and to develop new projects by replicating existing models without increasing Danone's total commitment to danone.communities.

As of December 31, 2016, Danone therefore held approximately 14% of the capital of the SICAV and 63.6% of the capital of the FPS.

Moreover, since 2007, Danone has made a financial contribution each year to the danone.communities project up to a maximum set by Danone's Board of Directors, upon the recommendation of the Social Responsibility Committee. In 2016, this contribution amounted to €3.8 million, €0.2 million more than in 2015.

In addition, the employees of the Company and its French subsidiaries participate in the danone.communities project by investing in the SICAV through the danone.communities company investment fund (Fonds Commun de Placement d'Entreprise – FCPE) as part of the Group Savings Plan.

As of December 31, 2016, approximately 43% of Danone's employees in France had subscribed to the danone.communities FCPE for a total amount of €16.7 million (an increase of approximately 18.3% compared to 2015).

Projects supported by the danone.communities FPS

Since its creation, the danone.communities FPS has carried out eight investments.

In accordance with the danone.communities Governance Charter, the Company's Social Responsibility Committee is consulted prior to each investment by the danone.communities FPS and issues an opinion as to its compliance with this charter.

Moreover, in 2012 Danone decided to invest alongside the danone.communities FPS directly in the capital of three projects to ensure the viability and sustainability of each of the projects: Grameen Danone Foods Limited in Bangladesh, Laiterie du Berger in Senegal and NutriGo in China. Under the terms of the danone.communities Governance Charter, Danone may invest, directly or indirectly, in companies in which the danone.communities FPS invests, but only if these co-investments: (i) comply with Danone's corporate purpose, (ii) strengthen the mission, governance and sustainability of the companies concerned, and (iii) are made in agreement with the shareholders of these companies. Each co-investment is subject to prior review by the Social Responsibility Committee, which issues an opinion as to its compliance with these requirements.

The projects in which an investment has been made by the danone.communities FPS (and, for three of them, by Danone directly) are described hereafter.

As of December 31, 2016, the total amount of the investments made by the FPS and Danone in these projects was €8.3 million and €4.5 million, respectively.

Grameen Danone Foods Ltd., Bangladesh

The danone.communities FPS made its first investment in Grameen Danone Foods Ltd., a company created in 2006 in Bangladesh at the initiative of Grameen Bank and Danone.

Grameen Danone Foods Ltd. is a social business that built a factory for manufacturing micronutrient-fortified (vitamin A, zinc, iron and iodine) yogurts. Sold by "Grameen Ladies" and in small retail stores at a price that the poorest families can afford, these yogurts make it possible to combat children's nutritional deficiencies. In addition to its health impact, the project also aims to create local jobs to increase living standards in the community, protect the environment and save resources.

1001 Fontaines, Cambodia

1001 Fontaines (together with the UV + Solaire company) gives isolated villages in Cambodia access to a drinking water system that eliminates the need for inhabitants to drink water from ponds, which is the cause of a high infant mortality rate and diarrhea-related illnesses. 1001 Fontaines uses an ultraviolet treatment process powered by solar energy that kills bacteria present in pond water and renders it drinkable at a minimal cost.

As of December 31, 2016, this project was implemented in more than 150 Cambodian villages as well as in 14 villages in Madagascar and five villages in India, giving over 420,000 people access to drinking water.

La Laiterie du Berger, Senegal

La Laiterie du Berger is a Senegalese social business created in 2005 to help improve the situation of Fula herders by providing them with a source of fixed income.

In Senegal, imported milk in powder form accounts for the bulk of consumption, even though a large portion of the population lives traditionally off livestock farming and is therefore capable of producing milk. La Laiterie du Berger manufactures products (mainly yogurts and *crème fraîche*) made from fresh milk collected locally from Fula herders. These products are then sold at competitive prices on the Senegalese market. The company also supplies the herders with feed for their cattle and offers them training to improve productivity.

Isomir, France

Financed by the danone.communities FPS since 2010, Isomir SAS (Industrialisation Solidaire en Milieu Rural) helps small farmers in France developing their short food supply chain activities by financing production facilities (poultry slaughterhouse, meat, fruit and vegetable and milk processing) for local selling (direct sales, canteens, etc.).

In addition, the Isomir association, which is involved in the overall project, provides small farmers with turnkey production facilities, advice and services to start up and launch their business (regulatory training, technical support, marketing advice, etc.).

Naandi Community Water Services, India

Financed by the danone.communities FPS since 2010, Naandi Community Water Services was created at the initiative of the Indian foundation Naandi in 2006 to provide very low-cost drinking water to village communities in India.

Water treatment and distribution systems have been installed by NCWS in more than 400 Indian villages. Installation, maintenance and technical operation of the systems are handled by the company's staff but are managed directly in the villages by people who have been specially recruited and trained.

El Alberto, Mexico

The El Alberto project, which is the result of a partnership between the Porvenir Foundation, HOD Mexico, the Mexican government and danone.communities, was launched in 2011. Its objective is to give the indigenous communities of the El Alberto region of Mexico access to clean, inexpensive water.

At the end of 2016, the project supplied drinking water to nearly 30,000 people.

NutriGo, China

The NutriGo project, implemented through a partnership with the non-governmental organization Shanghai NPI Social Innovation Development Center, is a major player in social innovation and social entrepreneurship in the People's Republic of China.

This project, launched in 2011, seeks to:

- market YingYangBao, a powdered food supplement that provides children with key nutrients (such as proteins, vitamins, iron and calcium) in the economically disadvantaged rural areas of China where people suffer from chronic malnutrition;
- provide stronger nutritional education to local populations.

Development of the NutriGo project is in line with its roadmap still with a limited geographical impact reaching approximately 5,000 people.

Jita, Bangladesh

The FPS's latest investment, which was made in 2012, concerns JITA, a women-operated rural distribution network for basic products in Bangladesh.

It is an extension of a program launched by the non-governmental organization CARE Bangladesh in 2004 which seeks to significantly increase the number of sales ladies working with JITA by developing a social business model based on work already completed by CARE Bangladesh. Its main objectives are to create job opportunities for several thousand women living in fragile economic conditions, enable the establishment of distribution points in rural areas and make basic products and services available to numerous Bangladeshis. JITA therefore seeks to promote a sustainable rural sales model and develop a rural company network thanks to greater access to the market and services.

Danone Ecosystem Fund (Fonds Danone pour l'Écosystème)

At the April 23, 2009 Shareholders' Meeting, shareholders approved the proposed creation of the Danone Ecosystem Fund, with 98.36% of shareholders casting ballots in favor.

Description

The fund is governed by the provisions of the French Law of August 4, 2008 and is run by a board of directors. A guidance committee, composed of representatives of Danone and non-Company members, establishes the fund's major strategic guidelines, especially with regard to priorities and resource allocation principles, as presented by the fund's board of directors. An investment committee is responsible for making investment policy proposals to the board of directors and ensuring follow-up action on them.

The purpose of the Danone Ecosystem Fund is to strengthen and develop activities of public interest within the Danone ecosystem. Together with non-profit organizations, the fund supports economic initiatives of certain Danone stakeholders (farmers, suppliers, local authorities, economic players located close to plants, small distributors, etc.) in order to strengthen Danone's ecosystem, promote job creation and develop micro-entrepreneurship.

Danone's contributions

Under the terms of the resolution approved by the April 23, 2009 Shareholders' Meeting, Danone made a free and irrevocable capital endowment of €100 million into the fund in 2009 and then made additional annual contributions: €1.4 million for each of the 2009 and 2010 fiscal years and €0.9 million for fiscal year 2011.

Management of the fund's administrative, accounting, financial and legal activities

The fund has no employees and the management of the fund's activities (administrative, accounting, financial and legal) is handled by dedicated Danone employees in accordance with the terms of a services agreement between Danone and the fund. The salaries and travel expenses of these employees, which in 2016 totaled €1.5 million, are fully rebilled by Danone to the fund. This rebilling is done in accordance with a rebilling procedure implemented by the fund after all supporting documents have been submitted by Danone to the fund.

Projects supported by the fund

Since its creation, the fund's board of directors has approved 67 projects (excluding feasibility studies), including four new projects in 2016. In addition, four extensions of existing projects were approved in 2016.

In total, there are 65 projects in the portfolio, as the fund's board of directors decided to terminate two projects (one in 2011 and the other in 2013) as a result of their non-viability. Of these 65 projects, 15 have been removed from the fund's scope since its creation, particularly at the end of the initial phase of financing by the fund.

Consequently, 50 projects remained active as of December 31, 2016.

These projects were selected in accordance with the fund Governance Charter and after a review on the basis of the following five criteria:

- economic viability of the activity funded;
- creation of social value;
- possibility of developing or replicating the initiative;
- innovative character;
- differentiation opportunities.

The projects are initiated by Danone subsidiaries around the world, both in developed and emerging countries.

Of the 50 active projects, 11 were located in Western Europe, 12 in America, 11 in Central and Eastern Europe, 7 in Asia and 9 in Africa and the Middle East.

Projects supported by the fund are implemented primarily through non-profit organizations designated by the fund (associations, international organizations, etc.) and are subject to contracts between the fund and the selected partner, which define detailed rules for their implementation (description, timetable, subsidy payment schedule, partner's responsibility, performance indicators, project governance, etc.). Since 2013, some projects have been carried out directly by the fund.

Since its creation, the fund has supported projects on the basis of five main categories:

- supplies: support the dairy and fruit industries in the regions where Danone operates by developing small producers in particular (reinforcement or acquisition of new skills, technical solutions, access to credit, etc.) (27 projects originally in the portfolio representing €28 million committed by the fund as of December 31, 2016);
- micro-distribution: integrate socially disadvantaged individuals by creating new distribution channels for consumer products and/or local products with high nutritional value (10 projects originally in the portfolio representing €9 million committed by the fund as of December 31, 2016);
- recycling: collect PET by helping to organize the work of communities of rag pickers and by improving their quality of life and that of their families (seven projects originally in the portfolio representing €9 million committed by the fund as of December 31, 2016);
- services to individuals: in connection with nutrition, develop the professional skills of those providing personal services (16 projects originally in the portfolio representing €9 million committed by the fund as of December 31, 2016);
- local development: contribute to social development in the areas surrounding Danone's plants through local economic initiatives (seven projects originally in the portfolio representing €6 million committed by the fund as of December 31, 2016).

These projects are also subject to audits, impact studies and monitoring by a coordination team (these overheads costs totaled €1.4 million in 2016).

As of December 31, 2016, the total amount committed by the fund was €75 million for: (i) projects implemented by non-profit organizations (corresponding to the amounts actually paid by the fund to partners as well as the amounts that the fund has agreed to pay under contracts entered into with partners), and (ii) public-interest initiatives carried out directly by the fund, audits, impact studies and monitoring by a coordination team.

Livelihoods Fund

Creation

The Livelihoods Fund is an investment fund dedicated to ecosystem and carbon assets restoration and created at Danone's initiative. It is a Luxembourg-registered mutual fund (*société d'investissement à capital variable* – specialized investment fund) created on December 15, 2011.

The Livelihoods Fund seeks to invest in three types of projects in Africa, Asia and Latin America: (i) the restoration and preservation of natural ecosystems, (ii) agroforestry and soil restoration through sustainable agricultural practices, and (iii) access to rural energy to reduce deforestation. The aim of the Livelihoods Fund is therefore to fight against climate change while also improving the living conditions of local communities. Its creation is in line with Danone's goal of reducing its carbon and environmental footprint through the development of offset actions that enable carbon credits to be earned through projects with a high environmental and social impact.

The initial term of the fund is 24 years and the life span of a project varies between 10 and 20 years.

Investments by Danone and co-investors in the fund

As the fund's sponsor, Danone put together an initial investor group in 2011 comprising the Crédit Agricole (Crédit Agricole CIB and Delfinances – now Crédit Agricole SA), CDC and Schneider Electric Industries groups, which was then joined by La Poste, Hermès International, Voyageurs du Monde, SAP, Firmenich and Michelin. The fund now has ten investors.

By inviting other investors to participate in the fund, which increases the amounts invested in the fund, Danone is able to limit the risks associated with each project (through diversification of the fund's investments over a larger number of projects), achieve economies of scale and benefit from complementary expertise and know-how.

As of December 31, 2016, all investors have pledged to invest a total of €37.9 million in the Livelihoods Fund, €24.2 million of which has already been paid to the fund. Of these amounts, Danone has committed to pay €13.8 million and has already disbursed €8.8 million.

The carbon credits generated by the projects developed by the Livelihoods Fund are certified in accordance with the standards recognized in the carbon market and allocated to investors in proportion to their investment. Investors may use these credits to offset their carbon emissions or sell them on the market.

Investments made by the fund

As of December 31, 2016, the Livelihoods Fund managed nine projects, including four that had been initiated by Danone and transferred to the fund at the time of its creation.

The projects are described hereafter:

- mangrove plantations in Senegal. Thanks to the work of Océanium, a local NGO, 350 villages in Casamance and Sine Saloum have restored 7,920 hectares of mangroves and contributed to the return of fishery resources to their ecosystem (fish, shellfish) and developing activities that improve living conditions in these villages;
- mangrove plantations in India. Working with the Indian NGO Nature Environment & Wildlife Society (NEWS), villagers in the Ganges delta, most of whom are women, aim to replant 4,500 hectares of mangroves. In this region of India, the replanting of mangroves protects dikes against hurricanes and rising water and provides food resources in the form of fish;
- mangrove plantations in Indonesia. Led by Yagasu Aceh, a local NGO, coastal villagers are working to restore 5,000 hectares on the island of Sumatra, with an active initiative to help local communities develop mangrove-based activities (aquaculture, batik dyes);
- agroforestry in India. With support from the Naandi Foundation, the Adivasi tribal communities of the Araku valley have planted more than 6 000 hectares oftrees (fruit trees, fire wood, timber, etc.) based on agroforestry models;
- rural energy and community reforestation in Kenya. With support from ClimatePal and in cooperation with Ecoact, the Hifadhi project has equipped 60,000 households with improved wood stoves that reduce the consumption of wood, the only source of fuel in African rural areas. Some 300,000 residents of the Embu region are benefiting from this initiative. The project improves the living conditions of women and girls (less exposure to toxic fumes and less time spent gathering wood and cooking) and reduces the pressure on forests;
- agroforestry in Guatemala. With support from the local NGO Fundaeco and the Guatemalan government, this project is intended to preserve the biodiversity of the Cerro San Gil mountain by enabling farm families living in its foothills to increase their food security and revenues thanks to agroforestry. Some 4,000 hectares of trees and plants of various varieties are expected to be planted;
- rural energy and community reforestation in Burkina Faso. With support from the Tiipaalga NGO, the Livelihoods-Tiipaalga project aims to manufacture and distribute 30,000 improved stoves that reduce wood consumption. Women are trained to manufacture the stoves themselves using raw materials available locally free of charge. Moreover, thanks to financial support from the AFD, an agroforestry component was added to this project to help local communities ensure their food security while at the same time making them more resilient to climate change. A total of 150,000 villagers in Bam and Loroum provinces are expected to benefit from this initiative;
- rural energy and health in Peru. With support from the local NGO Instituto Trabaja y Familia (ITYF), 30,000 improved stoves have been distributed to impoverished families in the Peruvian Andes along with hygiene kits. In addition to improving families' health by limiting their exposure to toxic fumes, the project makes residents aware of simple hygiene practices that limit the risk of disease (importance of boiling water, distribution of deworming tablets for children, etc.);
- agroforestry and milk production in Kenya. With support from the local VI Agroforestry NGO and industrial partner Brookside (a company in which Danone has an equity interest), the aim of this project close to Lake Victoria is to significantly improve the livelihoods of 30,000 small farmers by intensifying agriculture that respects natural resources (Sustainable Agricultural Landscape Management – SALM) and developing milk production, while also protecting water resources and promoting positive social impacts, such as female labor.

Delivery of carbon credits

Since 2014, the Livelihoods Fund has delivered carbon credits to investors after verification of the projects in question by independent auditors. For 2016, 259,207 credits (including 94,312 for Danone) will be distributed to investors in early 2017, following the verification of four projects (Fundaeco in Guatemala, Naandi in India, Hifadhi in Kenya and Tiipaalga in Burkina Faso).

Livelihoods Fund for Family Farming

Creation

The Livelihoods Fund for Family Farming (L3F) is a company created in 2015 for the purpose of investing in projects that help to make the supply of strategic agricultural raw materials more sustainable. It is a French simplified stock company (*société par actions simplifiée*) with variable capital.

This new fund is a follow-up to the first Livelihoods Fund (creation of social, environmental and economic benefits) and supplements Danone's other societal funds and initiatives. The fund is in line with the Danone 2020 strategy, particularly as regards the sustainable supply component.

Investors

The L3F Fund was created at the initiative of Danone and Mars Inc., who were joined in early 2016 by two new investors, Veolia and Firmenich, to increase the number of projects initiated, limit the risks associated with each project and achieve economies of scale.

As of December 31, 2016, all investors have pledged to invest, as capital contributions, a total of €36 million in the L3F Fund, €3.4 million of which has already been paid to the fund. A €4 million purchase commitment has also been signed with the fund. Of these amounts, Danone has committed to provide €15 million and has already paid €1.4 million.

Investments made by the fund

As of December 31, 2016, three initial projects have been approved by the fund's investment committee with operations beginning in 2017:

- restoration and development of cocoa plantations in the southern region of Ivory Coast;
- vanilla plantation on the east coast of Madagascar (Soanierana-Ivonogo district);
- protection of a watershed in Tingua, Brazil.

The fund is currently exploring project opportunities involving specific raw materials determined by investors as well as project opportunities regarding watershed protection.

6.1 GOVERNANCE BODIES 202

Board of Directors 203

Audit Committee 214

Nomination and Compensation Committee 216

Social Responsibility Committee 218

Strategy Committee 220

Executive Committee 221

Application of the AFEP-MEDEF Corporate Governance Code for listed companies 222

6.2 POSITIONS AND RESPONSIBILITIES OF THE DIRECTORS AND NOMINEES TO THE BOARD OF DIRECTORS 224

6.3 COMPENSATION AND BENEFITS OF GOVERNANCE BODIES 234

Contents 234

The compensation policy for corporate officers 235

Compensation and benefits granted to corporate officers for 2016 and compensation principles for 2017 239

Other compensation and benefits to which corporate officers are entitled 246

Compensations of the other Board members 252

6.4 DETAILED INFORMATION ON LONG-TERM AND MULTI-ANNUAL COMPENSATION PLANS 254

Group Performance Shares 254

Former stock-option plans (situation at December 31, 2016) 266

Group Performance Units 268

6.5 DANONE SHARES OWNED BY THE BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE MEMBERS 270

Shares owned by the 16 Board and the 12 Executive Committee members (which includes 1 Director) 270

Transactions on DANONE shares in 2016 271

6.6 INTERNAL CONTROL AND RISK MANAGEMENT 272

General organization of internal control 272

Danone's overall internal control and risk management process 273

Internal control process related to the preparation and processing of Danone's financial and accounting information 277

Statutory auditors' report 280

6.7 STATUTORY AUDITORS' SPECIAL REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS 281

Agreements and commitments submitted for approval by the Shareholders' Meeting 281

Agreements and commitments already approved by the Shareholders' Meeting 283

6
CORPORATE GOVERNANCE

In accordance with Article L. 225-37 of the French commercial code, this section on Corporate Governance includes the Chairman's report (i) on the composition, the conditions for the preparation and organization of the work performed by the Board of Directors (section 6.1 Governance bodies), as well as (ii) on the internal control and risk management procedures at Danone (section 6.6 Internal control and risk management).

In accordance with Article L. 225-37 of the French commercial code, the Company declares that it refers to the Corporate Governance Code for listed companies revised in November 2016 (the AFEP-MEDEF Code).

This report was prepared based on work completed by the Legal Department, working closely with the Human Resources Department, the Finance Department and the Internal Control Department. It was first presented to the Nomination and Compensation Committee on February 1, 2017 and was then approved by the Board of Directors on February 14, 2017.

6.1 GOVERNANCE BODIES

Contents

Board of Directors **203**
Composition as of December 31, 2016: 16 Directors, 11 of whom are considered independent 203
Rules applicable to the organization and governance of the Board of Directors 206
Operation during the fiscal year 208
Work 211
Assessment 212
Lead Independent Director 213

Audit Committee **214**
Composition as of December 31, 2016: 3 Directors, all considered as independent 214
Rules of procedure 215
Work 216

Nomination and Compensation Committee **216**
Composition as of December 31, 2016: 4 Directors, all considered as independent 216
Rules of procedure 217
Work 217

Social Responsibility Committee **218**
Composition as of December 31, 2016: 4 Directors, 3 of whom are considered as independent 218
Rules of procedure 218
Work 219

Strategy Committee **220**
Composition as of December 31, 2016: 5 Directors, 2 of whom are considered as independent 220
Rules of procedure 220
Work 220

Executive Committee **221**
Role 221
Composition as of March 1, 2017: 9 members 221

Application of the AFEP-MEDEF Corporate Governance Code for listed companies **222**

Board of Directors

The members of the Board of Directors are appointed by the Shareholders' Meeting, except the two Directors representing employees who are appointed by the Company Works Council and by the Group European Works Council, respectively.

Composition as of December 31, 2016: 16 Directors, 11 of whom are considered as independent

Name	Gender	Age	Primary function	Starting date of Director's term	Expiration date of Director's term [a]
Franck RIBOUD	Male	61	Chairman of Danone's Board of Directors	1992	2019
Emmanuel FABER	Male	53	Chief Executive Officer and Vice-Chairman of the Board of Directors of Danone	2002	2019
Bruno BONNELL [b]	Male	58	Chairman of I-Volution	2002	2017
Frédéric BOUTEBBA [c]	Male	49	Director representing employees	2016	2017
Clara GAYMARD [b]	Female	57	Co-founder of Raise	2016	2019
Jacques-Antoine GRANJON [b]	Male	54	Chairman and Chief Executive Officer of vente-privee.com	2012	2018
Jean LAURENT [b]	Male	72	Chairman of the Board of Directors of Foncière des Régions	2005	2018
Gaëlle OLIVIER [b]	Female	45	Member of the Management Committee of the AXA group and Chief Executive Officer of Axa Global P&C	2014	2020 [d]
Benoît POTIER [b]	Male	59	Chairman and Chief Executive Officer of L'Air Liquide SA	2003	2018
Isabelle SEILLIER	Female	57	Head of Financial Institutions EMEA of J.P. Morgan	2011	2020 [d]
Mouna SEPEHRI [b]	Female	53	Member of the Executive Committee, Executive Vice-President of Renault SAS	2012	2018
Jean-Michel SEVERINO [b]	Male	59	Head of I&P SARL	2011	2020 [d]
Virginia A. STALLINGS [b]	Female	66	Professor of Pediatrics at the Children's Hospital of Philadelphia	2012	2018
Bettina THEISSIG	Female	54	Director representing employees	2014	2017
Serpil TIMURAY [b]	Female	47	Chief Commercial Operations and Strategy Officer of the Vodafone group	2015	2018
Lionel ZINSOU-DERLIN [b]	Male	62	Vice-Chairman of the Supervisory Board of PAI Partners SAS	2014	2020 [d]

(a) Date of the Shareholders' Meeting.
(b) Director considered as independent by the Board of Directors on February 14, 2017 at the recommendation of the Nomination and Compensation Committee (see section *Review of Directors' Independence* hereafter).
(c) Appointed by the Works Council in June 2016 to replace Mrs. Marie-Anne JOURDAIN who retired early.
(d) Provided his/her term of office is renewed by the Shareholders' Meeting of April 27, 2017.

Since 2013, the Board of Directors has included a Lead Independent Director, Mr. Jean LAURENT (see hereafter section *Lead Independent Director*).

Pursuant to Act No. 2013-504 of June 14, 2013 and the Company's by-laws, two Directors representing employees sit on the Board, one appointed by the Works Council and the other by the European Works Council. In addition, a member of the Works Council participates in Board of Directors' meetings in an advisory capacity.

The Board of Directors includes an honorary Vice-Chairman of the Board of Directors, Mr. Michel DAVID WEILL, who was appointed to this function following the Shareholders' Meeting of April 28, 2011 and serves in an advisory capacity.

Separation of the offices of Chairman of the Board of Directors and Chief Executive Officer

Separation of the offices of Chairman of the Board of Directors and Chief Executive Officer

On September 2, 2014, the Board of Directors decided to separate the offices of Chairman of the Board of Directors and Chief Executive Officer, effective October 1, 2014, and to appoint Mr. Emmanuel FABER as Chief Executive Officer, with Mr. Franck RIBOUD remaining Chairman of the Board of Directors. This separation of offices creates the best conditions to organize Mr. Franck RIBOUD's succession at the head of the Company, while ensuring that Danone's strategy continues to evolve in accordance with the Company's culture and values by maintaining Mr. Franck RIBOUD as Chairman of Danone's Board of Directors.

Enhanced powers of the Chairman of the Board of Directors

In accordance with French law, the Chairman of the Board organizes and directs the work of the Board, and reports on it to the Shareholders' Meeting. He/she oversees the smooth operation of the Company's governance bodies and ensures, in particular, that the Directors are able to fulfill their duties. He/she may request any document or information that may serve to brief the Board in preparing its meetings.

The Board decided to increase the Chairman's duties, during a transition period, in order to enhance consultation between the Chairman and the Chief Executive Officer on all the major issues impacting the life of the Company, and to give the Chairman the ability to represent Danone in its high-level relations. These duties aim at preparing, in the best possible way, his succession at the head of Danone and at ensuring a smooth and progressive transition. The work carried out by the Chairman of the Board in 2016 is described in section 6.3 *Compensation and benefits of governance bodies* related to *2016 Annual fixed compensation*.

This transition period should be completed in 2017, after which time Mr. Franck RIBOUD will carry out his duties by exercising the traditional rights of a Board Chairman.

Lastly, in accordance with the rules of procedure and in addition to his powers under the law, the Chairman of the Board of Directors:

- presides over and chairs the Strategy Committee;
- monitors compliance with Danone's values and culture;
- may, upon request by the Chief Executive Officer, represent the Company in its high-level relations at a national and international level, and in particular with public authorities and with the Company's partners and strategic stakeholders; and
- may, without prejudice to the prerogatives of the Board of Directors and its Committees, be regularly consulted by the Chief Executive Officer concerning all events of significance with regard to the Company's strategy in the framework of the priorities defined by the Board of Directors, major external growth projects, large-scale financial operations, societal initiatives or the appointment of directors for the key activities and functions in the company. Upon invitation by the Chief Executive Officer, the Chairman may participate in internal meetings with the Company's managers and teams in order to share his input on strategic issues.

In all these specific missions, the Chairman acts in close coordination with the Chief Executive Officer, who alone ensures the executive and operational management of Danone.

Powers of the Chief Executive Officer

The Chief Executive Officer has full power to act in all circumstances in the name of the Company, within the scope of its corporate purpose and subject to the powers that the law expressly attributes to shareholders' meetings and to the Board of Directors. The Board of Directors' rules of procedure provide for limits to these powers for certain decisions which, due to their purpose or the sums involved, are subject to prior approval by the Board.

Thus, the Board of Directors is required to approve (i) strategic investment projects and (ii) all transactions, such as acquisitions or disposals, which may significantly impact Danone's results, its balance sheet structure or its risk profile.

In particular, the Chief Executive Officer must obtain the Board of Directors' prior authorization for the following transactions.

Type of transaction	Authorization thresholds
Acquisitions or disposals of securities and/or assets, partnerships or joint ventures (in cash or by asset contributions, carried out in one or several operations)	Threshold of €250 million applicable: • for acquisitions, partnerships and joint ventures: per investment for Danone's share; • for disposals: proceeds received for Danone's share.
Any off-balance sheet commitment made by Danone	Threshold of €100 million for Danone's share
Other investments	Any significant excess over the amount set in the annual budget
Internal reorganizations	Any reorganization representing an overall cost for Danone's share exceeding €50 million

Change in the composition of the Board of Directors proposed to the Shareholders' Meeting of April 27, 2017

Changes in the composition of the Board of Directors that occurred in 2016 and are planned for 2017 - French Financial Markets Authority recommendation No. 2012-02

	Departures	Appointments	Renewals
Board of Directors' meeting of April 28, 2016[a]	Marie-Anne JOURDAIN [b]		
Shareholders' Meeting of April 28, 2016		Clara GAYMARD	Emmanuel FABER Franck RIBOUD
Board of Directors' meeting of June 30, 2016		Frédéric BOUTEBBA [b]	
Shareholders' Meeting of April 27, 2017	Bruno BONNELL	Gregg L. ENGLES	Gaëlle OLIVIER Isabelle SEILLIER Jean-Michel SEVERINO Lionel ZINSOU-DERLIN

(a) Board of Directors' meeting at which these departures were noted.
(b) Director representing employees.

The term of office of the Directors representing employees will expire at the 2020 Shareholders' Meeting as the procedures involving the staff representative bodies regarding their reappointment have been completed early 2017.

Characteristics of the Board of Directors subject to approval by the Shareholders' Meeting of April 27, 2017 of the above-mentioned renewals of the terms of office and approval of the proposed appointments

	Composition subsequent to the 2014 Shareholders' Meeting	Composition subsequent to the 2015 Shareholders' Meeting	Composition subsequent to the 2016 Shareholders' Meeting	Composition subsequent to the 2017 Shareholders' Meeting
Rate of independence	71%	77%	79%	71%
Percentage of women	29%	38%	43%	43%
Average age of Directors	56.1 years	55.4 years	56.4 years	57.4 years
Average length of terms of office	7.4 years	6.9 years	7.3 years	7.2 years
Percentage of Directors of non-French nationality	29%	31%	29%	36%

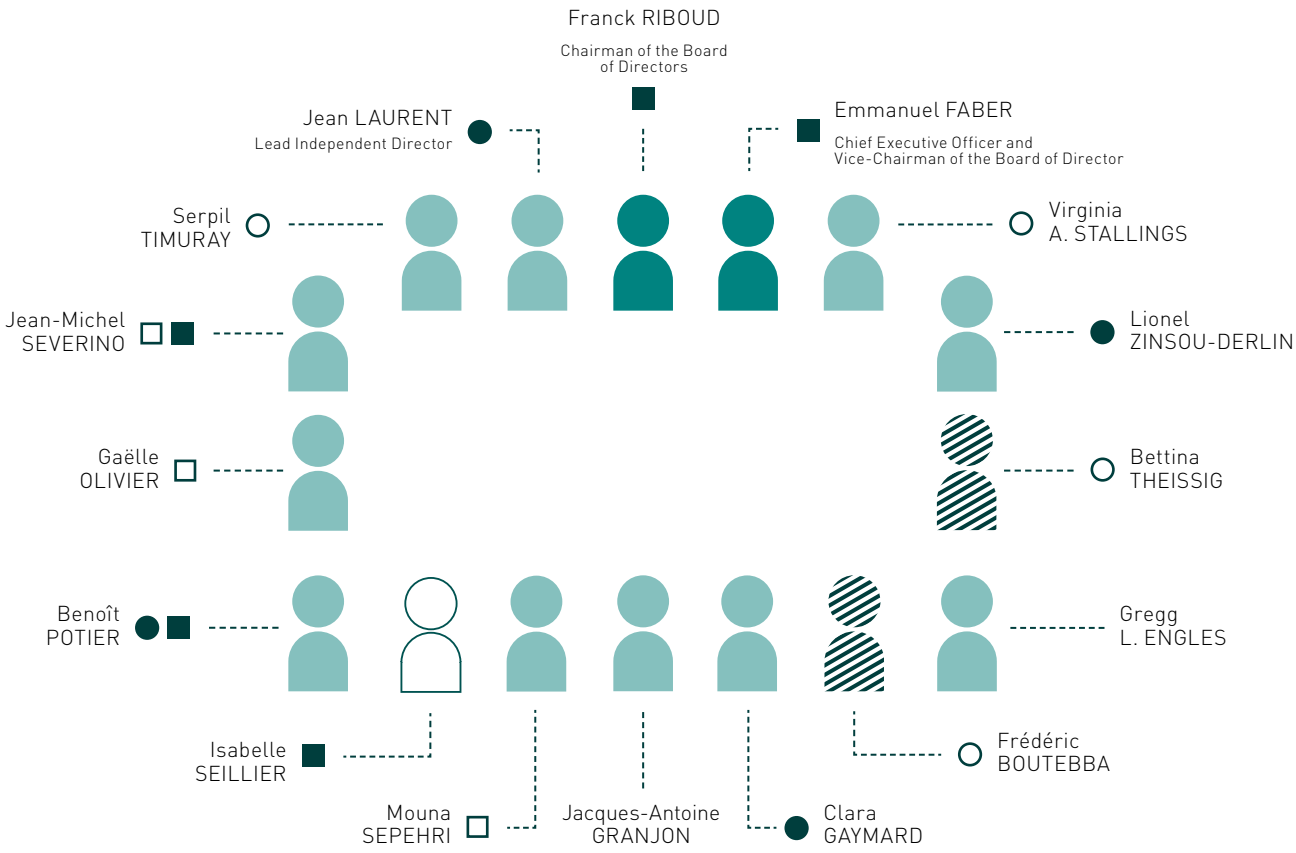
The Directors representing employees are not include:

- in accordance with the recommendations of the AFEP-MEDEF Code, in the calculation of the rate of independence of the Board of Directors;
- in accordance with applicable laws, in the calculation of the percentage of women on the Board;
- consequently and to ensure the consistency of the data presented, in the calculation of the average age, the average length of the term of office and the percentage of Directors of non-French nationality.

Accordingly, following the Shareholders' Meeting of April 27, 2017, subject to a favorable vote by the Meeting:

- the rate of independence will still be higher than that recommended by the AFEP-MEDEF Code (*i.e.* 50% for widely-held companies with no controlling shareholder, such as Danone) and all the members of the Audit Committee and the Nomination and Compensation Committee will still be independent;
- the percentage of women will be higher than the percentage required by French law, which requires such percentage to be at least 40%.

Composition of the Board of Directors at the end of the 2017 Shareholders' Meeting [a]



[a] Subject to the approval by the Shareholders' Meeting of the term of office renewals and proposed appointment.

Rules applicable to the organization and governance of the Board of Directors

Directors' terms of office

Length and renewal of terms of office

Pursuant to the by-laws, Directors are appointed for a three-year term of office that may be renewed. The term of office of a Director who is an individual expires automatically at the end of the Shareholders' Meeting convened to vote on the past fiscal year's financial statements and held in the year during which such Director has turned or will turn 70. However, upon a decision of the Shareholders' Meeting, this age limit does not apply to one or more Directors who may remain in office or be reappointed one or more times, so long as the number of Directors concerned by this decision does not exceed one-fourth of the number of Directors in office.

In order to support the smooth renewal of the Board, the Directors' terms of office are staggered. The regular renewal of such terms of office by shareholders is thus facilitated (i) due to the fact that the by-laws limit the terms of office to three years and (ii) by spreading the expiration dates of the various terms of office and thereby enabling the Shareholders' Meeting to vote on the terms of office of several Directors each year.

Holding of DANONE shares by the Directors

Although French law no longer requires a minimum shareholding by directors, Danone's by-laws, in accordance with the AFEP-MEDEF Code, require each Director (with the exception of Directors representing employees) to hold a minimum of 4,000 shares. For information purposes, 4,000 DANONE shares represent an amount of €240,800 based on the share closing price on December 31, 2016.

Rules of procedure

Adoption by the Board of Directors on April 25, 2002

The Board of Directors' rules of procedure, which set out the Directors' rights and obligations and the method of operation of the Board of Directors, were adopted by the Board of Directors on April 25, 2002. They are also published on Danone's website and the key provisions are summarized hereafter.

Recent amendments

The Board of Directors' rules of procedure are reviewed on a regular basis and have been amended following regulatory developments and several Board of Directors' self-assessments.

The most recent amendment to the rules of procedure occurred on October 19, 2016 in connection with the change in the rules on insider trading prevention.

Summary of the main provisions of the Rules of Procedure in force

General

The Board of Directors sets the Company's business policies and ensures that they are implemented.

The Board of Directors is a collegiate body that meets at least five times a year.

At each Board meeting, an update is provided on the main transactions carried out by Danone since the previous meeting and on significant projects in progress that may be carried out before the following meeting. Each year, the Board reviews the key points of Danone's management report, as well as the resolutions to be submitted to the Shareholders' Meeting. Furthermore, at least once every six months, General Management informs the Board of Directors of the Company's financial position, cash position and commitments.

In addition, the independent Directors meet at least once a year on the proposal of the Lead Independent Director, who may invite the Company's other external Directors to attend the meeting.

The Board of Directors may create one or more specialized Committees and determine their composition, powers and rules of operation. The Committees perform their duties under the Board of Directors' responsibility.

The Committees are comprised solely of Directors: their members are appointed by the Board of Directors upon recommendation of the Nomination and Compensation Committee. They are appointed in their individual capacity and may not, in turn, appoint a proxy to represent them.

Directors receive attendance fees; however, the members of the Executive Committee, the Company's corporate officers, the honorary Directors, the Chairman of the Board and the Directors representing employees do not receive any attendance fees. The Shareholders' Meeting approves the total maximum amount of attendance fees to be divided among the Directors.

The allocation of attendance fees takes into account the actual participation of Directors at Board and Committee meetings and includes a majority variable component.

Directors' Code of Ethics

The Board's rules of procedure include a 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 ensure that his/her personal situation does not create any conflict of interests with Danone. Any Director who has a conflict of interest must (i) report it to the Board so that the latter may make a decision thereon, and (ii) refrain from taking part in any deliberations and vote on the relevant matter.

Each Director must provide a sworn statement describing 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, and (iv) within 10 business days of the occurrence of any event that causes the Director's previously filed statement to become inaccurate, in whole or in part.

Transactions in the Company's shares

In general, members of the Board of Directors are bound by a duty to exercise due care and diligence, as well as an obligation to take special care with respect to any personal transactions involving DANONE securities and all financial instruments related to these shares. In particular, Directors may not engage in speculative or short-term transactions involving the Company's securities.

In addition, members of the Board of Directors must not use any instruments to hedge DANONE shares or any financial instruments related to DANONE shares (in particular, call options or grants of Danone shares subject to performance conditions). This rule also applies to all transactions carried out by persons who are related to the Directors (within the meaning of applicable French regulations).

Board of Directors' assessment

The Board's composition, organization and operation are 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.

Training of Directors

Each Director is entitled to the training necessary for him/her to carry out his/her term of office, either upon appointment or throughout his/her term. This training, whether internal or external, enables the Director to understand in particular Danone's business, risks and organization, or to develop certain specific skills. It is organized and paid for by the Company. The Directors representing employees receive training suitable to carrying out their terms of office as soon as they take up their positions.

When assuming their positions, all new Directors receive all the documentation and information required to ensure thorough knowledge and understanding of Danone and its accounting, financial and operating characteristics and the performance of their duties as members of the Board of Directors. The Secretary of the Board also provides them with the rules pertaining to holding, communicating and using inside information, and to transactions on DANONE shares.

Operation during the fiscal year

Review of Directors' independence

On February 14, 2017, the Board of Directors, at the recommendation of the Nomination and Compensation Committee, conducted its annual review of the independence of each of the Directors based on the independence criteria defined by the rules of procedure in accordance with the AFEP-MEDEF Code and determined that, as of February 14, 2017, 11 of the 16 Directors were independent, for an independence rate of 79%.

Danone applies the recommendations of the AFEP-MEDEF Code, with the exception of the independence criterion of the AFEP-MEDEF Code whereby holding a term of office for more than 12 years is *ipso facto* sufficient to result in the loss of independence. The Board observes that Danone's development strategy is based on a dual economic and social project which gives it a unique culture. In this respect, the Board has reaffirmed on many occasions the importance that it places on the Company's cultural factors in order to assess the pertinence and feasibility of the projects submitted for its approval. It believes that Danone's culture is a unique competitive advantage that benefits both Danone and its shareholders. Along these lines, the Board has noted that many years of experience as a Board member allows a better understanding of the cultural traits specific to the Company and its mission and therefore helps to inform the Board's work and allows its members to make critical and independent decisions while preserving Danone's identity and culture over the long term. Based on these assessment criteria analyzed on a practical, regular and individual basis, the Board of Directors decided that the 12-year criterion defined by the AFEP-MEDEF Code, among five other criteria, was not in itself sufficient to cause the member to lose the status of independent director.

As a reminder, in accordance with the recommendations of the AFEP-MEDEF Code, the two Directors representing employees are not included in the calculation of the independence rate.

Non-independent Directors

When examining the business relationship between a Director and Danone to determine whether there are significant business relations that may affect a Director's independence, the criteria used by the Board are both quantitative and qualitative and include the amount of sales generated and an analysis of the nature of the existing relationship.

- Messrs. **Franck RIBOUD** and **Emmanuel FABER** in their capacity as corporate officers;
- Mrs. **Isabelle SEILLIER**, key manager at J.P. Morgan. During the annual review to assess Director independence, the Nomination and Compensation Committee and the Board specifically examined the business relationship between Danone and J.P. Morgan, which is one of the banks with which Danone regularly conducts business. Although it does not appear significant in terms of amounts for Danone and J.P. Morgan for fiscal year 2016, the Board believed that this business relationship was liable to be significant and create a conflict of interest due to: (i) the very nature of the business relationship, as J.P. Morgan is a bank that Danone regularly uses, particularly for financing, and (ii) Mrs. Isabelle SEILLIER's position as a key manager at J.P. Morgan. The Board therefore decided to consider Mrs. Isabelle SEILLIER a non-independent Director.

  In that context, at the recommendation of the Nomination and Compensation Committee, the Board has taken various steps to ensure that potential conflicts of interest related to Mrs. Isabelle SEILLIER's functions are managed by Danone, in particular: (i) Mrs. Isabelle SEILLIER's systematic abstention from participating in discussions and voting on any deliberations that could put her in a situation in which there is a conflict of interest, (ii) express reference in the Board of Directors' report to the Shareholders' Meeting of her designation as a non-independent Director and of the existence of potential conflicts of interest involving her, (iii) full transparency on the conditions of compensation of J.P. Morgan by Danone under agreements subject to shareholders' approval, (iv) where applicable, vote of a resolution concerning all new regulated agreements entered into with J.P. Morgan, which would automatically be put to a separate vote of the shareholders at the next Shareholders' Meeting , and (v) absence of Mrs. Isabelle SEILLIER's involvement in the negotiation and implementation of agreements entered into by Danone with J.P. Morgan.

Independent Directors

The Board examined the potential business relationship between Danone and the entity or group with which each independent Director is associated (in light of the recommendations of the AFEP-MEDEF Code) and concluded that the following Directors were independent:

- Mr. **Bruno BONNELL**: a Director for more than 12 years, the Board has observed, in addition to the above explanation regarding the Board's assessment of the 12-year seniority criterion, that Mr. Bruno BONNELL consistently presents himself as an independent thinker who expresses himself freely, which leads him to take clear, constructive positions and provide specific and distinct viewpoints during Board discussions. The Board noted that Mr. Bruno BONNELL's positions have enriched its decisions and that the independence of these positions is very valuable for Danone, on a Board of Directors that has a majority of independent Directors as defined using the strictest application of current standards. Moreover, the Board noted the absence of a significant business relationship between Mr. Bruno BONNELL and Danone based on the criteria presented above;
- Mr. **Benoît POTIER**: a Director for more than 12 years, the Board has observed, in addition to the above explanation regarding the Board of Directors' assessment of the 12-year seniority criterion, the strong contribution to the Board's discussions by Mr. Benoît POTIER, Chairman and Chief Executive Officer of Air Liquide, one of the largest CAC 40 companies, as well as his ability to think and express himself freely. Mr. Benoît POTIER also presents himself as a very independent thinker. Moreover, the Board noted the absence of a significant business relationship between Mr. Benoît POTIER and Danone based on the criteria presented above;
- Mrs. **Gaëlle OLIVIER**: a key manager of the Axa group, the Board of Directors conducted a quantitative and qualitative review of the business relationship between Danone and the Axa group and, in particular, reviewed the financial transactions between them. These financial transactions mainly correspond to the payment by Danone of insurance premiums for insurance policies covering property damage/operating losses and civil liability as well as personal insurance policies. In any case, for the 2016 fiscal year, the sums paid by Danone to the Axa group were far less than 0.1% of the sales generated by either Danone or the Axa group. It was also noted that, given Danone's organization, size and diverse operations, the Company is not involved in the commercial relations of Danone's various businesses, as the divisions are in fact managed by the relevant departments in a decentralized manner. Lastly, Mrs. Gaëlle OLIVIER has no direct or indirect decision-making power in this business relationship, which existed long before her appointment as Director and is not "materially" important for Axa. As a result, the Board believed that, to the extent that these contracts or agreements are concluded under market conditions in the normal course of Danone's business and do not represent significant sums, none

of these contracts or agreements taken separately or together is: (i) liable to give rise to conflicts of interest between, on the one hand, Mrs. Gaëlle OLIVIER's duties toward Danone and its shareholders in her capacity as Director and, on the other hand, her private interests and/or other duties, and (ii) liable to impair her independence as a Danone Director;

- Mrs. **Mouna SEPEHRI**: the Board examined her situation given her functions at Renault. The Board analyzed whether the presence of Mr. Franck RIBOUD on the Board of Directors of Renault, a group at which Mrs. Mouna SEPEHRI is a Member of the Executive Committee and Vice-President CEO Office of Renault SAS, could compromise Mrs. Mouna SEPEHRI's independence. Pursuant to the rules of the AFEP-MEDEF Code, the independence of a Director may be called into question only if the Director is him/herself a corporate officer of Renault, which is not the case (since Mrs. Mouna SEPEHRI is not a director of Renault). In addition, the Board of Directors conducted a quantitative and qualitative review of the business relationship between Danone and the Renault group and, in particular, reviewed the financial transactions between them. Renault is the supplier to the company car leasing agencies used by Danone. The amounts paid by Danone to the Renault group for fiscal year 2016 were significantly less than 0.1% of the sales generated by either Danone or the Renault group. It was also noted that, given Danone's organization, size and diverse operations, the Company is not involved in the commercial relations of Danone's various businesses, as the divisions are in fact managed by the relevant departments in a decentralized manner. Lastly, Mrs. Mouna SEPEHRI has no direct or indirect decision-making power in this business relationship, which existed long before her appointment as Director and is not "materially" important for Renault. As a result, the Board believed that, to the extent that these contracts are concluded under market conditions in the normal course of Danone's business and do not represent significant sums, none of these contracts taken separately or together is: (i) liable to give rise to conflicts of interest between, on the one hand, Mrs. Mouna SEPEHRI's duties towards Danone and its shareholders in her capacity as Director and, on the other hand, her private interests and/or other duties, and (ii) liable to impair her independence as a Danone Director;
- Mrs. **Serpil TIMURAY**, Mrs. **Clara GAYMARD**, Mrs. **Virginia A. STALLINGS**, Mr. **Jacques-Antoine GRANJON**, Mr. **Jean LAURENT**, Mr. **Jean-Michel SEVERINO** and Mr. **Lionel ZINSOU-DERLIN**: the Board confirmed that they meet all the AFEP-MEDEF Code independence criteria, particularly as regards the absence of a business relationship between them and Danone, and therefore confirmed their designation as independent Directors.

In addition, in reviewing the proposed appointments as Directors, the Board of Directors, upon recommendation of the Nomination and Compensation Committee, examined the situation of Mr. **Gregg L. ENGLES** in light of the independence rules of the AFEP-MEDEF Code. The Board concluded that he should be considered as a non-independent Director given his position as executive director of a company that is to be consolidated by Danone, namely WhiteWave. The presentation of Mr. Gregg L. ENGLES and the analysis of this candidate's independence are given in the comments on the resolutions of the Shareholders' Meeting available on Danone's website.

Situation as of February 14, 2017 of each Director with regard to the independence criteria defined by the AFEP-MEDEF Code - French Financial Markets Authority recommendation No. 2012-02

Name	Employee or executive director and officer during the past five years [a]	Cross-directorships [a]	Significant business relationship [a]	Family relationship [a]	Statutory audit [a]	Term of office exceeding 12 years [a] [b]
Franck RIBOUD		✓	✓	✓	✓	
Emmanuel FABER		✓	✓	✓	✓	
Bruno BONNELL	✓	✓	✓	✓	✓	✓ [b]
Frédéric BOUTEBBA		✓	✓	✓	✓	✓
Clara GAYMARD	✓	✓	✓	✓	✓	✓
Jacques-Antoine GRANJON	✓	✓	✓	✓	✓	✓
Jean LAURENT	✓	✓	✓	✓	✓	✓
Gaëlle OLIVIER	✓	✓	✓	✓	✓	✓
Benoît POTIER	✓	✓	✓	✓	✓	✓ [b]
Isabelle SEILLIER	✓	✓		✓	✓	✓
Mouna SEPEHRI	✓	✓	✓	✓	✓	✓
Jean-Michel SEVERINO	✓	✓	✓	✓	✓	✓
Virginia A. STALLINGS	✓	✓	✓	✓	✓	✓
Bettina THEISSIG		✓	✓	✓	✓	✓
Serpil TIMURAY	✓	✓	✓	✓	✓	✓
Lionel ZINSOU-DERLIN	✓	✓	✓	✓	✓	✓

(a) "✓" means that the independence criterion is met; no sign means that the independence criterion is not met.
(b) Concerning the application of the criterion of a term of office exceeding 12 years, see section *Review of Directors' independence* above.

Conflicts of interest

To the Company's knowledge, there are no family ties among the Company's corporate officers and, during the last five years, no corporate 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.

To the Company's knowledge, 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 (see section *Review of Directors' independence* above).

On the date of this Registration Document, no executive director and officer is connected to the Company or one of its subsidiaries via a service contract granting any benefits whatsoever.

Training of Directors

When assuming their positions, all new Directors receive all the documentation and information required to ensure thorough knowledge and understanding of Danone and its accounting, financial and operating characteristics.

Danone offers (i) each new Director an extensive integration process that includes individual meetings with several Directors and individual interviews with members of General Management and the Executive Committee, and (ii) all Directors the opportunity to attend presentations by senior managers in charge of Danone's main functions as well as regular on-site visits.

For example, Mrs. Clara GAYMARD, a Director appointed in 2016, completed an integration program in 2016 that included several individual interviews with members of General Management and the Executive Committee, and attended presentations by several directors of Danone's main functions.

Moreover, in accordance with Decree No. 2015-606 of June 3, 2015, the Directors representing employees were also consulted in order to obtain their opinion regarding the training that they wish to receive during the year. In 2016, all the Directors representing employees attended a training course of their choice to enable them to perform their duties.

Directors' attendance fees

The rules related to the payment of attendance fees are presented in detail in paragraph 6.3 *Compensation and benefits of governance bodies.*

Work

The Board of Directors met nine times in 2016 (five times in 2015). The average length of each meeting was two hours and 15 minutes (compared to two hours and 50 minutes in 2015). The Board of Directors' regular consultations on the acquisition of WhiteWave, which often required the Board to meet on very short notice, explain the higher number of Board meetings and the slight decrease in the Directors' attendance rate.

Directors' attendance, expressed by their rate of participation at these meetings, was 88% in 2016 (92% in 2015). The average individual attendance rate at Board of Directors' and Committee meetings for 2016 is indicated in each Director's profile (see section 6.2 *Positions and responsibilities of the Directors and Nominees to the Board of Directors*).

Recurring matters

The following recurring matters were reviewed and discussed by the Board of Directors in 2016:

Strategic aspects of day-to-day management

Detailed review of Danone's business activities, presentation of the budget, approving the annual statutory and consolidated financial statements, approving the interim consolidated financial statements, financial communications, main external growth operation and sales of assets or equity interests, reviewing Danone's financial position and its debt (changes, amount, composition and repayment dates, off-balance sheet commitments, equity levels, liquidity, hedging of financial risks, credit ratings), reviewing the Statutory auditors' approach to their work, reviewing financial commitments (security interests and guarantees), monitoring Danone's financial communication policy (including reviewing all press releases regarding the annual and interim consolidated financial statements), annual authorization to General Management with respect to Danone's bond issuance program (EMTN), receiving regular information on Danone's risk management and internal control systems and reviewing Danone's risks by overseeing the work of the Audit Committee, implementing the share buyback program, annual capital increases reserved for employees, allocation of GPUs and GPS (including setting, each year, the performance objectives for the following year and verifying that such objectives were met the previous year), monitoring Danone's share price and shareholders, setting the proposed dividend, approving Danone's annual contribution to danone.communities, as well as discussing Danone's policy on work and pay equality for men and women.

Operation of corporate bodies

Follow-up of corporate governance issues, receiving regular minutes of the meetings of the Board's Committees, determining the compensation of each of the Company's corporate officers, approving the Board's reports, draft resolutions submitted for shareholders' approval, and preparing the Shareholders' Meeting.

Danone's strategy

Reviewing Danone's transformation priorities (exposure to emerging markets, prioritizing certain key countries, etc.) and their various impacts on Danone (in terms of organization and operation of human resources, adapting Danone's products to local demand, etc.); in particular, consulting with the Strategy Committee on strategic policies and attending annual strategic presentations made to the Board by each member of the Executive Committee at a dedicated one-day event. All these matters and presentations are always followed by in-depth discussions with the Directors.

In addition, each year Directors are invited to attend several working days in Évian, where an annual seminar is held for all of Danone's key managers, during which Danone's strategy and those of its various Divisions are presented and discussed in detail.

Specific matters

In 2016 and in February 2017, the Board of Directors focused on the following specific topics:

Transactions and accounting and financial position

- review of the year-end closing process in connection with the 2016 statutory and consolidated financial statements;
- monitoring of Danone's debt (change, amount, composition and repayment schedules);
- review of the annual authorization related to Danone's short-term marketable securities issue program;
- review of Danone's financing transactions;
- implementation of a capital increase reserved for employees;
- in connection with the Shareholders' Meeting of April 27, 2017, review of the resolutions to be submitted to the Shareholders' Meeting regarding the renewal of financial authorizations and the authorization to implement the Company's share repurchase program, as well as the distribution of dividends.

Corporate governance

In connection with the Shareholders' Meeting of April 28, 2016

- review of the composition of the Board and, more specifically, review of (i) the appointment of Mrs. Clara GAYMARD as Director, (ii) the renewal of the terms of office as Directors of Messrs. Franck RIBOUD and Emmanuel FABER, and (iii) the renewal of their respective terms of office as Chairman of the Board of Directors and Chief Executive Officer, subject to the condition precedent of the renewal of their terms of office as Directors by the Shareholders' Meeting;
- review of the retirement commitments made to Messrs. Franck RIBOUD and Emmanuel FABER and of the performance conditions related to the annual rights of Mr. Emmanuel FABER;
- review of the commitments related to Mr. Emmanuel FABER's severance pay;
- review of the Statutory auditors selection procedure, which led to the proposal to renew the term of office of the current Statutory auditors;
- regular minutes of Board of Directors' committee meetings;
- annual review of regulated agreements.

In connection with the Shareholders' Meeting of April 27, 2017

- review of (i) the composition of the Board, particularly with regard to its percentage of women and independent members, and (ii) the diversity of the Board's composition, leading to the proposal to renew the terms of office of Mr. Jean-Michel SEVERINO, Mr. Lionel ZINSOU-DERLIN, Mrs. Isabelle SEILLIER and Mrs. Gaëlle OLIVIER and to appoint Mr. Gregg L. ENGLES as Director;
- review of the matters addressed at the Shareholders' Meeting and the responses to them;
- annual review of regulated agreements.

Other governance items

In connection with the operation and composition of the Board of Directors

- amendments to the Board of Directors' rules of procedure in light of EU regulation 596/2014 on market abuse;
- meeting of the external Directors (executive session) organized on the proposal of the Lead Independent Director and regarding Danone's governance and, in particular, its operation and development;
- review of the activity of the Lead Independent Director (annual work and annual update on the Board's operation);
- external assessment of the Board of Directors and report on its operation.

In connection with the composition of the Committees

- appointment of Mrs. Clara GAYMARD as a member of the Nomination and Compensation Committee;
- appointment of Mrs. Bettina THEISSIG, Director representing employees, as a member of the Social Responsibility Committee to replace Mrs. Marie-Anne JOURDAIN.

Activity and strategy for fiscal year 2016, sales and acquisitions

- in-depth review of the acquisition and financing of WhiteWave and monitoring of satisfaction of the conditions precedent of the transaction;
- review and monitoring of the bond issue.

Corporate Social Responsibility (CSR)

- annual review of Danone's situation and policy concerning work and pay equality for men and women;
- review of the strategic policies presented to the Danone Works Council;
- monitoring of the activities of danone.communities;
- replacement of the Sustainable Development Report with the integrated report;
- review of Danone's Packaging policy.

Compensation

- determination of the components of variable compensation due to the Chief Executive Officer for 2016 and of the objectives of the components of variable compensation for the Chief Executive Officer for 2017;
- determination of the 2016 GPS and 2016 GPU performance conditions in February 2016, 2017 GPS and 2017 GPU in February 2017;
- recognition of the achievement of the 2013 GPS performance conditions, of 2014 GPS and 2014 GPU;
- decision to grant GPS and GPUs in July 2016.

Assessment

In accordance with its rules of procedure, the Board of Directors conducts an assessment every two years (recently in 2014 and again in 2016), which covers the composition, organization and operation of the Board itself and of each of its Committees. The results of this assessment are reviewed by the Nomination and Compensation Committee. Following some of these assessments, the Board has amended its operating methods and rules of procedure. In addition, once a year the Board devotes one item on the agenda of one of its meetings to discussion of its operation.

Assessment in 2016

An external assessment of the Board of Directors' operation took place 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), with the help of an interview guide prepared in conjunction with the Lead Independent Director and the Board Secretary.

Results

The results of this assessment were presented to the Nomination and Compensation Committee and then to the Board and its conclusions reveal that:

- the Board's operation has continued to improve since the last assessment, all the recommendations of which had been implemented;
- of the Directors who sit on comparable boards, 80% feel that Danone's board takes a more active approach and operates more efficiently;
- the current form of separate governance is in line with Danone's current needs and the transition of power took place in an efficient, professional manner.

The main areas of satisfaction in terms of governance included:

- the consistency of the dual economic and social project with Danone's global size;
- the involvement and role of the Lead Independent Director and Committee Chairmen;
- the role of the Committees and, in particular, the participation of nearly all the Directors in at least one Committee;
- the successful change of governance with an efficient breakdown of roles between the Chairman and the Chief Executive Officer;
- the energy and intensity of Board discussions;
- the diversity and complementarity of the Board's members with strong involvement on the part of Directors;
- the introduction of strategy day.

The Board noted the main recommendations regarding the following points:

Meetings

- organize an off-site Board meeting;
- hold executive sessions of the Board on a more routine basis;
- give the Board more opportunities to diversify the group of Board meeting participants by meeting with the operational managers.

Information given to the Board

- provide a more in-depth strategic analysis of Danone's risks and opportunities and of Human Resources;
- continue to make presentations more succinct.

Committees

- provide more details in the reports presented to the Board;
- hold a Board meeting on risks facilitated by the Audit Committee;
- continue to improve the relationship between the Strategy Committee and Board of Directors.

Review of the Directors' individual contribution

When conducting the joint assessment of the Board, the specialized consulting firm reviewed the Directors' individual contribution to the work of the Board and its Committees. This review revealed that the Directors have a high level of involvement, attendance and preparation, which reflects all the Board members' strong support for Danone's values and project and their capacity to challenge and contribute to the Board's discussions. At the time of this review, it was stated that it may be necessary to strengthen the Board's composition in the future by adding individuals from the retail and/or fast-moving consumer goods sectors who have experience in either the US or Asia.

Review of the Board's operation

In 2016, the Board conducted an annual review of its own operation and that of each of its Committees.

Lead Independent Director

Presentation of the Lead Independent Director

In 2013, discussions with the Company's shareholders brought to the attention of the Board of Directors that certain shareholders perceived corporate governance risks in combining the offices of Chairman of the Board of Directors and Chief Executive Officer.

It appeared opportune to the Board to make obligatory the appointment of a Lead Independent Director 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. Consequently, at the Board meeting on February 18, 2013, the Board's rules of procedure were amended to create the position of a Lead Independent Director.

As part of the governance changes that occurred in October 2014 and the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer, and to ensure the creation of a new governance structure, the Board decided to maintain, for the current period, the functions of the Lead Independent Director and amended its rules of procedure accordingly.

Duties and powers

Duties

The Lead Independent Director's primary function is to ensure the smooth operation of the Board of Directors and its Committees. In that context, he/she is in charge of the following matters:

Board of Directors' assessment

The Lead Independent Director participates in the Board of Directors assessment process.

Management of conflicts of interest

The Lead Independent Director prevents conflicts of interest from occurring, notably by taking preventive 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.

As part of his/her duty to report conflicts of interest, any Director who has a real or potential conflict of interest notifies the Lead Independent Director.

Compliance with the rules of procedure

The Lead Independent Director ensures that the rules of procedure of the Board of Directors are complied with. As part of the consultation procedure concerning transactions by Directors in DANONE shares, the Lead Independent Director may be consulted by Directors in the same way as the Chairman.

Relations with shareholders

The Lead Independent Director assists the Chairman and the Chief Executive Officer, upon their request, to answer questions from shareholders, and makes himself/herself available to meet with them and receive comments and suggestions from them, at the request of and with the approval of the Chairman and the Chief Executive Officer.

Activity 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.

Powers

As part of his/her duties, the Lead Independent Director exercises the following powers:

Convening of Board of Directors' meetings/Agenda/ Informing Directors

The Lead Independent Director may ask the Chairman to convene a Board of Directors' meeting for a given agenda.

He/she may propose to the Chairman additional agenda items.

He/she ensures that the Directors are capable of performing their duties under the best possible conditions, and notably that they are properly informed prior to the Board of Directors' meetings.

Independent Directors

The rules of procedure of Danone's Board of Directors specify that the independent Directors should hold at least one meeting per year, on the proposal of the Lead Independent Director, who may invite the Company's other external Directors to attend this meeting. The Lead Independent Director ensures the link between the independent Directors, the other Board members and General Management.

The Board of Directors' Committees
The Lead Independent Director may attend the meetings and has access to the work of the other 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 corporate officers.

Meetings with managers
The Company keeps the Lead Independent Director regularly informed of its activities, including through the organization of regular meetings with operational or functional managers, upon his/her request and after informing the Chairman and the Chief Executive Officer.

Means
The Lead Independent Director has access to all documents and information that he/she deems necessary to fulfill his/her duties.

Appointment and renewal of office of Mr. Jean LAURENT as Lead Independent Director

The Lead Independent Director is appointed by the Board of Directors from among the independent Directors, based on a proposal from the Nomination and Compensation Committee. He/she remains in office throughout the duration of his/her term of office. Each time the Lead Independent Director's term of office expires, the Board will complete a review of the operation of this corporate body and its powers in order to adapt them if necessary.

Mr. Jean LAURENT was appointed as Lead Independent Director by the Board of Directors on February 18, 2013 in view of his independence, experience and knowledge of Danone. The Board of Directors took into account the business experience of Mr. Jean LAURENT, former Chief Executive Officer of a major banking group, as well as his in-depth knowledge of the Board and Danone. Indeed, he has served the Group as Director since 2005 and as Chairman of the Nomination and Compensation Committee since 2011.

Given Mr. Jean LAURENT's record as Lead Independent Director, on February 19, 2015 the Board of Directors decided to renew his appointment as Lead Independent Director.

Work

In 2016, the work of the Lead Independent Director included the following:

- active participation in the assessment of the Board's operation by an external firm (preliminary meeting with and approval of the prospective firm, approval of the questionnaire and preliminary presentation of the results);
- involvement in the preparations for the dialog in the fall with the Company's largest shareholders regarding the Company's governance principles;
- regular discussions with the Board Chairman and Secretary concerning governance-related issues and preparations for the Shareholders' Meeting;
- monitoring of the separated governance structure;
- review of conflict of interest questionnaires;
- visits to foreign sites and operations (Africa);
- participation in the annual strategic seminar for Danone key managers.

Audit Committee

Composition as of December 31, 2016: 3 Directors, all considered as independent

As a reminder, the percentage of independent Directors on this Committee recommended by the AFEP-MEDEF Code is only 66%.

	Start date as Committee member
Jean-Michel SEVERINO Chairman	**Beginning of the term of office: April 2012, Chairman of the Committee since April 2012** Mr. Jean-Michel SEVERINO is the "Committee's financial expert" within the meaning of Article L. 823-19 of the French commercial code given his skills and expertise. Mr. Jean-Michel SEVERINO is indeed an Inspector General of Finance and previous positions have included Development Director at the French Ministry of Cooperation, the World Bank's Vice-President in charge of Far East Asia and Chief Executive Officer of the French Development Agency (AFD). In these previous positions, he developed solid expertise in accounting and finance as well as in internal control and risk management.
Gaëlle OLIVIER	**Beginning of the term of office: February 2015** Mrs. Gaëlle OLIVIER developed solid financial expertise while working on the trading floor at Crédit Lyonnais and then as investment transactions manager for AXA Life Japan. She also has recognized expertise in risks and internal audit and is Chief Executive Officer of AXA Global P&C and a Member of the Management Committee of the AXA group.
Mouna SEPEHRI	**Beginning of the term of office: April 2012** Mrs. Mouna SEPEHRI has been involved in the development of the Renault group since 1996 and contributes to its major acquisitions and strategic partnerships. Her extensive experience in the area of mergers and acquisitions demonstrates her proven financial skills; furthermore, as head of the legal division of a major international listed group, Mrs. Mouna SEPEHRI brings important additional experience in risk management and internal control.

Rules of procedure

Main provisions

The Audit Committee is responsible for monitoring the following:

- the preparation of the financial statements and financial information;
- the effectiveness of the internal control, risk management and internal audit systems;
- the statutory audit of the annual and consolidated financial statements by the Statutory auditors;
- the independence of the Statutory auditors.

Duties

- regarding the financial statements and financial information: (i) reviewing the Company's statutory and consolidated financial statements before they are submitted to the Board of Directors, (ii) ensuring the consistency of the accounting policies the Company applies, (iii) reviewing the accounting treatment of the main complex and/or non-recurring transactions, (iv) reviewing the consolidation scope of Danone's companies and being informed of consolidation problems that may arise, (v) reviewing the policy for monitoring off-balance sheet commitments, (vi) being informed of the Statutory auditors' opinions and comments, (vii) being informed at half-yearly presentations by General Management of the Company's financial position, cash position and commitments, (viii) reporting the main options concerning the closing of the annual and interim consolidated financial statements to the Board of Directors, (ix) reviewing, together with General Management, press releases on Danone's results and receiving Danone's main financial communication documents, (x) receiving non-financial information published by Danone which has been presented to the Social Responsibility Committee, and (xi) reviewing the status of Danone's main litigation and any corresponding accounting provisions twice a year;
- regarding Danone's Statutory auditors (i) managing the selection process by supervising the calls for tender launched by General Management and, in particular (ii) making proposals for the appointment, renewal and compensation of the Statutory auditors, (iii) reviewing the results of their work and audits as well as their recommendations and follow-up action on them, (iv) regularly meeting with the Statutory auditors, including without directors being present, and (v) ensuring the independence of the Statutory auditors, particularly by approving some of their audits in advance;
- regarding risk management: (i) ensuring that structures and systems are in place to identify and evaluate Danone's risks, as well as monitoring the effectiveness of such systems, which entails verifying that Danone's major risks are adequately taken into account and subject to action plans; (ii) being informed by the Board of Directors, the Statutory auditors or General Management of any events that expose the Company to a significant risk, and (iii) being informed of Danone's main social, societal and environmental risks that have been presented to the Social Responsibility Committee;
- regarding internal control: (i) ensuring that an internal control system is in place and monitoring its effectiveness, (ii) being informed of any significant failures or weaknesses in internal control and any major fraud, (iii) reviewing the report of the Chairman of the Board of Directors on the composition, preparation and organization of the Board's work, as well as the internal control and risk management procedures implemented by the Company, (iv) ensuring that procedures are in place to process complaints received by Danone concerning accounting and financial transactions, breaches of internal control or anti-corruption and anti-fraud regulations, (v) being informed of significant complaints received by this system and supervising the processing of the most important files referred to it, and (vi) being available for consultation by the Social Responsibility Committee for any matters related to the Business Conduct Policy or ethics;
- regarding internal audit: (i) approving the internal audit plan and overseeing its implementation, (ii) reviewing the internal audit structure, being informed of the content of Danone's Internal Audit Charter and being informed and consulted on decisions related to the appointment or replacement of the Internal Audit Director, (iii) expressing its opinion on the adequacy of resources and the independence of internal audit and, in the event that outside firms are used to conduct any or all internal audits, making recommendations regarding their appointment and renewal, (iv) being informed of the internal audit program and receiving a regular summary of these reports, and (v) meeting with the heads of internal audit.

In performing its duties, the Audit Committee may regularly interview the corporate officers, General Management of Danone and its subsidiaries, as well as the Internal Audit Director, the Statutory auditors and Danone's key managers in particular, those responsible for preparing Danone's consolidated and statutory financial statements, risk management, internal control, legal and 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.

Main amendments/changes

The Audit Committee's rules of procedure are reviewed regularly, such as to ensure that they comply with the latest legal provisions and updated recommendations of the AFEP-MEDEF Code. The rules of procedure were therefore amended at the Board of Directors' meeting of December 10, 2013 in order to implement the new recommendations of the AFEP-MEDEF Code and, among other things, to stipulate (i) that the Statutory auditors should meet regularly with the Audit Committee, including without the corporate officers present, particularly during Audit Committee meetings covering the review of the financial information preparation process and the review of the financial statements, so that the Statutory auditors can report on the completion of their audit and the conclusions of their work, (ii) that the Audit Committee should be given information regarding the internal audit program and receive periodic summaries of these programs, and (iii) that the Audit Committee should meet with the heads of internal audit.

Work

In 2016, the Audit Committee met six times (five times in 2015). Its members' attendance rate, expressed by their rate of participation at these meetings, was 73% (93% in 2015). The Audit Committee invites the Statutory auditors to attend each of its meetings. In addition, an Audit Committee meeting is held once a year with the Statutory auditors without the corporate officers present.

In 2016 and in early 2017, the Committee's work focused primarily on the following matters:

- Danone's financial position;
- review of Danone's annual and interim consolidated financial statements. This review always involves: (i) presentation of Danone's financial position by the Chief Financial Officer, (ii) presentation by the Statutory auditors of their audit approach, (iii) a joint presentation by the Chief Financial Officer and the person responsible for the financial statements (Finance Control Director), on the one hand, and the Statutory auditors, on the other hand, of the main accounting options used, (iv) review of Danone's main litigation, (v) review of off-balance sheet commitments, and (vi) hearing the findings of the Statutory auditors, including as regards their audit adjustments;
- review of the financial indicators not defined by IFRS and used externally for publication of the annual and interim consolidated financial statements;
- review of the main changes in Danone's consolidation scope and of the principal terms of transactions involving changes in scope and their accounting treatment;
- review of the draft press releases on the annual and interim consolidated results. On this occasion, the Committee ensured that the financial information presented to the markets was consistent with the consolidated financial statements, and that the process of preparing the press releases included their review by the Statutory auditors;
- presentation of the proposed dividend payment to be submitted to the shareholders for approval;
- review of the draft resolutions concerning the renewal of financial authorizations and the share buyback program submitted to the Shareholders' Meeting for approval;
- the semi-annual review of Danone's main risks (including financial risks), particularly via topic-based presentations and discussions with the operational managers in charge of monitoring and managing these risks, and updated presentations of risk mapping;
- monitoring the organization and effectiveness of the audit and internal control systems;
- approval of Danone's internal audit plan and review and summary of the principal results of audits conducted during the year;
- review of the section of the Chairman's report on internal control and risk management;
- approval and regular monitoring of the Statutory auditors' fees;
- monitoring of Danone's financial transactions;
- monitoring of Danone's organization with regard to food compliance and safety;
- operation of the Committee and establishing its program and priorities for the 2016 and 2017 fiscal years;
- review of Danone's main fiscal risks and changes to the fiscal environment;
- review of IFRS developments;
- analysis of the impacts of audit reform on the Committee's work;
- approval of the procedure for services provided by the Statutory auditors and the members of their networks;
- review of the impact of foreign currencies on Danone's main financial indicators;
- review of the new organization of Corporate Affairs;
- review of Danone's crisis management process.

In addition, the Audit Committee reviewed the annual consolidated financial statements at meetings held sufficiently in advance in accordance with the AFEP-MEDEF Code, namely at least three days before the Board meeting approving the financial statements.

A report on each Audit Committee meeting is presented at the next Board of Directors' meeting. In addition, all Directors are sent a copy of the minutes of each Audit Committee meeting once they are approved by all the Committee members. The purpose of these reports is to keep the Board fully informed, thereby facilitating its decisions.

Nomination and Compensation Committee

Composition as of December 31, 2016: 4 Directors, all considered as independent

	Start date as Committee member
Jean LAURENT Chairman	April 2005, Chairman since April 28, 2011
Benoît POTIER	April 2012
Lionel ZINSOU-DERLIN	February 2015
Clara GAYMARD	April 2016

The corporate officers are involved in the work of the Nomination and Compensation Committee, except for matters that concern them personally.

Rules of procedure

Main provisions

Responsibilities

- appointment of the Directors and corporate officers or renewal of their terms of office: (i) making proposals to the Board of Directors regarding the appointment or the renewal of the terms of office of the members of the Board of Directors, its Chairman and Vice-Chairmen, the Chief Executive Officer or Deputy General Managers, Committee members and Committee Chairmen, and (ii) making proposals to the Board of Directors regarding the succession of corporate officers, in particular in the event of an unexpected vacancy. In addition, the Nomination and Compensation Committee is informed of any appointment of a member of Danone's Executive Committee (other than the corporate officers);
- corporate governance: preparing the Board of Directors' review of corporate governance issues and, in particular, checking whether and to what extent the Directors and Committee members meet the independence criteria set out in the AFEP-MEDEF Code;
- assessment of the Board of Directors and the committees: organizing these assessments at their request;
- compensation of the Company's corporate officers: (i) proposing criteria for determining all the components, including the amount, of their compensation and ensuring the correct application of these criteria and (ii) making proposals on grants of GPS or GPUs to these corporate officers;
- attendance fees paid to Directors: recommending to the Board the amount of attendance fees to be proposed at the Shareholders' Meeting as well as the allocation of these attendance fees among Directors;
- Danone's compensation policy: expressing an opinion or making recommendations regarding the principles and terms of Danone's GPS and GPU policy and for any compensation mechanism related to the Company's shares and, more generally, making any recommendation related to Danone's compensation policy. In addition, the Nomination and Compensation Committee is informed of the compensation policy for Danone's Executive Committee members (other than corporate officers).

Main amendments/changes

The Nomination and Compensation Committee's rules of procedure are regularly updated. The primary changes involved the possibility that the Nomination and Compensation Committee evaluate the operation of the Social Responsibility Committee and that the confidentiality clause be unified with that applicable to the Board of Directors.

Work

In 2016, the Nomination and Compensation Committee met six times (five times in 2015) and its members' attendance rate (rate of participation at these meetings) was 94% (87% in 2015).

A report on each Nomination and Compensation Committee meeting is presented at the next Board of Directors' meeting. The purpose of these reports is to keep the Board fully informed, thereby facilitating its decisions.

In 2016 and in early 2017, the work of the Nomination and Compensation Committee focused mainly on the following matters:

Concerning General Management and the Board of Directors

In connection with the Shareholders' Meeting of April 27, 2017

- review of the composition of the Board of Directors and, more specifically, review of the renewal of the terms of office as Directors of Mrs. Gaëlle OLIVIER, Mrs. Isabelle SEILLIER, Mr. Jean-Michel SEVERINO and Mr. Lionel ZINSOU-DERLIN and review of the appointment of Mr. Gregg L. ENGLES as Director;
- review of the resolutions to be submitted to the Shareholders' Meeting of April 27, 2017 concerning (i) the corporate officers' compensation policy and (ii) the individual compensation of Mr. Franck RIBOUD and Mr. Emmanuel FABER for 2016 (say on pay).

In connection with the Shareholders' Meeting of April 28, 2016

- review of the composition of the Board of Directors and, more specifically, review of the renewal of the terms of office as Directors of Mr. Franck RIBOUD and Mr. Emmanuel FABER and of their respective terms of office as Chairman of the Board of Directors and Chief Executive Officer, and review of the appointment of Mrs. Clara GAYMARD as Director;
- review of all the components of the compensation of the Chairman of the Board and the Chief Executive Officer and, in particular, the variable compensation due in respect of fiscal year 2015. The Committee reviewed the following variable compensation programs: (i) the short-term program, (ii) the medium-term program, including a review of whether performance objectives were met in each of the preceding fiscal years and setting performance objectives at the beginning of each new fiscal year; and (iii) the long-term program, including a review of the obligation of the corporate officers and the other members of the Executive Committee to retain their shares;
- review of the retirement commitments in connection with the renewal of the terms of office of the corporate officers and of the annual performance conditions concerning the increase in the potential retirement benefits of Mr. Emmanuel FABER (Mr. Franck RIBOUD's rights have been capped since 2014);
- in connection with the renewal of Mr. Emmanuel FABER's term of office as Director, review of his end-of-term indemnity and his obligation to retain shares;
- review of Danone's variable compensation policy (and, more specifically, regarding GPS and GPUs, review of performance conditions and their weighting);
- review of the resolutions to be submitted to the Shareholders' Meeting of April 28, 2016 concerning the individual compensation for Mr. Franck RIBOUD and Mr. Emmanuel FABER (say on pay).

Concerning the various Committees

- review of changes in the composition of the Nomination and Compensation Committee with the proposal to appoint Mrs. Clara GAYMARD as a member of this Committee;
- review of changes in the composition of the Social Responsibility Committee with the proposal to appoint Mrs. Bettina THEISSIG, Director representing employees, as a member of this Committee to replace Mrs. Marie-Anne JOURDAIN.

Concerning the components of variable compensation of directors and managers for the 2017 fiscal year

- 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 attributable;
- review, at the start of the fiscal year, of the determination of performance conditions applicable to GPUs based on objectives communicated to the market;
- review of a new draft resolution concerning the grant of GPS to be submitted to the 2017 Shareholders' Meetings;
- annual review to determine whether performance conditions have been achieved for GPUs and GPS.

Concerning corporate governance

- annual individual review of the independence of each Director and of the existence of any conflicts of interest, including potential conflicts of interest. Details of the review of the independence criteria applicable to these candidates and of their individual expertise and skills are found above in section *Review of Directors' independence*;
- monitoring of the Director integration process, particularly for the Directors representing employees, and assistance regarding their training;
- annual review of the process and practices in effect at Danone in terms of the succession plan for Danone's General Management and key positions at the Group's companies;
- annual review of the operation of the Board of Directors and the Committees;
- review of the proposed appointment of Mr. Gregg L. ENGLES as Director;
- review of the reappointment of Directors whose terms of office are expiring at the 2017 Shareholders' Meeting.

Social Responsibility Committee

Composition as of December 31, 2016: 4 Directors, 3 of whom are considered as independent

	Start date as Committee member
Bruno BONNELL [(a)] Chairman	February 2007, Chairman since February 2015
Virginia A. STALLINGS [(a)]	February 2015
Bettina THEISSIG	October 2016
Serpil TIMURAY [(a)]	April 2015

(a) Independent Director.

Rules of procedure

Main provisions

The Social Responsibility Committee is mainly responsible for overseeing Danone's societal project. Its scope covers all areas of social responsibility related to Danone's mission and activities and, in particular, social, environmental and ethical issues.

The Social Responsibility Committee pays special attention to Danone's action principles, policies and practices in these areas:

- social, relating to Danone's employees and those of its partners, subcontractors, suppliers and customers;
- environmental, relating to (i) activities directly controlled by Danone (industrial production, packaging, etc.) or indirectly controlled by it (purchasing, transport, energy, etc.), and (ii) the use of non-renewable natural resources;
- ethical, relating to Danone employees, consumers and, more generally, all of Danone's stakeholders;
- nutrition, relating in particular to public health issues, the social impact of its products and communication with its consumers.

Responsibilities

- reviewing Danone's main environmental risks and opportunities in relation to its objectives and activities;
- ensuring that members of the Social Responsibility Committee are informed about the internal control procedures implemented within Danone relating to its main environmental risks;
- being consulted by the Audit Committee with respect to audits related to its areas of intervention;
- reviewing Danone's social policies, their objectives and the results obtained;
- reviewing the reporting, evaluation and control systems to enable Danone to produce reliable non-financial information;
- reviewing all non-financial information published by Danone, in particular concerning social and environmental matters;
- annually reviewing the summary of the ratings assigned to the Company and its subsidiaries by non-financial rating agencies;
- ensuring the application of the ethical rules adopted by Danone;
- being regularly informed of complaints received in connection with the employee whistleblowing procedure which concern ethical, social or environmental issues and reviewing those related to its mission, in conjunction with the work carried out by the Audit Committee;
- regularly reviewing the results of Danone's self-assessments under the Danone Way program.

In addition, in the area of socially responsible investments, the Committee is responsible for:

- evaluating the impact of these investments for Danone;
- reviewing the application of the rules established by Danone concerning social investments and programs in areas related to Danone's activities;
- ensuring that the Company's interests are protected, with particular focus on preventing any conflicts of interest between these investments and the rest of Danone's activities.

The Committee's role is also to perform preliminary review relating to investments and action programs with a social purpose led by Danone or in which it participates.

Main amendments/changes

The Social Responsibility Committee's rules of procedure are regularly updated. The last update involved changes in the performance and exact scope of its responsibilities, particularly in relation to the Audit Committee (more specifically, regarding Danone's risk review and non-financial communications).

Work

In 2016, the Social Responsibility Committee met four times (four times in 2015) and its members' attendance rate (rate of participation at these meetings) was 89% (100% in 2015).

In 2016 and in early 2017, the Committee's work focused on the following topics:

- reviewing Danone's ongoing social projects and, more specifically, the activity and budgets of the funds sponsored by Danone, including the amount paid by the Company for its annual financial contribution to danone.communities and a new investment made by the danone.communities professional specialized investment fund ("FPS");
- reviewing Danone's policy concerning work and pay equality for men and women;
- reviewing the international agreement on sustainable employment between Danone and the International Union of Food, Farm and Hotel Workers;
- reviewing the implementation of Danone's climate policy;
- reviewing Danone's new packaging policy;
- reviewing Danone's food strategy;
- reviewing Danone's new nutrition policy;
- reviewing Danone's Early Life Nutrition strategy and the position paper on its commitment to health and nutrition during the first 1,000 days;
- reviewing Danone's participation in the FTSE4Good index;
- reviewing Danone's compliance policy;
- reviewing Danone's new sustainable development organization;
- reviewing the new organization of General Secretary.

A report on each Social Responsibility Committee meeting is presented at the next Board of Directors' meeting. These reports enable the Board to stay fully informed, thereby facilitating its decisions.

Strategy Committee

Composition as of December 31, 2016: 5 Directors, 2 of whom are considered as independent

	Start date as Committee member
Franck RIBOUD President	2015, Chairman since 2015
Emmanuel FABER	2015
Benoît POTIER [(a)]	2015
Isabelle SEILLIER	2015
Jean-Michel SEVERINO [(a)]	2015

(a) Independent Director.

Rules of procedure

Main provisions

The mission of the Strategy Committee is to analyze Danone's major strategic objectives.

The Strategy Committee performs preliminary review relating to strategic interest such as:

- development priorities;
- external growth opportunities;
- divestment transactions;
- significant agreements and partnerships;
- transactions involving the Company's share capital;
- diversification opportunities;
- more generally, any transaction of significance for Danone's future.

Work

In 2016, the Strategy Committee met four times (four times in 2015) and its members' attendance rate (rate of participation at these meetings) was 100% (100% in 2015).

In 2016 and in early 2017, the Committee's work focused on:

- reviewing Danone's competitive environment in Europe and around the world (key market players, new developments and their strategic positioning);
- reviewing risks and opportunities related to recent developments in the food and beverages sector and, in particular, the trend toward megamergers in the beverages sector and the growing presence of activists in the capital of several large companies in the food and beverage sector;
- reviewing the appropriateness of an offer on WhiteWave, the organizational and financial consequences and the legal arrangements for recommendation to the Board of Directors;
- reviewing the first concrete achievements of the Company's new vision on food (implementation of the Manifesto): creation of an incubator and position on GMOs in the United States;
- reviewing the Company Goals: a series of strategic Company objectives in the economic and social areas;
- reviewing the proposed enhancement of the corporate dimension of the Danone brand: brand positioning and first architecture principles.

Executive Committee

Role

Under the authority of the Chief Executive Officer, Mr. Emmanuel FABER, 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 the action plans to be implemented. The Executive Committee meets at least once a month.

Composition as of March 1, 2017: 9 members

Name	Age	Principal position at Danone	Starting date as Executive Committee member
Emmanuel FABER	53	Chief Executive Officer and Vice-Chairman of the Board of Directors	2000
Bertrand AUSTRUY	43	Corporate Secretary and Executive Vice-President of Human Resources	2015
Cécile CABANIS	46	Executive Vice President, Chief Financial Officer, Strategy and Information Systems	2015
Francisco CAMACHO	51	Growth & Innovation Officer and General Manager Waters	2011
Lorna DAVIS	57	Chief Manifesto Catalyst and General Manager of the Strategic Business Unit North America [a]	2015
Bridgette HELLER [b]	55	General Manager, Early Life Nutrition	2016
Flemming MORGAN [c]	61	General Manager, Medical Nutrition	2009
Pierre-André TÉRISSE	50	General Manager Access Africa	2008
Gustavo VALLE	53	General Manager Resources Efficiency and Fresh Dairy Products	2015

(a) After the completion of the WhiteWave acquisition.
(b) Bridgette HELLER will become the General Manager of Medical Nutrition as from half of 2017.
(c) Flemming MORGAN will continue to be the General Manager of Medical Nutrition Division until its leaving planned on mid-June 2017.

Application of the AFEP-MEDEF Corporate Governance Code for listed companies

Pursuant to the law of July 3, 2008, at its meeting on December 18, 2008 the Board of Directors reviewed the provisions of the AFEP-MEDEF Code and decided that Danone would refer to this Code of Governance. This code is available on the MEDEF website (www.medef.com).

Danone applies the recommendations of the AFEP-MEDEF Code, with the exception of the following points which the Company does not apply in a strict manner:

Recommendations	Danone's practice and justification
Termination of employment contract in case of appointment as corporate officer (section 21 of the AFEP MEDEF Code) *"When an employee is appointed as a corporate officer, it is recommended to terminate his or her employment contract with the company or with a company affiliated to the group, whether through contractual termination or resignation.* *This recommendation applies to the chairman, chairman and chief executive officer, and general manager of companies with a board of directors [...]."*	At the time of the renewal of their terms of office as Directors and upon the recommendation of the Nomination and Compensation Committee, on February 22, 2016 the Board of Directors confirmed the position taken by it in September 2014 and decided that the employment contracts of Mr. Franck RIBOUD and Mr. Emmanuel FABER should be maintained (although they should remain suspended), given their age, personal situation and seniority as Danone employees. The Board considered this arrangement relevant for corporate officers with at least 10 years of seniority at Danone in order to encourage the principle of internal promotion and sustainable management that Danone strives to implement, as terminating the employment contract could, on the contrary, dissuade internal candidates from accepting positions as corporate officers. The Board believed that implementing the recommendations of the AFEP-MEDEF Code to permanently terminate these employment contracts would cause them to lose the rights and benefits gradually acquired under their employment contracts during their careers at Danone on the basis of seniority (*i.e.* 35 years for Mr. Franck RIBOUD and 19 years for Mr. Emmanuel FABER) and actual service, particularly the severance pay and long-term benefits (such as participation in group plans), the total amount of which, in any case, would not exceed the cap of two years of compensation (fixed and variable). The French Financial Markets Authority believes that a detailed explanation as to why a corporate officer's employment contract is maintained is sufficient to justify the non-application of the recommendation of the AFEP-MEDEF Code.
Functioning of the Compensation Committee (section 17.3 of the AFEP-MEDEF Code) *"When the report on the work of the Compensation Committee is presented, the Board should deliberate on issues relating to the compensation of the corporate officers without the presence of the latter."*	Corporate officers are present when the Board of Directors deliberates on issues relating to their compensation but do not take part in any debate or vote in relation to decisions that affect them. In addition, the Board of Directors only decides on compensation upon the recommendation of the Nomination and Compensation Committee, which is composed entirely of independent Directors and therefore includes no corporate officers. A Lead Independent Director has been in place since 2013 to provide additional assurance that the Board is functioning correctly and that power is well-balanced within General Management and the Board.
Supplementary pension plans (section 24.6.2 of the AFEP-MEDEF Code) *"Supplementary defined benefit pension plans are subject to the condition that the beneficiary be an executive director and officer or employee of the company when claiming his or her pension rights in accordance with the rules in force."*	The retirement plan set up in 1976 has been closed since 2003. Corporate officers' eligibility for the retirement plan is subject to the condition that they are performing their duties at Danone at the time of retirement. As an exception to this principle, only in the event of dismissal after age 55 is the benefit derived from this plan maintained provided that the beneficiary does not take up paid employment. This last provision, consistent with applicable French regulations, protects all beneficiaries against the risks related to a dismissal occurring after age 55 but before they have reached retirement age.

Recommendations	Danone's practice and justification
Independence criteria for directors (section 8.5 of the AFEP-MEDEF Code) *"The criteria to be reviewed by the Committee and the Board in order for a director to qualify as independent [...] are the following: [...]* *- not to have been a director of the corporation for more than 12 years. The loss of the status of independent director occurs on the date of the 12th anniversary."*	On February 14, 2017, the Board of Directors, at the recommendation of the Nomination and Compensation Committee, conducted its annual review of the independence of each of the Directors based on the independence criteria defined by the rules of procedure in accordance with the AFEP-MEDEF Code (see section *Board of Directors' rules of procedure* above). Concerning the independence criterion of the AFEP-MEDEF Code whereby holding a term of office for more than 12 years is ipso facto sufficient to result in the loss of independence, the Board observes that Danone's development strategy is based on a dual economic and social project which gives it a unique culture. In this respect, the Board has reaffirmed on many occasions the importance that it places on the Company's cultural factors in order to assess the pertinence and feasibility of the projects submitted for its approval. It believes that Danone's culture is a unique competitive advantage that benefits both Danone and its shareholders. Along these lines, the Board has noted that many years of experience as a Board member allows a better understanding of the cultural traits specific to the Company and its mission and therefore helps to inform the Board's work and allows its members to make critical and independent decisions while preserving Danone's identity and culture over the long term. Based on these assessment criteria analyzed on a practical and regular basis, the Board of Directors believed that the 12-year criterion defined by the AFEP-MEDEF Code, among five other criteria, was not in itself sufficient to cause the member to lose the status of independent director. As of February 14, 2017, Danone's Board of Directors consists of 16 Directors, 11 of whom are considered as independent, for an independence rate of 79%. As a reminder, in accordance with the recommendations of the AFEP-MEDEF Code, the two Directors representing employees are not included in the calculation of the independence rate. Concerning Mr. Bruno BONNELL, the Board has observed that he consistently presents himself as an independent thinker who expresses himself freely, which leads him to take clear, constructive positions and provide specific and distinct viewpoints during Board discussions. The Board noted that his positions have enriched its decisions and that the independence of these decisions is very valuable for Danone, on a Board of Directors that has a majority of independent Directors as defined using the strictest application of current standards. Concerning Mr. Benoît POTIER, Chairman and Chief Executive Officer of one of the largest companies in the CAC 40, the Board has observed his strong contribution to the Board's discussions as well as his ability to think and express himself freely. Lastly, Mr. Benoît POTIER presents himself as a very independent thinker.
Presence of a Director representing employees on the Nomination and Compensation Committee (section 17.1 of the AFEP-MEDEF Code) *"It is recommended [...] that an employee-director be a member of it"*	During its review of the composition of the various Committees, the Board, in consultation with the Directors representing employees, did not feel it was appropriate to appoint a Director representing employees to the Nomination and Compensation Committee. However, it decided to appoint Mrs. Bettina THEISSIG, Director representing employees, to the Social Responsibility Committee, which is responsible for overseeing Danone's societal project and, in particular, monitoring social, environmental and ethical issues. The Board believed that her profile, experience and in-depth knowledge of Danone are valuable assets for this Committee's work. In any case, Danone's Nomination and Compensation Committee consists entirely of Directors considered as independent and carries out its work under the responsibility of the Board. The work, recommendations and opinions of the Committee are the subject of detailed reports and are discussed during Board meetings by all the Directors, including the Directors representing employees.

6.2 POSITIONS AND RESPONSIBILITIES OF THE DIRECTORS AND NOMINEES TO THE BOARD OF DIRECTORS

(Article R. 225-83 of the French commercial code)

Information regarding the Directors and the nominees to the Board of Directors:

- *the terms of office in italics are not governed by Article L. 225-21 of the French commercial code concerning multiple directorships;*
- *unless otherwise indicated, the companies, foundations, associations and other are in France;*
- *the terms of office followed by the symbol SM are submitted to the Shareholders' Meeting of April 27, 2017 for approval;*
- *for each Director already on the Board, the 2016 BoD attendance rate is the Director's attendance rate at Board of Directors' meetings in 2016.*

Appointment proposed to the Shareholders' Meeting

	Beginning of term of office	End of term of office
Gregg L. ENGLES	April 27, 2017	2020 Shareholders' Meeting

Directors whose renewal of office is proposed

	Date of first appointment	Start date of term of office being renewed	End date of term of office being renewed
Gaëlle OLIVIER	April 29, 2014	April 27, 2017	2020 Shareholders' Meeting
Isabelle SEILLIER	April 28, 2011	April 27, 2017	2020 Shareholders' Meeting
Jean-Michel SEVERINO	April 28, 2011	April 27, 2017	2020 Shareholders' Meeting
Lionel ZINSOU-DERLIN	April 29, 2014	April 27, 2017	2020 Shareholders' Meeting

Current Directors

	Date of first appointment	Start date of current term of office	End date of current term of office
Franck RIBOUD	September 30, 1992	April 28, 2016	2019 Shareholders' Meeting
Emmanuel FABER	April 25, 2002	April 28, 2016	2019 Shareholders' Meeting
Clara GAYMARD	April 28, 2016	April 28, 2016	2019 Shareholders' Meeting
Jacques-Antoine GRANJON	April 26, 2012	April 29, 2015	2018 Shareholders' Meeting
Jean LAURENT	February 10, 2005	April 29, 2015	2018 Shareholders' Meeting
Benoît POTIER	April 11, 2003	April 29, 2015	2018 Shareholders' Meeting
Mouna SEPEHRI	April 26, 2012	April 29, 2015	2018 Shareholders' Meeting
Virginia A. STALLINGS	April 26, 2012	April 29, 2015	2018 Shareholders' Meeting
Serpil TIMURAY	April 29, 2015	April 29, 2015	2018 Shareholders' Meeting

Director whose term of office is not being renewed

	Date of first appointment	End of current term of office
Bruno BONNELL	February 18, 2002	2017 Shareholders' Meeting

Directors representing employees

	Date of first appointment	Start date of current term of office	End date of current term of office
Frédéric BOUTEBBA	June 30, 2016	June 30, 2016	2020 Shareholders' Meeting
Bettina THEISSIG	October 17, 2014	October 17, 2014	2020 Shareholders' Meeting

BRUNO BONNELL

Independent Director

Born October 6, 1958, French nationality

2016 BoD attendance rate: 89%

Personal background – experience and expertise

Bruno BONNELL was born in Algiers, Algeria in 1958. He received a degree in chemical engineering from CPE Lyon (École Supérieure de Chimie Physique Électronique de Lyon) and another in applied economics from the University of Paris-Dauphine (class of 1982). He began his career at Thomson SDRM as a business engineer responsible for launching and marketing the company's first computer, the T07. In June 1983, he founded Infogrames, which merged with Atari in 2000. In 1995, he co-founded Infonie, the first Internet service provider in France. He left Infogrames in April 2007 and founded Robopolis, a company that specializes in service robotics and distributes robots aimed at the household market. The company has operations in seven European countries. In 2010, he founded Awabot, a robotic platform services company that specializes in telepresence robots. That same year, he founded the French Federation of Service Robotics (Syndicat de la Robotique de Service – SYROBO). In 2011, he was appointed Chairman of the Board of Directors of EM Lyon Business School. He is a member of the Management Board of Pathé SAS. Together with his Orkos Capital partners, in March 2014 he created Robolution Capital, a private equity fund that focuses on service robotics. He is also a Knight of the Ordre National du Mérite.

Positions and responsibilities as of December 31, 2016

Listed companies
Director and Chairman of the Social Responsibility Committee of DANONE SA

Unlisted companies
Chairman of *AWABOT SAS, I-VOLUTION SAS, SOROBOT SAS, OPAL SASU*
Member of the Management Board of *PATHE SAS*
Manager of *POB TECH*

Associations/Foundations/Other
Chairman of the Board of Directors of *EMLYON BUSINESS SCHOOL*
Chairman of *SYROBO SERVICE ROBOTICS GROUP (SYMOP)*
Founding partner of *ROBOLUTION CAPITAL* (Professional Private Equity Fund)

Positions and responsibilities during the past five years

Listed companies
Director of APRIL SA
Member of the DANONE SA Board of Directors' Social Responsibility Committee
Member of the Supervisory Board of ANF IMMOBILIER SA

Unlisted companies
Director of *ROBOPOLIS SAS*
Member of the Supervisory Board of *BANQUE RHÔNE-ALPES*

FRÉDÉRIC BOUTEBBA

Director representing employees

Born August 18, 1967, French nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Frédéric BOUTEBBA joined Danone in 1992 where he held a number of responsibilities in the Sales Department. In 2006, he changed course and began to represent and defend employees' interests, joining various Employee Representative Bodies both at the head office of Danone Eaux France S.A.E.M.E. and at the national level.

Positions and responsibilities as of December 31, 2016

Listed companies
Director representing employees of DANONE SA

Unlisted companies
None

Associations/Foundations/Other
None

Positions and responsibilities during the past five years

Shop Steward, Member and Union Representative of the Works Council of DANONE EAUX FRANCE S.A.E.M.E.
Member of the Danone Group-level Works Council
Member representing employees of the *BRANCHE EAUX FRANCE S.A.E.M.E.*
Union Secretary of the *CFDT 24 AGRI-FOOD UNION*

GREGG L. ENGLES

Nominee to the Board of Directors SM

Born August 16, 1957, U.S. nationality

2016 BoD attendance rate: N/A

Personal background – experience and expertise

Gregg L. ENGLES received a Bachelor's degree in economics at Dartmouth College and a juris doctorate degree in law at Yale University. After graduation, Gregg founded and was President of several investment firms: Kaminski Engles Capital Corporation in 1988, Engles Capital Corporation in 1989, and Engles Management Corporation in 1993. Gregg L. ENGLES founded Suiza Foods Corporation in 1993 and became Chairman of the Board and Chief Executive Officer in 1994. Suiza Foods, later called Dean Foods Company, was founded to consolidate the U.S. fluid milk industry. Gregg L. ENGLES served as Chairman of the Board of Directors and Chief Executive Officer of Dean Foods Company, which became one of the nation's leading food and beverage companies, from 1994 until 2012, and became a listed company in 1996. Gregg L. ENGLES conceived of the creation of a branded dairy alternative business within the Dean Foods portfolio and built The WhiteWave Foods Company through a series of successful acquisitions, including International Delight in 1997, Silk in 2002, Horizon Organic in 2004, and Alpro in 2009. Gregg L. ENGLES serves as Chairman and Chief Executive Officer of The WhiteWave Foods Company since 2012, when WhiteWave was spun-off from Dean Foods Company.

Positions and responsibilities as of December 31, 2016

Listed companies

Chairman of the Board of Directors and Chief Executive Officer of *THE WHITEWAVE FOODS COMPANY* (United States)
Director, Audit Committee Chair, Member of the Compensation Committee, Member of the Nominating and Corporate Governance Committee, Member of the Common Stock Director Committee of *LIBERTY EXPEDIA HOLDINGS, INC* (United States)

Unlisted companies

None

Associations/Foundations/Other

Trustee of *DARTMOUTH COLLEGE*
Director and Member of the Executive Committee of *GROCERY MANUFACTURERS OF AMERICA*

Positions and responsibilities during the past five years

None

EMMANUEL FABER

Non-Independent Director

Born January 22, 1964, French nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Emmanuel FABER began his career as a consultant at Bain & Company before working as an investment banker at Baring Brothers. He moved to Legris Industries, where he was named Chief Executive Officer in 1996. He joined Danone in 1997 to head the Finance, Strategies and Information Systems department. He became a member of the Executive Committee in 2000 and a member of the Board of Directors in 2002. In 2005, he was appointed Chief Executive Officer of the Asia-Pacific region. From 2008 to 2014, he served as Deputy General Manager of Danone responsible for major corporate functions and was named Vice-Chairman of the Board of Directors in 2011. Since 2008, he has served as Director of the danone.communities mutual investment fund (SICAV). Since 2009, he has been a member of the Steering Committee of the Danone Ecosystem Fund. Since December 2011, he has been a member of the Steering Committee of the Livelihoods Fund. Since October 1, 2014, he has been Danone's Chief Executive Officer.

Positions and responsibilities as of December 31, 2016

Listed companies

Chief Executive Officer, Vice-President of the Board of Directors and Member of the Strategy Committee of DANONE SA

Unlisted companies

Director of *COFCO DAIRY INVESTMENTS LIMITED* (Hong Kong), *GRAMEEN DANONE FOODS LIMITED* (Bangladesh), danone.communities (SICAV) [a], *PROMINENT ACHIEVER LIMITED* (Hong Kong)
Director and Vice-President of *NAANDI COMMUNITY WATER SERVICES PRIVATE LTD* [b] (India)
Member of the Steering Committee of *LIVELIHOODS FUND* [a] (Luxembourg)

Associations/Foundations/Other

Member of the Steering Committee of *DANONE ECOSYSTEM FUND* (endowment fund)[a]
Co-Chairman of *ACTION TANK ENTREPRISE ET PAUVRETÉ*

(a) Duties performed in the framework of social projects initiated by Danone.
(b) Company which is equity accounted by Danone.

Positions and responsibilities during the past five years

Listed companies

Deputy General Manager, Member of the Executive Committee, Member of the Social Responsibility Committee of DANONE SA

Unlisted companies

Member of the Supervisory Board of LEGRIS INDUSTRIES SA

CLARA GAYMARD

Independent Director

Born January 27, 1960, French nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Clara GAYMARD, a graduate of the École Nationale d'Administration (ENA, class of 1986, Denis Diderot), holds a degree in law and history from the Institut d'Études Politiques de Paris. She held numerous positions within the senior civil service from 1982 to 2006. Before entering the ENA, she was an administrative officer at the Paris Mayor's Office between 1982 and 1984. After leaving the ENA, she joined the French Public Audit Office (Cour des Comptes) as an auditor, where she was promoted to the position of public auditor in 1990. She then served as assistant to the head of the French Trade Office in Cairo (1991-1993) and then as head of the European Union office (sub-directorate for Northern-Southern Europe) in the foreign economic relations department (DREE) of the Ministry of Economy and Finance. In June 1995, she was named cabinet director for Colette CODACCIONI, 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 for Government Sales and Strategy, and then in 2010 Vice-President for Governments and Cities. In 2014, she was a member of the negotiating team on the acquisition of Alstom's power business. She left GE at the end of 2015 to focus her energy on Raise, a company she co-founded with Gonzague DE BLIGNIERES. She also serves on the Boards of Directors of Veolia, Bouygues and LVMH and is President of the Women's Forum.

Positions and responsibilities as of December 31, 2016

Listed companies

Director and Member of the Nomination and Compensation Committee of DANONE SA
Director and Member of the Accounts Committee of BOUYGUES
Director of LVMH
Director and Member of the Compensation Committee of VEOLIA ENVIRONNEMENT

Unlisted companies

President of the *WOMEN'S FORUM FOR THE ECONOMY AND SOCIETY, PABAFAJAMET*
Chief Executive Officer of *RAISE CONSEIL*

Associations/Foundations/Other

President of *RAISE ENDOWMENT FUND*
Vice-President of *FONDATION DU COLLEGE DE FRANCE*

Positions and responsibilities during the past five years

Unlisted companies

Chairman of *GENERAL ELECTRIC FRANCE, GE INDUSTRIAL FRANCE*
Representative in France of *GENERAL ELECTRIC INTERNATIONAL INC* (United States)

JACQUES-ANTOINE GRANJON

Independent Director

Born August 9, 1962, French nationality

2016 BoD attendance rate: 56%

Personal background – experience and expertise

Jacques-Antoine GRANJON is a graduate of the European Business School in Paris. After completing his studies, his entrepreneurial spirit led him and a friend to found Cofotex SA in 1985, which specialized in wholesale close-outs. In 1996, he purchased the former printing plants of *Le Monde* newspaper, which were being sold as part of an urban renewal program for La Plaine-Saint-Denis, where he established the headquarters of Oredis group. He came up with a completely innovative concept: a Web platform dedicated to private sales of brand name products at deeply discounted prices. Together with his partners, in January 2001 he launched vente-privee.com in France. He thus took his experience in drawing down inventories of close-outs from leading fashion and home furnishing brands to the Internet by applying a dual approach: event-based and exclusive, while always emphasizing customer satisfaction. vente-privee.com was built in the image of its founder as a model corporate citizen promoting responsible growth, training and employability and a social conscience. In 2011, he partnered with Xavier NIEL and Marc SIMONCINI to create the École Européenne des Métiers de l'Internet.

Positions and responsibilities as of December 31, 2016

Listed companies

Director of DANONE SA

Unlisted companies

Director of *GROUPE COURREGES SAS*
Chairman and Chief Executive Officer of *VENTE-PRIVEE.COM SA*
Chairman of *OREFI ORIENTALE ET FINANCIERE SAS*[a], *LES BOUFFES PARISIENS SAS*
Chairman of the Board of Directors of *PALAIS DE TOKYO SAS*
Member of the Supervisory Board of *LE NOUVEL OBSERVATEUR*

(a) Jacques-Antoine GRANJON also holds the following corporate offices in companies controlled by OREFI Orientale and Financière SAS

- Chairman of HOLDING DE LA RUE MONSIGNY, HOLDING DE LA RUE BLANCHE SAS, ORIMM SAS, MB Wilson SAS, VENTE PRIVEE USA BRANDS, INC (United States), VENTE-PRIVEE.COM DEUTSCHLAND GmbH (Germany), VENTE-PRIVEE.COM LIMITED (Great Britain), VENTA-PRIVADA IBERICA (Spain), VENDITA.PRIVATA ITALIA SRL (Italy) ORELOG Orientale et Logistique SAS;
- Chairman and Chief Executive Officer of PIN UP SA;
- Chief Executive Officer of PROPER SAS;
- Manager of L'ÉGLISE WILSON SARL, ORIMM BIENS SARL;
- Co-Manager of VENTE-PRIVEE.COM IP SARL (Luxembourg) and Marques Holding Luxembourg SARL (Luxembourg);
- Director of VENTE-PRIVEE.COM HOLDING SA (Luxembourg), LOOKLET (Sweden), VENTE-PRIVEE USA, LLC (United States);
- Director of SOCIÉTÉ NOUVELLE D'EXPLOITATION DE RÉNOVATION ET DE RENAISSANCE DU THÉATRE DE PARIS SA;
- Manager of French civil partnerships (sociétés civiles françaises) SCI 247, SCI 249, BM WILSON SCI, FRUITIER WILSON SCI, LANDY WILSON SCI, LYON 3 SCI, MM WILSON SCI, PRESSENSE WILSON SCI, SCI BRETONS WILSON, SCI LE STADE WILSON, SCI SAINT WILSON, SCI HOTEL WILSON, SCI BEAUNE-WILSON, MALAKOFF WILSON, SCI DE LA GRENOUILLE WILSON, SCI YVETTE WILSON, SCI AMBROISE WILSON;
- Chairman of VENTE-PRIVEE HOLDING PRODUCTIONS SAS;
- Chairman of HOLDING DE LA RUE DE LA MICHODIÈRE SAS (France) and THÉATRE DE LA MICHODIERE SAS;
- Chairman of PRODUCTS AND BRANDS STUDIO;
- Director of PRIVALIA VENTA DIRECTA, S.A.U.

Associations/Foundations/Other

Chairman of *FONDATION VENTE-PRIVEE.COM*

Positions and responsibilities during the past five years

None

JEAN LAURENT

Independent Director and Lead Independent Director

Born July 31, 1944, French nationality

2016 BoD attendance rate: 89%

Personal background – experience and expertise

Jean LAURENT is a graduate of the École Nationale Supérieure de l'Aéronautique (1967) and has a Master of Sciences degree from Wichita State University. He spent his entire career at the Crédit Agricole group, first with Crédit Agricole de Toulouse, and later with Crédit Agricole du Loiret and then Crédit Agricole de l'Ile de France, where he carried out or supervised various retail banking activities. He then joined Caisse Nationale du Crédit Agricole, first as Deputy General Manager (1993-1999) and later as Chief Executive Officer (1999-2005). In that capacity, he was responsible for the public offering of Crédit Agricole SA (2001) and the acquisition and integration of Crédit Lyonnais into the Crédit Agricole group. He is also Chairman of the Board of Directors of Foncière des Régions. He has been Chairman of Danone's Nomination and Compensation Committee since 2011 and Lead Independent Director since 2013.

Positions and responsibilities as of December 31, 2016

Listed companies

Lead Independent Director and Chairman of the Nomination and Compensation Committee of DANONE SA
Chairman of the Board of Directors and Member of the Strategy and Investments Committee of FONCIÈRE DES RÉGIONS SA
Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee and Member of the Finance Committee of EURAZÉO SA

Unlisted companies

Director of *BENI STABILI* (Italy)

Associations/Foundations/Other

None

Positions and responsibilities during the past five years

Listed companies

Chairman and Member of the DANONE SA Board of Directors' Social Responsibility Committee
Member of the Supervisory Board and Member of the Audit Committee of M6 SA (MÉTROPOLE TÉLÉVISION)

Unlisted companies

Director of *CRÉDIT AGRICOLE EGYPT SAE* (Egypt)
Member of the Board of Directors of UNIGRAINS SA

GAËLLE OLIVIER

Independent Director SM

Born May 25, 1971, French nationality

2016 BoD attendance rate: 89%

Personal background – experience and expertise

Graduate of the École Polytechnique, the ENSAE and the Institut des Actuaires. After starting her career at Crédit Lyonnais in the equity derivatives trading room, in 1998 Gaëlle OLIVIER joined the AXA Group where she held various positions in France and abroad in several of the group's business areas. After two years at AXA Investment Managers, she served for five years as Executive Assistant to AXA Group's Chairman and Chief Executive Officer Henri DE CASTRIES and Secretary of the Supervisory Board. In 2004, she joined AXA Life Japan as Head of Investment Operations and became a member of the Management Committee in charge of Strategy, Winterthur Japan Integration and Audit in 2006. In 2009, she became AXA group Head of Communications and Corporate Responsibility before being named Chief Executive Officer of the Property & Casualty Insurance business at AXA Asia in 2011. In January 2016, she became Chief Executive Officer of AXA Entreprises in France. In July 2016, she was appointed Chief Executive Officer of AXA Global P&C and joined the AXA Group's Management Committee.

Positions and responsibilities as of December 31, 2016

Listed companies

Director and Member of the Audit Committee of DANONE SA
Member of AXA's Management Committee

Unlisted companies

Chief Executive Officer of *AXA Global P&C*
Chairman of the Board of Directors and of the Compensation Committee of *AXA CORPORATE SOLUTIONS ASSURANCE*
Director of *AXA UK* and *AXA ART*

Associations/Foundations/Other

None

Positions and responsibilities during the past five years

Unlisted companies

Chairwoman and Member of the Board of Directors of *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), *AXA INSURANCE SINGAPORE PTE LTD* (Singapore), *AXA AFFIN GENERAL INSURANCE BERHAD* (Malaysia), *BHARTI – AXA GENERAL INSURANCE COMPANY LIMITED* (India), *WIN PROPERTY (SHANGHAI LINKS) LIMITED* (China), *AXA TECHNOLOGY SERVICES SINGAPORE PTE LTD* (Singapore), *AXA ASIA REGIONAL CENTRE PTE LTD* (Singapore), *AXA TIAN PING PROPERTY & CASUALTY INSURANCE COMPANY LIMITED* (China)

BENOÎT POTIER

Independent Director

Born September 3, 1957, French nationality

2016 BoD attendance rate: 89%

Personal background – experience and expertise

A graduate of the École Centrale de Paris, Benoît POTIER joined Air Liquide in 1981 as a Research and Development engineer. He then held positions as Project Manager in the Engineering and Construction Department and Head of Energy Development within the Large Industry segment. In 1993 he was named Head of Strategy-Organization and in 1994 he was appointed Head of Chemicals, Steel, Refining and Energy Markets. He became Deputy General Manager in 1995 and added to the aforementioned responsibilities that of Head of Construction Engineering and Large Industry for Europe. He 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. In 2004, Air Liquide acquired the assets of Messer Griesheim in Germany, the United Kingdom and the United States. In 2007, the group expanded its technology portfolio by acquiring the Lurgi engineering company and in 2008 launched the Alma company project aimed at accelerating its growth. The group is continuing to diversify internationally, notably through its growing presence in developing economies: Asia, Russia, Central and Eastern Europe, the Middle East and Latin America. In 2008, he initiated the creation of Fondation Air Liquide and has served as its Chairman since inception. Since May 2014, he has also been Chairman of the European Round Table of Industrialists (ERT).

Positions and responsibilities as of December 31, 2016

Listed companies

Director, Member of the Strategy Committee and of the Nomination and Compensation Committee of DANONE SA
Chairman and Chief Executive Officer of AIR LIQUIDE SA

Unlisted companies

Chairman and Chief Executive Officer of *AIR LIQUIDE INTERNATIONAL, AIR LIQUIDE INTERNATIONAL CORPORATION* (United States)
Director of *AMERICAN AIR LIQUIDE HOLDINGS INC* (United States)

Associations/Foundations/Other

Chairman of *EUROPEAN ROUND TABLE (ERT)* (Belgium), *FONDATION D'ENTREPRISE AIR LIQUIDE*
Director of *CENTRALE SUPELEC*, the *AFEP, ASSOCIATION NATIONALE DES SOCIETES PAR ACTIONS (ANSA)*
Member of the French Board of *INSEAD*

Positions and responsibilities during the past five years

Listed companies

Member of the Supervisory Board and Member of the Audit Committee of MICHELIN

FRANCK RIBOUD

Non-Independent Director

Born November 7, 1955, French nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Franck RIBOUD is a graduate of the École Polytechnique Fédérale de Lausanne. He joined the Group in 1981, where he held successive positions through 1989 in management control, sales and marketing. After serving as Head of Sales at Heudebert, in September 1989 he was appointed to head up the department responsible for the integration and development of new companies in the Biscuits Division. He was involved in the largest acquisition, at the time, by a French group in the United States, namely the acquisition of Nabisco's European activities by BSN. In July 1990, he was appointed Chief Executive Officer of Société des Eaux Minérales d'Évian. In 1992, he became Head of Danone's Development Department. Danone then launched its international diversification marked by increased development in Asia and Latin America and the creation of an Export Department. Between May 1996 and September 30, 2014, he was Chairman and Chief Executive Officer of Danone. Following the separation of offices, he became Chairman of Danone's Board of Directors on October 1, 2014.

Positions and responsibilities as of December 31, 2016

Listed companies

Chairman of the Board of Directors and Chairman of the Strategy Committee of DANONE SA
Director of Renault SA

Unlisted companies

Director of *BAGLEY LATINOAMERICA, SA*[a] (Spain), *RENAULT SAS, ROLEX SA* (Switzerland), *ROLEX HOLDING SA* (Switzerland), *QUIKSILVER, INC.* (United States)
Chairman of the Board of Directors of *danone.communities (SICAV)*[b]
Member of the Steering Committee of *LIVELIHOODS FUND (SICAV)*[b] (Luxembourg)
Chairman and Member of the Board of Directors of *Livelihoods Fund for Family Farming SAS*[a]

Associations/Foundations/Other

Chairman of the Steering Committee of the *DANONE ECOSYSTEM FUND (endowment fund)*[b]
Chairman of *FONDATION INITIATIVE AUTISME*
Director of *RAISE (endowment fund)*
Member of the Supervisory Board of *FONDATION ELA (EUROPEAN LEUKODYSTROPHY ASSOCIATION)*
Honorary Member of *ASSOCIATION ELA*
Member of the Board of *FONDATION EPFL PLUS (ÉCOLE POLYTECHNIQUE FÉDÉRALE DE LAUSANNE)*

(a) Danone group company.
(b) Duties performed in the framework of social projects initiated by Danone.

Positions and responsibilities during the past five years

Listed companies

Chairman of the Executive Committee and Chief Executive Officer of DANONE SA
Director and Member of the Compensation Committee of ACCOR SA

Unlisted company

Director of *DANONE SA* (Spain), *LACOSTE SA, OMNIUM NORD AFRICAIN (ONA)* (Morocco)

ISABELLE SEILLIER

Non-Independent Director SM

Born January 4, 1960, French nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Isabelle SEILLIER is a graduate of Sciences-Po Paris (Economics-Finance, 1985) and holds a Master's degree in business law. In 1987, she began her professional career in the options division of Société Générale in Paris, where she headed the Sales Department for options products in Europe until 1993. She joined J.P. Morgan in Paris in 1993 as head of the sales department for derivative products in France for industrial companies. In 1997, she became an investment banker at J.P. Morgan & Cie SA as a banking advisor providing coverage for large industrial clients. In March 2005, she was appointed joint head of investment banking before being named sole head of this activity in June 2006. From 2008, she was Chairman 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-Chairman 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.

Positions and responsibilities as of December 31, 2016

Listed companies
Director and Member of the Strategy Committee of DANONE SA

Unlisted companies
None

Associations/Foundations/Other
Member of the Board of Directors of *PARIS EUROPLACE*

Positions and responsibilities during the past five years

Listed companies
Director and Member of the Strategy Committee of CLUB MÉDITERRANÉE

Unlisted companies
Chairman *J.P. MORGAN CHASE BANK*

MOUNA SEPEHRI

Independent Director

Born April 11, 1963, French and Iranian nationalities

2016 BoD attendance rate: 67%

Personal background – experience and expertise

After receiving her law degree and joining the Paris bar, Mouna SEPEHRI began her career in 1990 as a lawyer in Paris and then New York, where she specialized in Mergers & Acquisitions and International Business Law. She joined Renault in 1996 as the group's Deputy General Counsel. She played an integral part in the group's international growth and participated in the creation of the Renault-Nissan Alliance from the beginning (1999) as a member of the negotiating team. In 2007, she joined the Office of the CEO and was in charge managing the cross-functional teams. In 2009, she was appointed Director of the Renault-Nissan Alliance CEO Office and Secretary of the Renault-Nissan Alliance Board of Directors. In 2010, she also became a member of the steering committee on the Alliance cooperation with Daimler. As a part of that mission, she was responsible for steering the implementation of Alliance synergies, coordinating strategic cooperation and heading new projects. In April 2011, she joined the Renault group's Executive Committee as Executive Vice-President, Office of the CEO. She oversees the following functions: Legal, Public Affairs, Communications, Public Relations, Corporate Social Responsibility, Property and General Services, Prevention and group Protection, Cross-functional Support, the Operating Costs Effectiveness Program and Strategy and Group Planning. In 2013, she was appointed as a permanent member of the Management Board of the Renault-Nissan Alliance.

Positions and responsibilities as of December 31, 2016

Listed companies
Director and Member of the Audit Committee of DANONE SA
Director, Chairwoman of the Governance and Corporate Social Responsibility Committee (CGRSE) of ORANGE
Member of the Supervisory Board, Member of the Audit Committee of M6 SA (MÉTROPOLE TÉLÉVISION)
Executive Vice-President, Office of the CEO, Member of the Executive Committee of RENAULT
Member of the Management Board of *RENAULT-NISSAN ALLIANCE* (Netherlands)

Unlisted companies
None

Associations/Foundations/Other
Director of *FONDATION RENAULT*

Positions and responsibilities during the past five years

Listed companies
Director of NEXANS SA

JEAN-MICHEL SEVERINO

Independent Director SM

Born September 6, 1957, French nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Jean-Michel SEVERINO is a graduate of the École Nationale d'Administration, ESCP, IEP Paris and holds a postgraduate degree (DEA) in economics and a degree in law. After four years working at the Inspection générale des finances (French General Inspection of Finance) (1984-1988), he was named technical advisor for economic and financial affairs at the French Ministry of Cooperation (1988-1989). He later became the head of that Ministry's Department of Economic and Financial Affairs and then its Development Director. In 1996, he was recruited by the World Bank as Director for Central Europe at a time when this region was marked by the end of the Balkans conflict and reconstruction. He became the World Bank's Vice-President in charge of East Asia from 1997 to 2001 and focused on the management of the major macroeconomic and financial crisis that shook these countries. Then, he was named Chief Executive Officer of the Agence Française de Développement (AFD), where from 2001 to 2010 he led the expansion efforts to cover the entire emerging and developing world. He expanded the development bank's activities significantly and extended its mandate to many new countries and to a full spectrum of contemporary global issues, including climate, biodiversity, poverty and growth. In 2010, at the end of his third term of office, he returned to the Inspection Générale des Finances, where he was responsible for the French Water Partnership. In May 2011, he left the civil service to head up I&P (Investisseurs et Partenaires), a fund management company specializing in financing African small and medium-sized businesses. In addition to his professional duties, he has significant experience in the educational and research areas, notably as an associate professor at CERDI (Centre d'Études et de Recherches sur le Développement International). He was elected as a member of the Académie des Technologies (2010) and is currently a senior fellow of the Fondation pour les Études et Recherches sur le Développement International (FERDI) and a Member of the Académie des Technologies. He published several articles and books, including *"Idées reçues sur le développement"* and *"Le temps de l'Afrique"* in 2010 and *"Le grand basculement"* in 2011.

Positions and responsibilities as of December 31, 2016

Listed companies

Director, Chairman of the Audit Committee and Member of the Strategy Committee of DANONE SA
Director and Member of the Audit Committee of ORANGE

Unlisted companies

Chairman of the Board of Directors of *EBI SA (ECOBANK INTERNATIONAL)*
Director of *I&P GESTION* (Mauritius), *I&P DEVELOPPEMENT* (Mauritius), *PHITRUST IMPACT INVESTORS SA*
Chairman of the Board of Directors of *I&P AFRIQUE ENTREPRENEURS* (Mauritius)
Director and Member of the Investment Committee of *ADENIA PARTNERS*
Member of the Investment Committee of *ENERGY ACCESS VENTURES*
Manager of *EMERGENCES DEVELOPPEMENT (EURL) I&P SARL (INVESTISSEURS ET PARTENAIRES)*

Associations/Foundations/Other

Director of *CONVERGENCES, FONDATION AVRIL, FONDATION ALSTOM, FONDATION D'ENTREPRISE, CARREFOUR, FONDATION GRAMEEN CREDIT AGRICOLE* (Luxembourg), *FONDATION SANOFI ESPOIR*
Research Director and Member of the Strategy Steering Committee of *FONDATION POUR LES ÉTUDES ET RECHERCHES SUR LE DÉVELOPPEMENT INTERNATIONAL*
Member of the *Académie des Technologies (public-sector institution with administrative activities), INDEPENDENT ASSESSMENT COMMITTEE ON SUSTAINABLE DEVELOPMENT, VEOLIA ENVIRONNEMENT, CONSEIL D'ORIENTATION SCIENTIFIQUE DE LA FONDATION JEAN-JAURÈS*

Positions and responsibilities during the past five years

Listed companies

Member of the DANONE SA Board of Directors' Social Responsibility Committee
Member of the Governance and Corporate Social Responsibility Committee of ORANGE

VIRGINIA A. STALLINGS

Independent Director

Born September 18, 1950, U.S. nationality

2016 BoD attendance rate: 89%

Personal background – experience and expertise

Virginia A. STALLINGS is a Professor of Pediatrics at the University of Pennsylvania Perelman School of Medicine, Director of the Nutrition Center at The Children's Hospital of Philadelphia and holds a Chair in Gastroenterology and Nutrition. She is a pediatrician and an expert in nutrition and growth in children with chronic illnesses. Her research interests are in nutrition-related growth in healthy children and those with chronic illnesses including obesity, sickle cell disease, osteoporosis, cystic fibrosis, cerebral palsy, Crohn's disease, HIV and congenital heart disease. She has been extensively involved in pediatric nutrition clinical care and research for more than 25 years. She recently founded a company, Medical Nutrition Innovation, LLC, to develop new nutrition products for infants, children and adults. Dr. STALLINGS plays a significant role in the community of nutrition scientists and physicians as a current or past member of the National Academy of Medicine, the Food and Nutrition Board of the US National Academy of Sciences and the Council of the American Society for Nutrition. She steered the National Academy of Medicine committee reports entitled Nutrition Standards for Food in Schools, and School Meals: Building Blocks for Healthy Children, which led to the development of a new policy to improve the nutritional quality of school meals in the United States. She has received research and teaching awards from the American Society of Nutrition, the American Academy of Pediatrics and the National Academy of Medicine.

Positions and responsibilities as of December 31, 2016

Listed companies

Director and Member of the Social Responsibility Committee of DANONE SA

Unlisted companies

Director *FITLY, digital health startup* (United States)
Founder *MEDICAL NUTRITION INNOVATION, LLC* (United States)

Associations/Foundations/Other

Professor of Pediatrics *THE CHILDREN'S HOSPITAL OF PHILADELPHIA, DEPARTMENT OF PEDIATRICS, THE UNIVERSITY OF PENNSYLVANIA PERELMAN SCHOOL OF MEDICINE* (United States)
Director, The Nutrition Center *THE CHILDREN'S HOSPITAL OF PHILADELPHIA* (United States)
Director, Office of Faculty Development *THE CHILDREN'S HOSPITAL OF PHILADELPHIA RESEARCH INSTITUTE* (United States)
Member, *NATIONAL ACADEMY OF SCIENCES* (United States)
Member of International Research Advisory Committee *CHILDREN'S HOSPITAL OF LA PLATA RESEARCH INSTITUTE* (Argentina)

Positions and responsibilities during the past five years

Associations/Foundations/Other

Chairman of the Board of Directors *DANONE INSTITUTE USA* [(a)] (United States), *DANONE INSTITUTE INTERNATIONAL* [(a)]

(a) The mission of these two organizations, which are established as non-profit associations, is to promote research and education in the field of nutrition as well as the importance of nutrition on health.

BETTINA THEISSIG

Director representing employees

Born July 2, 1962, German nationality

2016 BoD attendance rate: 100%

Personal background – experience and expertise

Bettina THEISSIG began her training in the industrial sector in 1978 at Milupa GmbH, a baby food and formula manufacturer that has been part of Danone's Early Life Nutrition Division since the acquisition of the Numico Group in 2007. She acquired her first professional experience in Milupa's advertising department. She then held various responsibilities in several departments, including marketing, sales, human resources and medical, which enabled her to gain further knowledge of the company. Her unwavering interest in the condition of employees and the protection of their rights prompted her to join Milupa's Works Council in 2002. She is currently Chairwoman of Milupa's Works Council, Chairwoman of Milupa's Central Works Council and Representative to the Works Council of Danone's sites in Germany. She is also a member of Danone's European Works Council and its steering committee. Bettina THEISSIG has also represented employees with disabilities since 1998.

Positions and responsibilities as of December 31, 2016

Listed companies

Director representing employees , Member of the Social Responsibility Committee and Member of the European Works Council (CIC) and its steering committee DANONE SA

Unlisted companies

Chairwoman of the Works Council, Chairwoman of the Central Works Council, Representative of employees with disabilities, Health Officer, Representative to the Works Council of Danone's sites in Germany, *MILUPA GmbH* (Germany)

Associations/Foundations/Other

None

Positions and responsibilities during the past five years

None

SERPIL TIMURAY

Independent Director

Born July 7, 1969, Turkish nationality

2016 BoD attendance rate: 78%

Personal background – experience and expertise

A native of Turkey, 47-year-old Serpil TIMURAY holds a degree in business administration from Bogazici University in Istanbul. She began her career in 1991 at Procter & Gamble, where she assumed several marketing roles and was subsequently appointed to the Executive Committee for Turkey. In 1999, she moved to Danone as Marketing Director and a member of the Executive Committee for the Fresh Dairy Products subsidiary in Turkey. From 2002 to the end of 2008, she served as General Manager of Danone Turkey, overseeing the acquisition and integration of several companies. In January 2009, she joined Vodafone as Chief Executive Officer of Turkey, leading the turnaround and substantial growth of the company. In January 2014, she was appointed as the Regional CEO of Africa, Middle East, Asia-Pacific and joined the Executive Committee of Vodafone Group. In October 2016, she was appointed as the Group Chief Commercial Operations and Strategy Officer and continues to be a member of the Executive Committee of Vodafone Group.

Positions and responsibilities as of December 31, 2016

Listed companies

Director and Member of the Social and Responsibility Committee of DANONE SA
Member of Group Executive Committee *VODAFONE GROUP* (United Kingdom)

Unlisted companies

Director, Member of the Nomination Committee, Member of the Remuneration Committee *VODACOM GROUP* [a] (South Africa)
Director, Chairperson of the Social Responsibility Committee, Member of the Nomination Committee, Member of the Remuneration Committee, *VODAFONE INDIA* [a] (India)
Director, Member of the Nomination Committee, Member of the Remuneration Committee, *VODAFONE HUTCHISON AUSTRALIA* [a] (Australia)
Director *SAFARICOM KENYA* [a] (Kenya)
Chairperson VODAFONE and *QATAR FOUNDATION LLC* [a] (Qatar)
Director, Member of the Nomination Committee, Member of the Remuneration Committee *VODAFONE QATAR* [a] (Qatar)
Chairperson of Board of Directors *VODAFONE TURKEY* [a] (Turkey)

(a) Vodafone group's companies.

Associations/Foundations/Other

Member of Board of Trustees *KOC UNIVERSITY* (Turkey)
Member *YOUNG GLOBAL LEADER ALUMNI COMMUNITY* (Switzerland)
Member of ADVISORY COUNCIL *DTIK (World Turkish Business Council)* (Turkey)
Director *TOBB-GGK (Young Entrepreneurs Council of Turkish Union of Chambers and Commodity Exchanges)* (Turkey)

Positions and responsibilities during the past five years

Listed companies

Group Chief Commercial Operations and Strategy Officer of VODAFONE Group (United Kingdom), Regional Chief Executive Officer Africa, Middle East, Asia, Pacific, Regional Chief Executive Officer Africa, Middle East, Asia, Pacific – Designate, *VODAFONE GROUP* (United Kingdom)
Chief Executive Officer *VODAFONE TURKEY* (Turkey)

LIONEL ZINSOU-DERLIN

Independent Director SM

Born October 23, 1954, French and Beninese nationalities

2016 BoD attendance rate: 67%

Personal background – experience and expertise

Lionel ZINSOU-DERLIN is a graduate of the École Normale Supérieure (Ulm), the London School of Economics and the Institut d'Études Politiques of Paris. He holds a Master's degree in Economic History and is an Associate Professor of Economic and Social Sciences. He started his career as a Senior Lecturer and Professor of Economics at Université Paris XIII. Between 1984 and 1986, he was an Adviser to the Minister of Industry and the Prime minister of Benin. In 1986, he joined Danone where he held various positions, including Group Corporate Development Director and then Chief Executive Officer of HP Foods and Lea & Perrins. In 1997, he joined Rothschild & Cie bank as Managing Partner where he was Head of the Consumer Products Group, Head of Middle East and Africa region and a member of the Global Investment Bank Committee. In 2008, he joined PAI Partners SAS, where he served as Chairman between 2009 and 2015 and was Chairman of the Executive Committee between 2010 and 2015. He has been Vice-Chairman of the Supervisory Board of PAI Partners SAS since 2015. From June 2015 to April 2016, he was the Prime minister of Benin.

Positions and responsibilities as of December 31, 2016

Listed companies

Director and Member of the Nomination and Compensation Committee of DANONE SA

Unlisted companies

Vice-Chairman of the Supervisory Board of *PAI Partners SAS*
Director of *INVESTISSEURS & PARTENAIRES* (Mauritius), *I&P AFRIQUE ENTREPRENEURS* (Mauritius)
Chairman and Member of the Supervisory Board of *LES DOMAINES BARONS DE ROTHSCHILD (LAFITE) SCA*
Manager of *SOFIA - SOCIETE FINANCIERE AFRICAINE SARL*

Associations/Foundations/Other

Founder and Treasurer of *FONDATION ZINSOU* (Benin)
Director of *CARE France*
Member of the Strategy Steering Committee of *FONDATION POUR LES ÉTUDES EN RECHERCHES SUR LE DÉVELOPPEMENT INTERNATIONAL*

Positions and responsibilities during the past five years

Listed companies

Director of KAUFMAN & BROAD SA

Unlisted companies

Chairman and Chairman of the Executive Committee of *PAI PARTNERS SAS*
Director of *PAI SYNDICATION GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE III GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE IV GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE V GENERAL PARTNER LIMITED* (Guernsey), *PAI EUROPE VI GENERAL PARTNER LIMITED* (Guernsey), *STRATEGIC INITIATIVES FRANCE SAS*
Member of the Advisory Council of *MOET HENNESSY*
Member of the Supervisory Board of *CERBA EUROPEAN LAB SAS*
Alternate Director of *UNITED BISCUITS TOPCO LTD* (Luxembourg)

6.3 COMPENSATION AND BENEFITS OF GOVERNANCE BODIES

Contents

The compensation policy for corporate officers **235**
General principles 235
Components of the compensation of the Chairman (non-executive corporate officer) 236
Compensation of executive corporate officers 237

Compensation and benefits granted to corporate officers for 2016 and compensation principles for 2017 **239**
Summary of the situation of Danone's corporate officers 239
Corporate officers' contracts, plans and indemnities 239
Mr. Franck RIBOUD's compensation components for 2016 240
Mr. Emmanuel FABER's compensation components for 2016 242

Other compensation and benefits to which corporate officers are entitled **246**
Suspension of employment contract 246
Supplementary retirement plan for corporate officers 247
Severance pay 251
Non-compete indemnity 251

Compensations of the other Board members **252**
Principle 252
Application 253

The compensation policy for corporate officers

Pursuant to Article L.225-37-2 section 2 of the French commercial code, this section *The compensation policy for corporate officers* constitutes the report 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 in consideration of their office.

General principles

Role of the Nomination and Compensation Committee

Danone's compensation policy is regularly reviewed by the Nomination and Compensation Committee. This Committee is composed entirely of independent Directors and is chaired by the Lead Independent Director. The Nomination and Compensation Committee reviews in particular Danone's compensation policy annually.

In making recommendations on the compensation of corporate officers and members of the Executive Committee, the Committee takes into account the balance between the various components of compensation and in particular the potential benefit of a supplementary retirement plan.

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 and the severance pay of corporate officers and 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 quartile of the benchmark CAC 40 index companies. The Nomination and Compensation Committee takes particular care to ensure that:

- multi-annual performance-based compensation is sufficiently significant compared to annual compensation, to ensure that corporate officers are motivated to work with a long-term perspective;
- the performance criteria for compensation are demanding, complementary and stable, such that they measure sustained performance that ensures that the interests of shareholders and management are aligned and are consistent with the guidance that Danone provides to financial markets. In addition, these performance conditions reflect best compensation practices, such as "no payment below guidance" and "no payment below the median" for the external performance conditions.

Basic principles for determining the compensation of corporate officers

The compensation paid to Danone's corporate officers:

- is performance-based;
- is balanced and takes stakeholder expectations into account;
- is demanding, aligned with shareholder interests and in line with best market practices;
- is consistent with the principles that Danone observes for its 1,500 key managers worldwide;
- is determined by the Board of Directors on the basis of the Nomination and Compensation Committee's recommendations, as explained above, and in compliance with the AFEP-MEDEF Code, to which Danone adheres;
- takes into account the manager's responsibilities and market practices;
- takes into account all components of compensation in order to establish a global view of the overall compensation of corporate officers, including the components approved by the Shareholders' Meetings pursuant to Article L.225-42-1 of the French commercial code and those described in the Statutory auditors' special report on related party agreements and commitments.

The principles that underline Danone's compensation policy are simple, stable and transparent, for example:

- multi-annual compensation, in the form of Group Performance Units, and long-term compensation, in the form of Group Performance Shares, were set up in 2005 and 2010 respectively;
- the performance conditions for multi-annual and 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)

Directors' fees

Pursuant to Danone's policy on the payment of directors' fees (see *Compensation of the other Board members*), the Chairman of the Board cannot receive directors' fees if he receives a fixed compensation. If this is not the case, directors' fees are allocated in accordance with the allocation rules decided by the Board of Directors.

Fixed compensation and benefits in kind

Fixed compensation

The Chairman's fixed compensation is determined by the Board of Directors, on the basis of the Nomination and Compensation Committee's opinion and in accordance with the principles presented above, and in particular is consistent with the Chairman's responsibilities and experience and with market practices. The Board has entrusted its current Chairman with enhanced duties including in particular, in addition to the standard duties of a Chairman of the Board, chairing and directing the Strategy Committee, monitoring the observance of Danone's values and culture, and representing Danone at the highest levels both nationally and internationally.

As an example, for the 2017 fiscal year, Mr. Franck RIBOUD's fixed compensation was set at €2 million within the framework of his enhanced duties.

The transition back to standard chairman duties is scheduled in the course of 2017; the Board of Directors will redefine the Chairman's fixed compensation amount in accordance with the responsibilities with which he will remain entrusted.

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 company cars and drivers' pool).

Variable compensation

In accordance with the AFEP-MEDEF Code recommendations, if the duties of the Chairman of the Board of Directors and of the Chief Executive Officer are separated, the Chairman shall not be entitled to variable compensation.

Performance-based multi-annual compensation (GPU)

In accordance with the AFEP-MEDEF Code recommendations, if the duties of the Chairman of the Board of Directors and of the Chief Executive Officer are separated, the Chairman shall not be entitled to multi-annual compensation.

Performance-based long-term compensation (GPS)

In accordance with the AFEP-MEDEF Code recommendations, if the duties of the Chairman of the Board of Directors and of the Chief Executive Officer are separated, the Chairman shall not be entitled to long-term compensation.

Extraordinary compensation

If the duties of the Chairman of the Board of Directors and of the Chief Executive Officer are separated, the Chairman shall not be entitled to extraordinary compensation.

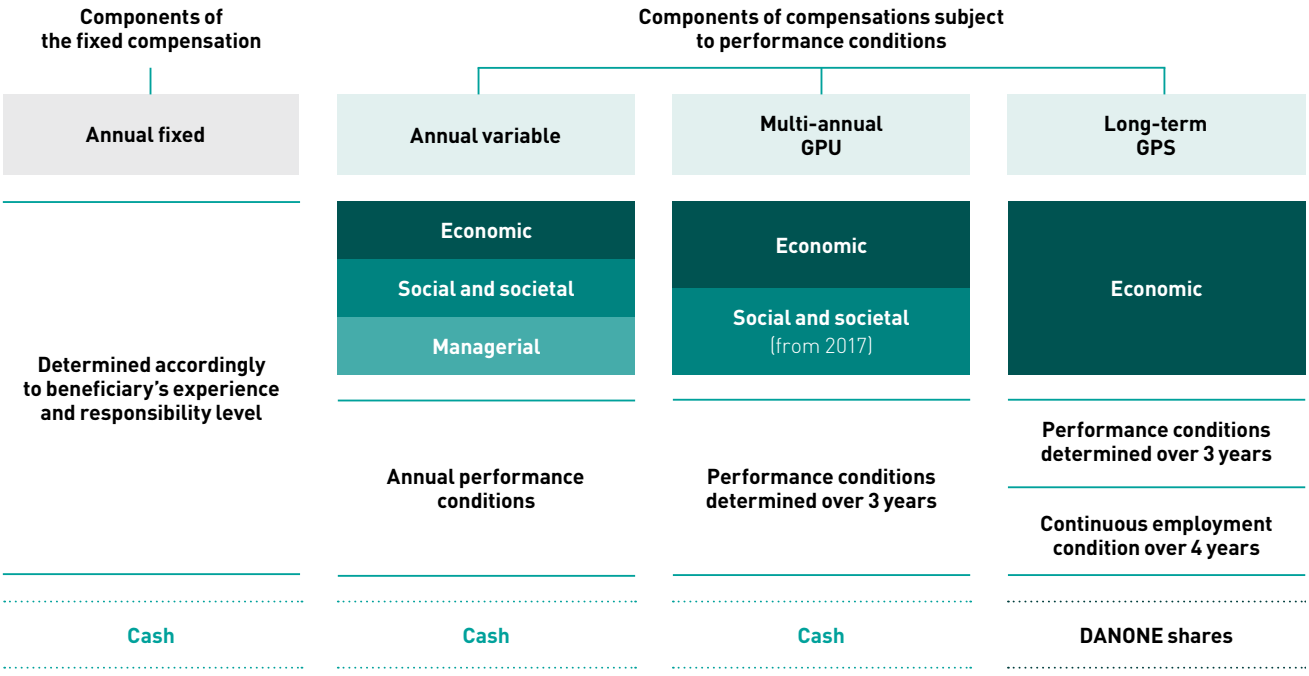
Other components of the Chairman's remuneration

The Chairman may be entitled to the commitments approved by the Shareholders' Meeting, as provided for in Article L.225-42-1 of the French Commercial Code and described in the Statutory auditors' special report on related party agreements and commitments.

Concerning Mr. Franck Riboud, he may receive a departure indemnity under his suspended employment contract, and has the right to benefit from a defined benefit pension plan which was put into place for certain "Group directors"; this plan has been closed to new beneficiaries since December 31 2003. The details concerning these commitments can be found in section 6.7 *Statutory auditors' special report on related party agreements and commitments*.

Compensation of executive corporate officers

Compensation structure



It should be noted that the payment in cash of variable or extraordinary compensation shall be, if applicable, motivated by the Board of Directors and subject to the Shareholders Meeting's approval on the components of the compensation of the executive corporate officers concerned in accordance with the requirements provided by Article L. 225-37-2 of the French commercial code.

Directors' fees

Pursuant to Danone's policy on directors' fees (see the section hereafter *Compensation of the other Board members*), executive corporate officers are not entitled to receive directors' fees.

Fixed compensation and benefits in kind

Fixed compensation

The fixed compensation of executive corporate officers is:

- determined by the Board of Directors on the basis of the Nomination and Compensation Committee's opinion and in accordance with the principles presented above, and is consistent with their responsibilities and experience and with market practices; and
- reviewed after a relatively long period.

For example, the fixed compensation of Mr. Emmanuel FABER, Danone's Chief Executive Officer, was set at €1 million in 2014 and has not changed. This represents about 25% of the total target compensation.

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 company cars and drivers' pool).

Variable compensation

Annual variable compensation

Principles

Annual variable compensation:

- is determined by the Board of Directors on the basis of the Nomination and Compensation Committee's opinion and in accordance with the principles presented above, and is consistent with the responsibilities and experience of the person concerned and with market practices;
- is subject to performance conditions and based on objective quantitative economic criteria, social, and managerial criteria determined in an objective and precise manner and specified hereinafter;
- has a target amount which may be up to 100% of the fixed compensation;
- is capped at 200%.

Structure

Annual variable compensation is based on performance conditions determined in advance, which take into account the following three components:

- a quantitative economic component that is based on Danone's main financial targets and in particular those used to provide guidance to investors, such as organic net sales growth, operating margin growth and free cash flow generation;
- a social and societal component, based on Danone's objectives;
- a managerial component, based on Danone's business development objectives.

The cap for each of these components equals twice the target, which means that the cap for short-term annual variable compensation for a given year is equal to 200% of the amount of 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, about 50% of the overall compensation in value of executive corporate officers and cannot exceed 60% of this total compensation.

Multi-annual compensation (GPU)

Multi-annual compensation:

- is granted by the Board of Directors upon the recommendation of the Nomination and Compensation Committee, in the form of Group Performance Units (GPU);
- was introduced in 2005 to more closely align the compensation of corporate officers, the Executive Committee members and the 1,500 key managers with Danone's overall medium-term operational and economic performance;
- is a performance-based cash compensation over a three-year period based on performance conditions depending on quantitative economic criteria including a key financial indicator and possibly societal indicators;
- is subject to performance conditions determined in advance by the Board of Directors, upon the recommendation of the Nomination and Compensation Committee, which each year also determines whether or not the previous year's target or targets were achieved for each GPU plan.

In order to simplify the Chief Executive Officer's compensation structure and increase its share-based component in value, it is planned that no GPU be granted to Mr. Emmanuel FABER in 2017.

More information on GPU plans is provided in section 6.4 *Detailed information on long-term and multi-annual compensation plans* on, including: (i) general principles, (ii) performance targets, (iii) other applicable rules, (iv) details of GPU granted in 2016 and review of the potential achievement of performance conditions for 2016, and (v) detailed information on GPU plans in effect as of December 31, 2016.

Performance-based long-term compensation (GPS)

Long-term compensation:

- was established in 2010 to strengthen the commitment of beneficiaries (corporate officers, Executive Committee members and over 1,500 key managers) 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 the recommendation of the Nomination and Compensation Committee, in the form of Group Performance Shares (GPS);
- is granted in the form of DANONE shares subject to performance conditions;
- these performance conditions generally consist of two complementary criteria that are representative of Danone's performance, reflect the specific nature of its business, are assessed over a three-year period and are key indicators that are monitored by investors and financial analysts to measure the performance of companies in the food and beverage sector:
  - 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; and
  - an internal performance criterion, based on a key financial indicator, such as operating margin free cash flow or other.
- and are determined by the Board of Directors, which also reviews their achievement after a prior review by the Nomination and Compensation Committee;
- the definitive granting of long-term compensation is also subject to a continuous employment condition that applies to all beneficiaries, with the exceptions specified in the plan rules (and in particular in the event of death or disability) or decided by the Board of Directors; however, in the case of executive corporate officers, the Board of Directors may decide to exempt the continuous employment condition only partially, on a *prorata* basis;
- the DANONE shares thus granted, particularly to corporate officers and to Executive Committee members, are subject to a conservation period.

More information on GPS plans is provided in section 6.4 *Detailed information on long-term and multi-annual compensation plans* in particular: (i) general principles, (ii) performance targets, (iii) other applicable rules, (iv) details of GPS granted in 2016 and review of the potential achievement of performance conditions for previous plans, and (v) detailed information on GPS plans in effect as of December 31, 2016.

Extraordinary compensation

In the event of appointment of a new executive corporate officer, further to an external hiring, the Board of Directors may, subject to the requirements of the AFEP-MEDEF Code, and on the 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 his/her new duties.

Mr. Emmanuel FABER has never received any extraordinary compensation.

Other components of executive corporate officers' remuneration

The executive corporate officers may be entitled to the commitments approved by the Shareholders' Meeting, as provided for in Article L.225-42-1 of the French Commercial Code and described in the Statutory auditors' special report on related party agreements and commitments.

Concerning Mr. Emmanuel Fabe, he may receive a departure indemnity and a non-competition indemnity in case of resignation and has the right to benefit from a defined benefit pension plan which was put into place for certain "Group directors"; this plan has been closed to new beneficiaries since December 31 2003. The details concerning these commitments can be found in section 6.7 *Statutory auditors' special report on related party agreements and commitments.*

Compensation and benefits granted to corporate officers for 2016 and compensation principles for 2017

Summary of the situation of Danone's corporate officers

Overall amount of compensation payable and the value, on the granting date, of GPU and GPS granted in 2015 and 2016 to each corporate officer (information required in Table 1 of the French financial market authority's recommendation on the compensation of corporate officers)

Year ended December 31

(in €)	2015	2016
Franck RIBOUD		
Annual compensation [a]	2,000,000	2,000,000
Benefits in-kind [b]	4,620	4,620
Multi-annual compensation (maximum value of the GPU granted for the year) [c]	–	–
Long-term compensation (book value of the GPS granted for the year) [d]	–	–
Total	**2,004,620**	**2,004,620**
Emmanuel FABER		
Annual compensation [a]	2,240,000	2,200,000
Benefits in-kind [b]	4,620	4,620
Multi-annual compensation (maximum value of the GPU granted for the year) [c]	580,000	600,000
Long-term compensation (book value of the GPS granted for the year) [d]	2,034,360	2,012,670
Total	**4,858,980**	**4,817,290**

(a) Fixed and variable amounts due.
(b) Benefits of all kinds correspond to the pool of cars and drivers made available to all corporate officers.
(c) The maximum values are €30 per GPU granted in 2016 and €29 per GPU granted in 2015. The amounts paid reflect the GPU paid out during the year. The maximum theoretical values when granted are €30 per GPU.
(d) Amount corresponds to the total value estimate on the granting date according to IFRS 2, assuming that the performance conditions have been met (see breakdown above and see Note 7.4 of the Notes to the consolidated financial statements).

Corporate officers' contracts, plans and indemnities

Contracts, plans and indemnities to which are entitled the Danone's corporate officers in 2016 (information required pursuant to the French financial markets authority's recommendation on disclosures in registration documents on the compensation of corporate officers – Table 11 of the AMF recommendation)

Name	Employment contract		Supplementary retirement plan		Indemnities or benefits due or likely to be due as a result of termination or change of office		Non-competition indemnity	
	Yes	No	Yes	No	Yes	No	Yes	No
Franck RIBOUD	✓		✓			✓		✓
Chairman of the Board								
First appointment: 1992								
Current appointment ends: 2019								
Emmanuel FABER	✓		✓		✓		✓	
Chief Executive Officer								
First appointment: 2002								
Current appointment ends: 2019								

Mr. Franck RIBOUD's compensation components for 2016

Compensation and benefits granted in 2016

Breakdown of monetary compensation and benefits due and paid to Mr. Franck RIBOUD

Amount of annual compensation due and paid and benefits granted in 2015 and 2016 to Mr. Franck RIBOUD (information required by the Table 2 of the French financial markets authority's recommendation related to the compensation of corporate officers)

Year ended December 31

(in €)	2015		2016	
Compensation component	**Amounts due**	**Amounts paid**	**Amounts due**	**Amounts paid**
Annual fixed compensation [a]	2,000,000	2,000,000	2,000,000	2,000,000
Annual variable compensation	N/A	1,594,688 [e]	N/A	N/A
Multi-annual compensation [b]	N/A	463,250 [f]	N/A	–
Benefits in kind [c]	4,620	4,620	4,620	4,620
Extraordinary compensation	N/A	N/A	N/A	N/A
Directors' fees [d]	N/A	N/A	N/A	N/A
Total	**2,004,620**	**4,062,558**	**2,004,620**	**2,004,620**

(a) Gross amount. The amounts due are the amounts allocated during the fiscal year. The amounts paid are the amounts paid out during the year and include the amounts due from the previous year.
(b) The amounts due are the maximum value of the GPU for the year. The amounts paid are the GPU paid out during the year.
(c) These benefits are the cars and drivers made available to all key managers.
(d) Mr. Franck RIBOUD is not entitled to directors' fees.
(e) Annual variable compensation granted in 2014 and paid in 2015.
(f) Amount corresponding to the 2012 GPU.

Annual fixed compensation for 2016

The fixed compensation payable for 2016 to Mr. Franck RIBOUD, as Chairman of the Board of Directors, was €2 million and has not changed since 2014.

In 2016, in addition to overseeing the work of the Board of Directors, and within the framework of its enhanced duties, Mr. Franck RIBOUD was actively involved in various projects, which in particular included:

- leading the Board's Strategy Committee;
- extensive support to General Management during the WhiteWave acquisition process, from the initial preparation of the acquisition decision up to and including offer execution;
- regular high-level meetings with government authorities of several countries of strategic importance to Danone;
- representing Danone at major international economic forums;
- relations with Danone's historic and strategic investors, non-controlling shareholders of certain Danone subsidiaries and companies in which Danone has a non-controlling interest;
- participation in key events for Danone and its most substantial subsidiaries (e.g. conferences held by various divisions and subsidiaries, training seminars and visits to plants...) as part of his role to promote Danone's company culture, strategy and history;
- participation in major societal initiatives (e.g. the Danone Fund for the Ecosystem and the Livelihood Fund for Family Farming); and
- regular discussions with General Management on various subjects at their proposal.

The Chairman of the Board was therefore able to share his insights and experience on some of General Management's projects and decisions, notably with respect to organizational matters.

Annual variable compensation for 2016

It should be noted that since he was appointed Chairman of the Board of Directors effective October 1, 2014, Mr. Franck RIBOUD no longer receives annual variable compensation for his duties as Chairman of the Board.

Multi-annual compensation and long-term compensation

The Chairman of the Board of Directors receives no Group Performance Shares or Group Performance Units. Nevertheless, he may receive, provided the achievement of the performance conditions, the payment of the GPS and GPU granted before October 2014.

Group Performance Units

Grants in 2016 and over the past two years

Date of the Board meeting that granted the GPU	7/24/2014	7/23/2015	7/27/2016
Number of GPU	25,000	–	–
Max. value of GPU granted for the year [a]	750,000	–	–
Amount paid	650,000 [b]	N/A	N/A

(a) €30.
(b) This amount will be paid in May 2017.

Amount paid out in respect of Group Performance Units

	Year ended December 31	
(in €)	**2015**	**2016**
Franck RIBOUD	463,250 [a]	– [b]

(a) Amounts paid out in respect of GPU granted in 2012 based on the partial achievement of performance criteria in 2012 and 2014 and non-achievement of performance criteria in 2013.
(b) Group Performance Units granted in 2013 were valued €0 since no target was fully achieved in 2013, 2014 or 2015.

The characteristics of GPU plans and the plans still in effect are presented in section 6.4 *Detailed information on long-term and multi-annual compensation plans*.

Group Performance Shares

Mr. Franck RIBOUD is no longer receiving GPS since becoming Chairman of the Board of Directors on October 1, 2014.

As Chairman and Chief Executive Officer Mr. Franck RIBOUD was granted the following GPS until October 1, 2014.

Date of Board meeting that granted the GPS	7/26/2010	4/28/2011	7/26/2012	7/26/2013	7/24/2014
Number of GPS	38,750	40,000	54,500	54 500	50,000
Value of GPS granted for the year [a]	1,497,688	1,716,560	2,197,985	1,882,413	2,513,500
Number of GPS void or cancelled [b]	–	–	–	–	–
Number of GPS that have become available	38,750	40,000	27,250	–	–
Delivery date [c]	delivered	delivered	delivered	7/27/2017	–

(a) For each year (except 2013) the value of the GPS represents the full value estimated on the grant date in accordance with IFRS 2 assuming that the performance conditions have been met (see breakdown above and Note 7.4 of the Notes to the consolidated financial statements). For 2013, the amount indicated reflects the non-achievement of the margin performance target, which reduced the value of the Group Performance Shares granted in July 2013 by one third.
(b) Void or canceled GPS occur when the continuous employment condition was not met and do not include GPS that were not granted because performance conditions were not met.
(c) These shares are subject to a holding period.

The characteristics of GPS plans and the plans still in effect are presented in section 6.4 *Detailed information on long-term and multi-annual compensation plans*.

Stock-options exercised

Since Mr. Franck RIBOUD exercised no stock options in 2016, there is no need for Table 5 of the AMF Nomenclature pursuant to the AMF's recommendation on "information on the compensation of corporate officers to be included in registration documents".

Compensation principles for 2017

At its meeting of February 14, 2017, the Board of Directors decided that Mr. Franck RIBOUD would receive the same compensation for his expanded chairmanship duties in 2017 as in 2016.

However, it should be noted that the transitional period of Mr. RIBOUD's chairmanship will end in 2017. At this time the Board of Directors will adjust the Chairman's compensation accordingly to align it with standard chairmanship duties, in compliance with the principles indicated in section *Principles of corporate officer's compensation*.

Mr. Emmanuel FABER's compensation components for 2016

Compensation and benefits granted in 2016

Breakdown of monetary compensations and benefits due and paid to Mr. Emmanuel FABER

Amount of annual compensation due and paid and benefits in-kind granted in 2015 and 2016 to Mr. Emmanuel FABER (information required by the Table 2 of the French financial markets authority's recommendation on the compensation of corporate officers)

Year ended December 31

(in €)	2015		2016	
	Amounts due	**Amounts paid**	**Amounts due**	**Amounts paid**
Annual fixed compensation [a]	1,000,000	1,000,000	1,000,000	1,000,000
Annual variable compensation [a]	1,240,000	693,190	1,200,000	1,240,000
Multi-annual compensation [b]	580,000	350,625	600,000	–
Benefits in kind [c]	4,620	4,620	4,620	4,620
Extraordinary compensation	N/A	N/A	N/A	N/A
Directors' fees [d]	N/A	N/A	N/A	N/A
Total	**2,824,620**	**2,048,435**	**2,804,620**	**2,244,620**

(a) Gross amount. The amounts due are the amounts allocated during the fiscal year. The amounts paid are the amounts paid out during the year and include the amounts due from the previous year.
(b) The amounts due are the maximum value of the GPU for the year. These amounts paid are the GPU paid out during the year.
(c) These benefits are the cars and drivers made available to all key managers.
(d) Mr. Emmanuel FABER is not entitled to Directors' fees.

Annual fixed compensation for 2016

The fixed compensation due to Mr. Emmanuel FABER for 2016 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 2016

Compensation target and annual cap set for 2016

Target amount: € 1 000 000

Performance conditions and cap

	Performance indicators	Portion of the target amount	Potential variation of this portion	Potential variation after weighting
Economic Quantitative portion, measured against Danone's guidance targets communicated to the market	Organic sales growth	25%	0% to 200%	0% to 50%
	Organic 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 Based on Danone's targets (the development of human resources and organizations, development of societal and environmental initiatives)	The sharing of corporate support services throughout all subsidiaries in the same geographic region, as part of the One Danone Project	10%	0% to 200%	0% to 20%
	The promotion of Danone's image through social and societal initiatives, particularly in the area of sustainable agriculture	10%	0% to 200%	0% to 20%
	Total	**20%**	**0% to 200%**	**0% to 40%**
Managerial Based on the execution of Danone's strategy (product innovation, market share, expanding into new geographic markets and implementation strategic priorities)	Danone's strategic development marked by the announcement of the acquisition of WhiteWave and the agreement on a funding plan	10%	0% to 200%	0% to 20%
	The progressive actions and development of management teams and the management of operational activities	10%	0% to 200%	0% to 20%
	Total	**20%**	**0% to 200%**	**0% to 40%**
Total		**100%**	**0% to 200%**	**0% to 200%**

Review of the achievement of objectives and weightings

At its meeting on February 14, 2017, the Board of Directors, on the recommendation of the Nomination and Compensation Committee, determined the level of fulfillment for Emmanuel FABER's annual variable compensation.

It thus determined Mr. Emmanuel FABER's annual variable compensation for 2016 to be 120% of the target compensation, or €1,200,000, on the basis of the following fulfillment figures:

Indicators	Weighting	Percentage of fulfillment	Percentage after weighting	Fulfillment amount *(in €)*
Economic	60%	108%	65%	650,000
Social and societal	20%	125%	25%	250,000
Managerial	20%	150%	30%	300,000
Total variable compensation for 2016	**100%**	**–**	**120%**	**1,200,000**

After the Audit Committee's validation of financial statements, the Board of Directors determined the following fulfillment levels relative to the guidance targets for the three performance indicators of the quantitative economic component shown above:

Indicators	Weighting	Percentage of fulfillment	Weighted
		0%	
Sales	25%	Not achieved, as the 2.9% growth was less than the guidance target provided in February 2016.	0%
		200%	
Margin	25%	Since the margin rose by 70 basis points on a like-for-like basis, the guidance target provided in February 2016 was exceeded to the maximum extent.	50%
		150%	
Free cash flow	10%	The free cash flow of €1,786 million, excluding extraordinary items, exceeded the target.	15%
Total	**60%**		**65%**

With respect to the social and societal and managerial components, the Board of Directors estimated that:

- 125% of the target had been achieved for the social and societal component. This is mainly in consideration of the successful implementation of pooled support services in each geographic region and promotion of Danone's image as a socially responsible group chiefly as a result of its concrete commitments to sustainable agriculture, in particular commitments related to GMO in the United States;
- 150% of the managerial component of variable compensation had been fulfilled, mostly in consideration of the announcement of the strategic acquisition of WhiteWave (authorization given by the WhiteWave's shareholders extraordinary meeting on October 2016, the agreement of funding under very attractive terms, active preparation of the integration) the management of Danone's operational activities, and the progressive actions of management teams and their development.

Multi-annual compensation and long-term compensation

Group Performance Units

Grants in 2016 and over the past two years

Date of Board meeting that granted the Group Performance Units	7/24/2014	7/23/2015	7/27/2016
Number of Group Performance Units	18,000	20,000	20,000
Maximum value of Group Performance Units granted during the year [a]	540,000	580,000	600,000
Amount paid	468,000 [b]	Pending	Pending

(a) €30.
(b) This amount will be paid in May 2017.

As a reminder, the maximum theoretical values when GPU are granted are always €30 per GPU.

Amounts paid

	Year ended December 31	
(in €)	**2015**	**2016**
Emmanuel FABER	350,625[a]	– [b]

(a) Amounts paid out in respect of GPU granted in 2012 in view of the partial fulfillment of performance criteria in 2012 and 2014 and the non-fulfillment of performance criteria for 2013 (see breakdown above).
(b) The GPU granted in 2013 are valued €0 since no target was fully achieved in 2013, 2014 and 2015.

The characteristics of GPU plans and the plans still in effect are presented in section 6.4 *Detailed information on long-term and multi-annual compensation plans.*

Group Performance Shares

Date of Board meeting that granted the GPS	7/26/2010	4/28/2011	7/26/2012	7/26/2013	7/24/2014	7/23/2015	7/23/2016
Number of GPS	25,000	28,000	41,250	41,250	36,000	36,000	34 200
Value of the GPS granted for the year [a]	966,250	1,201,592	1,663,613	1,424,775	1,809,720	2,034,360	2,012,670
Number of GPS void or cancelled [b]	–	–	–	–	–	–	–
Number of GPS that have become available	25,000	28,000	20 625	–	–	–	–
Delivery date [c]	delivered	delivered	delivered	7/27/2017	7/25/2018	7/24/2019	7/28/2020

(a) For each year (except 2013) the value of the GPS represents the full value estimated on the grant date in accordance with IFRS 2 assuming that the performance conditions have been met (see breakdown above and Note 7.4 of the Notes to the consolidated financial statements). For 2013, the amount indicated reflects the non-achievement of the margin performance target, which reduced the value of the Group Performance Shares granted in July 2013 by one third.
(b) Void or canceled GPS occur when the continuous employment condition was not met and do not include GPS that were not granted because performance conditions were not met.
(c) These shares are subject to a conservation period.

The characteristics of GPS plans and the plans still in effect are presented in section 6.4 *Detailed information on long-term and multi-annual compensation plans*.

Stock-options exercised

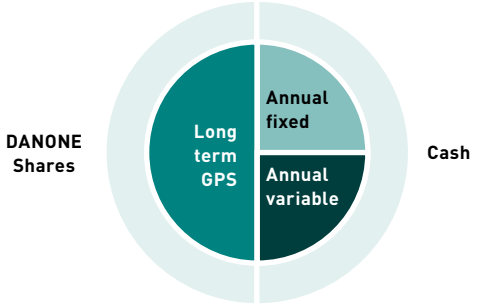
Stock-options exercised in 2016 by Mr. Emmanuel FABER (on stock-options granted before the stock-option program was terminated in 2009) (information required by Table 5 of the French financial markets authority's recommendation on the compensation of corporate officers)

Year ended 31 December 2016

Date of Board meeting that granted the options	Exercise date	Number of options exercised	Average exercise price *(in €)*
4/29/2008	2/24/2016	106,000	53.90
4/23/2009	11/14/2016	82,150	34.85

Compensation principles determined for 2017

Upon recommendation of the Nomination and Compensation Committee, the Board of Directors on February 14, 2017 has determined the compensation principles for 2017. In order to simplify the compensation' structure and to increase its share-based component in value, it is planned that no GPU be granted to the Chief Executive Officer in 2017. The compensation's structure will be as follows:



The amount of Emmanuel FABER's annual fixed compensation (€1 million) was confirmed by the Board of Directors at its meeting of February 14, 2017, on the recommendation of the Nomination and Compensation Committee.

The target amount of the annual variable compensation for 2017, its components and the maximum compensation percentage are the same as the previous year. As in 2016, it will consist of three components — an economic component that is based on Danone's guidance targets communicated to the market, a social and societal component and a managerial component, with the same weightings as the previous years.

In accordance with the French financial markets authority's recommendation no. 2012-02 of February 9, 2012, the expected level of fulfillment for each of these criteria was specified in advance by the Board of Directors, on the recommendation of the Nomination and Compensation Committee, but cannot be disclosed publicly for reasons of confidentiality.

In accordance with AFEP-MEDEF Code recommendations, the allocation of this performance-based variable compensation will be specifically disclosed upon completion of the 2017 financial year. It will also be presented in the 2017 Registration Document.

Other compensation and benefits to which corporate officers are entitled

Suspension of employment contract

Suspension of corporate officer employment contracts

At the time of the renewal of their terms of office as Directors and on the recommendation of the Nomination and Compensation Committee, on February 22, 2016 the Board of Directors confirmed the position it had taken in September 2014 and decided that the employment contracts of Mr. Franck RIBOUD and Mr. Emmanuel FABER should be maintained (while remaining suspended), given their age, personal situation and length of service with Danone. The Board considered this arrangement to be appropriate for corporate officers whom Danone has employed for at least ten years. This serves to promote the principles of internal promotion and sustainable management to which Danone is committed, since terminating an employment contract could dissuade employees from accepting a position as a corporate officer.

The Board believed that observing the AFEP-MEDEF Code's recommendations to terminate the employment contracts of corporate officers could cause them to lose the rights and benefits they have gradually acquired during their years of service at Danone (35 years for Mr. Franck RIBOUD and 19 years for Mr. Emmanuel FABER) and in particular their severance pay, membership in group plans and other long-term benefits, the total amount of which could not however exceed the limit of two years of compensation (fixed and variable).

In addition, the Board noted that the AMF (the French financial market authority) considers that a detailed explanation of why a corporate officer's employment contract has been maintained can justify the decision not to observe the AFEP-MEDEF Code's recommendation.

The Chairman of the Board's employment contract

On December 31, 2016, Mr. Franck RIBOUD had been with Danone for 35 years, including more than 18 years as its Chairman and Chief Executive Officer.

At its July 21, 2004 meeting, the Board of Directors had amended the terms under which Mr. Franck RIBOUD's employment contract (which was suspended on August 26, 1994 when he became a Danone corporate officer) would be resumed if his term of office ended, for whatever reason, and provided that:

- the amount of time during which he serves as a Danone corporate officer will be fully taken into account in respect of his length of service and the associated rights under his employment contract;
- Danone agrees to offer him a position with responsibilities that are comparable to those currently exercised by the members of Danone's Executive Committee;
- his annual compensation cannot be less than the annual average total compensation (gross base salary, benefits in kind, any bonuses) paid to the members of the Executive Committee during the 12 months preceding the resumption of his employment contract;
- he will benefit from the supplementary retirement plan for managers on the basis of his total length of service as a corporate officer and under his employment contract.

The Chief Executive Officer's employment contract

Concerning Mr. Emmanuel FABER, at its meeting of February 13, 2008, the Board of Directors approved an amendment to his employment contract to specify the terms under which his employment contract (which had been suspended when he was appointed a Danone corporate officer) would be resumed, assuming that his appointed ended, for whatever reason. This amendment stipulates that:

- the amount of time during which he will have served as a Danone corporate officer will be fully taken into account in respect of his length of service and the associated rights under his employment contract;
- Danone agrees to offer him a position with responsibilities that are comparable to those currently exercised by the members of Danone's Executive Committee.
- his annual compensation cannot be less than the annual average total compensation (gross base salary, benefits in kind and any bonuses) paid to the members of the Executive Committee during the 12 months preceding the resumption of his employment contract.
- he will benefit from the supplementary retirement plan for managers on the basis of his total length of service as a corporate officer and under his employment contract.
- the indemnity to be paid if the employment contract is breached will be canceled.

Supplementary retirement plan for corporate officers

Defined-benefits retirement plan

Corporate officers are entitled to a defined-benefits retirement plan that was established for certain key managers, subject to the provisions of Article L.137-11 of the French Social Security Code.

This retirement plan, which was set up in 1976 to retain key managers, may also include some who having the status of "Group Directors" on December 31, 2003, at which date the plan was closed to new beneficiaries. On December 31, 2016, 119 Group Directors were members of this plan (excluding plan beneficiaries who had already claimed their pension benefits), compared to 170 potential beneficiaries in 2003.

General principles

Eligibility

Eligibility for the defined-benefits retirement plan shall be subject to the following conditions:

- The beneficiary must still be employed at Danone at the time of retirement, it being specified that the beneficiary of the plan shall be maintained in the following exceptions:
  - the employee is made redundant after the age of 55, provided that he or she does not take up paid employment elsewhere; and
  - the employee incurred a 2nd or 3rd class disability, as defined under French social security law, while working for Danone.

  Although these two exceptions are in accordance with French regulations and the position of social security authorities, they are not however included in the AFEP-MEDEF Code recommendations. They serve to protect all beneficiaries between the age of 55 and the retirement age from the risk of termination and disability;
- Danone 'Group Directors' (within the meaning of the retirement plan rules) must have served for at least five years in order to be eligible. The number of years of service includes employment under an employment contract and as a corporate officer. All benefits will be lost if the plan member leaves the company before the age of 55.

The supplementary retirement plan is a collective contractual commitment that benefits a large number of Danone's key managers. Given the way in which the plan was set up and in which the potential beneficiaries were informed of the plan, the plan's amendment would require the individual agreement of each plan member.

Coverage and funding

The amount provisioned for the defined-benefits retirement plan constitutes Danone's commitment at December 31, 2016.

At this date, the portion of Danone's total commitment for this defined-benefits retirement plan, in respect of Danone's corporate officers and Executive Committee members, was €58 million, calculated in accordance with IFRS standards.

The funding of the plan is secured through the transfer of plan assets to insurance companies.

Payroll taxes and social security contributions

Defined-benefits retirement plans are subject to the following payroll taxes and social security contributions:

- during the build-up phase the beneficiary owes no contribution or other charge;
- premiums paid to the insurance company are deductible from the corporate income tax base and are subject to the employer's contribution of 24%, pursuant to Article L.137-11, 2° of the French Social Security Code.

Calculation of the annuity and cap

The defined-benefits retirement plan provides for the payment of an annuity which:

- for one category of key managers (which includes Mr. Franck RIBOUD, see hereafter):
  - is equal to 2% of the reference compensation per year of service;
  - may not exceed 65% of the reference compensation;
  - is paid after the deduction of certain pensions representing the total retirement rights acquired over the beneficiary's career;
- for another category of key managers (which includes Mr. Emmanuel FABER, see hereafter):
  - equals to 1.5% of the 1st bracket of the reference compensation(which is defined under the plan rules as being the portion of the compensation between 3 to 8 times the French social security ceiling) per year of service (up to 20 years of service), and 3% of the 2nd bracket of the reference compensation per year of service, for the portion that exceeds eight times the social security ceiling) (which is defined under the plan rules as being the portion of the compensation that exceeds 8 times the French social security ceiling) per year of service (up to 20 years of service);
  - may not exceed 30% of the 1st bracket of the reference compensation and 60% of the 2nd bracket of the base compensation;
  - is paid after the deduction of certain pensions representing the total retirement rights acquired under a non-contributory supplementary retirement plan provided by the Company.

The reference compensation defined under the plan rules, is the average of the last 3 compensations (either before retirement, a 2nd or 3rd class disability or redundancy after age 55), including the annual base salaries and the average of the last 3 bonuses and excluding any other component of compensation).

It should be noted that the recommendation of the AFEP-MEDEF Code, which calls for a 45% cap on the reference income, does not apply to this retirement plan, since it was closed to new members on December 31, 2003 and this cap does not apply to retirement plans that are closed to new members (see Article 24 of the AFEP-MEDEF Code, as amended in November 2016).

Other information

We remind that:

- the size of the potential amounts under this plan in respect of the corporate officers depends mainly on their length of service (35 years for Mr. Franck RIBOUD and 19 years for Mr. Emmanuel FABER) and not on the annual percentage of the calculation basis per year of service, which is limited to 2% per year of service for Mr. Franck RIBOUD and between 1.5% and 3% per year for Mr. Emmanuel FABER (see details hereafter);
- all aspects of these commitments were submitted to shareholders at the Shareholders' Meeting held in April 2008, by a resolution on regulated agreements that explicitly included confirmation of this retirement plan and which was approved by a 95% majority;
- pursuant to Articles L. 225-22-1 and L. 225-42-1 of the French commercial code (as amended by Act No. 2015-990 of 6 August 2015, the "Macron Act"), the February 22, 2016 Board of Directors' meeting, acting on the recommendation of the Nomination and Compensation Committee, decided (i) to subject the annual increase in Mr. Emmanuel FABER's retirement benefits to a performance condition starting with the renewal of his appointment in 2016 and (ii) make this increase in these conditional future retirement benefits subject to the approval of the April 28, 2016 Shareholders' Meeting. This Board decision was published on Danone's website and Mr. Emmanuel FABER's pension commitments were approved by a 92.75% majority of shareholders at the meeting of April 28, 2016;
- given his length of service at Danone, in 2014 Mr. Franck RIBOUD has reached the maximum annuity he is eligible to receive. Since his conditional pension rights can no longer increase during his remaining term of office, at its meeting of February 22, 2016, the Board of Directors, on the recommendation of the Nomination and Compensation Committee, observed that it was not necessary either to take performance conditions into account or to have these conditional rights approved by shareholders at the Shareholders' meeting of April 28, 2016;
- the Nomination and Compensation Committee and the Board of Directors have taken the material benefit stemming from this retirement plan into account when determining the overall compensation of the corporate officers.

As indicated above, the defined-benefits retirement plan for Danone's key managers provides for two distinct categories of beneficiaries, into which the two corporate officers who are eligible for this plan fall respectively. The parameters used to calculate the annuities for Mr. Franck RIBOUD and Mr. Emmanuel FABER are shown hereafter.

For Mr. Franck RIBOUD

Reference compensation used to calculate the annuity	The compensation that is used to calculate the annuity (the "**Basis**") is the average of the annual fixed and variable compensations received during three full years of service at Danone just before retirement. The period of reference used to calculate benefits therefore spans several years. For example, on December 31, 2016, the Basis for Mr. Franck RIBOUD would be €2,591,738.
The increase in potential benefits	Currently capped at 65%, the increase in benefits has been gradual and currently represents a small percentage of Mr. Franck RIBOUD's annual compensation: • the amount of the life annuity to which Mr. Franck RIBOUD is entitled has increased by 2% annually until reaching, due to Mr. Franck RIBOUD length of service, the above-mentioned cap of 65% of the Basis in 2014, less all of the retirement rights he has acquired over his career (including Danone's non-contributory supplementary retirement plan); • if Mr. Franck RIBOUD retires without satisfying the conditions necessary to obtain the full-rate social security pension, his annuity will be reduced by 1.25% per quarter between the age at which he retires and the age at which he would have received the full-rate social security pension.
Estimated amount at December 31, 2016	As of December 31, 2016, the estimated amount of the annuity that Mr. Franck RIBOUD could receive would be €1,684,629. From this must be deducted all retirement annuities and pensions to which he is entitled under mandatory basic and complementary retirement regimes and Danone's supplementary defined-contributions retirement plan. This amount was determined: • by estimating the annuity on an annual basis; • by taking into account Mr. Franck RIBOUD's years of service at the end of 2016 (35 years); • using the reference compensation specified in the plan rules (the average of the past 3 annual compensations, including the base salary and the average of the past 3 bonuses and excluding any other component of compensation); • by calculating the estimated annuity independently of the terms of the commitment, as if Mr. Franck RIBOUD could receive the annuity immediately after the fiscal year.

Mr. Franck RIBOUD was born on November 7, 1955 and may exercise his rights to the defined-benefits retirement plan as of December 1, 2017.

For Mr. Emmanuel FABER

Reference compensation used to calculate the annuity	The compensation that is used to calculate the annuity (the "**Basis**") is the average of the annual fixed and variable compensations received during three full years of service at Danone just before retirement. The period of reference used to calculate benefits therefore spans several years. For example, on December 31, 2016 the Basis for Mr. Emmanuel FABER would be €1,683,212.

The increase in potential benefits	The annual increase is progressive and represents only a small percentage of the beneficiary's compensation:
	• The amount of the life annuity to which Mr. Emmanuel FABER is entitled is (i) 1.5% of the Basis per year of service (for the portion of the Basis that is between 3 to 8 times the French social security ceiling) and (ii) 3% of this Basis per year of service (for the portion that exceeds 8 times the social security ceiling), it being specified that this amount however being:
	  • capped at a maximum length of service of 20 years; and
	  • subject to the deduction of all pension entitlements that Mr. Emmanuel FABER has acquired under Danone's non-contributory supplementary defined-contributions retirement plan.
	Therefore, given the above percentages and the maximum potential length of service of 20 years, the life annuity cannot exceed 60% of the Basis.
	• if Mr. FABER retires without satisfying the conditions for obtaining a full social security pension, his annuity will be reduced by 1.25% per quarter between his age of retirement and the age at which he would have received a full social security pension;
	• furthermore, as of the Shareholders' Meeting of 28 April 2016 and in compliance with the provisions of the Macron Act, the increase in Mr. Emmanuel FABER's pension entitlement for each fiscal year, depends on:
	  • the arithmetic average of internal ("organic") growth in Danone's net sales (the "**Group CA**") during that fiscal year and the five previous fiscal years (the "**Reference Period**");
	  • the arithmetic average of internal ("organic") growth in sales achieved by the Panel members (the "**Panel CA**") over the Reference Period.

Estimated amount at December 31, 2016	As of December 31, 2016, Mr. Emmanuel FABER had been with Danone for 19 years. The overall retirement package he could receive would be equivalent to 57% of the portion of his compensation that exceeds eight times the French social security ceiling, as defined above. Therefore, assuming that the performance condition to be determined at the Board of Directors' meeting of April 2017 is achieved, the increase in rights for 2016 would be 2.7%. As of December 31, 2016, Mr. Emmanuel FABER could receive an estimated annuity of €838,369, less the annuity paid under Danone's supplementary defined-contributions retirement plan. This amount was calculated: • by estimating the annuity on an annual basis, • by taking into account Mr. Emmanuel FABER's years of service at the end of 2016 (19 years), • using the reference compensation specified in the plan rules (the average of the past three annual compensations, including the base salary and the average of the past three bonuses and excluding any other component of compensation); • by calculating the estimated annuity independently of the terms of the commitment, as if Mr. Emmanuel FABER could receive the annuity immediately after the fiscal year.

DEFINITIONS	
Group CA	The arithmetic average internal ("organic") growth in Danone's sales over the Reference Period (on a consolidated and a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates).
Each Panel member's CA	The arithmetic average internal ("organic") growth in net sales posted by a given Panel member over the Reference Period (on a consolidated and a like-for-like basis, *i.e.* excluding changes in consolidation scope and exchange rates).
Panel CA	The combined CA of all Panel members.
Median CA of the Panel	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 that are 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: Kellogg Company, Unilever N.V., Nestlé S.A., The Kraft Heinz Company (Kraft Foods Group Inc. until 2014), Mondelez International Inc., PepsiCo Inc., The Coca-Cola Company and General Mills Inc..
Over the Reference Period (*i.e.*at the end of each fiscal year):	• if the Group's CA is equal to or greater than the Median CA of the Panel, the increase in Mr. Emmanuel FABER's conditional retirement benefits for the fiscal year will vest (provided that the other conditions stipulated in the retirement plan have been fulfilled); • if the Group's CA is less than the Median CA of the Panel, Mr. Emmanuel FABER will not receive an increase of conditional future rights to pension benefits for that fiscal year (expressed as a percentage of the Basis). Each year, prior to the Shareholders' meeting held to approve the previous financial statements, the Board of Directors shall issue a statement as to whether this performance condition has been satisfied, based on the report of a financial advisor, and will determine the increase of Mr. Emmanuel FABER's pension benefits for that fiscal year, through duly justified decisions taken on the recommendation of the Nomination and Compensation Committee. This performance condition is the same that applies to the severance pay granted to Mr. Emmanuel FABER in the event he ceases to be the Chief Executive Officer.
OTHER APPLICABLE RULES	
Ensure that the CA obtained are comparable	CA figures may be readjusted (for example, to correct for changes in consolidation scope or exchange rates) only when this is strictly necessary to ensure that the method for calculating the CA of all Panel members and the Group's CA is consistent over the entire Reference Period. The Board of Directors may, by a duly justified decision, change the composition of the Panel in the event of the acquisition, absorption, dissolution, spin-off, merger or change of activity of one or more of the Panel members, provided that it maintains its overall consistency.
Event of no publication or late publication of audited accounting or financial data	**By one Panel member:** the Board of Directors may, exceptionally and by a duly justified decision, exclude this member from the Panel; **By two or more Panel members:** the Board of Directors will make a duly justified decision on the basis of the audited financial statements published by these Panel members and by Danone over the last five fiscal years for which financial statements are available for all Panel members and for Danone.
The acquisition, absorption, dissolution, spin-off or merger of a Panel member or a change of its business activity	The Board of Directors may, through a duly justified subsequent decision, change the composition of the Panel, provided that it maintains its overall consistency.

In April 2017, when the Panel members will have published their annual financial statements, the Board of Directors will determine whether performance conditions for the 2016 fiscal year have been achieved over the aforementioned Reference Period.

Mr. Emmanuel FABER was born on January 22, 1964 and may exercise his rights to the defined-benefits retirement plan as from February 2026, provided he remains employed at Danone.

Defined-contributions retirement plan

The corporate officers are also entitled to a defined-contributions retirement plan that is available to all Danone employees who are affiliated with the AGIRC pension fund pursuant to Articles 4 and 4b of the collective bargaining agreement of March 14, 1947 and whose annual compensation exceeds 3 times the French social security ceiling.

This plan was established pursuant to Article L. 242-1, paragraphs 6 and 7 of the French Social Security Code.

Under this plan, retirement benefits:

- may be claimed no earlier than:
  - the pension entitlement date of a compulsory pension plan or,
  - the minimum age stipulated under Article L. 351-1 of the French Social Security Code.
- are funded through quarterly contributions that are paid exclusively by Danone to an insurance company:
  - at a rate of 6% of brackets B and C of the compensation paid to plan beneficiaries,
  - are excluded from the social security contributions calculation base, to a limit of 5% of the compensation up to a maximum of 5 times social security ceilings (or €9,654 in 2016), and
  - are subject to the fixed-rate "social tax" (*forfait social*) of 20%.

Danone's employer contributions paid for this plan for 2016 fiscal year were €16,219 for Mr. Franck RIBOUD and €16,219 for Mr. Emmanuel FABER.

Annuities that may be paid under this plan will be deducted from any annuities to be paid under the defined-benefits retirement plan.

Severance pay

Mr. Emmanuel FABER's severance pay

In September 2014, when the offices of Chairman of the Board and Chief Executive Officer were separated, Mr. Emmanuel FABER was named Chief Executive Officer. At that time, the Board, on the recommendation of the Nomination and Compensation Committee, renewed the entire severance pay scheme for which Mr. Emmanuel FABER was already eligible as Deputy General Manager. The scheme was approved by the Shareholders' Meeting on April 29, 2015.

As part of the renewal of his term of office as Director and Chief Executive Officer, at its meeting on February 22, 2016 the Board of Directors decided, on the recommendation of the Nomination and Compensation Committee, not to change this scheme. This was approved by the Shareholders' Meeting of April 28, 2016. Mr. Emmanuel FABER's severance pay has the following characteristics:

- stringent performance conditions that cover a five-year period prior to the termination of the corporate officer's duties;
- the amount of severance pay due in certain cases of termination (i) is capped at two years of gross compensation (fixed and variable) and (ii) in the event that it is paid in addition to the indemnity that is paid to salaried employees when their employment is terminated, is included within an overall cap that also limited to two years of gross compensation (fixed and variable) that applies to all of the severance pay paid in respect of the corporate office and employment as a salaried employee;
- the severance payment is only made in the event of a forced termination, of whatever type or form, that is the result of a change in control or of strategy.

All information concerning Mr. Emmanuel FABER's severance pay is provided in section 6.7 *Statutory auditors' special report on related party agreements and commitments*.

Mr. Franck RIBOUD's severance pay

Since October 1, 2014, Mr. Franck RIBOUD, now Chairman of the Board only, is no longer eligible for severance pay with respect to his term of office.

Non-compete indemnity

The non-compete clause that currently applies to Chief Executive Officer Mr. Emmanuel FABER (the Chairman of the Board, Mr. Franck RIBOUD, is not bound by a non-compete clause) enables Danone to either enforce the clause for a period of 18 months in exchange for the payment of gross monthly financial compensation equivalent to 50% of Mr. FABER's gross average fixed and target variable compensation paid over the last 12 months (the "Consideration for the non-compete clause"), or release Mr. FABER's from his obligations under clause with no financial compensation.

This non-compete clause aims to protect Danone and the non-compete indemnities constitute the necessary pecuniary consideration for the restrictions imposed.

Furthermore, to avoid any aggregation of (i) the indemnity provided under Danone's collective agreement which applies to all Danone employees (the "Indemnity for Termination of an Employment Contract"), (ii) the indemnity that is due in certain cases of the termination of a corporate officer's office, and (iii) the Consideration for the Non-Compete Clause that could exceed twice the gross annual compensation (comprising both fixed and variable compensation) and which would therefore not comply with the AFEP-MEDEF Code's recommendations, at its meeting of February 10, 2010, the Board of Directors, on the recommendation of the Nomination and Compensation Committee, amended Mr. Emmanuel FABER's suspended employment contract such that Danone may only enforce the non-compete clause if Mr. FABER resigns, in which case neither the indemnity for termination of the employment contract nor the indemnity that is due in certain cases of termination of his office would be paid.

Compensations of the other Board members

Principle

Directors receive directors' fees, except for Executive Committee members, Danone's executive corporate officers, honorary Directors, the Chairman of the Board (if this person has an employment contract with the Company, even if this contract is suspended) and Directors who represent employees.

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 of 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 €)	**2015**	**2016**
Total annual amount	1,000,000	1,000,000
Date of the Shareholders' Meeting that authorized this amount	4/29/2015	4/29/2015
Amount paid	613,000	687,000

Allocation rules since January 1, 2016

(in €)	**Annual fixed amount**	**Amount per meeting**	**For travel – residing in Europe (not in France)**	**For travel – residing outside of Europe**
Lead Independent Director	50,000	–	–	–
Director	10,000	–	–	–
Board meeting	–	–	–	–
Director	–	3,000	2,000	4,000
Committee meeting	–	–	–	–
Chairs	–	8,000	2,000	4,000
Members	–	4,000	2,000	4,000

Application

Compensation and benefits of the Board members

The amount of annual compensation due and paid and benefits granted in 2015 and 2016 to members of the Board of Directors who are not corporate officers (Table 3 of the French financial market authority's recommendation on the compensation of corporate officers)

It should be noted that the two Directors who represent employees have an employment contract with Danone and therefore receive compensation in that capacity that is unrelated to their duties on the Board. This compensation is therefore not disclosed.

						Year ended December 31
			2015			2016
(in €)	Directors' fees [a]	Benefits in-kind	Total of annual compensation	Directors' fees [a]	Benefits in-kind	Total of annual compensation
Name	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**	**Amounts paid**
Bruno BONNELL	37,000	–	37,000	55,000	–	55,000
Clara GAYMARD [b]	–	–	–	11,000	–	11,000
Richard GOBLET D'ALVIELLA [c]	71,000	–	71,000	–	–	–
Jacques-Antoine GRANJON	22,000	–	22,000	25,000	–	25,000
Jean LAURENT	138,000	–	138,000	121,000	–	121,000
Gaëlle OLIVIER	44,000	–	44,000	64,000	–	64,000
Benoît POTIER	52,000	–	52,000	68,000	–	68,000
Isabelle SEILLIER	38,000	–	38,000	67,000	–	67,000
Mouna SEPEHRI	42,000	–	42,000	41,000	–	41,000
Jean-Michel SEVERINO	84,000	–	84,000	91,000	–	91,000
Virginia A. STALLINGS	48,000	–	48,000	60,000	–	60,000
Serpil TIMURAY	9,000	–	9,000	60,000	–	60,000
Lionel ZINSOU-DERLIN	28,000	–	28,000	24,000	–	24,000
Total	**613,000**	**–**	**613,000**	**687,000**	**–**	**687,000**

(a) Gross amount paid in the fiscal year before the withholding tax.
(b) Clara GAYMARD has been appointed as Director by the Shareholders' Meeting of April 28, 2016.
(c) The term of office as Director of Mr. Richard GOBLET D'ALVIELLA expired at the end of the Shareholders' Meeting of April 29, 2015.

6.4 DETAILED INFORMATION ON LONG-TERM AND MULTI-ANNUAL COMPENSATION PLANS

Group Performance Shares

General principles

Authorization by the Shareholders' Meeting

The granting 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 shareholder approval the following year.

Cap on the number of Group Performance Shares granted

Danone's Group Performance Shares have always had limited impact on capital dilution and share ownership.

GPS grants are subject to a double cap approved by the Shareholders' Meeting that limits both (i) the total number of GPS that may be granted and (ii) the total number of GPS that may be granted to corporate officers, as shown hereafter:

Shareholders' Meeting that approved the GPS	4/25/2013	4/29/2014	4/29/2015	4/28/2016 [b]
Maximum number of GPS that may be granted [a]	0.2%	0.2%	0.2%	0.2%
Of which the maximum number of GPS that may be granted to all corporate officers [a]	*0.05%*	*0.05%*	*0.03%*	*0.03%*

(a) Expressed as a percentage of that year's share capital subsequent to the Shareholders' Meeting that authorized the plans. This number of shares does not reflect any adjustments that may be made pursuant to legal and regulatory requirements nor any contractual provisions that may require other adjustments in order to maintain the rights of shareholders and other rights-holders.

(b) Authorization valid until December 31, 2016.

The authorization that will be subject to the approval of the Shareholders' Meeting of April 27, 2017 stipulates that grants of Group Performance Shares to the corporate officers may not exceed 0.03% of the share capital (see the comments on the resolutions to be proposed at the Shareholders' Meeting, which are available on Danone's website: www.danone.com (section "Investors / Shareholders / Shareholders Meetings / 2017")).

Granting by the Board of Directors

Group Performance Shares are granted annually by the Board of Directors, on the recommendation of the Nomination and Compensation Committee, at the same times each year. They are granted at the end of July, and if necessary are granted to certain new employees in October.

Review of the achievement of performance objectives by the Board of Directors

The Board of Directors determines whether or not performance objectives have been achieved, after an initial review by the Nomination and Compensation Committee.

Valuation and accounting in the consolidated financial statements

Long-term compensation in the form of GPS is valued and accounted for in Danone's consolidated financial statements pursuant to IFRS 2 on *Share-based payments* (see Note 7.4 of the Notes to the consolidated financial statements).

Performance conditions

The performance conditions for GPS are determined at the beginning of each year and are indicated in the comments on the resolutions submitted to the Shareholders' Meeting that notably presents the resolution on 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, apply to all of the GPS granted and are subject to the principles presented hereafter.

Performance conditions must be demanding and consistent with Danone's business environment

The performance conditions for GPS involve complementary criteria that are representative of Danone's performance and adapted to the specific characteristics of its business:

These criteria correspond to the key indicators that investors and financial analysts use to measure the performance of companies in the food and beverage sector.

Some of these criteria are internal and some are external.

Regarding the external performance criterion, the composition of the panel that has been used to determine the GPS, severance pay of corporate officers and the annual review of the Chief Executive Officer's retirement rights, is essentially the same since 2007. However, the following adjustments were required:

- 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.;
- 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.

The use of a single three-year reference period that applies to all performance conditions

In 2013, the reference period for Danone's sales growth performance criterion was three years, while the reference period for the operating margin criterion was two years. For the granting of GPS in 2014, the Board of Directors decided to establish a single three-year reference period for both performance criteria.

Employment condition

The definitive grant of GPS is subject to a continuous employment condition applying to all beneficiaries. Thus, the beneficiary of a GPS leaving Danone before the expiration date of the conservation period, cannot retain its GPS, except cases allowed by law (including death and disability), and barring exceptions decided by the Board of Directors.

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 previous 12 months before the retirement leaving date will be canceled (without any possible exception).

Regarding the executive corporate officers, the Board of Directors may decide an exception to the employment condition, solely partially and on a prorata basis.

Finally, as a reminder, the GPS plans enable beneficiaries to be exempted from the continuous employment and performance conditions in the event of a change of a control of the Company.

Definitive granting

GPS grants vest and are delivered to their beneficiaries in the form of DANONE shares when the conservation period decided by the Board of Directors has elapsed. In accordance with the authorization given by the Shareholders' Meeting, this conservation period may not be less than three years.

In 2010, 2011 and 2012, the Board set up a "3+2" GPS plan (with a 3-year conservation period and a 2-year holding period) and a "4+0" plan (with a 4-year conservation period and no holding period) to accommodate the different rules that apply to social security contributions under different regimes (*i.e.* "3 +2" for French beneficiaries and "4+0" for beneficiaries in other countries). Since 2013, the Board of Directors has only set up "4+0" plans.

Notwithstanding the provisions of Act No. 2015-990 of August 6, 2015, known as the Macron Act, which shortened the minimum conservation period for shares subject to performance conditions, Danone decided to maintain a four-year conservation 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 which are still subject to a holding period. For the corporate officers, the prohibition of hedging extends to all DANONE shares or other financial instruments related to DANONE shares which they own or may be in a position to acquire (see the section hereafter on the *Obligation to hold DANONE shares obtained from grants of Group Performance Shares*). Each beneficiary of GPS has personally agreed not to use hedging instruments. To Danone's knowledge, no hedging instruments have been used.

Obligation of corporate officers and other Executive Committee members to hold DANONE shares obtained from grants of Group Performance Shares

All corporate officers and other Executive Committee members are subject to an obligation to hold any Danone shares obtained as a result of Group Performance Shares. They must hold (in registered form) a number of shares obtained from each GPS plan granted as of July 26, 2010 (and until termination of their duties) that is equivalent to 35% of the capital gains upon acquisition, net of tax and social security contributions, they would be able to realize if they sold all of the shares obtained from each GPS plan.

Given the substantial obligation to hold shares that corporate officers and other Executive Committee members must observe, the Board of Directors, on the recommendation of the Nomination and Compensation Committee, agreed that it was not necessary to require them to purchase a certain number of DANONE shares upon termination of the holding period in respect of shares that are subject to performance conditions.

Furthermore, at the proposal of the Nomination and Compensation Committee, the Board of Directors, at its meeting on February 14, 2012, decided to amend the current plan by including an overall cap on the holding of shares resulting from the granting of shares subject to performance conditions or from the exercise of stock-options, that is equivalent in terms of number of shares to four years of fixed compensation for the corporate officers and to two years of fixed compensation for the other Executive Committee members.

The Board of Directors confirmed this holding obligation when (i) it approved the grant of GPS at its meeting of July 28, 2016, and (ii) when it decided to propose the reappointment of Mr. Franck RIBOUD and Mr. Emmanuel FABER at the Shareholders' Meeting of February 22, 2016.

Performance conditions for grants in 2016

Sales growth performance criterion, weighted by 50%

BASIC 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.* 2016, 2017 and 2018	• if Danone's CA exceeds or is 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%, in accordance with the "no payment below the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth in sales (on a consolidated and like-for-like basis) in fiscal 2016, 2017 and 2018.
Panel member's CA	Average internal ("organic") growth in sales generated (on a consolidated and like-for-like basis) by a given Panel member in fiscal 2016, 2017 and 2018.
Panel CA	CA of all Panel members.
Median Panel CA	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 that are 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 like-for-like	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*).
OTHER APPLICABLE RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or exchange rates) may be made only when strictly necessary to ensure consistency.
Failure to report or late reporting of audited accounting or financial data	**By one Panel member:** the Board of Directors may, exceptionally and by a duly reasoned decision indicated in the Board's report the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members:** the Board of Directors will make a duly reasoned decision, on the basis of the most recent audited financial statements published by these Panel members and by Danone over the last three fiscal years for which financial statements are available for all Panel members and for Danone.
The acquisition, absorption, dissolution, spin-off or merger of a Panel member or a change of its business activity	The Board of Directors may, by a duly reasoned 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 THE 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 reasoned 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 report.
Date of the assessment of the achievement of the performance condition	In early 2019, after the companies in the Panel have published their sales figures.

Trading operating margin performance criterion, weighted 50%

BASIC PRINCIPLE	
Based on the growth of the trading operating margin on a like-for-like basis over a three-year period, *i.e.* for 2016, 2017 and 2018	If the growth of the trading operating margin on a like-for-like basis over three years (2016, 2017 and 2018) is: • equal to or greater than +35 basis points, the definitive grant will be 100%; • less than +35 basis points, the definitive grant will be 0%.
DEFINITIONS	
Trading operating margin Trading operating income Change like-for-like	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*).
ASSESSMENT OF THE 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 reasoned decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Date of the assessment of the achievement of the performance condition	In early 2019, after the approval of the 2018 financial statements.

Potential achievement of performance conditions assessed in 2016 and early 2017

Regarding the Group Performance Shares granted in 2013, at its meeting on February 19, 2014, the Board of Directors had observed that the operating margin condition had not been met. However, at its meeting of April 28, 2016, the Board of Directors noted that the sales growth condition had been satisfied. Accordingly, two thirds of the GPS granted in 2013 may be delivered in 2017, provided that the continuous employment condition is met.

Regarding the Group Performance Shares granted in 2014, the Board of Directors' meeting of February 14, 2017 noted that the trade operating margin had increased by + 65 basis points from 2014 to 2016.

Summary of GPS plans at December 31, 2016

Characteristics of outstanding Group Performance Share plans as of December 31, 2016, grants made under these plans and changes in these plans during 2016 (information required pursuant to the French financial markets authority's recommendation related to disclosures in registration documents on the compensation of corporate officers)

Outstanding Group Performance Share plans		
Shareholders' Meeting authorizing the GPS		4/26/2012
Number of GPS authorized by the Shareholders' Meeting		2,568,986
Of which the number of GPS that were not granted		*1,784,674*
Date of the Board of Directors' meeting authorizing the GPS	7/26/2012	10/23/2012
Plans	"4+0"	"4+0"
Number of GPS granted	**446,506**	**3,400**
GPS characteristics		
Share delivery date	7/27/2016	10/24/2016
Share holding period [a]	–	–
Performance condition	• Growth in sales greater than or equal to the Panel median sales in 2012, 2013 and 2014; • A consolidated free cash flow averaging at least €2 billion per year was achieved in 2012 and 2013.	
Assessment of the achievement of performance conditions	• The Board's sales criterion was achieved (average growth in 2012, 2013 and 2014 of 5% vs. a Panel median of 3.6%); • The Board noted that the free cash flow objective had not been achieved.	
Changes in 2016 and situation as of December 31, 2016		
Group Performance Shares at December 31, 2015	**227,845**	**2,268**
GPS granted in 2016 [b]	–	–
Of which GPS granted to the corporate officers	–	–
GPS void or canceled in 2016	(10,653)	–
Of which GPS canceled in 2016 due to non-fulfillment of some performance conditions	–	–
Transfer from "3+2" plans to "4+0" plans	–	–
Shares delivered in 2016	(217,192)	(2,268)
Of which shares delivered to executive corporate officers	–	–
Of which shares delivered to the 10 employees (excluding corporate officers) who received the largest number of shares in 2016	*(35,468)*	–
Group Performance Shares at December 31, 2016	**–**	**–**
Of which GPS granted to the corporate officers [c]	–	–
Of which GPS granted to Executive Committee members	*40,000*	–
Of which the number of Executive Committee member beneficiaries	*3*	–
Of which GPS granted to the 10 Group employees (excluding corporate officers) who received the largest number of shares in 2016 [d]	–	–
Number of beneficiaries [d]	1,523	5
Void or canceled Group Performance Shares at December 31, 2016	**(236,595)**	**(1,132)**

(a) The holding period begins on the share delivery date and applies only to "3+2" plans.
(b) All grants are subject to performance conditions.

							Total
		4/25/2013		4/29/2014	4/29/2015	4/28/2016	
		1,268,724		1,262,056	1,287,584	1,309,902	
		447,081		*483,685*	*642,212*	*685,074*	
	7/26/2013	10/23/2013	7/24/2014	17/10/2014	7/23/2015	7/27/2016	
	"4+0"	"4+0"	"4+0"	"4+0"	"4+0"	"4+0"	
	817,993	**3,650**	**776,521**	**1,850**	**645,372**	**624,828**	**3,320,120**

	7/27/2017	10/24/2017	7/25/2018	10/18/2018	7/24/2019	7/28/2020	
	–	–	–	–	–	–	
	• Average growth in sales greater than or equal to the Panel median sales in 2013, 2014 and 2015; • A trading operating margin was achieved in 2013 and 2014.		• Average growth in sales greater than or equal to the Panel median sales over 2014, 2015 and 2016; • The average trading operating margin grew in 2014, 2015 and 2016.		• Average growth in sales greater than or equal to the Panel median sales over 2015, 2016 and 2017; • Improvement in growth in the Group's operating margin over three years (2015, 2016 and 2017) on a like-for-like basis.	• Average growth in sales greater than or equal to the Panel median sales over 2016, 2017 and 2018; • Improvement in growth in the Group's operating margin over three years (2016, 2017 and 2018) on a like-for-like basis.	
	• The sales growth target from 2013 to 2015: the fulfillment of the achievement of this criterion has been noted by the Board of Directors in 2016; • The Board noted that the operating margin objective had not been achieved.		• A review will be conducted on April 2017 by the Board of Directors to determine whether the sales criterion will be achieved; • During its meeting of February 14, 2017, the Board of Direction has noted that the achievement of the margin criterion.		• A review will be conducted in 2018 by the Board of Directors to determine whether these criteria were achieved.	• A review will be conducted in 2019 by the Board of Directors to determine whether these criteria were achieved.	
	430,314	**1,936**	**683,861**	**1,850**	**639,633**	**–**	**1,987,707**
	–	–	–	–	–	624,828	624,828
	–	–	–	–	–	*34,200*	34,200
	(22,268)	(667)	(34,908)	–	(19,477)	(2,565)	(90,538)
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
	(900)	–	(1,350)	–	(720)	–	(222,430)
	–	–	–	–	–	–	–
	–	–	–	–	–	–	*(35,468)*
	407,146	**1,269**	**647,603**	**1,850**	**619,436**	**622,263**	**2,299,567**
	137,000	–	*122,000*	–	*36,000*	*34,200*	*329,200*
	239,500	–	*217,500*	–	*109,710*	*104,268*	*710,978*
	10	–	*10*	–	*12*	*12*	–
	–	–	–	–	–	*99,993*	*99,993*
	1,578	9	1,327	4	1,332	1,394	–
	(409,947)	**(2,381)**	**(49,218)**	**–**	**(25,216)**	**(2,565)**	**(727,054)**

(c) As already explained, GPS granted to Executive Committee members and to executive corporate officers are subject to performance conditions.
(d) Numbers of beneficiaries cumulated on the"3+2" and "4+0" plans granted by the Board.

Impact on share capital dilution and share ownership

Year ended December 31

	2015		2016	
	Number of shares	**Percentage of share capital [a]**	**Number of shares**	**Percentage of share capital [a]**
Grants during the year				
Group Performance Shares granted	645,372	0.10%	624,828	0.10%
Of which GPS granted to the Chief Executive Officer	*36,000*	*0.01%*	*34,200*	*0.01%*
Balance as of December 31 [b]				
Group Performance Shares not yet vested	1,987,707	0.30%	2,299,567	0.35%
Of which GPS granted to all corporate officers [c]	*530,000*	*0,08%*	*329,200*	*0.05%*

(a) Percentage of share capital at December 31.
(b) Balance of GPS not yet vested at December 31
(c) The number for fiscal 2014 takes into account the cancellation of the 2012, 2013 and 2014 GPS of Bernard Hours.

Review of granting conditions for previous years

Conditions for grants in 2015

Sales growth performance criterion, weighted two-thirds

BASIC PRINCIPLE	
The average growth in Danone's net sales ("CA") on a like-for-like basis is compared with that of a benchmark panel over the three years 2015, 2016 and 2017	• If Danone's CA exceeds or is 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%, in accordance with the "no payment below the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth of Danone's sales (on a consolidated and like-for-like basis) in 2015, 2016 and 2017.
Panel member's CA	Average internal ("organic") growth in the sales generated by a given Panel member in 2015, 2016 and 2017 (on a consolidated and like-for-like basis).
Panel CA	The total CA of all Panel members.
Median Panel CA	Value of 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 that are 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 global 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 Like-for-like	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*).

OTHER APPLICABLE RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and Danone's CA over the entire period under review	Restatements (mainly adjustments for changes in scope and/or exchange rates) may be made only to the extent strictly necessary to ensure consistency.
Failure to report or late reporting of audited accounting or financial data	**By one Panel member:** the Board of Directors may, exceptionally and by a duly reasoned decision indicated in the Board's report the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members:** the Board of Directors will make a duly reasoned decision, on the basis of the most recent audited financial statements published by these Panel members and by Danone over the last three fiscal years for which financial statements are available for all Panel members and for Danone.
The acquisition, absorption, dissolution, spin-off or merger of a Panel member or a change of its business activity	The Board of Directors may, by a duly reasoned 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 THE 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 reasoned 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 the achievement of the performance condition	After the first half of 2018, after the companies in the Panel have published their sales figures.

Trading operating margin performance criterion, weighted one-third

BASIC PRINCIPLE	
Improvement in growth in the trading operating margin over the three years 2015, 2016 and 2017 on a like-for-like basis:	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% • is equal to zero or negative, the definitive grant will be 0%.
DEFINITIONS	
Average growth in trading operating margin	Average growth in trading operating margin on a like-for-like basis: • in 2015 compared to 2014 • in 2016 compared to 2015; and • in 2017 compared to 2016.
Sales	Danone's consolidated sales, as defined under IFRS.
Trading operating margin Trading operating income Change Like-for-like	Non-IFRS financial indicators that Danone uses, the calculation of which is indicated in Danone's financial press releases (see also section 3.6 *Financial indicators not defined by IFRS*).
ASSESSMENT OF THE 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 second performance condition was met, by a duly reasoned decision indicated in the Board's report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Date of the assessment of the achievement of the performance condition	Early 2018, after the preparation of fiscal 2017 financial statements.

Conditions for grants in 2014

Sales growth performance criterion, weighted two-thirds

BASIC PRINCIPLE	
The average growth of Danone's net sales ("CA") on a like-for-like basis are compared with that of a benchmark panel over a period of three years	• if Danone's CA exceeds or is equal to the Median Panel CA, the definitive grant will be 100%; and • if Danone's CA is less than the Median Panel CA, the definitive grant will be 0%, pursuant to the "no payment under the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth in Danone's sales in 2014, 2015 and 2016 (on a consolidated and like-for-like basis, *i.e.* excluding changes in scope, in exchange rates and in the applicable accounting principles).
Panel member's CA	Average internal ("organic") growth in the sales posted by a given Panel member in fiscal 2014, 2015 and 2016 (on a consolidated and like-for-like basis, *i.e.* excluding changes in scope, exchange rates and in the applicable accounting principles).
Panel CA	CA of all Panel members.
Median Panel CA	Value 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 that are 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.
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.
Failure to report or late reporting of audited accounting or financial data	**By one Panel member:** the Board of Directors may, exceptionally and by a duly reasoned decision indicated in the Board's report the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members:** the Board of Directors will make a duly reasoned decision, on the basis of the most recent audited financial statements published by these Panel members and by Danone over the last three fiscal years for which financial statements are available for all Panel members and for Danone.
The acquisition, absorption, dissolution, spin-off or merger of a Panel member or a change of its business activity	The Board of Directors may, by a duly reasoned 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 THE 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 reasoned 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 the assessment of the achievement of the performance condition	After the first half of 2017, after the companies in the Panel have published their sales figures.

Trading operating margin performance criterion, weighted one-third

BASIC PRINCIPLE	
Growth of the trading operating margin over three years	If the average growth in the trading operating margin calculated over 2014, 2015 and 2016 is: • positive (*i.e.* greater than or equal to +1 basis point), the definitive grant will be 100%; • is equal to zero or negative, the definitive grant will be 0%.
DEFINITIONS	
Average growth in trading operating margin	Average growth in trading operating margin on a like-for-like basis: • in 2014 compared to 2013; • in 2015 compared to 2014; • in 2016 compared to 2015.
Trading operating margin	The ratio of trading operating income to sales.
Sales	Danone's consolidated sales, as defined under IFRS.
Trading operating income	Danone's operating income excluding "Other operating income (expense)". "Other operating income (expense)", in accordance with Recommendation 2009-R.03 of the CNC "on the format of financial statements of entities applying international accounting standards", comprises significant items that, because of their extraordinary 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 costs related to major crisis and major litigations. Under revised IFRS 3, Business Combinations, in the "Other operating income (expense)" item Danone also presents (i) costs to acquire companies in which the Group acquires a controlling interest, (ii) revaluation variances recorded following a loss of control, and (iii) changes in additional purchase prices subsequent to the acquisition of a controlling interest.
Change in trading operating margin on a like-for-like basis	Increase or decrease, mainly after exclusion of the impact of: (i) changes in exchange rates, with both previous year and current year indicators calculated based on the same exchange rates (the exchange rate used is a projected annual rate determined by the Group for the current year and applied to both years), (ii) changes in consolidation scope, with indicators related to the current year calculated on the basis of the scope of consolidation of the previous year, and (iii) changes in applicable accounting principles.
ASSESSMENT OF THE 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 second performance condition was met, by a duly reasoned decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Assessment of the achievement of the performance condition	At its meeting of February 14, 2017, the Board of Directors had noted that the trading operating margin criterion had been met since its average growth over the three years from 2014 to 2016 was positive.

Conditions for grants made in 2013

Sales growth performance criterion, weighted two-thirds

BASIC PRINCIPLE	
The average growth in Danone's net sales ("CA"), on a like-for-like basis, is compared with that of a benchmark panel over 2013, 2014 and 2015	If the average growth of Danone's net sales (CA) over this three-year period (2013, 2014 and 2015): • exceeds or is equal to the Median Panel CA, the definitive grant will be 100%; and • is less than the Median Panel CA, the definitive grant will be 0%, in accordance with the "no payment below the median" principle.
DEFINITIONS	
Danone's CA	Average internal ("organic") growth in the Group's sales in 2013, 2014 and 2015 (on a consolidated and like-for-like basis, *i.e.* excluding changes in scope and exchange rates).
Panel member's CA	Average internal ("organic") growth of sales posted by a given Panel member in 2013, 2014 and 2015 (on a consolidated and like-for-like basis, *i.e.* excluding changes in scope and exchange rates).
Panel CA	CA of all Panel members.
Median Panel CA	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 that are 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.
OTHER APPLICABLE RULES	
Ensure the consistency of the calculation method for the CA of all Panel members and the CA of the Group 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.
Failure to report or late reporting of audited accounting or financial data	**By one Panel member:** the Board of Directors may, exceptionally and by a duly reasoned decision indicated in the Board's report the Shareholders' Meeting, exclude this member from the Panel. **By two or more Panel members:** the Board of Directors will make a duly reasoned decision, on the basis of the most recent audited financial statements published by these Panel members and by the Danone group over the last three fiscal years for which financial statements are available for all Panel members and for 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 reasoned 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 THE 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 reasoned 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.
Assessment of the achievement of the performance condition	At its meeting of April 28, 2016, the Board of Directors noted that this performance condition had been met.

Trading operating margin performance criterion, weighted one-third

BASIC PRINCIPLE	
Achievement of trading operating margin objectives set by the Board of Directors and announced to the market (the "Margin Objective") over a two-year period, *i.e.* for 2013 and 2014.	• if the Margin Objective is achieved in both 2013 and 2014, the definitive grant will be 100%; and • if the Margin Objective is not achieved in either 2013 or 2014 or if it is achieved in only one of these years, the definitive grant will be 0%.
DEFINITIONS	
Margin Objective for 2013	The trading operating margin is no more than 50 basis points lower, on a like-for-like basis, than the trading operating margin of 2012.
Margin Objective for 2014	The higher of (i) a positive change (*i.e.* an increase in basis points) in the trading operating margin on a like-for-like basis relative to the trading operating margin of 2013, and (ii) any trading operating margin objective for 2014 that the Board of Directors may subsequently set and announce to the market.
Trading operating margin	Ratio of trading operating income to sales.
Sales	Danone's consolidated sales, as defined under IFRS.
Trading operating income	Danone's operating income excluding "Other operating income (expense)". "Other operating income (expense)", in accordance with Recommendation 2009-R.03 of the CNC "on the format of financial statements of entities applying international accounting standards", comprises significant items that, because of their extraordinary 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 acquisitions, and costs related to major litigation. Since the implementation of revised IFRS 3, Business Combinations, "Other operating income (expense)" has also included costs to acquire companies in which Danone acquires a controlling interest.
Change in trading operating margin on a like-for-like basis	Increase or decrease, mainly after exclusion of the impact of: (i) changes in exchange rates, with both previous year and current year indicators calculated based on the same exchange rates (the exchange rate used is a projected annual rate determined by the Group for the current year and applied to both years), and (ii) changes in consolidation scope, with indicators related to the current year calculated on the basis of the scope of consolidation of the previous year.
OTHER APPLICABLE RULES	
"No payment below market objectives" principle	In accordance with the "no payment below market objectives" principle, in the event that the Board of Directors decides to revise its trading operating margin objective upward for 2013 and/or 2014, the Margin Objective would be automatically adjusted upward for that year on the basis of the trading operating margin objective as amended (to avoid any confusion, it should be noted that in the event that the trading operating margin objective announced to the market is revised downward, the amount of the Margin Objective will not be adjusted and will therefore be calculated on the basis of the initial operating margin objective announced to the market for the current year).
ASSESSMENT OF THE 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 reasoned decision indicated in the Board of Directors' report to the Shareholders' Meeting, subsequent to the Nomination and Compensation Committee's recommendation.
Assessment of the achievement of the performance condition	At its meeting of February 19, 2014, the Board of Directors noted that the trading operating margin objective had not been met for 2013 or 2014 and accordingly that 1/3 of the GPS granted had a value of €0.

Former stock-option plans (situation at December 31, 2016)

Summary of the plans in effect

Characteristics of the plans currently in effect and changes in these plans in 2016 (information required by Tables 8 and 9 of the French financial markets authority's recommendation on the compensation of corporate officers)

This information include the adjustments made to the number of stock-options granted subsequent to the June 25, 2009 share capital increase, and to the exercise prices of the plans in effect at that date. The maximum number of stock-options authorized by the various Shareholders' Meetings was not changed.

Stock-option plans in effect					**Total**
Shareholders' Meeting that authorized the options			**4/26/2007**	**4/23/2009**	
Stock-options authorized by the Shareholders' Meeting			6,000,000 [b]	6,000,000	
Of which stock-options not granted			*476,942* [c]	*5,979,600*	
Date of Board of Directors' meeting authorizing the options	4/29/2008	10/21/2008	4/23/2009 [d]	10/20/2009	
Total number of shares that can be subscribed or purchased					
Of which the number that can be subscribed or purchased by:					
Franck RIBOUD	212,000		164,300		
Emmanuel FABER	106,000		82,150		
Stock-options granted [a]	**2,762,403**	**31,941**	**2,704,611**	**20,400**	**5,519,355**
Stock-option characteristics					
First exercise date [e]	4/29/2011	10/21/2011	4/23/2013	10/20/2013	
Expiry date	4/28/2016	10/20/2016	4/22/2017	10/19/2017	
Exercise price	53.90	43.71	34.85	40.90	
Changes in 2016 and situation at December 31, 2016					**Total**
Active stock-options at December 31, 2015	**705,192**	**6,996**	**619,983**	**13,000**	**1,345,171**
Void or canceled stock-options in 2016	(111,710)	–	(5,406)	–	(117,116)
Stock-options exercised in 2016	(593,482)	(6,996)	(288,661)	(5,900)	(895,039)
Of which stock-options exercised by the corporate officers in 2016	*(106,000)*	–	*(82,150)*	–	*(188,150)*
Active stock-options at December 31, 2016	–	–	**325,916**	**7,100**	**333,016**
Of which stock-options granted to the corporate officers		–		–	
Of which stock-options granted to Executive Committee members		–	*19,596*	–	*19,596*
Of which the number of Executive Committee member beneficiaries		–	*2*	–	
Void or canceled stock-options as of December 31, 2016	**(634,457)**	**(6,148)**	**(506,785)**	**(4,000)**	**(1,151,390)**

(a) The number of stock-options granted was adjusted to reflect the June 25, 2009 capital increase.
(b) The number of authorized stock-options was not adjusted to reflect the June 25, 2009 capital increase.
(c) The number of stock-options not granted was not adjusted to reflect the June 25, 2009 capital increase.
(d) Date of last grant of options to the corporate officers.
(e) The first exercise date corresponds to the end of the conservation period.

Obligation to hold DANONE shares acquired from the exercise of stock-options

All corporate officers and other Executive Committee members are subject to an obligation to hold the DANONE shares they obtain from the exercise of their stock-options. The Chief Executive Officer and the Chairman of the Board must hold (in registered form) a certain number of shares resulting from the exercise of options granted under each stock-option plan approved as of January 1, 2007 until their term of office is terminated.

The Board of Directors decided (i) that this commitment to hold a portion of the shares would apply to a number of shares corresponding to 35% of the capital gain upon acquisition, net of tax and social security contributions, realized on all of the shares resulting from an exercise of stock-options by the officer concerned under this plan, and (ii) to make all other Executive Committee members subject to this obligation to hold shares under the same conditions.

In addition, at the proposal of the Nomination and Compensation Committee, the Board of Directors, at its meeting on February 14, 2012, decided to add to the current scheme an overall holding ceiling for shares resulting from shares subject to performance conditions 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.

Moreover, in accordance with the AFEP-MEDEF Code and on the recommendation of the Nomination and Compensation Committee, the Board of Directors, at its meeting on February 22, 2016, re-examined and confirmed these obligations to hold shares resulting from the exercise of stock-options and performance shares as part of the review of the compensation of the corporate officers and the renewal of their terms of office.

Impact on share capital dilution and share ownership

	Year ended 31 December 2009	
	Number of shares	**Percentage of share capital [(a)]**
Grants during the year		
Stock-options granted	2,725,011	0.4%
Of which stock-options granted to all corporate officers	*575,050*	*0.1%*

(a) Percentage of share capital on the grant date (date of the Shareholders' Meeting authorizing the stock-option grants).

	Year ended December 31			
	2015		**2016**	
	Number of shares	**Percentage of share capital [(a)]**	**Number of shares**	**Percentage of share capital [(a)]**
Balance as of December 31 [(b)]				
Active stock-options	1,345,171	0.21%	333,016	0.05%
Of which stock-options granted to corporate officers	*188,150*	*0.03%*		

(a) Percentage of share capital at December 31 for the year.
(b) Balance of exercisable stock-options at December 31 for the year.

Group Performance Units

General 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, the Executive Committee members and the 1,500 key managers with Danone's overall medium-term operational and economic performance.

Group Performance Units are granted each year, for a three-year period, by decision of the Board of Directors and on the recommendation of the Nomination and Compensation Committee.

Value

Each GPU has a maximum value of €30, for a maximum of €10 per year of the reference period, depending on the achievement of the objectives set by the Board. Information on the valuation of existing GPUs is provided hereafter in the *Group Performance Units, Annual objectives* section.

Performance targets

The target(s) for Group Performance Units is/are determined, for each fiscal year, by the Board of Directors based on the recommendations of the Nomination and Compensation Committee. They are based on performance a key financial indicator and, possibly one or several societal indicators. The Board of Directors will review the potential achievement of annual target of each plan. These targets are the same for all beneficiaries of Group Performance Units.

Consequences of a change of control for a beneficiary

If a person or group of persons acting in concert (within the meaning of Article L. 233-10 of the French commercial code) were to acquire control of Danone (within the meaning of Article L. 233-3 of the French commercial code), the performance objectives relating to the year in which the change of control occurred would be considered achieved and a payment would become due for all outstanding Group performance unit plans in the month following the change of control.

Consequences of the death, voluntary or non-voluntary retirement of a beneficiary

The continuous employment condition and the performance conditions are partially waived in case of death, voluntary or non-voluntary retirement of a beneficiary.

For the corporate officers, in case of departure before the expiration of the term set for the assessment of performance criteria, the payment of multi-annual compensation is canceled, except in exceptional circumstances which the Board must justify. Therefore, in case of the voluntary or non-voluntary retirement of a corporate officer:

- he/she loses all rights to the Group Performance Units granted during the 12 months preceding his/her departure;
- the Group Performance Units granted earlier are (a) 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 valued based on the achievement of objectives;
  - the current or future calendar year(s) is/are deemed to have no value.

Targets for 2016 (applied to Group Performance Units granted in 2014, 2015 and 2016)

Target	Level of target fulfillment in 2016	Value of each GPU for 2016 *(in €)*	Fulfillment level
Growth of the trading operating margin on a like-for-like basis	< +25 bp	0	The Board, on the recommendation of the Nomination and Compensation Committee, noted that 100% of the 2016 target was achieved and therefore valued the GPUs €10 for 2016.
	⩾ +25 bp	5	
	⩾ +26 bp	6	
	⩾ +27 bp	7	
	⩾ +28 bp	8	
	⩾ +29 bp	9	
	⩾ +30 bp	10	

Situation at December 31, 2016

Group performance unit plans outstanding					
Year of grant	**2013**	**2014**	**2015**	**2016**	**Total**
Date of Board meeting that granted the Group Performance Units	7/26/2013	7/24/2014	7/23/2015	7/27/2016	
Number of GPU granted	1,019,636	967,017	927,439	943,266	**3,857,358**
Of which number granted to the corporate officers	*68,500*	61,000	20,000	*20,000*	***169,500***
Number of beneficiaries	1,584	1,330	1,331	1,394	

Group performance unit characteristics				
Year paid	2016	2017	2018	2019
Targets	Annual targets for 2013, 2014 and 2015	Annual targets for 2014, 2015 and 2016	Annual targets for 2015, 2016 and 2017	Annual targets for 2016, 2017 and 2018
Achievement of objectives	• Targets for 2013 were not achieved	• Partial achievement of objectives for 2014 and 2015 at a value of €7 and €9 respectively	• Partial achievement of objectives for 2015 at a value of €9 • Full achievement of the 2016 target	• Full achievement of the 2016 target
	• Partial achievement of objectives for 2014 and 2015 at a value of €7 and €9 respectively	• Full achievement of the 2016 target	• Achievement of the 2017 target will be assessed in 2018	• The achievement of the 2017 and 2018 targets will be assessed in 2018 and 2019
Unitary value of the GPU	€0, since no targets were fully achieved in 2013, 2014 and 2015	€26, since the 2014 and 2015 objectives were partially achieved and the 2016 target was fully achieved	Maximum €29, since the 2015 objective was partially achieved and the 2016 target was fully achieved	Maximum €30, since the 2016 target was fully achieved

Summary of key information on Group Performance Units

Target for fiscal 2014 (applies to GPU granted in 2012, 2013 and 2014)

Target	**Level of fulfillment in 2014**	**Value of each GPU for 2014** *(in €)*	**Fulfillment level**
	< 4.5%	0	
	⩾ 4.5%	5	
	⩾ 4.6%	6	
	⩾ 4.7%	7	
	⩾ 4.8%	8	At its meeting of February 14, 2015, the Board of Directors noted that this target had been fulfilled to a value of €7.
	⩾ 4.9%	9	
Increase sales by at least 5% on a like-for-like basis	⩾ 5.0%	10	

6

Target for 2015 (applied to GPU granted in 2013, 2014 and 2015)

Target	Level of target achievement in 2015	Value of each GPU for 2015 *(in €)*	Fulfillment level
	< 4.0%	0	
	⩾ 4.0%	5	
	⩾ 4.1%	6	
	⩾ 4.2%	7	
	⩾ 4.3%	8	
	⩾ 4.4%	9	At its meeting of February 22, 2016, the Board of Directors noted that this target had been fulfilled to a value of €9.
Increase sales by at least 4.5% on a like-for-like basis	⩾ 4.5%	10	

6.5 DANONE SHARES OWNED BY THE BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE MEMBERS

Shares owned by the 16 Board and the 12 Executive Committee members (which includes 1 Director)

	As of December 31, 2016
Board of Directors	
Franck RIBOUD	318,845
Emmanuel FABER	67,715
Bruno BONNELL	4,000
Frédéric BOUTEBBA	–
Clara GAYMARD	4,000
Jacques-Antoine GRANJON	4,235
Jean LAURENT	5,184
Gaëlle OLIVIER	4,162
Benoît POTIER	8,481
Isabelle SEILLIER	4,073
Mouna SEPEHRI	4,234
Jean-Michel SEVERINO	4,233
Virginia A. STALLINGS	4,000
Bettina THEISSIG	–
Serpil TIMURAY	4,000
Lionel ZINSOU-DERLIN	4,104
Executive Committee (excluding Emmanuel FABER)	**126,178**
Total number of shares	**567,444**
Total percentage of the Company's share capital	**0.09%**

Transactions on DANONE shares in 2016

Transactions on DANONE shares, made in 2016 by the Board of Directors and the Executive Committee members

Name	Functions	Shares nature	Transaction nature	Transaction date	Unit gross price[b] *(in €)*	Number of shares[b]	Total gross amount *(in €)*
Emmanuel FABER	Chief Executive Officer	Shares	Call option exercise	24/02/2016	53.90	106,000	5,713,400.00
		Shares	Disposal	24/02/2016	62.43	103,000	6,430,444.50
		Shares	Call option exercised	14/11/2016	34.85	82,150	2,862,927.50
		Shares	Disposal	14/11/2016	58.25	82,150	4,785,508.60
		Shares	Disposal	14/11/2016	58.22	19,740	1,149,266.75
		Shares	Acquisition	28/12/2016	59.18	2,535	150,014.96
Bertrand AUSTRUY	Executive Committee member	Others[a]	Subscription	17/05/2016	10.00	5,027	50,275.46
Marc BENOIT	Executive Committee member	Others[a]	Subscription	17/05/2016	10.00	5,027	50,275.46
Cécile CABANIS	Executive Committee member	Shares	Call option exercise	25/02/2016	53.90	5,088	274,243.20
		Shares	Disposal	25/02/2016	63.50	4,950	314,306.69
		Others[a]	Subscription	17/05/2016	10.00	4,822	48,220.37
		Shares	Call option exercise	29/08/2016	34.85	4,240	147,764.00
		Shares	Disposal	29/08/2016	68.06	3,910	266,103.65
		Shares	Disposal	29/08/2016	67.97	1,000	67,970.00
		Shares	Disposal	29/08/2016	67.97	1,660	112,830.20
Francisco CAMACHO	Executive Committee member	Shares	Call option exercise	27/04/2016	53.90	8,480	457,072.00
		Shares	Disposal	27/04/2016	62.63	8,480	531,128.69
		Shares	Call option exercise	27/09/2016	34.85	3,300	115,005.00
		Shares	Disposal	27/09/2016	65.98	2,754	181,708.92
Clara GAYMARD	Director	Shares	Acquisition	01/06/2016	62.89	4,000	251,560.00
Félix MARTIN GARCIA	Executive Committee member	Shares	Call option exercise	30/05/2016	34.85	6,920	241,162.00
		Shares	Disposal	30/05/2016	63.54	6,920	439,697.49
Jean-Philippe PARE	Executive Committee member	Shares	Disposal	30/03/2016	63.50	53	3,365.50
		Others[a]	Subscription	17/05/2016	10.00	4,000	40,000.00
Pierre-André TÉRISSE	Executive Committee member	Others[a]	Subscription	17/05/2016	10.00	5,027	50,275.46
		Shares	Disposal	01/08/2016	65.82	35,104	2,310,636.55

(a) These subscriptions have been made within the framework of annual capital increase reserved to Company and French subsidiaries' employees, subscriptions made to a Bridging Fund whose unit share value was €10 for 2016. This Bridging Fund was merged with the FCPE Danone Fund at the completion of the capital increase.

(b) The amounts have been rounded to two decimals for the unit gross price and to the whole number for the number of shares.

Corporate officers and members of the Executive Committee were made subject to obligation to hold DANONE shares stemming from Group Performance Shares or from the exercising of stock-options. This obligation is described above in the sections *Obligation of corporate officers and other Executive Committee members to hold DANONE shares obtained from grants of Group Performance Shares* and *Obligation to hold DANONE shares acquired from the exercise of stock-options.*

6.6 INTERNAL CONTROL AND RISK MANAGEMENT

In accordance with Article L. 225-37 paragraph 6 of the French commercial code, section 6.6 *Internal control and risk management* represents the report of the Chairman of the Board of Directors on the internal control and risk management procedures implemented by Danone.

The Audit Committee examined this report of the Chairman of the Board of Directors, which was then reviewed and approved by Danone's Board of Directors on February 14, 2017, in accordance with the law of July 3, 2008.

General organization of internal control

Internal control objectives and framework used

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

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

Danone's 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 publicly traded corporation in the United States at the time, was subject to the Sarbanes-Oxley Act.

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

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

Scope of internal control

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

During fiscal year 2016, 177 entities located in approximately 60 different countries and representing more than 99% of Danone's consolidated sales were evaluated under its internal control system, including 36 entities using the framework focused on "fundamentals" controls.

Internal control participants

General Management

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

Company Finance Department

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

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

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

Risk management

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

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

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

Corporate Finance Department

Part of the Company Finance Department, the Corporate Finance Department is responsible for identifying and monitoring Danone strategic risks. In particular, it oversees Danone's strategic risk identification and monitoring process. It is supported by several other teams, particularly Danone's operational teams, through various internal committees, including the Risks Executive Committee, and for the Finance function, through the finance directors of the Divisions and regions (see section *Organization of the finance function* hereafter).

Internal Control department

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

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

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

Internal Audit Department

The Internal Audit Department is part of the Financial Controlling Department. It reports functionally to the Chairman of the Audit Committee (see above section 6.1 *Governance bodies*) for which it submits a report twice a year to the Audit Committee on internal audit activity.

To support Danone's transformation, the Internal Audit Department was expanded and now comprises three teams based in Paris, Singapore and, more recently, Mexico. These teams include audit directors and managers, who oversee internal teams of auditors along with, when necessary, auditors from international audit firms (including KPMG). They conduct regular audits of the entities as well as audits covering central and cross-functional issues. In 2009, the Internal Audit Department was certified, for the first time, by the French Institute for Internal Audit and Internal Control (IFACI) in accordance with International Internal Auditing Standards. The Internal Audit Department was again certified by IFACI in 2012 and then in 2015. The interim follow-up audits by IFACI have always confirmed the certification.

Internal Audit is supported by the audits and supervision activities of other centralized functions (Compliance, Tax, Food Safety, Quality, Industrial, Safety, Environment, Information Systems, Crisis Management, Organization, Human Resources, etc.).

Compliance Department

As part of General Secretary Team, the Compliance Department directly reports via the Chief Compliance Officer to the General Secretary and the Audit Committee. It is supported by Compliance teams as well as the local Compliance Committees, which are assigned to 30 clusters (a cluster covering all of the Divisions and activities in a country or group of countries), with each cluster's Compliance Officer reporting to the Chief Compliance Officer. The Compliance department 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 hereafter *Monitoring of internal fraud*).

Other internal control participants

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

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

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

Danone's overall internal control and risk management process

Internal control consists of the following five closely-related components:

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

They are implemented as described hereafter.

Control environment

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

Danone's control environment is based on the following:

- Danone's values, which are widely communicated across all of the subsidiaries and Danone's dual economic and social project;
- the Business Conduct Policy, defined by the Company and conveyed through a Questions & Answers booklet updated in December 2011;
- 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 the Danone's General Management;
- the Danone Way approach, which is deployed in nearly all Danone's subsidiaries;
- the Compliance Program, which aims at protecting Danone and its subsidiaries against risks related to, in particular, corruptions, anti-competitive practices, non-compliance with laws on confidentiality of personal data and international laws on trade sanctions. It describes the key principles, defines the responsibilities, organization and governance at all Company levels. It is also responsible for risk assessment, the integration of compliance and control procedures in the business, training, advisory, as well as prevention, investigation and reporting audits;
- the standardization of Danone's operating processes through the implementation of the DANgo framework and the regular use of a single integrated information system (Themis, see section *SAP/ Themis integrated information system* hereafter) which contribute to the strength of the control environment;
- the DANgo framework (see section *Danone's internal control framework: DANgo* above): accessible to all Danone employees in an electronic version, it is subject to a systematic annual review by which the Company ensures that the DANgo internal control and best practices framework is kept up-to-date. DANgo is updated by (i) experts from the network of internal controllers and (ii) operational teams of various Divisions, which enables DANgo to be used by those in the various functions and allows the framework to be enhanced through best operating practices;
- in addition to DANgo, an intranet site for Danone's internal controllers and a Danone social network present all the documents useful for internal control and contribute to the sharing of experiences and best practices in the area of internal control. These documents may also be accessed by all Danone employees and are updated regularly;
- the writing and distribution of internal control guidelines, which were reviewed in 2016.

Risk identification and assessment

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

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

Operational risks

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

Strategic risks

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

Methodology

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

- identification of the risks and weaknesses considered strategic and/or structural of all activities of the subsidiaries covered;
- identification of the risks considered as material by Division 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 Divisions at the Company level and integration of systemic risks not perceptible at the Division level;
- ranking of risks based on their likelihood of occurrence and estimated financial impact, at the level of a subsidiary, a Division or the Company;
- determination of preventive or corrective actions, which may be local or global depending on the case.

Risk monitoring
For each Division, the most significant risks are reviewed twice a year by the Division managers and Danone's Head of Corporate Finance at special meetings attended by the General Manager and Finance Director of each Division and the Head of Corporate Finance with support from the Strategy department.

A review of the most significant risks is also presented twice a year by Danone's Head of Corporate Finance 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 Finance Committee, Executive Committee and Audit Committee.

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

The Safety Department also helps to identify threats against Danone's employees and assets.
In addition, the Crisis Management Department uses information made available by the risk maps established at each Division level to identify potential crises and prepare the affected entities accordingly, ensuring that an appropriate response is provided for all crises, even if the related risk was not previously identified.
The identification and reporting of risks is also facilitated by the relatively low number of reporting levels within the Company, short decision-making channels and input from the operating units in strategic discussions. In addition, the Corporate Compliance & Ethics Board, a semi-annual cross-functional committee led by the Chief Compliance Officer, was created to supervise Danone's Compliance Program, notably by reviewing compliance-related risks. It is supported at local level by the 31 Compliance Committees.

Control activities

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

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

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

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

Transmission of information

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

To this end, Danone relies on:

- its organization and information system, which facilitate the communication of information needed for decision-making;
- the various intranet sites and documentation databases that enable information to be shared within Danone. This information includes not only financial information but also non-financial information that meets the needs of the various operating and administrative departments. Since 2012, Danone has deployed its social network, which is accessible to all, to transmit information and develop communication and experience sharing;
- the distribution of the DANgo framework by the Internal Control Department, which oversees, trains and coordinates the network of internal controllers:
  - it organizes working and annual training sessions for the network of internal controllers, including workshops and information-sharing seminars. More than 150 people covering 168 entities attended the two sessions organized in 2016;
  - it is responsible for the training and integration of new internal controllers, including those working for newly-acquired companies;
  - it is also responsible for internal control training sessions open to all managers of the finance functions;
  - it communicates regularly at various levels of the organization (Corporate Committees, meetings at Division level with the finance directors or operational employees, systematic annual presentations to the general managers and finance directors of the regions, and participation in functional Management Committees).

Continuous monitoring

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

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

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

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

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

Monitoring of internal control indicators

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

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

In 2016, Danone's internal control key indicators recorded the following changes: the coverage ratio remained stable; the internal control intensity rate increased further in terms of number of subsidiaries and the deficiency rate increased slightly compared to 2015.

Monitoring of internal fraud

Reporting

Danone prepared an internal report in 2016 that covers 177 entities, *i.e.* nearly all of its operating entities.

The number of confirmed fraud cases reported by the subsidiaries fell in 2016 compared to 2015. In 2016, approximately 286 suspected cases were reported during the year; 162 of these cases were confirmed. None of these fraud cases had a significant impact on Danone's consolidated financial statements.

Danone Ethics Line

A whistleblowing system is available for all employees, suppliers and other third parties to submit confidential reports of suspected bribery, corruption, fraud or other cases of non-compliance. In 2016, a new system (Danone Ethics Line) was implemented to replace Dialert, and comprising new features such as an advanced investigation management system.

Besides, the Danone Ethics Line Committee was put in place and is responsible for the management of cases of non-compliance with the Corporate Compliance Program and the establishment and application of the Danone Ethics Line system. The Committee is composed of the Chief Compliance Officer, the Anti-Corruption Compliance Officer, the Internal Audit Director and Directors of the HR Department HQ.

In 2016, Danone received approximately 94 alerts, 43 of which involved suspected fraud cases. None of these alerts has had a significant impact on Danone's consolidated financial statements. Only a minority of these alerts was confirmed as fraud cases.

Internal audit assignments

In 2016, the Internal Audit Department conducted 44 internal audits at subsidiaries or cross-company functions, based on the plan previously approved by the Audit Committee. These audits seek to verify the quality of the DANgo self-assessment performed by the subsidiaries. In light of the increased staffing on the Internal Audit teams and heightened compliance requirements, these audits periodically identify some gaps in the self-assessments of certain subsidiaries.

Following each audit, an action plan is prepared by the management of the subsidiary to correct weaknesses identified in the audit report. The implementation of action plans is monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2016, 24 follow-up audits on implementation of action plans were conducted within 12 months of the initial audit wherever possible.

Moreover, the Treasury and Financing, Information Systems, Environment, Legal and Crisis Management departments arrange audits and periodic reviews at the subsidiaries, in addition to the general internal audits.

Internal control process related to the preparation and processing of Danone's financial and accounting information

Organization of the finance function

The finance function's organization is based on:

- functional departments: Financial Control (to which the following departments report: (i) Consolidation, Reporting and Standards; (ii) Controlling; (iii) Internal Control; and (iv) Internal Audit); Corporate Finance (to which the following departments report: (i) Treasury and Financing; (ii) Tax; and (iii) Insurance); External Development; Strategy, Financial Communication; the corporate functions (accounting, treasury, etc.) and certain expertise functions are then organized by geographic area (Region Business Services) and including several units covering all the Divisions and activities in a given country or group of countries (Cluster Business Services);
- operational finance departments for the Divisions and key operating activities responsible for managing and steering the business; each Division 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. This dynamic rolling forecast approach replaces the traditional budget process practiced until 2015;
- monthly reports;
- monthly performance review meetings attended by the financial teams and the general managers of the Divisions;
- quarterly meetings to monitor execution of the strategy with the participation of the finance teams and general managers of the Divisions.

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

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

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

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

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

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

SAP/Themis integrated information system

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

As of December 31, 2016, the activities supported by Themis accounted for 82% of consolidated sales in the Fresh Dairy Products and Waters Divisions. The roll-out of Themis continued in 2017.

The same information system is currently being rolled out at the subsidiaries of the Medical Nutrition and Early Life Nutrition Divisions (covering 75% of these two activities' total sales for the year ended December 31, 2016).

The data center's level of security, until then ensured by an infrastructure duplicated across two remote sites, was improved by the implementation of a Disaster Recovery site.

Consolidation and reporting software

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

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

Control environment

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

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

Risk identification and assessment

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

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

Control activities

Each Division 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 Divisions' finance departments are supported by the finance departments in the geographic regions and operating units, with the overall financial planning process administered by the Controlling Department.

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

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

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

Transmission of information

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

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

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

Continuous monitoring

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

Assessment

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

Statutory auditors' report

This is a free translation into English of the Statutory auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Statutory auditors' report prepared in accordance with Article L. 225-235 of the French commercial code on the report prepared by the Chairman of the Board of Directors of Danone

To the Shareholders,

In our capacity as Statutory auditors of Danone, and in accordance with Article L. 225-235 of the French commercial code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French commercial code for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L. 225-37 of the French commercial code, in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that this report contains the other information required by Article L. 225-37 of the French commercial code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform due diligence procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information contained in the Chairman's report. These procedures mainly consist of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material deficiencies in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our assignment are properly described in the Chairman's report.

On the basis of our work, we have no observations to make on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French commercial code.

Other information

We attest that the Chairman's report contains the other information required by Article L. 225-37 of the French commercial code.

Neuilly-sur-Seine and Paris-La Défense, March 1, 2017

The Statutory auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

6.7 STATUTORY AUDITORS' SPECIAL REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS

To the Shareholders,

In our capacity as Statutory auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of as well as of the reasons for those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are useful or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code, to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code concerning the implementation, during the year, of the agreements and commitments already approved by the shareholders' meeting.

We have performed the due diligence procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) for this type of assignment. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

Agreements and commitments submitted for approval by the Shareholders' Meeting

In accordance with article L. 225-40 of the French Commercial Code, we have been advised of the agreements and commitments described below which were subject to prior authorization by your Board of Directors.

With the J.P. Morgan group

Person concerned
Mrs. Isabelle Seillier, a director of the company and managing director at the J.P. Morgan Chase group.

a) Commitment letter dated July 6, 2016

Nature, purpose and conditions
With Mrs. Isabelle Seillier abstaining, the Board of Directors voted unanimously at its July 6, 2016 meeting to authorize the company to enter into a commitment letter with J.P. Morgan Limited and J.P. Morgan Securities PLC, in order to secure bank financing dedicated to the acquisition of The WhiteWave Foods Company ("WhiteWave") for a maximum amount of USD 13.1 billion.

Under the terms of the commitment letter signed July 6, 2016, J.P. Morgan and another bank made a firm commitment to finance your company's acquisition of WhiteWave for the aforementioned maximum amount prior to the signature of the bridge loan agreement.

The terms of involvement, notably with respect to the scope of the assignments and compensation, applicable to the other bank entering into this commitment letter are similar to those applicable to J.P. Morgan.

Under the terms of this commitment letter and as consideration for this commitment, your company must pay the two participating banks (including the J.P. Morgan group) underwriting fees whose amounts vary depending on the duration and amount of the banks' exposure. The fees owed to the J.P. Morgan group by the company, determined on a strict prorated basis of its commitments under the commitment letter, are equal to the fees owed to the other bank entering into this agreement.

In 2016, your company paid a total of USD 8,187,500 to the J.P. Morgan group in connection with this commitment letter.

Reason explaining the interest of the agreement for the company
Your Board explained the interest of the agreement as follows: given the specificities involved in acquiring a U.S. listed company, the company benefits from using a U.S. bank such as J.P. Morgan to finance a portion of the acquisition and act as underwriter. More generally, J.P. Morgan offers the advantage of having participated in transatlantic financing transactions of similar size and complexity. Lastly, J.P. Morgan participates regularly in the company's financing and is familiar with your company's financing documentation, which in light of the tight deadlines for the WhiteWave acquisition process, enables the company to negotiate the financing of the acquisition based on existing financing documentation.

b) Bridge loan agreement of July 27, 2016

Nature, purpose and conditions
With Mrs. Isabelle Seillier abstaining, the Board of Directors voted unanimously at its July 6, 2016 meeting to authorize the company to enter into a bridge loan agreement with J.P. Morgan Limited and J.P. Morgan Securities to finance the acquisition of WhiteWave (as well as to refinance part or all of WhiteWave's existing debt) with a maximum overall principal amount of USD 13.1 billion (or equivalent amount expressed in any other currency), which would follow the commitment letter entered into on July 6, 2013.

On July 27, 2016, the company therefore entered into a credit facility agreement, governed by French law, with the J.P. Morgan group and several other banking institutions, the terms of which involve a loan in two tranches with a total principal amount of USD 13.1 billion: tranche A with a total principal amount of USD 11.1 billion drawable in dollars or euros and repayable twelve months following the signature of the agreement (with two successive six-month extension options); tranche B with a total principal amount of USD 2 billion in the form of a term loan available in dollars or euros and repayable three years after the signature of the agreement.

The loan agreement allows for early repayments at the company's discretion as well as mandatory early repayments, thanks to the proceeds from bond offerings and WhiteWave asset disposals or transfers following completion of the acquisition.

The amounts owed to the banking institutions by your company under the loan agreement are as follows: (a) the usual fees at the time the credit line is opened; (b) a non-utilization fee (equal to a percentage of the margin); (c) a supplementary fee in the event that the utilization period of facility A is extended; and (d) interest in the event amounts are drawn on the facility.

Interest owed by your company is at market rates, plus a margin, as well as certain additional regulatory costs borne by the lending banks, where applicable. For facility A, the margin is fixed, with an increase every three months following a six-month period from the signature date of the loan agreement. For facility B, the margin depends on the rating of your company's uncollateralized long-term debt (rating grid) and is also increased on the basis of the portion of the loan drawn in dollars.

In November 2016, following the execution of bond offerings described below, the company terminated the bridge loan agreement early. Consequently, no amount was drawn under the terms of this agreement.

J.P. Morgan's commitment as a lender in connection with the loan is equivalent to USD 1.25 billion, or 9.54% of the loan principal.

Interest and fees owed J.P. Morgan by the company are determined on a strict pro-rated basis of its commitments under the loan and are therefore equivalent to interest and fees owed to other first-tier banking institutions of comparable quality participating in the loan.

In 2016, the company paid J.P. Morgan a total amount of USD 1,174,417.96 in fees related to this loan (fees related to the establishment of the loan plus non-utilization fees).

Reason explaining the interest of the agreement for the company
Your Board explained the interest of the agreement as follows: given the specificities involved in acquiring a U.S.-listed company, the company benefits from using a U.S. bank such as J.P. Morgan to finance a portion of the acquisition. More generally, J.P. Morgan offers the advantage of having participated in transatlantic financing transactions of similar size and complexity. Lastly, J.P. Morgan participates regularly in the company's financing and is familiar with your company's financing documentation, which in light of the tight deadlines for the WhiteWave acquisition process, enables the company to negotiate the financing of the acquisition based on existing financing documentation.

c) Purchase agreement in connection with a bond offering in the U.S. market entered into on October 26, 2016

Nature, purpose and conditions
With Mrs. Isabelle Seillier abstaining, the Board of Directors voted unanimously at its July 6, 2016 meeting to authorize the company to enter into a purchase agreement with the J.P. Morgan Group in connection with a bond offering executed by the company through a private placement to institutional investors, notably qualified investors in the United States.

In accordance with this authorization and in connection with a USD 5.5 billion bond offering in the U.S. market, on October 26, 2016 the company entered into a purchase agreement with the J.P. Morgan group and several other banking institutions, including J.P. Morgan Securities LLC, under whose terms these banking institutions subscribed all of the bonds issued by the company in order to place them subsequently with institutional investors seeking to participate in the offering.

Together with the €6.2 billion offering as part of the EMTN program (described below), this bond offering makes it possible to finance the entire WhiteWave acquisition.

The bond offering was launched on October 26, 2016, with settlement/delivery occurring on November 2, 2016. It is structured in four tranches:

- a USD 1.2 billion tranche over three years, with a coupon of 1.691%;
- a USD 800 million tranche over five years, with a coupon of 2.077%;
- a USD 1.5 billion tranche over seven years, with a coupon of 2.589%; and
- a USD 2 billion tranche over 10 years, with a coupon of 2.947%.

Fees owed by your company to the financial institutions participating in this bond offering (including J.P. Morgan) are strictly proportional to the underwriting commitment of the corresponding bank. In this regard, the company paid J.P. Morgan Securities LLC a fee of USD 4.16 million.

Reason explaining the interest of the agreement for the company
Your Board explained the interest of the agreement as follows: given the goal of refinancing the bridge loan as quickly as possible depending on market conditions and given this loan's limited duration and cost for your company, the J.P. Morgan group offers the advantages of (i) participating regularly in the company's bond offerings, as well as (ii) being familiar with both the U.S. and European markets and the company's financial documentation.

d) Subscription agreement in connection with a bond offering under the EMTN program entered into on October 28, 2016

Nature, purpose and conditions
With Mrs. Isabelle Seillier abstaining, the Board of Directors voted unanimously at its July 6, 2016 meeting to authorize the company to enter into a subscription agreement with the J.P. Morgan group in connection with a bond offering by the company.

Under this authorization and in connection with a €6.2 billion bond offering under the EMTN program, on October 28, 2016 the company entered into a subscription agreement with the banks responsible for placing the bonds (including J.P. Morgan Securities PLC), under whose terms these banks subscribed all of the bonds issued by the company in order to place them with investors seeking to participate in the offering.

Together with the above-mentioned USD 5.5 billion offering, this bond offering makes it possible to finance the entire WhiteWave acquisition.

The bond offering was launched on October 25, 2016, with settlement/delivery occurring on November 3, 2016. It was structured in five tranches:

- a €1.35 billion tranche over two years at a variable rate (Euribor 3 month +0.15% coupon);
- a €1 billion tranche over four years at a fixed rate equivalent to mid-swap +0.28% (0.167% coupon);
- a €1 billion tranche over six years at a fixed rate equivalent to mid-swap +0.40% (0.424%) coupon;
- a €1.25 billion tranche over eight years at a fixed rate equivalent to mid-swap +0.50% (0.709% coupon); and
- a €1.6 billion tranche over twelve years at a fixed rate equivalent to mid-swap +0.65% (1.208% coupon).

Fees paid by your company to the financial institutions participating in the bond offering (including J.P. Morgan) are strictly proportional to the subscription commitment of the corresponding bank. In this regard, the company paid J.P. Morgan Securities PLC a fee of €2.511 million.

Reason explaining the interest of the agreement for the company
Your Board explained the interest of the agreement as follows: given the goal of refinancing the bridge loan as quickly as possible depending on market conditions and given this loan's limited duration and cost for your company, the J.P. Morgan group offers the advantages of (i) participating regularly in the company's bond offerings, as well as (ii) being familiar with both the U.S. and European markets and the company's financial documentation.

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 L. 225-30 of the French Commercial Code, we have been informed that the execution of the agreements and commitments described below, already approved by the Shareholders' Meeting in prior fiscal years, continued during the past fiscal year.

1. With the danone.communities mutual investment fund (SICAV)

Persons concerned

Mr. Franck Riboud, Chairman of the Board of Directors, and Mr. Emmanuel Faber, Chief Executive Officer, both directors 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 the 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 meeting, Mr. Jean Laurent, Director of the company, was also the Chairman of the Board of Directors of Calyon, a subsidiary of the Crédit Agricole group, and abstained from voting. This agreement governs the relations between the 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 the company for a maximum amount of €20 million, as well as the annual financial contribution by the 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 the company's Board of Directors.

On April 28, 2016, the Board of Directors voted unanimously (with Mr. Franck Riboud and Mr. Emmanuel Faber abstaining) to set the company's annual financial contribution for 2016 at a maximum of €3,894,000 (the total amount of financial contributions from the company to danone.communities for the 2016 fiscal year therefore totaled €3,794,882).

At its February 14, 2017 meeting, the Board of Directors voted unanimously (with Mr. Franck Riboud and Mr. Emmanuel Faber abstaining) to set the company's annual financial contribution for 2017 at a maximum of €3.95 million.

2. With the J.P. Morgan group

Person concerned

Mrs. Isabelle Seillier, a director of the company and managing director at J.P. Morgan Chase group.

Amendment to the December 18, 2014 syndicated facilities agreement with the J.P. Morgan group.

Nature, purpose and conditions

On July 27, 2011, the Board of Directors voted unanimously (with Mrs. Isabelle Seillier abstaining) to authorize the company to enter into a syndicated facilities agreement and all related contractual documents with J.P. Morgan Europe Limited and J.P. Morgan Limited (hereinafter "J.P. Morgan").

On July 28, 2011, the company therefore entered into a syndicated facilities agreement with J.P. Morgan and several other banks. This agreement provides for the establishment of a €2 billion (multi-currency) revolving credit line, combined with a €300 million "swingline" facility, up to a maximum principal amount of €2 billion. The agreement's initial term was five years, with the possibility of renewal for up to two additional years subject to banks' approval. Interest due by the company on the amounts used with respect to this syndicated facilities agreement are calculated using market rates (EURIBOR, EONIA or equivalent foreign currency indices), plus a margin and potential mandatory costs under certain conditions. A utilization fee is added to the interest due based on the credit portion used and, if the facility is not drawn down, a non-utilization fee equivalent to a percentage of the margin is owed.

This syndicated facilities agreement was amended in 2012 and 2013 in order to extend its term by two additional years and add a credit utilization fee in certain cases and an additional margin for drawdowns in U.S. dollars, following authorizations from the Board of Directors (voting unanimously, with Mrs. Isabelle Seillier abstaining).

On December 11, 2014, the Board of Directors (with Mrs. Isabelle Seillier abstaining) voted unanimously to authorize the company to enter into a new amendment to the syndicated facilities agreement in order to: (i) reduce the applicable margin and the non-utilization fee; (ii) eliminate the additional margin for drawdowns in U.S. dollars; (iii) extend the term of the facility up to five years after the signature date of the amendment, with the option to extend it by two additional years, subject to the banks' agreement and under the same terms and conditions as the original syndicated facilities agreement; and (iv) make other changes of a technical or legal nature to reflect changes in current legislation and market practices.

On December 18, 2014, the company therefore amended the syndicated facilities agreement accordingly, with the approval of all the banks party to the syndicated facility (including J.P. Morgan).

J.P. Morgan's commitment in its capacity as lender on the syndicated facilities agreement continues to be €210 million, or 10.5% of the total, *i.e.* the same percentage as the other banks having the first rank in the syndicated facilities agreement. Fees and interest owed by the company to J.P. Morgan are determined on a strict pro-rated basis relative to its commitments under the syndicated facilities agreement and are therefore equivalent to fees and interest due to the other banks having a first rank in the facilities agreement.

This amendment to the syndicated facilities agreement was approved by the Shareholders' Meeting of April 29, 2015.

In accordance with the extension clause in the amendment to the syndicated facilities agreement, the agreement was extended for two additional years (until December 18, 2021) without any modification to the credit terms, following the agreement obtained from all banks party to the syndicated credit facilities agreement (including J.P. Morgan) in November 2015 and November 2016.

In 2016, no amount was drawn under this syndicated facilities agreement. The company paid J.P. Morgan a total of €191,814.58 in fees related to these credit facilities (non-utilization fees).

b) not implemented during the past fiscal year

In addition, we have been informed of the continuation of the agreements and commitments described below, already approved by the Shareholders' Meeting in prior fiscal years, which were not implemented during the past fiscal year.

1. With Mr. Franck Riboud's, Chairman of the Board of Directors

a) Agreement related to the conditions under which Mr. Franck Riboud's employment contract would be resumed following the conclusion of his term as a corporate officer

Nature, purpose and conditions

At its July 21, 2004 meeting, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Franck Riboud abstaining) to update the conditions under which Mr. Franck Riboud's employment contract, which was suspended on August 26, 1994 when he was appointed a corporate officer of the company, would be resumed if his term of office ended, for whatever reason, and established that:

- the amount of time during which he exercised his duties as a corporate officer for the benefit of the company will be entirely taken into account with respect to seniority and his resulting rights within the framework of his employment contract;
- the company undertakes to offer him a position involving duties comparable to those currently exercised by the members of the company's Executive Committee;
- the annual compensation that will be paid out to him cannot be less than the total annual average compensation (gross base salary, benefits in kind, and bonus of any type) allocated to all members of the Executive Committee during the 12 months preceding the resumption of his employment contract; and
- he will benefit from the company's defined benefit pension plan based on his seniority as a corporate officer and his seniority under his employment contract.

b) Commitment concerning the defined benefit pension plan of Mr. Franck Riboud, Chairman of the Board of Directors

Nature, purpose and conditions

On February 13, 2008, the Board of Directors unanimously confirmed (with Mr. Franck Riboud abstaining) the company's commitment on behalf of Mr. Franck Riboud, a corporate officer, relative to the payment of a defined-benefit pension in the form of an annuity (with a reversion option), calculated on the basis of the following elements:

- the basis of calculation for the retirement guarantee corresponds to the average of annual base salaries and bonuses for the last three entire years of activity within the group. The length of service taken into account would include the period corresponding to the term of office;
- in the event of retirement without satisfying the conditions necessary for obtaining the full rate with respect to the social security pension, a reduction of 1.25% per quarter between the age at which the person retired and the age at which he would have received his full rate social security pension will be applied to this annuity;
- the amount of the annuity that would be paid to Mr. Franck Riboud would correspond to 2% of this calculation basis per year of service (this amount will, however, be capped at 65% of the calculation basis), less the full amount of the pension rights vested by Mr. Franck Riboud during his professional life, including the supplementary pension plan fully funded by the company.

Mr. Franck Riboud is eligible to benefit from this pension plan only if he was performing his duties within the group at the time of retirement (it being specified that in the event he leaves the group before reaching the age of 55, all vested rights will be lost, and that in the event such officer is terminated after the age of 55, the benefit derived from this plan will be preserved, on condition that he does not take up a salaried position).

On February 22, 2016, upon renewing the term of office of Mr. Franck Riboud as Chairman, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Franck Riboud abstaining) to:

- take due note of existing retirement commitments taken by the company on behalf of Mr. Franck Riboud, approved by the Shareholders' Meeting of April 29, 2008 and submitted to shareholders for an advisory opinion as part of the so-called "say on pay" resolutions approved by the Shareholders' Meetings of April 29, 2014 and April 29, 2015;
- 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 of April 28, 2016.

2. With Mr. Emmanuel Faber, Chief Executive Officer

Agreement with respect to the conditions under which the employment contract of Mr. Emmanuel Faber, would be resumed at the conclusion of his term of office as a corporate officer

Nature, purpose and conditions

On February 13, 2008, the Board of Directors voted unanimously (with Mr. Emmanuel Faber abstaining) to authorize an amendment to the company's employment contract with Mr. Emmanuel Faber, for the purpose of determining the conditions under which his employment contract would be resumed (it was suspended when he was appointed a corporate officer of the company), assuming that his term of office ends for whatever reason.

This amendment provides that:

- his entire length of service as a corporate officer on behalf of the 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 the 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 the company's defined-benefit pension plan based on his seniority as a corporate officer and his seniority under the employment contract; and
- the contractual indemnity due in the event of the termination of his employment contract will be canceled.

3. With Mr. Franck Riboud, Chairman of the Board of Directors, and Mr. Emmanuel Faber, Chief Executive Officer

Amendments to the suspended employment contracts of Mr. Franck Riboud, Chairman of the Board of Directors, and Mr. Emmanuel Faber, Chief Executive Officer.

Nature, purpose and conditions

On February 10, 2010, the Board of Directors amended the suspended employment contracts of Mr. Franck Riboud and Mr. Emmanuel Faber (with both corporate officers abstaining from the vote) such that:

- the indemnity provided under the company's collective agreement applicable to all Company employees (the "Indemnity for Termination of the Employment Contract") is: (i) subject to a limit of two years' fixed and variable gross compensation; and (ii) in the event of the payment of both the Indemnity for Termination of the Employment Contract and the indemnity due in certain instances of the termination of the term of office of a corporate officer, included in an overall limit, also subject to a limit of two years' fixed and variable gross compensation, applicable to all termination indemnities paid in respect of a term of office or an employment contract;
- the portion of the Indemnity for Termination of the Employment Contract corresponding to the seniority acquired in respect of the term of office of the person concerned is subject to the same performance conditions as the indemnity due in certain instances of the termination of the term of office of the corporate officer;
- in the exclusive event that a change in control results in the forced termination of his term of office as a corporate officer, 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 approval of the 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 the company and trigger the payment of consideration except in the case of a resignation. It should be noted that Mr. Franck Riboud is not subject to a non-compete clause.

Agreements and commitments approved during the past fiscal year

In addition, we have been informed of the continuation of the agreements and commitments described below, already approved by the Shareholders' Meeting of April 28, 2016, upon the statutory auditors' special report of March 7, 2016, which were not implemented during the past fiscal year.

With M. Emmanuel Faber, *Chief Executive Officer*

1) Renewal without changes of the commitment concerning the indemnification conditions applicable to Mr. Emmanuel Faber, in certain cases of termination of his term of office

Nature, purpose and conditions

At the time of the appointment of Mr. Emmanuel Faber as Deputy General Manager, the Board of Directors meeting of February 13, 2008 approved in a unanimous vote, with Mr. Emmanuel Faber abstaining, the principle and conditions of the indemnification rights in certain cases of termination of his term of office.

On February 18, 2013, the Board of Directors (excluding Mr. Emmanuel Faber who abstained from voting) unanimously decided, at the time of renewal of Mr. Emmanuel Faber's term of office subject to approval by the Shareholders' Meeting of April 25, 2013, to renew his rights to indemnity in certain cases of termination of his duties.

These rights to indemnity had been renewed on the same basis as that set by the Board of Directors on February 10, 2010 and approved by the Shareholders' Meeting of April 22, 2010, subject to certain amendments made in order to ensure compliance with the provisions of the AFEP-MEDEF Code or to make the payment conditions more restrictive.

On September 2, 2014, in connection with the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer and Mr. Emmanuel Faber's appointment as Chief Executive Officer, the Board of Directors (excluding Mr. Emmanuel Faber who abstained from voting) decided that his rights to indemnity should remain unchanged (as decided by the Board of Directors meeting on February 18, 2013 and approved by the company Shareholders' Meeting of April 25, 2013). These indemnification rights were approved by the Shareholders' Meeting of April 29, 2015.

In connection with the renewal of Mr. Emmanuel Faber's term of office as Chief Executive Officer, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Emmanuel Faber abstaining) at its February 22, 2016 meeting to keep Mr. Faber's indemnification rights identical to those approved by the Shareholders' Meeting of April 29, 2015.

These indemnification rights were approved by the Shareholders' Meeting of April 28, 2016, following which Mr. Emmanuel Faber's term of office as Chief Executive Officer was renewed.

The indemnification rights maintained by the Board of Directors meeting of February 22, 2016 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 exceed 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 the 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 Panel CAs refer to the CAs of all members of the Panel;
- the Median CA of the Panel refers to the value of the CA of the Panel member that divides the Panel CAs into two equal parts (*i.e.* such that there are as many Panel members with a CA exceeding or equal to the Median as Panel members with a CA being less than or equal to the Median), it being specified that if the Panel members are an even number, the Median CA of the Panel will be equal to the arithmetic average of the two central values of the Panel CA;
- the Panel consists of eight benchmark international groups in the food and beverage sector, namely Kellogg Company, Unilever N.V., Nestlé S.A., Kraft Heinz Company (Kraft Foods Group Inc. until 2014), Mondelez International Inc., PepsiCo Inc., The Coca-Cola Company and General Mills Inc.

The Board of Directors must determine whether these performance conditions are met within three months of the date of termination of the term of office of the corporate officer. Its explicit decision must be duly justified and mentioned in the Board of Directors' report to the Shareholders' Meeting, following a recommendation by the Nomination and Compensation Committee, and based on a report of a financial advisor.

To ensure the comparability of the CAs used, it is specified that:

- restatements may be made (such as corrections related to changes in consolidation scope and exchange rates) to the strict extent necessary in order to ensure that the method of calculating the CAs of all Panel members and the Group's CA is consistent over the Reference Period;
- in the event that the audited accounting or financial results of one of the Panel members are not published or are published late, the Board of Directors may, exceptionally, exclude this member from the Panel through a duly justified decision;
- in the event that the audited accounting or financial results of two or more members of the Panel are not published or are published late, the Board of Directors will make a decision duly justified at a later date, on the basis of the most recent audited financial statements published by the members of the Panel and by the company over the last five fiscal years for which financial statements were published for all members of the Panel and for the company;
- the Board of Directors may, through a duly justified decision taken at a later date, change the Panel members in the event of an acquisition, absorption, dissolution, spin-off, merger or change of activity of one or more members of the Panel, provided that it maintains the overall consistency of the peer group.

During the Reference Period:

- if the Group's CA exceeds or is equal to the Median CA of the Panel, 100% of the Indemnity will be paid to Mr. Emmanuel Faber; and
- if the Group's CA is lower than the Median CA of the Panel, no Indemnity will be paid to Mr. Emmanuel Faber.

In accordance with the amendment to Mr. Emmanuel Faber's employment contract (authorized by the Board of Directors on February 10, 2010), it should be noted that the same performance conditions will apply to the portion of the Indemnity for Termination of the Employment Contract corresponding to the length of service acquired pursuant to the office and that the sum of the Indemnity pursuant to the office and of the Indemnity for Termination of the Employment Contract may not exceed twenty-four (24) months of gross fixed and variable compensation.

At the time of each renewal of Mr. Emmanuel Faber's term of office, these performance conditions and, where appropriate, the composition of the Panel will be reexamined by the Board of Directors and, where appropriate, modified to take into account changes affecting the 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.

2) Amendment to the commitment concerning the defined benefit pension plan of Mr. Emmanuel Faber, Chief Executive Officer

Nature, purpose and conditions

On February 13, 2008 and with Mr. Emmanuel Faber abstaining, the Board of Directors unanimously confirmed the company's commitment on behalf of Mr. Emmanuel Faber, 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 annuity corresponds to the average of annual base compensation and bonuses for the three full years of activity at your company before retirement, with the length of service taken into account including the period corresponding to the term of office (the "Basis");
- in the event of a retirement that does not satisfy the conditions necessary for obtaining the full rate with respect to the social security pension, the annuity will be reduced by 1.25% per quarter between the age at which Mr. Emmanuel Faber retired and the age at which he would have received his full rate social security pension;
- the amount of the annuity to be attributed to Mr. Emmanuel Faber would correspond to: (i) 1.5% per year of seniority (including the period as a corporate officer) of the Basis, for the tranche of the Basis between three and eight French Social Security Ceiling levels; and (ii) 3% per year of seniority (including the period as a corporate officer) of the Basis, for the tranche that is higher than these eight Ceiling levels (this amount will nevertheless be capped on the basis of 20 years maximum seniority) less the full amount of pension rights vested by Mr. Emmanuel Faber through the implementation of the supplementary pension plan fully funded by the 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).

At its February 22, 2016 meeting and in connection with the renewal of Mr. Emmanuel Faber's term of office as Chief Executive Officer, the Board of Directors, acting on the recommendation of the Nomination and Compensation Committee, voted unanimously (with Mr. Emmanuel Faber abstaining) to:

- recognize that Mr. Emmanuel Faber has amassed 18 years seniority at your company and take note of the company's existing pension obligations toward Mr. Emmanuel Faber and approved by the Shareholders Meeting of April 29, 2008;
- decide, in accordance with Articles L. 225-22-1 and L.225-42-1 of the French Commercial Code (as amended by law No. 2015-990 of August 6, 2015 known as the "Macron law"): (i) to subordinate the annual increase of his conditional rights that may be granted starting from the renewal of his term of office as Chief Executive Officer to the performance condition described below; and (ii) to make increases in these future conditional pension rights subject to the approval of the Shareholders' Meeting of April 28, 2016.

(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 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 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 1.2.1. (iii) for 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 the 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 as to whether this performance condition has been satisfied, based on the report of a financial advisor, and will determine the increase in Mr. Emmanuel Faber's pension benefits for said fiscal year, through duly justified decisions taken after a recommendation from the Nomination and Compensation Committee.

Neuilly-sur-Seine and Paris La Défense, March 1, 2017

The Statutory auditors

PricewaterhouseCoopers Audit		**Ernst & Young Audit**	
Anik CHAUMARTIN	François JAUMAIN	Jeanne BOILLET	Pierre-Henri PAGNON

7.1 COMPANY'S SHARE CAPITAL 290
Transactions on the share capital in the last five fiscal years and share capital as of December 31, 2016 290
Shares constituting the share capital 290

7.2 TREASURY SHARES AND DANONE CALL OPTIONS HELD BY THE COMPANY AND ITS SUBSIDIARIES 291
Authorization granted to the Company to buy back its own shares 291
Authorization to cancel shares and reduce the share capital following the buyback by the Company of its own shares 291
DANONE call options held by the Company 291
Liquidity contract 292
Transactions on Company shares in 2016 and situation as of December 31, 2016 293

7.3 AUTHORIZATIONS TO ISSUE SECURITIES GIVING ACCESS TO THE SHARE CAPITAL 294
Summary of financial authorizations in effect as of December 31, 2016 294
Financial authorizations subject to approval by the Shareholders' Meeting 295
Changes in share capital and in the rights attached to shares 295

7.4 FINANCIAL INSTRUMENTS NOT REPRESENTING SHARE CAPITAL 296
Authority of the Board of Directors 296
Delegation of authority to General Management 296
Bonds outstanding as of December 31, 2016 296

7.5 DIVIDENDS PAID BY THE COMPANY 296
Dividend pay-out policy 296
Dividend paid in respect of 2016 fiscal year 296
Dividends paid in respect of the previous three fiscal years prior to 2016 297
Dividends forfeited to the French State 297

7.6 SHAREHOLDERS' MEETINGS, VOTING RIGHTS 297
Participation in Shareholders' Meetings 297
Voting rights 298

7.7 CROSSING OF THRESHOLDS, SHARES AND SHARE SALES 299
Crossing of thresholds 299
Company shares and share sales 299

7.8 SHARE OWNERSHIP STRUCTURE AS OF DECEMBER 31, 2016 AND SIGNIFICANT CHANGES OVER THE PAST THREE FISCAL YEARS 300
Share ownership structure as of December 31, 2016 300
Significant changes in the Company's share ownership during the past three fiscal years 301

7.9 MARKET FOR THE COMPANY'S SHARES 303
Listing markets and indices 303
Stock price and trading volume 303

7.10 FACTORS THAT MIGHT HAVE AN IMPACT IN THE EVENT OF A PUBLIC TENDER OFFER 304

7.11 CHANGE OF CONTROL 305

7

SHARE CAPITAL AND SHARE OWNERSHIP

7.1 COMPANY'S SHARE CAPITAL

Transactions on the share capital in the last five fiscal years and share capital as of December 31, 2016

Effective date of the transaction	Shares created / (cancelled) by the transaction	Type of transaction	Nominal amount of the transaction	Amount of share capital after the transaction	Shares making up the share capital after the transaction
	(number of shares)		*(in €)*	*(in €)*	*(number of shares)*
May 11, 2012	915,427	Capital increase reserved for employee members of a company savings plan	228,856.75	160,790,500.00	643,162,000
February 18, 2013	(8,800,000)	Capital decrease by cancellation of shares	(2,200, 000.00)	158,590,500.00	634,362,000
May 13, 2013	918,000	Capital increase reserved for employee members of a company savings plan	229,500.00	158,820,000.00	635,280,000
July 26, 2013	(4,252,000)	Capital decrease by cancellation of shares	(1,063,000.00)	157,757,000.00	631,028,000
June 3, 2014	11,932,014	Capital increase for the payment of the dividend in shares	2,983,003.50	160,740,003.50	642,960,014
June 5, 2014	831,986	Capital increase reserved for employee members of a company savings plan	207,996.50	160,948,000.00	643,792,000
June 11, 2015	838,052	Capital increase reserved for employee members of a company savings plan	209,513.00	161,157,513.00	644,630,052
July 23, 2015	10,321,148	Capital increase for the payment of the dividend in shares	2,580,287.00	163,737,800.00	654,951,200
May 17, 2016	940,800	Capital increase reserved for employee members of a company savings plan	235,200.00	163,973,000.00	655,892,000
Share capital as of December 31, 2016				**163,973,000.00**	**655,892,000**

Shares constituting the share capital

Shares are fully paid-up, are all of the same class and have a nominal value of €0.25. Each share gives the right to ownership of a proportion of the Company's assets, profits and liquidation surplus, based on the percentage of share capital that it represents.

7.2 TREASURY SHARES AND DANONE CALL OPTIONS HELD BY THE COMPANY AND ITS SUBSIDIARIES

This section 7.2 describes the share buyback program set up in accordance with Articles 241-1 et seq. of the General Regulations of the French Financial Markets Authority.

Authorization granted to the Company to buy back its own shares

Existing authorization

The Shareholders' Meeting of April 28, 2016 authorized the Board of Directors, for an 18-month period, to buy back a number of shares representing a maximum of 10% of the Company's share capital at a maximum purchase price of €75 per share. This authorization cancelled and replaced the authorization previously granted by the Shareholders' Meeting of April 29, 2015.

This authorization was used during fiscal year 2016 (see section *Transactions on Company shares in 2016 and situation as of December 31, 2016* 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 27, 2017 to repurchase up to 10% of the total number of shares comprising the share capital of the Company (*i.e.* for information purposes, 65,589,200 shares as of December 31, 2016, representing a maximum potential purchase amount – excluding transaction fees – of approximately €4.9 billion) at a maximum purchase price of €75 per share.

Subject to approval of the authorization by the Shareholders' Meeting of April 27, 2017, the buyback by the Company of its own shares may be executed for the purpose of:

- the allocation of shares with respect to the exercise of stock-options by employees and/or corporate officers of the Company and of companies or economic interest groups related to it, pursuant to applicable statutory and regulatory provisions;
- the implementation of any plan for the allocation of Group performance shares to employees and/or corporate officers of the Company and of companies or economic interest groups related to it, pursuant to applicable statutory and regulatory provisions;
- the sale of shares to employees (either directly or through an employee savings mutual fund) within the context of employee shareholding plans or company savings plans;
- the delivery of shares upon the exercise of rights attached to securities giving access to the Company's share capital;
- the later delivery of shares as payment or for exchange in the context of external growth transactions;
- the cancellation of shares within the maximum legal limit; and/or
- supporting the market for DANONE shares in connection with a liquidity contract entered into with an investment service provider, in accordance with the Ethical Charter recognized by the French Financial Markets Authority.

Share buybacks may be carried out, in whole or in part, by acquisition, sale, exchange or transfer, on one or more occasions, by any means on any stock markets, including multilateral trading facilities (MTF), through a systematic internalizer or over the counter, including by acquisition or disposal of blocks of shares (without limiting the portion of the share repurchase program that may be completed this way). These means include the use of any financial contract or derivative instrument (including in particular any future or any option), except the sale of put options, in accordance with applicable regulations.

These transactions may be carried out during an 18-month period beginning April 27, 2017 (with the exception of periods of public tender offers on the Company's shares) within the limits allowed by the applicable regulations.

Authorization to cancel shares and reduce the share capital following the buyback by the Company of its own shares

The Shareholders' Meeting of April 29, 2015 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 2015, this authorization was not used during fiscal year 2016.

DANONE call options held by the Company

Purchase of DANONE call options by the Company in 2011

In October 2011, as part of its share buyback program, the Company acquired DANONE call options to hedge part of the stock-options granted to some of its employees and corporate officers and still in force, as a substitute for their existing hedge by treasury shares held.

Prior to this date, in order to satisfy its legal obligations, the Company held treasury shares specifically allocated to hedge these stock-option plans. These treasury shares were earmarked for gradual release into circulation on the market as and when beneficiaries exercised stock-options until the expiry of the plans still in force, *i.e.* until October 2017. In order to limit the dilutive effect of the exercise of these options, in 2011 the Company decided to hedge part of these stock-options by the acquisition of DANONE call options, as a substitute for the treasury shares held.

A total of 6.6 million DANONE call options representing around 1.02% of the share capital were thus acquired from a financial institution. The Company's intention is to exercise these call options at any time until the expiry of the last stock-option plans still in force (*i.e.* until October 2017), in order to comply with its commitments to deliver shares to stock-option holders.

The 6.6 million treasury shares held until then to hedge the stock-options concerned were cancelled on December 13, 2011.

DANONE call options held by the Company as of December 31, 2016

		Movements during the period			
(number of options, except percentages)	**As of December 31, 2015**	**Acquisitions**	**Expired options**	**Options exercised**	**As of December 31, 2016**
Number of call options	**375,736**	–	–	(299,457)	**76,279**
Percentage of the Company's share capital as of December 31	**0.06%**				**0.01%**

Open positions in equity derivatives on the Company's shares as of December 31, 2016

Open positions in equity derivatives on the Company's shares as of December 31, 2016

	Open long positions			Open short positions
	Call options purchased	**Forward purchases**	**Call options sold**	**Forward sales**
Number of shares	76,279	–	–	–
Maximum maturity weighted average	5/8/2017	N/A	N/A	N/A
Exercise price weighted average *(in €)*	35.34	N/A	N/A	N/A

Additional information on open positions on DANONE call options held by the Company as of December 31, 2016

Board of Directors' meeting authorizing the stock-option plans subject to hedging	4/23/2009	10/20/2009
Number of DANONE call options hedging stock-option plans	70,085	6,194
Expiration date of DANONE call options to hedge stock-option plans	4/22/2017	10/19/2017
Exercise price of DANONE call options to hedge stock-option plans *(in € per share)*	34.85	40.90

Liquidity contract

On January 17, 2014 and for a period of one year with tacit renewal, the Company entered into a liquidity contract with an investment service provider, Rothschild & Cie Banque, in accordance with the Ethical Charter drawn up by the Association Française des Marchés Financiers (AMAFI) and recognized by the French Financial Markets Authority, with a view to supporting the market for DANONE shares on Euronext Paris.

This liquidity contract was implemented in connection with the share buyback programs authorized by the Company's Shareholders' Meeting.

Resources related to the liquidity contract

Resources allocated	**For implementation of the liquidity contract**	**Position as of December 31, 2016**
Amount *(in €)*	–	6,295,703
Number of shares	120,000	–

Transactions on Company shares in 2016 and situation as of December 31, 2016

		Movements during the period					
(in number of shares)	**Situation as of December 31, 2015**	**Buybacks**	**Exercise of DANONE call options**	**Sales / Transfers**	**Delivery of shares following exercises of stock-options**	**Delivery of Group performance shares**	**Situation as of December 31, 2016**
Acquisitions	**30,769,360**	–	–	–	–	–	**30,769,360**
Liquidity contract	**–**	665,385	–	(665,385)	–	–	**–**
Hedging of stock-options and Group performance shares	**3,176,810**	1,040	299,457	–	(895,039)	(222,430)	**2,359,838**
Share cancellations	**–**	–	–	–	–	–	**–**
Treasury shares	**33,946,170**	**666,425**	**299,457**	**(665,385)**	**(895,039)**	**(222,430)**	**33,129,198**
Shares held by Danone Spain	**5,780,005**	–	–	–	–	–	**5,780,005**
Total shares held by the Group	**39,726,175**	**666,425**	**299,457**	**(665,385)**	**(895,039)**	**(222,430)**	**38,909,203**

Treasury shares held by the Company as of December 31, 2016

(in €, except percentages and numbers of shares)	As of December 31, 2016
Number of DANONE shares	33,129,198
Percentage of share capital	*5.1%*
Value of DANONE treasury shares held by the Company	
Par value	8,282,300
Gross value	1,668,710,072

Average price of buybacks and sales of DANONE shares in 2016 and transaction fees

(in € per share)	Year ended December 31, 2016
Average price of buybacks	
Liquidity contract	61.90
Exercise of DANONE call options[a]	35.34
Average price of sales	
Liquidity contract	62.01
Transaction fees[b]	0.2 million

(a) Exercise price of DANONE call options, excluding premium paid in 2011 for their acquisition.
(b) Total amount.

Market value of DANONE shares held by Danone and its consolidated subsidiaries

(in €, except share price in € per share and number of shares)	As of December 31, 2016
Number of DANONE shares	38,909,203
Closing price	60.20
Value of DANONE shares held by the Group	
At closing price	2,342,334,021
At closing price +10%	2,576,567,423
At closing price -10%	2,108,100,619

7.3 AUTHORIZATIONS TO ISSUE SECURITIES GIVING ACCESS TO THE SHARE CAPITAL

Summary of financial authorizations in effect as of December 31, 2016

Maximum amounts of share capital authorized *(nominal issuance amount)*		Authorization type	Individual maximum amounts authorized *(nominal amount or percentage)*	Use in 2016	Available balance as of Dec. 31, 2016 *(nominal amount or percentage)*
Maximum amount applicable to all dilutive and non-dilutive issuances: €56.3 million (approximately 34.3%[a] of the share capital)	Maximum amount applicable to non-dilutive issuances: €56.3 million (approximately 34.3%[a] of the share capital)	Capital increase with preferential subscription right for shareholders)	€56.3 million (approximately 34.3%[a] of share capital)[b]	–	€56.3 million
	Maximum amount applicable to dilutive issuances: €16 million (approximately 9.8%[a] of the share capital)	Capital increase without preferential subscription right but with a priority period	€16 million (approximately 9.8%[a] of share capital)[b]	–	€16 million
		Overallotment (as a % of the initial issuance)	15%[b]	–	–
		Public exchange offer initiated by the Company	€16 million (approximately 9.8%[a] of share capital)[b]	–	€16 million
		Contributions in kind	10% of share capital	–	10% of share capital
		Capital increase reserved for employees	€3.2 million (approximately 2.0%[a] of share capital)	235,200	€3.0 million
		Grants of Group performance shares (GPS)	0.2% of share capital at the close of the Shareholders' Meeting	624,828 shares granted (approx. 0.1% of share capital)	0.1% of share capital at the close of the Shareholders' Meeting
–	–	Incorporation of reserves, earnings, premiums and other amounts	€40.2 million (approximately 24.5%[a] of share capital)		€40.2 million

(a) The percentage of share capital is calculated for indicative purposes only, based on share capital as of December 31, 2016 (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 subscription right but with priority right for shareholders, (iii) over-allotment option, and (iv) public tender 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 29, 2015 for a period of 26 months, *i.e.* until June 29, 2017, except the authorization to grant Group performance shares, which was approved by the Shareholders' Meeting of April 28, 2016 and expired on December 31, 2016.

Capital increases reserved for employees

Each year, Danone carries out a capital increase reserved for Danone employees participating in a company savings plan (through a temporary fund later merged into the "Fonds Danone" company investment fund). The decision to carry out this capital increase is made, in principle annually and under the authorization granted by the Shareholders' Meeting, by the Board of Directors at its February meeting. It is then carried out in May or June.

	Shareholders' Meeting authorization	Board of Directors' decision	Number of new shares	Price	Nominal amount of capital increase	Total amount of capital increase	Percentage of share capital
Capital increase reserved for employees carried out in 2016	April 29, 2015	February 22, 2016	940,800	€48.66	€235,200	€45,779,328	0.13%
Capital increase reserved for employees still in progress [a]	April 29, 2015	February 14, 2017	Maximum 1,686,340	€47,44	Maximum €421,585	Maximum €80,000,000	Maximum 0,26%

(a) Will be recognized in June 2017.

Financial authorizations subject to approval by the Shareholders' Meeting

The Shareholders' Meeting of April 27, 2017 will be asked to renew the authorization to issue shares and securities, with or without a preferential subscription right, in accordance with the following conditions:

		Maximum authorized amounts	
	Expiry date	Ordinary shares *(nominal amount of issuance)*	Debt securities
Capital increase with preferential subscription right	June 27, 2019 (26 months)	€57 million (approximately 34.8% [a] of share capital)	Common maximum amount of €2 billion
Capital increase without preferential subscription right but with a priority period for shareholders	June 27, 2019 (26 months)	€16 million (approximately 9.8% [a] of share capital), applied to the maximum amount of €57 million of non-dilutive issuances referenced above	
Overallotment (as a % of the initial issuance)	June 27, 2019 (26 months)	15%	
Public exchange offer initiated by the Company	June 27, 2019 (26 months)	€16 million (approximately 9.8% [a] of share capital)	
Contributions in kind	June 27, 2019 (26 months)	10% of share capital	
Incorporation of reserves, earnings, premiums and other amounts	June 27, 2019 (26 months)	€41 million (approximately 24.5% [a] of share capital)	–
Capital increase reserved for employees	June 27, 2019 (26 months)	€3.2 million (approximately 2.0% [a] of share capital), applied to the maximum amount of €16 million common to dilutive issuances referenced above	–
Grant of Group performance shares (GPS)	December 31, 2017	0.2% of share capital as of the Shareholders' Meeting, applied to the maximum amount of €16 million common to dilutive issuances referenced above	–

(a) The percentage of share capital is calculated for indicative purposes only, based on share capital as of December 31, 2016 (unless otherwise stated).

Changes in share capital and in the rights attached to shares

Any changes in the share capital or the rights attached to the shares comprising the share capital are subject to applicable legal provisions, as the by-laws do not contain any specific provisions related thereto.

7.4 FINANCIAL INSTRUMENTS NOT REPRESENTING SHARE CAPITAL

Authority of the Board of Directors

The Combined Shareholders' Meeting of April 23, 2009 decided to delete Article 27.I.9 of the Company's by-laws, which assigned to the Shareholders' Meeting the authority to decide or authorize bond issuances, in order to recognize the Board of Directors' fundamental authority in this area, in accordance with the first paragraph of Article L. 228-40 of the French commercial code.

Delegation of authority to General Management

At its meeting of July 6, 2016, the Board of Directors decided to renew, for a period of one year, the authorization granted to General Management to issue, in France or abroad (including, in particular, in the United States of America by means of private placements to institutional investors), ordinary bonds, subordinated debt securities or complex securities (whether fixed-term or perpetual) or any other type of negotiable debt instrument for up to a maximum outstanding principal amount at any time of €22 billion (or the equivalent amount in any other currency or unit of account).

Bonds outstanding as of December 31, 2016

As of December 31, 2016, the total outstanding principal amount on bonds issued by the Company (Danone's only bond issuer) was €19,047 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 2016 fiscal year

A dividend of €1.70 per share will be proposed to the Shareholders' Meeting of April 27, 2017 on shares eligible to receive the dividend as of January 1, 2016. If this dividend is approved, the ex-dividend date is May 5, 2017 and the payment date is June 1, 2017.

Also, the Shareholders' Meeting of April 27, 2017 will propose to offer each shareholder the option to receive the dividend payment in new Company shares for the full amount of the dividend associated with the shares owned.

Dividends paid in respect of the previous three fiscal years prior to 2016

Dividend relating to fiscal year [a]	Dividend per share *(in € per share)*	Dividend approved *(in € millions)*	Dividend paid [b] *(in € millions)*
2013	1.45	915	299 [c]
2014	1.50	966	311 [c]
2015	1.60	1,048	995

(a) Paid the following year.

(b) Treasury shares held directly by the Company do not carry the right to receive a dividend. However, the Company's shares held by its Danone Spain subsidiary carry the right to receive a dividend.

(c) The Shareholders' Meetings of April 29, 2014 and April 29, 2015 decided that each shareholder could choose to receive payment of the dividend in cash or in DANONE shares. The amount of the dividend paid in cash corresponded to the dividend paid to those shareholders who did not opt for payment in shares.

Dividends forfeited to the French State

By law, dividends that have not been claimed within five years revert to the French State.

7.6 SHAREHOLDERS' MEETINGS, VOTING RIGHTS

Participation in Shareholders' Meetings

The Shareholders' Meeting is convened by the Board of Directors in accordance with applicable laws.

Shareholders' Meetings are held in the city where the registered office is located or any other location, pursuant to the decision made by the convening party and at the place indicated in the Shareholders' Meeting notices.

The Shareholders' Meeting, which is convened and established on a regular basis, represents all shareholders; its decisions are binding on all shareholders, including dissidents, incapacitated persons and absentees.

The Shareholders' Meeting is composed of all shareholders, regardless of the number of shares owned, except in the case of forfeiture in accordance with applicable laws and regulations, and upon presentation of proof of identity and ownership of the shares.

Shareholders may choose one of the following three methods to participate in Shareholders' Meetings:

- attend in person by requesting an entry card;
- give a proxy to the Chairman of the Shareholders' Meeting or any individual or legal entity of their choice; or
- absentee vote by mail.

In accordance with Article R. 225-85 of the French commercial code:

- the right to participate in the Shareholders' Meeting is demonstrated through the recording of the shares in the name of the shareholder or intermediary registered on behalf of the shareholder (pursuant to the seventh paragraph of Article L. 228-1 of the French commercial code), on the second working day preceding the Shareholders' Meeting, either in the registered share accounts held by the Company (or its agent) or in the bearer share accounts held by an authorized intermediary;
- registration of the shares in the bearer share accounts held by authorized intermediaries is recognized by a statement of participation delivered by these intermediaries, where applicable using electronic means under the conditions set forth in Article R. 225-61 of the French commercial code, as an attachment to the absentee voting form, the proxy form or the request for an entry card prepared in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary.

Any shareholder may give a proxy to any individual or legal entity of his choice in order to be represented at a Shareholders' Meeting. The proxy and, where applicable, its revocation, are written and submitted to the Company or its agent (BNP Paribas Securities Services). The proxy is revocable in the same forms as those required to designate the proxy, where applicable using electronic means. The owners of the shares properly registered in the name of an intermediary under the conditions set forth in Article L. 228 1 of the French commercial code may be represented under the terms set forth in that article through a registered intermediary.

Minors and incapacitated persons are represented by their guardians and administrators, who are not required to be shareholders themselves. A legal entity is legitimately represented by any duly authorized legal representative or by a person specially authorized for that purpose.

The Company's by-laws permit shareholders to participate in Shareholders' Meetings using electronic means, and a website has been specially created to that effect for Shareholders' Meetings, thereby enabling shareholders to vote online using this dedicated site prior to the Shareholders' Meeting. The electronic signature of proxy and absentee voting forms may result from a procedure that satisfies the conditions set forth in articles R. 225-79 (for proxies) and R.225-77 (for absentee voting) of the French commercial code.

Holders of bearer shares may also use the VOTACCESS platform for Shareholders' Meetings. This option has been offered since the April 25, 2013 Shareholders' Meeting to all holders of bearer shares whose account-keeping institution has joined the VOTACCESS system and, since the April 29, 2014 Shareholders' Meeting, starting with the first share owned. This platform enables holders of bearer shares, before the Shareholders' Meeting is held, to submit their voting instructions electronically, request an entry card or designate or revoke an agent.

Lastly, the Board of Directors may decide that the vote occurring during the Shareholders' Meeting may be expressed by videoconference or any telecommunications method that makes it possible to identify the shareholders, subject to applicable statutory and regulatory conditions.

Through a decision by the Board of Directors, shareholders can watch the Shareholders' Meeting in real time or a recorded version for one year on the Danone website.

Danone also publishes on its website the voting results and a report on the Shareholders' Meeting that refers to all of the main presentations made to shareholders.

Voting rights

Double voting rights

The Extraordinary Shareholders' Meeting of October 18, 1935 decided to include in the Company's by-laws, the grant of double voting rights, under the conditions provided by law, in relation to the portion of the share capital that they represent, to all fully paid-up shares for which evidence is provided that they have been registered in the name of the same shareholder for at least two years, as well as – in the event of a capital increase through capitalization of reserves, earnings or additional paid-in capital – to registered shares granted free of charge to a shareholder in consideration of existing shares in respect of which he enjoys said rights. This statutory double voting right has been maintained since its creation in 1935 and coexists, in the same conditions, with the one created by the law 2014-384 of March 29, 2014, known as the "Florange law". Neither the Danone Board of Directors nor its shareholders proposed its elimination when the legal double voting right was instituted for companies whose shares are admitted for trading on a regulated market.

Double voting rights cease in the event of a transfer or conversion into bearer shares, unless otherwise provided for by law. A double voting right may moreover be terminated by an extraordinary shareholders' meeting's decision and after ratification by the special shareholders' meeting gathering all double voting right beneficiaries. A merger with another company shall not affect double voting rights, which can be exercised within the absorbing company if its by-laws have instituted this procedure.

Limitation on voting rights at Shareholders' Meetings

Principle of limitations on voting rights

The Extraordinary Shareholders' Meeting of September 30, 1992 decided to introduce into Danone's by-laws a clause limiting the voting rights, considering the weak participation rate of shareholders at Meetings. The purpose of the clause is to avoid having a shareholder exercise undue influence or even realize a "stealth" takeover of the Company. Hence, the by-laws provide that, at Shareholders' Meetings, no shareholder may cast more than 6% of the total number of voting rights attached to the Company's shares in his or her own right or through proxy (*mandataire*), in respect of single voting rights attached to shares which he or she holds directly and indirectly and of powers which have been granted to him or her. Nevertheless, if, additionally, he or she enjoys double voting rights in a personal capacity and/or in the capacity of agent, the limit set above may be exceeded by taking into account only the extra voting rights resulting therefrom. In such a case, the total voting rights that he or she represents shall not exceed 12% of the total number of voting rights attached to the Company's shares.

In accordance with Article 26 II of the Company's by-laws, this limitation applies when:

- the total number of voting rights taken into account is calculated as of the date of the Shareholders' Meeting and is brought to the attention of shareholders at the opening of the Shareholders' Meeting;
- the number of voting rights held directly and indirectly refers particularly to those attached to shares held personally by a shareholder, shares held by a corporation he or she controls within the meaning of Article L. 233-3 of the French commercial code and shares assimilated with shares held, as defined by the provisions of Articles L. 233-7 et seq. of the French commercial code;
- in respect of voting rights used by the Chairman of the Shareholders' Meeting, those attached to shares for which a proxy form has been returned to the Company without naming a proxy and which, individually, do not violate the applicable limitations, are not taken into account.

This limitation of voting rights at Shareholders' Meetings has been implemented by the Company in respect of the MFS group since 2013 (see section 7.8 *Share ownership structure as of December 31, 2016 and significant changes over the last three fiscal years* for more information on the interest held by MFS in the Company's share capital).

Exceptions to limitations on voting rights

In accordance with Article 26 II of the Company's by-laws, the aforementioned limitations shall become null and void if any individual or corporate entity, acting alone or in concert with one or more individuals or legal entities, were to come into possession of at least two-thirds of the total shares of the Company as a result of a public tender offer for all the Company's shares. The Board of Directors shall formally acknowledge that the limitations have become null and void and shall complete the corresponding modifications to the by-laws.

In addition, in accordance with the general regulations of the French Financial Markets Authority, the effects of the limitations provided for in the preceding sections shall be suspended at the first Shareholders' Meeting following the close of a takeover bid if the bidder, acting alone or in concert, were to come into possession of more than two-thirds of the total shares or total voting rights of the company concerned.

Lastly, following adoption of the 16th resolution by the Shareholders' Meeting of April 22, 2010, the limitations on voting rights shall be suspended for a Shareholders' Meeting if the number of shares present or represented at such meeting reaches or exceeds 75% of the total number of shares carrying voting rights. In such event, the Chairman of the Board of Directors (or any other person who is presiding over the meeting in his absence) shall formally acknowledge the suspension of said limitation when the Shareholders' Meeting is opened.

Reasons for the limitation of voting rights for shareholders

The Board of Directors has, on several occasions, reviewed this clause limiting voting rights at Shareholders' Meetings and, notably following discussions with its shareholders, has concluded that this voting rights limitation is in the interest of all the Company's shareholders. Thus:

- considering the effective participation rate at Shareholders' Meetings (which remains far below the average participation rate at the CAC 40's shareholders' meetings), this limitation prevents shareholders from influencing corporate decisions in a manner that would be disproportionate to the actual size of their shareholding, particularly in the event of a low quorum or when a simple majority is sufficient for the adoption of a corporate decision (with a quorum for Shareholders' Meetings of 50%, 25% of the votes could be sufficient to adopt or reject a corporate decision);
- considering Danone's disperse shareholding, in the absence of such a limitation mechanism, a shareholder could take *de facto* control of the Company "by stealth", *i.e.* without being obliged to launch a public tender offer and offer existing shareholders the possibility of selling their shares in the Company under satisfactory conditions. The clause limiting voting rights is therefore clearly aimed at requiring any shareholder wishing to take control of the Company, at any time, to launch a takeover bid for all of the Company's shares, to offer a control premium, and, when required, to respect price conditions as set by the French Financial Markets Authority. In this regard, this provision provides protection for all the shareholders and guarantees them the best valuation for their shares;
- this clause of the by-laws does not, under any circumstances, constitute an obstacle to a takeover bid on the Company, since the clause becomes automatically null and void for the first Shareholders' Meeting held subsequent to a takeover bid resulting in one or more shareholders acting in concert owning more than two-thirds of the Company's share capital or voting rights;
- the validity of clauses limiting voting rights has been recognized by the French commercial code, and their utility is illustrated by the fact that several other CAC 40 companies with a disperse shareholding have implemented a similar mechanism in their by-laws;
- the limitation clause does not affect, in any way, the economic rights of the shareholders that would be concerned by the measure insofar as such shareholders are eligible to receive the full dividend attached to the shares they own.

Like other CAC 40 companies, in 2007, the Shareholders' Meeting rejected a resolution aimed at removing this statutory clause limiting voting rights at a Meeting.

In 2010, following discussions with its shareholders, the Board considered it would be appropriate to amend the terms of the voting rights limitation mechanism in order to introduce the automatic suspension of the limitation process for any Shareholders' Meeting at which a sufficiently high quorum is achieved. Indeed, whereas this limitation appears appropriate and justified in the event of a low quorum, it appears superfluous in the event of a high quorum, since such a quorum would ensure all shareholders could express their opinion without the risk of distortion. For this reason, this limitation is suspended, in respect of any Meeting at which the number of shares whose shareholders are present or represented reaches or exceeds 75% of the total number of shares with voting rights. This suspension mechanism, based on the quorum, offers an additional guarantee to Danone's shareholders as it ensures that the voting rights limitation would be objectively activated.

In the event that a shareholder acquires a significant non-controlling interest in the Company's share capital, the quorum should automatically increase and would facilitate suspension of the clause, while ensuring that said shareholder was not able to influence proceedings at the Shareholders' Meeting in a manner disproportionate to his or her shareholding.

The quorum achieved at the Shareholders' Meeting of April 28, 2016 was 54.53%.

7.7 CROSSING OF THRESHOLDS, SHARES AND SHARE SALES

Crossing of thresholds

A shareholder is legally required to inform the Company and the French Financial Markets Authority whenever any of the following thresholds are crossed in either direction, within four trading days of when the threshold is crossed: 5%, 10%, 15%, 20%, 25%, 30%, one-third, 50%, two-thirds, 90% or 95% of the Company's share capital or voting rights (Article L. 233-7 of the French commercial code). In addition, any individual or legal entity that comes to acquire or ceases to hold in any manner whatsoever, within the meaning of Articles L. 233-7 et seq. of the French commercial code, a fraction equivalent to 0.5% of the voting rights or a multiple thereof must, within five trading days of crossing such threshold, notify the Company of the total number of shares or securities giving future access to the capital and the total number of voting rights that said individual or entity holds alone, or indirectly, or in concert, by registered mail with return receipt to the Company's registered office. If the threshold is crossed as a result of a purchase or sale in the open market, the notification period of five trading days begins with the date of trade and not the date of delivery.

In the event of failure to comply with this notification requirement, at the request of any holder or holders of 5% or more of the voting rights, the voting rights in excess of the fraction that should have been reported may not be exercised or delegated by the non-complying shareholder at any Shareholders' Meeting held during a period of two years as from the date on which the shareholder makes the corrective notification.

Company shares and share sales

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 AS OF DECEMBER 31, 2016 AND SIGNIFICANT CHANGES OVER THE PAST THREE FISCAL YEARS

Share ownership structure as of December 31, 2016

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' Meetings, voting rights*).

As of December 31, 2016, 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]	70,545,063	10.8%	58,544,739	8.6%	58,544,739	9.1%
BlackRock	34,552,051	5.3%	34,552,051	5.0%	34,552,051	5.4%
Sofina group	14,110,330	2.2%	21,759,891	3.2%	21,759,891	3.4%
Amundi Asset Management	14,250,441	2.2%	14,250,441	2.1%	14,250,441	3.4%
First Eagle Investment Management	14,155,850	2.2%	14,155,850	2.1%	14,155,850	2.2%
Harris Associates L.P.	11,741,514	1.8%	11,741,514	1.7%	11,741,514	1.8%
Norges Bank	11,330,020	1.7%	11,330,020	1.7%	11,330,020	1.8%
CDC group	10,924,281	1.7%	10,924,281	1.6%	10,924,281	1.7%
Employee shareholders – "Fonds Danone" company investment fund	8,343,996	1.3%	16,004,172	2.3%	16,004,172	2.5%
Treasury shares – the Company	33,129,198	5.1%	33,129,198	4.8%	–	–
Treasury shares – Danone Spain subsidiary	5,780,005	0.9%	5,780,005	0.8%	–	–
Other	427,029,251	65.1%	452,277,981	66.1%	452,277,981	70.1%
Total	**655,892,000**	**100.0%**	**684,450,143**	**100.0%**	**645,540,940**	**100.0%**

(a) The percentage of gross voting rights is calculated taking into account the treasury shares held by the Company and its subsidiaries, which are stripped of voting rights.

(b) The number of net voting rights (or voting rights "exercisable in a Shareholders' Meeting") is calculated excluding shares stripped of voting rights.

(c) The voting rights of MFS group were capped at 6% at the Shareholders' Meeting of April 28, 2016 in accordance with Article 26 II of the by-laws of the Company (see section 7.6 *Shareholders' Meetings, voting rights* above for details on limitations on voting rights at Shareholders' Meetings).

As of December 31, 2016, 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, 2016.

Shares held by the members of the Board of Directors and Executive Committee

See section 6.3 *Compensation and benefits of governance bodies.*

Significant changes in the Company's share ownership during the past three fiscal years

Fiscal year ended December 31

	2016			2015			2014		
Shareholders	**Number of shares**	**% of total shares**	**% of net voting rights[(a)]**	**Number of shares**	**% of total shares**	**% of net voting rights[(a)]**	**Number of shares**	**% of total shares**	**% of net voting rights[(a)]**
MFS	70,545,063	10.8%	9.1%	83,804,278	12.8%	10.8%	80,984,423	12.6%	10.3%
BlackRock	34,552,051	5.3%	5.4%	34,552,051	5.3%	4.9%	34,552,051	5.4%	4.1%
Sofina group	14,110,330	2.2%	3.4%	14,110,330	2.2%	3.3%	13,957,819	2.2%	4.4%
Amundi Asset Management	14,250,441	2.2%	3.4%	11,447,283	1.7%	1.8%	13,574,413	2.1%	2.1%
First Eagle Investment Management	14,155,850	2.2%	2.2%	14,797,091	2.3%	2.3%	12,681,299	2.0%	2,0%
Harris Associates	11,741,514	1.8%	1.8%	11,277,884	1.7%	1.7%	19,551,538	3.0%	3.1%
Norges Bank	11,330,020	1.3%	1.8%	9,357,050	1.4%	1.5%	9,665,010	1.5%	1.5%
CDC group	10,924,281	1.7%	1.7%	10,823,151	1.7%	1.7%	10,557,910	1.6%	1.7%
Employee shareholders – "Fonds Danone" company investment fund	8,343,996	1.3%	2.5%	8,190,638	1.3%	2.5%	8,429,898	1.3%	2.6%
Treasury shares – the Company	33,129,198	5.1%	–	33,946,170	5.2%	–	37,933,295	5.9%	–
Treasury shares –Danone Spain subsidiary	5,780,005	0.9%	–	5,780,005	0.9%	–	5,780,005	0.9%	–
Other	427,029,251	65.1%	67.7%	416,865,269	63.6%	69.6%	396,124,339	61.5%	68.3%
Total	**655,892,000**	**100.0%**	**100.0%**	**654,951,200**	**100.0%**	**100.0%**	**643,792,000**	**100.0%**	**100.0%**

(a) This percentage excludes treasury shares held by the Company and its subsidiaries, which have been stripped of their voting rights.

Ownership interest held by MFS

In the fiscal years 2014 to 2016, the ownership interest held by Massachusetts Financial Services ("MFS") group in the Company's share capital has fluctuated upward then downward. It represented 10.8% of the share capital as of December 31, 2016.

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, 2016, MFS informed the Company that it held 70,545,063 DANONE shares (approximately 10.8% of the share capital), including 58,544,739 shares (approximately 8.9% of the share capital) for which MFS exercises voting rights and 12,000,324 shares (approximately 1.8% of the share capital) for which MFS clients have retained voting rights.

On July 12, 2016, MFS disclosed that on July 8, 2016 it fell below the 10% threshold of voting rights in the Company and held 67,785,552 shares representing as many voting rights, *i.e.* 10.33% of the share capital and 9.91% of the voting rights (disclosure No. 216C1645 published by the French Financial Markets Authority). On August 22, 2016, MFS disclosed that as of August 18, 2016 it had fallen below the 10% threshold of share capital in the Company and held 65,536,478 shares representing as many voting rights, *i.e.* 9.99% of the share capital and 9.58% of the voting rights (disclosure No. 216C1908).

Ownership interest held by BlackRock

In the fiscal years 2014 to 2016, BlackRock increased its ownership interest in the Company's share capital to 5.3% of the Company's shares as of December 31, 2016.

On November 18, 2016, BlackRock disclosed that, as of November 17, 2016, it had exceeded the 5% threshold in the Company's share capital and held 32,898,219 shares representing as many voting rights, *i.e.* 5.02% of the share capital and 4.81% of the voting rights (disclosure No. 216C2609). Between November 18 and December 31, 2016, BlackRock made several disclosures regarding the crossing of the 5% threshold for share capital or voting rights, in both directions, (see disclosures No. 216C2663, No. 216C2757, No. 216C2768, No. 216C2785, No. 216C2796, No. 216C2822, No. 216C2854, No. 216C2882, No. 216C2965 and No. 216C2979 published by the French Financial Markets Authority).

Other significant changes during the past three fiscal years

In 2014, First Eagle became a shareholder in the Company. As of December 31, 2016, it held 2.2% of the Company's shares.

With the exception of the aforementioned MFS and BlackRock disclosures, no other disclosures regarding the crossing of statutory thresholds pertaining to the Company's share capital or voting rights were published by the French Financial Markets Authority in fiscal year 2016.

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, 2016, 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 9,333,653, *i.e.* 1.4% of the Company's share capital, including the 8,343,996 shares (1.3% of the share capital) held by the "Fonds Danone" FCPE.

Only the supervisory board of the "Fonds Danone" FCPE is authorized to vote on behalf of the shares held by the FCPE. As an exception to this principle, in accordance with the decisions taken by the supervisory board, holders of shares in the FCPE may be consulted directly by referendum in the event that the supervisory board has a split vote. The supervisory board is currently composed of: (i) four employee members representing current and former employees, who are appointed by the representatives of the various trade unions representing the Company's employees in accordance with the French labor code, and of (ii) four members representing the Company and appointed by Danone's management.

Survey of identifiable shareholders

Under the terms of its by-laws and in accordance with the legislation and regulations, the Company may, at any time, ask the entity responsible for clearing shares (Euroclear France) for the name or company name, nationality, and address of the holders of shares or other securities conferring immediate or future voting rights at its Shareholders' Meetings, along with the number of securities held by each of them and, if applicable, any restrictions placed upon such securities. Euroclear France obtains the information requested from account-holding custodians affiliated to it, which are obliged to provide such information.

Distribution of shareholders based on the survey of the Company's identifiable shareholders in December 2016

		Percentage of share capital
Institutional investors		**78%**
Including	*France*	*18%*
	United Kingdom	*9%*
	Switzerland	*6%*
	Rest of Europe	*11%*
	North America	*47%*
	Asia Pacific	*8%*
	Rest of World	*2%*
Individual shareholders and "Fonds Danone" FCPE		**11%**
Treasury shares		**6%**
Other		**5%**
Total		**100%**

7.9 MARKET FOR THE COMPANY'S SHARES

Listing markets and indices

Listing markets

The Company's shares are listed on Euronext Paris (Compartment A – Deferred Settlement Department; ISIN Code: FR 0000120644; ticker "BN") and also have a secondary listing on the Swiss Stock Exchange (SWX Suisse Exchange).

Between 1997 and 2007, the Company's shares were also listed on the New York Stock Exchange in the form of American Depositary Shares (ADS). Due to the low trading volume of these ADS on this market, in 2007 Danone decided to delist the shares from that market and to deregister them with the Securities and Exchange Commission, pursuant to the U.S. Securities Exchange Act of 1934.

Danone nevertheless 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's 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 main social responsibility indexes such as FTSE4Good, Dow Jones Sustainability Index, Vigeo (World 120, Eurozone 120, Europe 120 and France 120), Ethibel Sustainability Index (ESI) (Excellence Europe and Excellence Global) and MSCI (MSCI Global Sustainability Indexes and MSCI Global SRI Indexes), which each year select the best-performing companies based on criteria such as the quality of corporate governance, their social and environmental responsibility policy, their criteria relating to innovation, and their economic performance.

Stock price and trading volume

Year ended December 31, 2016

	Number of shares traded		Trading volume		Stock price	
	Total	**Daily average**	**Total trading volume**	**Monthly average price**	**High**	**Low**
	(in number of shares)	*(in number of shares)*	*(in € billions)*	*(in € per share)*	*(in € per share)*	*(in € per share)*
January	36,911,839	1,845,592	2.21	60.10	63.45	57.49
February	41,514,236	1,976,868	2.55	61.31	64.90	57.59
March	32,810,183	1,562,390	2.07	63.16	65.78	61.50
April	32,715,873	1,557,899	2.04	62.26	64.97	60.08
May	27,117,242	1,232,602	1.65	61.07	63.67	58.58
June	39,135,254	1,778,875	2.41	61.89	64.39	58.90
July	40,706,598	1,938,409	2.66	65.22	69.27	63.01
August	28,147,359	1,223,798	1.93	68.66	70.45	67.39
September	36,415,899	1,655,268	2.42	66.53	70.53	63.90
October	33,709,324	1,605,206	2.17	64.26	67.81	62.26
November	40,525,851	1,842,084	2.42	59.78	63.72	57.66
December	37,044,210	1,764,010	2.22	59.85	61.99	57.99

Source: Euronext Paris. Includes over-the-counter trading.

7.10 FACTORS THAT MIGHT HAVE AN IMPACT IN THE EVENT OF A PUBLIC TENDER OFFER

In accordance with article L. 225-100-3 of the French commercial code, the factors that might have an impact in the event of a tender offer are presented hereafter:

(i) Structure of the Company's share capital

The structure of the Company's share capital is described in section 7.8 *Share ownership structure as of December 31, 2016 and significant changes over the last three fiscal years.*

(ii) Voting rights restrictions set forth in the by-laws

The Company's by-laws provide for a system of limitation of voting rights, described in section 7.6 *Shareholders' Meetings, 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

The Company's shareholder structure is described in section 7.8 *Share ownership structure as of December 31, 2016 and significant changes over the last three fiscal years*.

(iv) Holders of securities providing special control rights over 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 28, 2016 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 27, 2017 will be asked to renew this prohibition.

In addition, following the amendment of Article L. 233-32 of the French commercial code by law No. 2014-384 of March 29, 2014 aimed at recapturing the real economy (the "Florange law"), in accordance with the decision of the Shareholders' Meeting of April 29, 2015, the Board of Directors may not 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. The Shareholders' Meeting of April 27, 2017 will be asked to renew this prohibition.

(ix) Agreements signed by the Company that are amended or terminated in the event of a change of control of the Company

- Danone granted put options to certain non-controlling shareholders of its subsidiaries relating to their shares, which may be exercised during a public tender offer. The amount of such options is set out in Note 3.6 of the Notes to the consolidated financial statements.
- In 2005, the Company and the Arcor group signed an agreement governing relations between Danone and Arcor within the joint venture named Bagley Latino America, a Latin American leader in biscuits, in which the Company holds a 49% equity interest. In the event of a change of control of the Company, the Arcor group will have the right to have the Company repurchase all of its interest held in Bagley Latino America at its fair value.
- In 2016, Danone entered into a new shareholders' agreement with Al Faisaliah Holding that governs their relations within their jointly owned company Alsafi Danone Company Limited, a Saudi-based company selling fresh dairy products and fruit juice in the Middle East in which Danone holds a 17% stake. In the event of a change of control in the Company without the consent of Al Faisaliah Holding, Al Faisaliah Holding could terminate the shareholders' agreement and exercise a call option on the shares held by Danone in Alsafi Danone Company Limited.
- Under the terms of contracts regarding the use of mineral springs, in particular Volvic and Évian in France, Danone has very longstanding and privileged relations with local municipalities in which these springs are located. It is difficult for the Company to assess with certainty the impact on these contracts of any change in its control.
- The stock-option plans, as well as Group performance units (GPU) and Group performance shares (GPS) plans, that were put in place by the Company for the benefit of certain employees and its corporate officers, include specific provisions in the event of a change of control of the Company resulting from a public tender offer on the Company's securities, described in section 6.4 *Detailed information on long-term and multi-annual compensation plans*.
- Danone's syndicated facility agreement includes a change of control provision, which offers the lending banks an early redemption right in the event of a change of control of the Company, if it is accompanied by a downgrade of its rating by the rating agencies to sub-investment grade. This syndicated facility agreement represents a principal amount of €2 billion.
- The Company's EMTN bond issuance program, its U.S. bond issuances in June 2012 and November 2016 and certain bilateral bank credit facility also include a similar mechanism in the event of a change of control of the Company (see Note 10.3 of the Notes to the consolidated financial statements).

(x) Agreements providing for indemnities to be paid to employees and corporate officers of the Company in the event that they resign, or their employment is terminated in the absence of a real and serious cause, or if their employment expires due to a public tender offer

The indemnities that would be paid to the Company's corporate officers in certain circumstances are described in 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 308

Cross-reference table to the Annual Financial Report 308

Cross-reference table to the provisions of Annex 1 of the 809/2004 Regulation of the European Commission 309

Cross-reference table with the Management Report, parent company Danone and Danone Group 312

APPENDIX

A

CROSS-REFERENCE TABLES

Cross-reference table to the Annual Financial Report

In order to facilitate the reading of this Registration Document, the cross-reference table hereafter enables to identify the main 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.

Annual Financial Report		Sections of the Registration Document
1.	**Company financial statements**	4.2
2.	**Consolidated financial statements**	4.1
3.	**Management report (within the meaning of the French monetary and financial code)**	
3.1	Information required by Articles L.-225-100 and L.-225-100-2 of the French commercial code	
	Analysis of the business trends	2.5, 3.1 to 3.5
	Analysis of the results	2.2, 3.2
	Analysis of the financial position	3.3, 3.4
	Major risk factors and uncertainties	2.7
	Table of the capital increases delegations	7.3
3.2	Information required by Article L.-225-100-3 of the French commercial code Elements that might have an impact in the event of a public tender offer	7.10
3.3	Information required by Article L.-225-211 of the French commercial code Share buyback programs of the Company	7.2
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.	**Information on the fees of the Statutory auditors**	4.1 (Note 18)
7.	**Report of the Chairman of the Board of Directors on the corporate governance, the internal control and risk management procedures (Article L.-225-37 of the French commercial code)**	6.1, 6.3 to 6.6
8.	**Statutory auditors' report on the report of the Chairman on the internal control and risk management**	6.6

Cross-reference table to the provisions of Annex 1 of the 809/2004 Regulation of the European Commission

This cross-reference table identifies the main information required by Annex 1 of the 809/2004 Regulation of the European Commission dated April 29, 2004. This table refers to the sections of this Registration Document on which the information related to each item is indicated.

Document of registration relating to shares		Sections of the Registration Document
1.	**Persons responsible**	
1.1	Identity	1.3
1.2	Statement	1.3
2.	**Statutory auditors**	
2.1	Identity	1.1
2.2	Potential change	1.1
3.	**Selected financial information**	
3.1	Historical financial information	Section "Key figures"
3.2	Financial information for interim periods	N/A
4.	**Risk factors**	2.7
5.	**Information about the issuer**	
5.1	History and development of the Company	
5.1.1	*Legal and commercial name*	*1.1*
5.1.2	*Registration place and number*	*1.1*
5.1.3	*Incorporation date and term*	*1.1*
5.1.4	*Registered office, legal form, applicable legislation, country of incorporation, address and telephone number of the registered office*	*1.1*
5.1.5	*Important events in the business development*	*2.1 to 2.6, 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
6.3	Exceptional events	N/A
6.4	Dependence of the issuer	N/A
6.5	Competitive position of the issuer	1.2 (Definition of "Danone's market shares and positions"), 2.2, 2.5
7.	**Organizational structure**	
7.1	Brief description of the Group	2.6
7.2	List of the significant subsidiaries	2.6, 4.1
8.	**Property, plants and equipment**	
8.1	Material tangible fixed assets	2.5, 4.1
8.2	Environmental issues	2.5, 5.1, 5.2

Document of registration relating to shares		Sections of the Registration Document
9.	**Operating and financial review**	
9.1	Financial position	3.1 to 3.4, 4.1
9.2	Operating results	
9.2.1	*Significant factors materially influencing the operating income*	*2.2, 2.7, 3.2, 4.1*
9.2.2	*Evolution of net sales or net revenues*	*2.2, 3.2, 4.1*
9.2.3	*External factors materially influencing the operations*	*2.5, 2.7*
10.	**Capital resources**	
10.1	Issuer's capital resources	3.4, 4.1, 7.1
10.2	Cash-flows	3.3, 4.1
10.3	Information on the borrowing requirements and funding structure of the issuer	3.4, 4.1
10.4	Restrictions on the use of capital resources	3.4, 4.1
10.5	Anticipated sources of funds	3.4, 4.1
11.	**Research and development, patents and licenses**	2.5, 3.1
12.	**Trend information**	
12.1	Most significant recent trends since the end of the last fiscal year	3.5
12.2	Events that are reasonably likely to have a material effect on the issuer's prospects	3.5
13.	**Profit forecasts or estimates**	N/A
14.	**Administrative and senior management**	
14.1	Information on the members	6.1, 6.2
14.2	Conflicts of interests	6.1
15.	**Remuneration and benefits**	
15.1	Remuneration and benefits in kind	6.3, 6.4
15.2	Provisions for retirement obligations	6.3
16.	**Functioning of the board and management**	
16.1	Expiration date of the terms of office	6.1, 6.2
16.2	Services agreements relating to the members of the Board and of the management	6.1
16.3	Information about the Audit Committee, the Nomination and Compensation Committee and the Social Responsibility Committee	6.1
16.4	Corporate governance	6.1
17.	**Employees**	
17.1	Number of employees	5.2
17.2	Shareholdings and stock-options held by the members of the Board of Directors and by the members of the Executive Committee	6.3, 6.4, 6.5
17.3	Arrangements involving the employees in the capital of the issuer	5.2, 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**	3.1, 4.1, 6.7

Document of registration relating to shares		Sections of the Registration Document
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**	
20.1	Historical financial information	1.2, 4.1, 4.2
20.2	Pro forma financial information	3.8
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*	*1.2, 4.1, 4.2*
20.4.2	*Other information audited by the auditors*	*1.2, 3.8, 4.1, 4.2, 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, 2016
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*	*7.3*
21.1.5	*Acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital*	*7.3*
21.1.6	*Options on the capital of Group members*	*4.1, 7.10*
21.1.7	*History of share capital*	*7.1*
21.2	Incorporation documents and by-laws	
21.2.1	*Objects and purposes*	*1.1*
21.2.2	*Administrative, management and supervisory bodies*	*6.1*
21.2.3	*Rights, preferences and restrictions attaching to shares*	*7.5, 7.6*
21.2.4	*Change of shareholders' rights*	*7.3, 7.6*
21.2.5	*Invitation to shareholders' meetings and conditions of admissions*	*7.6*
21.2.6	*Provisions that may delay, defer or prevent a change of control*	*7.10*
21.2.7	*Declarations of crossing statutory thresholds*	*7.7*
21.2.8	*Stringent conditions than required by the law for any change in the capital*	*7.3*
22.	**Material contracts**	3.1
23.	**Third party information and statement by experts and declarations of any interest**	
23.1	Identity	4.3
23.2	Statement	4.3
24.	**Documents available to the public**	3.7
25.	**Information on holdings**	2.6, 4.1

A

Cross-reference table with the Management Report, parent company Danone and Danone Group

This Registration Document includes all the items of the Management Report as required pursuant to Article L.-225-100 and subsequent, L.-232-1, II, L.-233-26 and R.-225-102 and subsequent of the French commercial code.

Management Report	Sections of the Registration Document
Financial position and activity of the Company and of the Group during the fiscal year	2.2 to 2.5, 3.1 to 3.4, 4.1, 4.2
Information on trends and outlook	3.5
Material events occurred since the end of the fiscal year	3.5
Research and development activities	2.5, 3.1
Activities of the Company's subsidiaries	2.2, 3.1 to 3.4
Acquisition of significant equity interests or control in companies headquartered in France	N/A
Amount of dividends distributed during the last three fiscal years	7.5
Changes to the presentation of the Company's financial statements	4.2
Injunctions or financial penalties for antitrust practices	N/A
Information relating to suppliers and clients' terms of payment	4.2
Directorship and offices held by each corporate officers	6.2
Indication on the use of financial instruments by the Company and the Group	2.7, 4.1, 4.2
Analysis of the business performance, results and financial position of the Company and of the Group during the fiscal year	2.2 to 2.5, 3.1 to 3.4, 4.1, 4.2
Description of the major risk factors and uncertainties of the Company and of the Group	2.7, 3.5
Company's exposure to price, credit, liquidity and cash-flows risks	2.7, 4.2
Information relating to the breakdown of the share capital	7.8
Shares held by the subsidiaries of the Company	7.2
Employee shareholding on the last day of the fiscal year	7.8
Summary statement of the transactions relating to shares carried out by executives	6.5
Table and report on the share capital increase delegations	7.3
Compensation and benefits of any kind paid to each corporate officer	6.3
Table of the Company's financial results over the last five years	4.2
Information required by Article L.-225-211 of the French commercial code in case of transactions carried out by the Company on its own shares	7.2
Information required by Article L.-225-100-3 of the French commercial code that may have an impact regarding a public tender offer	7.10
Information required by Article L.-225-102-1 of the French commercial code relating to social and environmental consequences of the Company's business and to its societal commitments	5.2
Report 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	6.3

Design and production
The design and production have been performed
by Caroline Pauchant and Claire Faÿ
with Adrien Labbe, Luce Sauret-Théry and Violaine Aurias.

Paper
This document has been printed on
paper Cocoon Silk 100% recycled and certified:
• FSC® Recycled (N° FSC-C021878);
• European Ecolabel (N° FR/011/003);
• PCF: Process Chlorine Free.
No substances classified as carcinogenic, mutagenic or reprotoxic (CMR) are used as raw materials.

Using this 100% recycled paper rather than a non-recycled paper reduces the environmental impact
(source: www.arjowigginsgraphic.com) of this Registration Document paper version by:
• 1 kg of landfill;
• 40 litres of water;
• 2 kWh of energy;
• 2 kg of wood.

The paper manufacturer, Arjowiggins Graphic complies with new REACH (Registration, Evaluation, Authorization and Restriction of Chemical Substances) European Community Regulation, created to improve protection of human health and the environment from the risks that can be caused by chemicals as well as the promotion of alternative test methods, free circulation of substances and enhancing competitiveness and innovation.
The paper manufacturing plant is certified:
• ISO 9001 (Quality Management Standard);
• ISO 14001 (Environmental Management Standard);
• OHSAS 18001 (Health and Safety Management Standard);
• ISO 50001 (Energy Management Standard).

Printing
This document has been printed on the presses of Snel, Z.I. des Hauts-Sarts – zone 3 – 21, rue Fond des Fourches – 4041 Vottem – Herstal – Belgium which uses vegetable-based inks and solvent-free glue and, which has the following certifications:
• FSC® (Forest Stewardship Council);
• PEFC®(Programme for the Endorsement of Forest Certification Schemes chain-of-custody certified);
• IMPRIM'VERT®.

If you have finished reading this document and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste.
Thank you!

Welcome to the alimentation revolution

LEARN MORE:
WWW.DANONE.COM

ECONOMIC AND SOCIAL REPORT

INTEGRATED REPORT

REGISTRATION DOCUMENT

FOCUS WEB 16

DANONE
15, RUE DU HELDER - 75439 PARIS CEDEX 09
VISITORS:
17, BOULEVARD HAUSSMANN - 75009 PARIS
TEL. +33 1 44 35 20 20
INVESTORS RELATIONS:
TEL. +33 1 44 35 20 76
FREE SHAREHOLDERS NUMBER:
0 800 320 323 (FREE FROM LAND LINES IN CONTINENTAL FRANCE)
OR +33 1 58 16 71 75
(FROM FOREIGN COUNTRIES)

DANONE

BRINGING HEALTH THROUGH FOOD TO AS MANY PEOPLE AS POSSIBLE