Danone 17

INTERIM FINANCIAL REPORT

DANONE
A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €167,677,600
REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS
PARIS CORPORATE REGISTER NUMBER: 552 032 534

2017

INTERIM FINANCIAL REPORT

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

The English version of the 2017 Interim financial report is a free translation from the original which was prepared in French.
The original French version of the document prevails over this translation.
This Interim financial report is available on Danone's website : www.danone.com

Table of content

1. Interim management report

Unless otherwise noted:

- all references herein to the “Company” refer to Danone the issuer;
- all references herein to the “Group”, the “Company” or “Danone” refer to the Company and its consolidated subsidiaries;
- all references herein to “Reporting Line” or “Reporting Lines” refer to Essential Dairy and Plant-based Products International or EDP International, Essential Dairy and Plant-based Products Noram or EDP Noram, Specialized Nutrition and Waters businesses;
- all references herein to the “Europe and Noram” zone refer to the geographic area that comprises Europe excluding the CIS and Turkey, and the Noram region comprises the United States and Canada;
- all references herein to the Rest of World zone refer to the geographic area that includes the ALMA (Asia-Pacific, Latin America, Africa and Middle East) and CIS regions;
- all references herein to “consolidated financial statements, Notes to consolidated financial statements” refer to condensed interim consolidated financial statements for the six-month period ended June 30, 2017;
- amounts are stated in millions of euros and rounded to the closest million. In general, amounts presented in the interim financial report are rounded to the nearest unit. As a result, the sum of rounded amounts may present immaterial discrepancies relative to the reported total. Also, ratios and differences are calculated on the basis of the underlying amounts as opposed to the rounded amounts.

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

- “*like-for-like New Danone*” changes (or “like-for-like, including WhiteWave as of April 2017” changes) in sales and recurring operating margin;
- 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.

1.1 H1 2017 business review and 2017 outlook

Business highlights

2017 first-half results

- Double-digit recurring EPS growth (+11.0% at constant exchange rates);
  - Low start to the year as expected: +0.4% sales growth in H1 (“*LfL New Danone*”);
  - Very strong recurring operating margin improvement at +91bps (“*LfL New Danone*”);
- Strong cash flow delivery: €923m of free cash flow excluding exceptional items (+24.4%);
- Signing of Stonyfield sale for $875m (20x EBITDA); closing to take place early August.

2017 targets confirmed

Full-year 2017 guidance confirmed.

Emmanuel FABER, CEO comments

"2017 is a pivotal year for the execution of our transformation agenda, as presented last May at our Investor Seminar. H1 2017 has been a period of intense construction for Danone, with the creation of the processes of decoupling of our growth and efficiency agendas, the creation of our regional grid, the launch of our €1 billion savings Protein program and the integration of WhiteWave in Q2.

As expected, the slow start of the year is the result of specific emerging markets' headwinds and challenges in Europe and in North America, balanced with significant successes in developing sustainable platforms in Specialized Nutrition in China, growing young and local Dairy brands in Europe and executing the Dannon Pledge in the United States. Momentum was strong also in our Medical Nutrition and Waters platforms and in former WhiteWave brands such as Alpro, Vega, and International Delight.

The very strong improvement in margin and EPS growth this semester again bodes well for our ability to reach our objectives for the year, with expected growth acceleration in the course of the second half. I am pleased with the structural progress we have made during H1, in securing short term delivery while preparing for growth acceleration and long term transformation. As we continue to aim at building a more resilient model, in deeply transforming consumer and civil society environments for our industry, our new company signature and identity "Danone,One Planet One Health" will guide us with many others through this Alimentation Revolution."

Key figures

Six-month period ended June 30 2017

(in € millions, except per-share data in €)		Underlying performance **Change as reported**	***Like-for-like New Danone* change**		GAAP measures	**Change as reported**
Sales	12,128	+9.7%	+0.4%	Sales	12,128	*+9.7%*
Recurring operating income	1,720	+16.3%	+7.3%	Operating income	1,586	*+5.8%*
Recurring operating margin	*14.18%*	*+81bps*	*+91bps*	*Operating margin*	*13.1%*	*(49) bps*
Recurring net income - Group share	1,049	+12.2%		Net income Group share	977	*+11.0%*
Recurring EPS	1.69	+11.1%		EPS	1.57	*+10.0%*
Free cash-flow excluding exceptional items	923	+24.4%		Cash-flow from operating activities	1,199	*+11.8%*

Key financial transactions and events in H1 2017

(from press releases issued in the past six months)

- On March 31, 2017, Danone announced that it had reached a major step towards the closing of the WhiteWave acquisition as it had reached an agreement in principle with the Antitrust Division of the United States Department of Justice ("DOJ"). As part of the agreement in principle, in order to facilitate the prompt closing of the WhiteWave acquisition, Danone decided to sell one of its U.S. dairy subsidiaries, Stonyfield, in the months following the closing of the acquisition of WhiteWave.
- On April 6, 2017, Danone announced that the U.S. District Court for the District of Columbia issued an order on April 5th which would allow for the completion of the acquisition of WhiteWave.
- On April 12, 2017, Danone announced that it had completed its acquisition of WhiteWave. In connection with the completion of the transaction, the WhiteWave common stock was delisted from the New York Stock Exchange.
- On April 6, 2017, Danone announced that the U.S. District Court for the District of Columbia issued an order on April 5 which would allow for the completion of the acquisition of WhiteWave.
- On April 12, 2017, Danone announced that it had completed its acquisition of WhiteWave. In connection with the completion of the transaction, the WhiteWave common stock was delisted from the New York Stock Exchange.
- On May 18, 2017, Danone reaffirmed its commitment to building a strong, sustainable and profitable model of growth and detailed its immediate agenda from 2017 to 2020, i.e. overall like-for-like sales growth between 4% and 5% by 2020, recurring operating margin of over 16% in 2020, ratio of Net debt/EBITDA below 3 in 2020 and ROIC around 12% in 2020 (see dedicated section hereafter).
- On May 30, 2017, Danone announced the result of the option offered to shareholders to receive payment of their 2016 dividend payment in the form of DANONE shares. At the end of the option period, 74.01% of rights were exercised in favor of the 2016 dividend payment in shares, representing 13,835,487 new shares or 2.11% of Danone's share capital on the basis of the share capital as of April 30, 2017.

- On July 3rd, 2017, Danone announced it had entered into a binding agreement with Lactalis to sell Stonyfield, one of its U.S. dairy subsidiaries, for a purchase price of $875 million, representing 20 times its EBITDA in 2016.

The full press releases are available at the web site www.danone.com.

Consolidated net income review

Net sales

Consolidated net sales

Consolidated sales stood at €12,128 million, up +0.4% *like-for-like New Danone*. This growth reflects a -2.2% drop in volume and a +2.6% rise in value.

Reported sales were up +9.7% in the first semester of 2017, including:

- the base effect related to the consolidation of WhiteWave from April 12, 2017 (+7.8%);
- changes in exchange rates (+2.0%);
- changes in the scope of consolidation excluding WhiteWave (-0.5%).

The exchange-rate effect reflects positive changes in currencies including the Russian Ruble, the Brazilian Real and the US dollar.

Changes in the scope of consolidation result primarily from the deconsolidation of Fresh Dairy Products operations in Columbia and Chile in Q4 2016 and Q1 2017 respectively.

Consolidated net sales by Reporting Line and by geographical area

			Six-month period ended June 30	
(in € millions except percentage)	**2016**	**2017**	***Like-for-like New Danone* change**	**Volume growth *Like-for-like New Danone***
By Reporting Line				
EDP International	4,100	4,291	(2.0%)	(5.3%)
EDP Noram	1,277	1,991	(2.9%)	(0.6%)
Specialized Nutrition	3,282	3,461	5.4%	1.1%
Waters	2,393	2,385	0.8%	(2.5%)
By geographical area				
Europe & Noram	5,559	6,275	(2.1%)	(1.2%)
RoW	5,493	5,853	3.3%	(2.8%)
Total	**11,052**	**12,128**	**0.4%**	**(2.2%)**

Recurring operating income and recurring operating margin

Recurring operating margin

In the first semester of 2017, Danone's recurring operating income stood at €1,720 million, up+16.3%.

Recurring operating margin stood at 14.18%, up +81 bps on a reported basis including the dilutive impact from WhiteWave consolidation from closing date (-21 bps), other scope effects (+26 bps) reflected the impact of the deconsolidation of Dumex as well as the sale of Fresh Dairy Products activities in Columbia and Chile, and currencies had an unfavorable impact (-16 bps, mainly from the Brazilian real and the British pound).

On a "*like-for-like New Danone*" basis, recurring operating margin increased by +91 bps. This very strong improvement reflects:

- continued structural efficiencies, through portfolio mix management and productivity gains, that mitigated the strong negative impact over the semester from inflation on raw materials (mainly milk and plastics);
- disciplined pace in supporting growth,
- a first delivery of cost synergies in North America from WhiteWave integration (around €10 million impact on recurring operating profit as of the end of Q2 2017);
- a positive impact of an insurance payment in the Specialized Nutrition Reporting Line in connection with the fire in Cuijk plant in the Netherlands in 2015.

In Q2 2017, Danone launched three country pilots in order to kick-off its Protein program, an efficiency program aimed at maximizing and accelerating efficiencies in a sustainable manner, with the objective to deliver €1 billion of sustainable savings by 2020.

Recurring operating income and recurring operating margin by Reporting Line and by geographical area

					Six-month period ended June 30
	Recurring operating income		Recurring operating margin		
(in € millions except percentage and bps)	**2016**	**2017**	**2016**	**2017**	***Like-for-like New Danone*** **change**
By Reporting Line					
EDP International	335	359	8.2%	8.4%	(33) bps
EDP Noram	179	232	14.0%	11.7%	(67) bps
Specialized Nutrition	682	839	20.8%	24.2%	+320 bps
Waters	282	290	11.8%	12.2%	+37 bps
By geographical area					
Europe & Noram	889	967	16.0%	15.4%	+24 bps
RoW	589	753	10.7%	12.9%	+175 bps
Total	**1,478**	**1,720**	**13.4%**	**14.2%**	**+91 bps**

Other operating income and expense

Other operating income and expenses stood at -€134 million. This amount includes, in particular, -€51 million of expenses related to restructuring plans in some countries and -€56 million of expenses linked to the acquisition of WhiteWave.

Financial income and expense

As expected, the cost of net debt increased in H1 2017, taking into account charges related to the financing of the WhiteWave acquisition (*i.e.* financial charges linked to the new bonds issued in October 25 and 26, 2016)**.**

Tax rate

The recurring tax rate stood at 30.3% in H1 2017, down -1.7 point from H1 2016.

Share of profit of associates

Net income from associates was up, at €45 million, on a favorable basis of comparison, as H1 2016 included non-recurring expenses.

Recurring net income – Group Share and recurring EPS

Recurring net income – Group Share stood at €1,049 million in H1 2017, up +12.2% as reported. Recurring EPS stood at €1.69, up +11.0% at constant exchange rates and up +11.1% as reported, reflecting continued progress in strengthening Danone's growth model by decoupling its mid-term growth and short-term efficiency agenda. EPS stood at €1.57, up +10.0% as reported.

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

Six-month period ended June 30

	2016			2017		
(in € millions except percentage)	**Recurring**	**Non-recurring**	**Total**	**Recurring**	**Non-recurring**	**Total**
Recurring operating income	**1,478**		**1,478**	**1,720**		**1,720**
Other operating income (expense)		21	21		(134)	(134)
Operating income	**1,478**	**21**	**1,499**	**1,720**	**(134)**	**1,586**
Cost of net debt	(74)		(74)	(134)		(134)
Other financial income (expense)	(62)	-	(62)	(67)	35	(32)
Income before tax	**1,342**	**22**	**1,364**	**1,518**	**(99)**	**1,419**
Income tax expense	(431)	23	(408)	(459)	29	(430)
Effective tax rate	32.1%		29.9%	30.3%		30.3%
Net income from fully-consolidated companies	**912**	**44**	**956**	**1,059**	**(70)**	**989**
Share of profit of associates	78	(99)	(21)	47	(2)	45
Net income	**990**	**(55)**	**935**	**1,106**	**(72)**	**1,034**
• Group share	**935**	**(55)**	**880**	**1,049**	**(72)**	**977**
• Non-controlling interests	55	-	55	57	-	57

Bridge from EPS to Recurring EPS

Six-month period ended June 30

	2016		2017	
	Recurring	**Total**	**Recurring**	**Total**
Net Income - Group share *(in € millions)*	935	880	1,049	977
Average number of shares				
• Before dilution	615,906,712	615,906,712	619,570,960	619,570,960
• After dilution	616,086,852	616,086,852	621,781,256	621,781,256
EPS *(in €)*				
• Before dilution	1.52	1.43	1.69	1.58
• After dilution	1.52	1.43	1.69	1.57

Other information relating to consolidated net income: bridge from reported to *like-for-like New Danone* data

(in € millions except %)	**H1 2016** [(a)]	**WhiteWave base effect** [(b)]	**Impact of other changes in scope of consolidation**	**Impact of changes in exchange rates**	*Including adjustment for impact of treatment of over inflation*	*Incl. other impacts of changes in exchange rates*	***Like-for-like New Danone* growth** [(c)]	**H1 2017** [(d)]
Sales	11,052	+7.8%	(0.5)%	+2.0%	+0.3%	+1.7%	+0.4%	12,128
Recurring operating margin	13.37%	(21) bps	+26 bps	(16) bps	*+0 bps*	*(16) pbs*	+91 bps	14.18%

(a) Consolidated data as reported by Danone.

(b) Corresponds primarily to the contribution of WhiteWave over the period from April 1 to June 30, 2016 and to adjustments for the impact of using different reference periods for H1 2017 reported and for H1 2017 *like-for-like New Danone* data. Indeed, the contribution of WhiteWave and its companies for the period from April 1-12, 2017 must be deducted as it is effectively included in the *like-for-like New Danone* changes and excluded from reported data.

(c) Like-for-like growth of Danone and WhiteWave combined, including the contribution of WhiteWave as a whole for the periods from April 1-June 30, 2016 and from April 1-June 30, 2017.

(d) Consolidated data as reported for Danone and WhiteWave combined, including the contribution of WhiteWave as a whole for the period from April 12-June 30, 2017.

Free cash-flow

Free cash-flow and Free cash-flow excluding exceptional items

Free cash flow excluding exceptional items stood at €923 million, up +24.4% from H1 2016, supported by the rise in recurring operating income, a sound control of working capital, a strict discipline in capex investment as well as a positive base effect related to the consolidation of WhiteWave. This cash delivery will contribute to the company's deleveraging agenda and fund Danone's roadmap for growth. Capital expenditure for H1 2017 came to €367 million, or 3.0% of sales.

Bridge from operating cash flow to free cash-flow and free cash-flow excluding exceptional items

	Six-month period ended June 30	
(in € millions)	**2016**	**2017**
Cash-flow from operating activities	**1,072**	**1,199**
Capital expenditure	(358)	(367)
Disposal of tangible assets	15	39
Transaction fees related to business combinations [(a)]	2	49
Earn-outs related to business combinations [(b)]	-	-
Free cash-flow	**731**	**921**
Cash-flows related to plan to generate savings and adapt organization in Europe [(c)]	11	2
Free cash-flow excluding exceptional items	**742**	**923**

(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.

Balance sheet review

Simplified consolidated balance sheet

	As of December 31	As of June 30
(in € millions except percentage)	**2016**	**2017**
Non-current assets	24,836	35,711
Current assets	19,113	9,958
Total assets	**43,949**	**45,668**
Equity - Group share	**13,109**	**12,459**
Non-controlling interests	85	76
Non-current liabilities	21,705	21,765
Current liabilities	9,050	11,368
Total liabilities	**43,949**	**45,668**

Net debt and financial net debt

Danone's net debt increased by €10,702 million from December 31, 2016, mainly due to the closing of WhiteWave's acquisition on April, 12 2017. It stood at €18,174 million on June 30, 2017. This includes €710 million in put options granted to minority shareholders, up €11million from December 31, 2016.

Bridge from Net debt to Net financial debt

	As of December 31	As of June 30
(In € millions)	**2016**	**2017**
Non-current financial debt	18,771	17,791
Current financial debt	2,510	4,173
Short term investments	(13,063)	(2,959)
Cash and cash equivalents	(557)	(749)
Derivatives - assets - Non-current	(148)	(64)
Derivatives - assets - Current [(a)]	(42)	(18)
Net debt	**7,472**	**18,174**
Liabilities related to put options granted to non-controlling interests - Non-current	(315)	(72)
Liabilities related to put options granted to non-controlling interests - Current	(384)	(638)
Net financial debt	**6,773**	**17,464**

(a) Derivatives managing net debt only. Net debt is not restated for the portion of derivatives hedging the WhiteWave acquisition price (€377 million as of December 31, 2016). As of June 30, 2017, these hedging instruments were settled to pay for the acquisition.

Net debt / EBITDA and ROIC

Danone monitors these ratios on an annual basis.

The net debt / EBITDA ratio corresponds to the ratio of net debt to operating income adjusted for depreciation, amortization and impairment of tangible and intangible assets. The 2016 ratio stood at 2.0x:

(In € millions, except ratio)	**2016**
Net debt as of December 31	**7,472**
Operating income	2,923
Depreciation, amortization and impairment of tangible and intangible assets	786
EBITDA for the year	**3,709**
Net debt / EBITDA for the year	**2.0**

ROIC corresponds to the ratio of NOPAT for the year relative to the average invested capital for the current and the previous year, which corresponds to:

Goodwill and other tangible and intangible assets

+ investments in non-consolidated companies and other financial investments;

+ assets held for sale net of liabilities;

- working capital requirements;

- provisions and other net liabilities;

It stood at 10.9% in 2016:

(in € millions, except percentage)	**2015**	**2016**
Recurring operating income		3,022
Recurring effective tax rate		31.1%
Tax on recurring operating income		(940)
Recurring share of profit of associates		129
NOPAT		**2,211**
Intangible assets	15,779	15,803
Property, plant and equipment	4,752	5,036
Goodwill and other tangible and intangible assets	**20,531**	**20,839**
Investments in associates	2,882	2,730
Other financial assets	274	288
Short-term loans	40	18
Investments in non-consolidated companies and other financial assets	**3,196**	**3,036**
Assets held for sale net of liabilities	**153**	**66**
Deferred taxes net of deferred tax assets	(224)	(259)
Provisions for retirement obligations and other long-term benefits	(793)	(959)
Other provisions and non-current liabilities	(834)	(885)
Provisions and other net liabilities	**(1,851)**	**(2,103)**
Working capital requirements	**(1,561)**	**(1,549)**
Invested capital of the year	20,468	20,289
Average invested capital		20,379
ROIC		**10.9%**

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 costs 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, and
- 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 strengthening 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 double-digit recurring EPS growth at constant exchange rate for 2017 (compared to the 3.10€ recurring EPS reported in 2016).

This guidance is based on:

- a moderate "*Like-for-like New Danone*" sales growth;
- a sustained recurring operating margin improvement on a "*like-for-like New Danone*" basis.

Subsequent events

Major events occurring after the end of the reporting period are detailed in Note 12 of the Notes to the consolidated financial statements.

Main risks and uncertainties

The main risks and uncertainties to which Danone believes it is exposed as of the date of this Interim Financial Report are specified in section 2.7 *Risk factors* of the 2016 Registration Document and listed hereafter, including in particular overall volatile and uncertain economic conditions, with fragile and even deflationary consumer trends in Europe and specific difficulties for some key markets, notably the CIS, China and Brazil.

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

Change in Reporting Lines and breakdown of geographical regions with effect from Q2 2017

To reflect recent developments at Danone that include the integration of WhiteWave, the Company adopted a new breakdown of its business units and geographical markets for financial reporting starting in Q2 2017:

- DanoneWave includes, for North America, Danone's Fresh Dairy Products business and WhiteWave's activities, creating **Essential Dairy and Plant-based Noram**;
- Fresh Dairy Products includes Danone's Fresh Dairy Products in Europe, CIS and ALMA as well as WhiteWave's business in Europe, Latin America and China, creating **Essential Dairy and Plant-based International;**
- **Specialized Nutrition** includes Early Life Nutrition and Medical Nutrition;
- **Waters** continue to be reported as in the past;

Starting in the second quarter of 2017, results are reported for two regions:

- Europe and Noram (United States and Canada) combined to form a single region;
- Rest of the World (RoW) which includes the current ALMA (Latin America, Africa, Middle East) and CIS regions.

Indicators used in this press release by business area and geographical region have thus been restated for historical data.

See also Note 5 of the Notes to the consolidated financial statements.

Financial indicators not defined by IFRS

Additional indicator of like-for-like changes: "*like-for-like New Danone*" changes

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

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

- for periods in previous years compared, and
- based on WhiteWave reported data after restatement to allow comparison with Danone data.

This indicator is used starting with the second quarter of 2017 and running through the end of 2018. Danone does not publish *like-for-like New Danone* changes for prior periods, as such information is not relevant given the way this indicator is defined. Finally, Danone does not monitor internally nor publish like-for-like changes and will not do so until year-end 2018. Like-for-like changes would not reflect accurately the Company's real performance, which is reflected in *like-for-like New Danone* changes and, by extension, the difference between like-for-like changes and *like-for-like New Danone* changes would not accurately reflect the contribution of WhiteWave and its companies to the real performance.

Financial indicators not defined in IFRS

These indicators are calculated as follows:

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

- changes in consolidation scope, with indicators related to a given fiscal year calculated on the basis of previous-year scope;
- 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 Danone 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 accurately reflect Danone's organic performance in that country. As a result, the Company fine-tuned the definition of like-for-like changes to include in its exchange-rate impact the differences caused by the exceptional volatility in structurally hyperinflationary countries. Danone is applying this methodology, which is applicable only to Argentina, starting from the release of 2014 full-year results. Danone is closely following the economic and monetary situation in Argentina and the volatility of the country's inflation. This methodology leads to (i) limiting the inflation of price and cost of goods sold per kilo to their average level over three years and (ii) capping Recurring operating margin at its prior-year level; this methodology has been applied to each Reporting Line operating in Argentina. With respect to 2014, adjustment for the full year was recorded in the fourth quarter of 2014.

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

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

Financial data related to periods prior to the closing date and used to calculate "*like-for-like New Danone*" changes are extracted from the historical income statements of, respectively, Danone (prepared in euros under IFRS) and WhiteWave (prepared in US dollars under US-GAAP). However, to ensure comparability with the income statement of Danone and WhiteWave combined, the following adjustments are performed:

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

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

(in $ millions except %)	As reported [(a)]	Indicators not defined in US GAAP [(b)]	Application of Danone accounting principles [(c)]	Purchase price allocation [(d)]	As restated
FY 2016 (12 months)					
Sales	**4,198**	**4,198**	**(1)**		**4,197**
Operating income	**402**	**402**	**1**	**(29)** [(e)]	**374**
Operating margin	9.6%				-
Non-recurring operating income		(21)	-	(29)	(50)
Recurring operating income		**423**	**1**		**424**
Recurring operating margin		**10.1%**			**10.1%**

(a) WhiteWave financial statements as reported by WhiteWave management, in dollars and under US GAAP.
(b) Indicators not defined in US GAAP used by WhiteWave management: Adjusted Net Sales and Adjusted Operating Income.
(c) Non-material reclassifications.
(d) Based on provisional allocation performed in consolidated financial statements for the first half of 2017; see Note 2.4 of the Notes to consolidated financial statements.
(e) Impact on consolidated income of the valuation at fair value of the inventories outstanding as of WhiteWave acquisition date.

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

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

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

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.

1.2 Related party transactions

Major related party transactions are detailed in Note 12 of the Notes to the consolidated financial statements.

2. Condensed interim consolidated financial statements

The condensed interim consolidated financial statements of Danone and its subsidiaries ("the Group" or "Danone") for the period ended June 30, 2017 (the "consolidated financial statements") were approved by the July 26, 2017 meeting of the Danone Board of Directors.

Unless otherwise mentioned, amounts are stated in millions of euros and rounded to the closest million. In general, amounts presented in the consolidated financial statements and notes to the consolidated financial statements are rounded to the nearest unit. As a result, the sum of rounded amounts may present immaterial discrepancies relative to the reported total. Also, ratios and differences are calculated on the basis of the underlying amounts as opposed to the rounded amounts.

2.1 Consolidated financial statements

Consolidated income statement and earnings per share

		Six-month period ended June 30	
(in € millions, except earnings per share in €)	Notes	**2016**	**2017**
Sales	5	**11,052**	**12,128**
Cost of goods sold		(5,398)	(6,113)
Selling expense		(2,833)	(2,928)
General and administrative expense		(993)	(1,108)
Research and Development expense		(155)	(162)
Other income (expense)		(195)	(98)
Recurring operating income	5	**1,478**	**1,720**
Other operating income (expense)	6	21	(134)
Operating income		**1,499**	**1,586**
Interest income on cash equivalents and short-term investments		48	99
Interest expense		(121)	(233)
Cost of net debt		(74)	(134)
Other financial income		2	38
Other financial expense		(64)	(70)
Income before tax		**1,364**	**1,419**
Income tax expense	7	(408)	(430)
Net income from fully consolidated companies		**956**	**989**
Share of profit of associates	4	(21)	45
Net income		**935**	**1,034**
Net income – Group share		**880**	**977**
Net income – Non-controlling interests		55	57
Net income – Group share, per share	10	**1.43**	**1.58**
Net income – Group share, per share after dilution	10	**1.43**	**1.57**

Consolidated statement of comprehensive income

	Six-month period ended June 30	
(in € millions)	**2016**	**2017**
Net income – Group share	**880**	**977**
Translation adjustments	(409)	(1,051)
Cash flow hedging derivatives		
Gross unrealized gains and losses	(15)	(413)
Tax effects	2	16
Available-for-sale financial assets		
Gross unrealized gains and losses	3	3
Amount recycled to profit or loss in the current year	–	–
Tax effects	1	–
Other comprehensive income, net of tax	–	–
Items that may be subsequently recycled to profit or loss	**(419)**	**(1 445)**
Actuarial gains and losses on retirement commitments		
Gross gains and losses	(135)	49
Tax effects	46	(16)
Items not subsequently recyclable to profit or loss	**(89)**	**33**
Total comprehensive income – Group share	**373**	**(436)**
Total comprehensive income – Non-controlling interests	44	46
Total comprehensive income	**417**	**(390)**

Consolidated balance sheet

		As of December 31	As of June 30
(in € millions)	Notes	**2016**	**2017**
Assets			
Goodwill		11,620	18,567
Brands		3,879	6,649
Other intangible assets		304	509
Intangible assets	5, 8	15,803	25,725
Property, plant and equipment	5	5,036	5,971
Investments in associates	4	2,730	2,683
Investments in other non-consolidated companies		81	83
Long-term loans and long term financial assets		208	213
Other financial assets		288	296
Derivatives – assets [(a)]	9.2	148	64
Deferred taxes		831	972
Non-current assets		**24,836**	**35,711**
Inventories		1,380	1,736
Trade receivables		2,524	2,891
Other current assets		1,061	1,286
Short-term loans		18	16
Derivatives – assets [(b)]	9.2	419	18
Short-term investments	9.2	13,063	2,959
Cash and cash equivalents	9.2	557	749
Assets held for sale		92	303
Current assets		**19,113**	**9,958**
Total assets		**43,949**	**45,668**

(a) Derivatives instruments used to manage net debt.

(b) Derivatives used to manage net debt. As of December 31, 2016, also includes instruments to hedge acquisition price of WhiteWave, whose fair value was €377 million. As of June 30, 2017, these hedging instruments were settled for the payment of the acquisition (see Note 2.3 of the Notes to the condensed interim consolidated financial statements).

(in € millions)	Notes	As of December 31 **2016**	As of June 30 **2017**
Equity and liabilities			
Share capital		164	168
Additional paid-in capital		4,178	4,991
Retained earnings		12,035	11,977
Cumulative translation adjustments		(1,460)	(2,491)
Accumulated other comprehensive income		(126)	(516)
Treasury shares and DANONE call options [(a)]		(1,682)	(1,669)
Equity – Group share		**13,109**	**12,459**
Non-controlling interests	3.2	85	76
Consolidated equity		**13,194**	**12,535**
Financing	9	18,438	17,650
Derivatives – liabilities [(b)]		19	69
Liabilities related to put options granted to non-controlling interests	3.3	315	72
Non-current financial debt	9	18,771	17,791
Provisions for retirement obligations and other long-term benefits		959	928
Deferred taxes		1,090	2,080
Other non-current provisions and liabilities	11	885	965
Non-current liabilities		**21,705**	**21,765**
Financing	9	2,119	3,524
Derivatives – liabilities [(b)]		8	11
Liabilities related to put options granted to non-controlling interests	3.3	384	638
Current financial debt	9	2,510	4,173
Trade payables		3,772	4,071
Other current liabilities		2,741	2,986
Liabilities directly associated with assets held for sale		26	137
Current liabilities		**9,050**	**11,368**
Total equity and liabilities		**43,949**	**45,668**

(a) DANONE call options acquired by the Company.
(b) Derivatives instruments used to manage net debt.

Consolidated statement of cash flows

		Six-month period ended June 30	
(in € millions)	Notes	**2016**	**2017**
Net income		**935**	**1,034**
Share of profit of associates net of dividends received		43	(34)
Depreciation, amortization and impairment of tangible and intangible assets		404	388
Increases in (reversals of) provisions		47	77
Change in deferred taxes		(44)	(120)
(Gains) losses on disposal of property, plant and equipment and financial investments		(114)	16
Expense relating to Group performance shares and stock-options		12	14
Cost of net financial debt		74	132
Net interest paid		(60)	(101)
Net change in interest income (expense)		14	31
Other components with no cash impact		2	14
Cash flows provided by operating activities, before changes in net working capital		**1,298**	**1,420**
(Increase) decrease in inventories		(124)	(124)
(Increase) decrease in trade receivables		(292)	(159)
Increase (decrease) in trade payables		285	104
Change in other receivables and payables		(95)	(42)
Change in working capital requirements		(226)	(221)
Cash flows provided by (used in) operating activities		**1,072**	**1,199**
Capital expenditure [(a)]		(358)	(367)
Proceeds from the disposal of property, plant and equipment [(a)]		15	39
Net cash outflows on purchases of subsidiaries and financial investments [(b)]	2	(29)	(10,915)
Net cash inflows on disposal of subsidiaries and financial investments [(b)]		135	22
(Increase) decrease in long-term loans and other long-term financial assets		(13)	1
Cash flows provided by (used in) investment activities		**(251)**	**(11,219)**
Increase in share capital and additional paid-in capital		46	47
Purchase of treasury shares (net of disposals) and DANONE call options [(c)]		32	13
Dividends paid to Danone shareholders		(985)	(279)
Buyout of non-controlling interests	3.2	(293)	(3)
Dividends paid		(45)	(37)
Contribution from non-controlling interests to capital increases		1	–
Transactions with non-controlling interests		(337)	(40)
Net cash flows on hedging derivatives [(d)]		–	(36)
Bonds repaid during the period		(138)	(98)
Net cash flows from other current and non-current financial debt		417	433
Net cash flows from short-term investments		309	10,073
Cash flows provided by (used in) financing activities		**(658)**	**10,113**
Effect of exchange rate and other changes [(e)]		(30)	100
Increase (decrease) in cash and cash equivalents		**133**	**193**
Cash and cash equivalents as of January 1		**519**	**557**
Cash and cash equivalents as of June 30		**653**	**749**

(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.

(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 reference currency; (ii) translating the financial statements of companies with functional currency other than the euro; (iii) changes in consolidated scope; and (iv) other non-monetary items.

Consolidated statement of changes in equity

		Movements during the period								
(in € millions)	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 June 30, 2016
Share capital	**164**									**164**
Additional paid-in capital	**4,132**		46							**4,178**
Retained earnings	**11,454**	880		9	12		(987)	(122)	(44)	**11,338**
Cumulative translation adjustments	**(1,177)**	(409)							2	**(1,583)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax	**21**	(13)								**7**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	**42**	3								**45**
Actuarial gains and losses related to retirement commitments, not recyclable to profit or loss, net of tax	**(323)**	(89)								**(411)**
Other comprehensive income	**(261)**	**(98)**								**(359)**
Treasury shares and DANONE call options	**(1,707)**			18				(2)		**(1,691)**
Equity – Group share	**12,606**	**373**	**46**	**27**	**12**	**–**	**(987)**	**(124)**	**(42)**	**11,911**
Non-controlling interests	**63**	44					(44)	25	(9)	**78**
Consolidated equity	**12,669**	**417**	**46**	**27**	**12**	**–**	**(1,031)**	**(100)**	**(51)**	**11,989**

(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)	As of January 1, 2017	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 June 30, 2017
Share capital	**164**					3				**168**
Additional paid-in capital	**4,178**		46			766				**4,991**
Retained earnings	**12,035**	977			14	(770)	(279)	1	(5)	**11,973**
Cumulative translation adjustments	**(1,460)**	(1,051)							(4)	**(2,515)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax	**272**	(397)								**(126)**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	**41**	3								**44**
Actuarial gains and losses related to retirement commitments, not recyclable to profit or loss, net of tax	**(439)**	33								**(406)**
Other comprehensive income	**(126)**	**(362)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(488)**
Treasury shares and DANONE call options	**(1,682)**			13						**(1,669)**
Equity – Group share	**13,109**	**(436)**	**47**	**13**	**14**	**–**	**(279)**	**1**	**(9)**	**12,459**
Non-controlling interests	**85**	46					(37)	(17)	(1)	**76**
Consolidated equity	**13,194**	**(390)**	**47**	**13**	**14**	**–**	**(316)**	**(16)**	**(10)**	**12,535**

(a) DANONE call options acquired by the Company.

(b) Group performance shares and stock options granted to certain employees and corporate officers.

2.2 Notes to the condensed interim consolidated financial statements

Note 1. Accounting principles

Note 1.1. Basis for preparation

Danone's consolidated financial statements, established for the six-month period ending June 30, 2017, were prepared in accordance with the provisions of IAS 34 IAS 34, *Interim financial reporting*. Danone's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which are available on the European Commission website (http://ec.europa.eu/finance/company-reporting/ifrs -financial-statements/index_en.htm).

Note 1.2. Accounting framework applied

The accounting principles used to prepare these condensed interim consolidated financial statements are identical to those used to prepare the consolidated financial statements for the year ended December 31, 2016 (see Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2016, as well as the accounting principles detailed in each Note to the consolidated financial statements for the year ended December 31, 2016), except for standards, amendments and interpretations applicable for the first time as from January 1, 2017.

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

No amendment or interpretation whose application is mandatory as of January 1, 2017 has a material impact on the interim consolidated financial statements as of June 30, 2017.

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

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

Danone did not choose the early adoption of those standards, amendments and interpretations in the condensed interim consolidated financial statements as of June 30, 2017.

Regarding IFRS 15, Danone first conducted a qualitative and quantitative analysis of the main subjects that could affect the financial statements with the contribution of key persons in the operating entities. On this basis, Danone does not expect IFRS 15 to have a material impact on revenue recognition. The expected impacts will be limited to reclassifications that mainly involve services performed by customers as part of their contractual obligations (logistics services, sales support). The first-time application of IFRS 15 will therefore result in non-material reclassifications between sales and selling expense.

Regarding IFRS 9, the impact of this standard on Danone's results and financial situation is currently being evaluated.

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

- IFRS 16, *Leases;*

The impact of this standard on the Danone's results and financial situation is currently being evaluated.

Other standards

Danone is closely monitoring the economic conditions that could, by December 31, 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

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

Note 2. Acquisition of The WhiteWave Foods Company

Note 2.1 Description of the transaction

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

The acquisition in cash, for USD 56.25 per share, represents a total enterprise value of approximately USD 12.5 billion, including debt and certain other WhiteWave liabilities, as of the date of the agreement. The price represents a premium of approximately 24% over WhiteWave's 30-day average closing trading price during the period leading up to the agreement.

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

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

The transaction was finalized on April 12, 2017. According to the acquisition agreement, WhiteWave shareholders received a total of USD 56.25 per share in cash. In the course of finalizing the transaction, WhiteWave's shares were suspended from trading and will be delisted from the New York Stock Exchange.

Note 2.2 Organization of WhiteWave activities

Danone organized WhiteWave's activities as follows:

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

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

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

Note 2.3 Acquisition price

The effective transaction price totaled USD 12.1 billion:

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

It should be noted that the full amount of financing needed for the transaction was raised at end-2016:

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

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

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

Note 2.4 Recognition of the transaction

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

Preliminary goodwill

This business combination was recognized on a preliminary basis. Given the possibility allowed for in IFRS 3 Revised and the brief period between the acquisition date and the interim closing date, the assets and liabilities identified and measured at a preliminary fair value as of June 30 include brands and inventories, while the process is still in progress for the other assets and liabilities.

	As of the acquisition date
(in € billions)	**2017**
Intangible assets	**3.3**
Property, plant and equipment	1.2
Inventories	0.3
Other assets	1.1
Fair value of acquired assets[(a)]	**5.9**
Financial liabilities	0.7
Other liabilities	2.0
Fair value of assumed liabilities[(a)]	2.6
Fair value of purchased net assets	**3.3**
Acquisition price	11.1
Preliminary goodwill	**7.8**

(a) As of the acquisition date

Intangible assets correspond mainly to the fair value of brands with an indefinite useful life (the most significant being Silk, International Delight and Alpro).

Property, plant and equipment correspond mainly to production facilities.

The valuation of inventories of finished goods led to the recognition of a valuation difference of USD 29 million.

As revalued stocks have been sold, a charge of USD 29 million, i.e. €26 million, was recorded in in the first half of the year 2017. Given the material nature of this expense, Danone qualified it as non-recurring and therefore classified it under Other operating income (expense) in the first half of 2017. Other liabilities correspond mainly to provisions for contingencies and charges as well as deferred taxes.

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

Other information

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

WhiteWave's contribution to first-half 2017 consolidated sales totaled €0.9 billion. Had the transaction been completed on January 1, 2017, the Group's first-half 2017 consolidated sales would have been €13.2 billion, with recurring operating income of €1.8 billion.

Meanwhile, integration expenses for the period totaled €30 million, recognized under Other operating income (expense). These expenses correspond mainly to personnel expenses.

Note 2.5 Process for the disposal of Stonyfield (Essential Dairy and Plant-Based Noram)

The Group is in the process of disposing of Stonyfield, and the completion of this transaction within the required period (12 months) allowed under IFRS 5 is considered highly likely. As a result, the assets and liabilities were classified as assets and liabilities held for sale as of June 30, 2017, with respective amounts of €252 million and €125 million. No impairment on the assets held for sale had been recognized as of June 30, 2017.

Regarding Stonyfield, on July 3, 2017 Danone entered into an agreement with Lactases to sell Stonyfield for USD 875 million, a price representing 20 times EBITDA.

The completion of this disposal is subject to the usual conditions precedent, notably final approval by the U.S. Department of Justice. The U.S Department of Justice approved the sale of Stonyfield to Lactalis on July 24, 2017. Danone expects the sale to close early August 2017.

Note 3. Fully consolidated companies

Note 3.1. Main changes

Main changes during the first half of 2017

	Notes	Reporting Line	Country	Transaction date[a]	Ownership percentage as of December 31, 2016	June 30, 2017
Main companies/activities consolidated for the first time during the period						
WhiteWave group companies	2	Essential Dairy and Plant-Based Noram and International	Several countries, mainly United States, Europe	April	–	100%
Main companies consolidated with change in ownership percentage						
-		-	-	-	–	–
Main companies no longer fully consolidated as of June 30, 2017						
Danone Chile S.A.		Essential Dairy and Plant-Based International	Chile	February	100%	–

(a) Month of the fiscal year.

Main changes in the first half of 2016

	Reporting Line	Country	Transaction date[a]	Ownership percentage of December 31, 2015	June 30, 2016
Main companies/activities consolidated for the first time during the period					
Haleem	Fresh Dairy Products [d]	Egypt	February	–	100.0%
Main companies consolidated with a change in the ownership percentage					
Fan Milk group companies [b]	Fresh Dairy Products [d]	West Africa	February	49.0%	51.0%
Danone Spain	Fresh Dairy Products [d]	Spain	March	92.4%	99.7%
Danone-Unmilk entity	Fresh Dairy Products [d]	CIS zone	January	70.9%	92.9%
Centrale Danone	Fresh Dairy Products [d]	Morocco	March	95.9%	99.7%
Main companies no longer fully consolidated as of June 30, 2016					
Dumex China [c]	Early Life Nutrition [d]	China	May	100.0%	–

(a) Month of the 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.
(d) See definition in section 1.2 Information on the Registration Document of the 2016 Registration Document.

Note 3.2. Transactions involving non-controlling interests

Danone did not make any material transactions involving non-controlling interests in the first half of 2017.

Note 3.3. Liabilities related to put options granted to non-controlling interests

Change during the period

(in € millions)	2016	2017
As of January 1	**862**	**699**
New options and options previously recognized in accordance with IAS 39	–	–
Carrying amount of exercised options	(285)	(1)
Changes in value of outstanding	121	12
As of December 31 / June 30	**699**	**710**

Note 4. Investments in associates

Note 4.1. Main changes

Main changes during the first half of 2017

Danone did not make any material transactions involving investments in associates in the first half of 2017.

Main changes during the first half of 2016

Danone did not make any material transactions involving investments in associates in the first half of 2016.

Note 4.2. Measurement review of investments in associates

Methodology

Danone 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.

Measurement review as of June 30, 2017

Mengniu (Essential Dairy and Plant-Based International, China)

As of December 31, 2016, Mengniu Group's stock price relative to the average purchase price of the shares again represented an indication of impairment. Since the value-in-use calculated was greater than the carrying amount of the investment, no impairment was recorded.

Since Mengniu Group's stock price continued to represent an indication of impairment as of June 30, 2017, the carrying amount of the investment in Mengniu (€744 million) was tested for impairment based on projected cash flows. The assumptions made involving the discount rate and long-term growth rate were 9.1% and 3%, respectively.

Since the value-in-use determined on this basis was greater than the carrying amount of the investment, no impairment was recorded as of June 30, 2017.

Ashli (Specialized Nutrition, China)

As of December 31, 2016, Yashili's stock price relative to the average purchase price of the shares and the profit warning announced on December 15, 2016 represented an indication of impairment. Since the value-in-use calculated was less than the carrying amount of the investment, an impairment of €98 million was recorded under Share of profit of associates in 2016. Following this impairment loss, Yashili's carrying amount as of December 31, 2016 was €354 million.

Since Yashili's stock price continued to represent an indication of impairment as of June 30, 2017, the carrying amount of the investment in Yashili (€333 million) was tested for impairment based on projected cash flows using new forecasts. The discount rate and long-term growth rate assumptions were 9.1% and 3.0%, respectively

Since the value-in-use determined on this basis was greater than the carrying amount of the investment, no impairment was recorded as of June 30, 2017. Finally, the sensitivity analysis on the key assumptions used in the calculation of this value in use, taken individually, gives the following hereafter.

Sensitivity	Indicators	Potential impairment *(in € millions)*
(500) bp	Sales growth (applied each year over five years)	16
(500) bp	Recurring operating margin (applied each year over five years)	–
(100) bp	Long-term growth rate	–
+100 bp	Discount rate	15

Other investments in associates

Danone did not record any impairment on other investments in associates during the first half of 2017.

Note 5. Information concerning recurring operating activities

Note 5.1. General principles

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

- Sales;
- Recurring operating income;
- Recurring operating margin, which corresponds to the ratio of recurring operating income relative to sales;

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

Reporting by Reporting Line

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

- Essential Dairy and Plant-Based International, which comprises Danone's Fresh Dairy Products in Europe, the CIS and ALMA zones and WhiteWave's activities in Europe, Latin America and China;
- Essential Dairy and Plant-Based Noram, which includes the Fresh Dairy Products activities of Danone and WhiteWave in North America after they were combined into a single entity called DanoneWave with a common management organization;
- the Specialized Nutrition Reporting Line, which combines the Early Life Nutrition and Medical Nutrition reporting lines under common management. These reporting lines have similar long-term economic characteristics, and this combination seeks to promote synergies and accelerate their growth potential;
- the Waters Reporting Line continues to be presented as before.

Reporting by geographic area

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

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

The aggregate figures by operating segment for the comparison period presented below have therefore been made comparable.

Note 5.2. Operating segments

Information by Reporting Line

(in € millions, except percentage)	Sales [(a)]		Recurring operating income		Recurring operating margin	
	Six-month period ended June 30					
	2016	2017	2016	2017	2016	2017
Essential Dairy and Plant-Based International	4,100	4,291	335	359	8.2%	8.4%
Essential Dairy and Plant-Based Noram	1,277	1,991	179	232	14.0%	11.7%
Specialized Nutrition	3,282	3,461	682	839	20.8%	24.2%
Waters	2,393	2,385	282	290	11.8%	12.2%
Total	**11,052**	**12,128**	**1,478**	**1,720**	**13.4%**	**14.2%**

(a) Sales to third parties.

Information by geographic area

Sales, recurring operating income and recurring operating margin

(in € millions, except percentage)	Sales [(a) (b)]		Recurring operating income		Recurring operating margin	
	Six-month period ended June 30					
	2016	2017	2016	2017	2016	2017
Europe and Noram	5,559	6,275	889	967	16.0%	15.4%
Rest of the world	5,493	5,853	589	753	10.7%	12.9%
Total	**11,052**	**12,128**	**1,478**	**1,720**	**13.4%**	**14.2%**

(a) Sales to third parties.
(b) Including net sales of €1,059 million generated in France in the first half of 2017 (€1,103 million in the first half of 2016).

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

	As of December 31	As of June 30
(in € millions)	**2016**	**2017**
Europe and Noram	11,532	22,835
of which, France	*2,011*	*2,106*
Rest of the world	9,307	8,861
Total	**20,839**	**31,696**

Note 6. Information and events concerning non-recurring operating activities

Other operating income (expense) in the first half of 2017

Other operating expense totaling €134 million in the first half of 2017 corresponded mainly to the following items:

		Six-month period ended June 30 2017
(in € millions)	Notes	**Income/(relative costs)**
Expenses related to the WhiteWave acquisition [(a)]	2.4	(56)
Costs related to the restructuring of the activity in certain countries [(b)]		(51)
Danone 2020 transformation plan [(c)]		(8)
Net gains and losses on company disposals and acquisition / disposal expenses	2.5	(9)

(a) Integration expense for €(30) million and impact on first-half income from inventory revaluations performed in connection with the purchase price allocation for €(26) million.

(b) Mainly concerns fresh dairy products business's adaptation in Europe and Latin America.

(c) Reorganization costs, the outstanding balance of which expected during the second semester of 2017 in accordance with the original plan< The cash flows relating to this plan are shown within Cash flow from operating activities in the Consolidated statement of cash flows.

Other operating income (expense) in the first half of 2016

Other operating income (expense) totaling €21 million in the first half of 2016 consist mainly of expenses, in particular:

	Six-month period ended June 30 2016
(in € millions)	**Income /(relative costs)**
Gain on the disposal of Dumex China [(a)]	91
Danone 2020 transformation plan	(25)
Intangible asset impairment	(29)

(a) The gain on the disposal of Dumex China corresponds mainly to the recycling of unrealized currency translation differences.

Note 7. Income tax

Effective income tax rate and difference between the effective tax rate and French statutory tax rate of 34.43%

	Six-month period ended June 30	
(as a percentage of income before tax)	**2016**	**2017**
Statutory tax rate in France	**34.4%**	**34.4%**
Difference between foreign and French tax rates [(a)]	(8.7)%	(9.5)%
Taxes on dividends and royalties [(b)]	4.9%	3.3%
Tax adjustments and unallocated taxes [(c)]	1.5%	1.7%
Other effects	1.1%	0.4%
Effective tax rate excluding impact related to Dumex China	**33.3%**	**30.3%**
Effect related to Dumex China [(d)]	(3.4)%	-
Effective tax rate	**29.9%**	**30.3%**

(a) Various countries, none of which individually account for a significant difference with the French tax rate.

(b) Includes the impact of the 3% dividends tax as well as the share of fees, expenses and withholding taxes on dividends and royalties.

(c) Corresponds mainly to tax adjustments, unallocated taxes and net changes in tax provisions.

(d) Includes the impact of the difference between the foreign and French tax rates and the impact of the disposal.

Note 8. Intangible assets: measurement review

Note 8.1. Accounting principles and 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. An impairment charge is recognized when the recoverable value of an intangible asset becomes durably lower than its carrying amount.

The recoverable amount of the CGUs (Cash Generating Units) 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.

As of June 30, 2017, the Group has reviewed impairment indicators that could result in a reduction in the carrying value of goodwill and brands with indefinite useful lives.

Note 8.2. Measurement review

Brands with indefinite useful life

No impairment has been recorded as of June 30, 2017.

Goodwill related to WhiteWave acquisition

Danone did not identify any indicator that would undermine the value of this acquisition.

Main CGUs and groups of CGUs of the Specialized Nutrition Reporting Lines

The combination of the Early Life Nutrition and Medical Nutrition reporting lines into the Specialized Nutrition Reporting Line did not have any impact on the definition of the Medical Nutrition, Early Life Nutrition Rest of World and Early Life Nutrition Asia groups of CGUs.

The indicators analyzed refer to external factors such as changes in the discount rate, market growth, changes in market share as well as internal factors such as performance to date compared with the latest revised annual forecast. No indicator of impairment was identified as of June 30, 2017.

CGUs of the fresh dairy products and waters activities

As of June 30, 2017, as the allocation of goodwill is temporary, the fresh dairy products CGUs are unchanged.

In the case of those CGUs, the indicators analyzed relate mainly to internal factors such as performance to date compared with the latest revised annual forecast for each CGU. As of June 30, 2017, no indicator of impairment had been identified.

Note 9. Financing and net debt

Note 9.1. Financing situation

(in € millions)	As of December 31, 2016	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impacts of changes in exchange rates and other non-cash impacts [c]	Non-current portion becoming current	Change of scope	As of June 30, 2017
Financing managed at Company level								
Bonds – non-current portion	18,113	–	–	-	(510)	(750)	468	17,321
Bonds – current portion	934	–	(98)	-	9	750	–	1,595
Short-term debt instruments [a]	788	–	–	787	(12)	–	–	1,563
Total	19,835	–	(98)	787	(513)	–	468	20,479
Other financing arrangements [b]								–
Non-current portion	325	–	–	8	37	(60)	17	328
Current portion	397	–	–	(331)	112	60	129	366
Total	722	–	–	(322)	149	–	146	695
Total	**20,557**	**–**	**(98)**	**465**	**(364)**	**–**	**614**	**21,174**

(a) As of December 31,2016 and June 30, 2017, these were included in Current financial debt.

(b) Subsidiaries' bank financings, other financing arrangements and debts in respect of fianance lease.

(c) Mainly the net change in lease financing leases.

Note 9.2. Net debt

	As of December 31	As of June 30
(in € millions)	**2016**	**2017**
Non-current financial debt	18,771	17,791
Current financial debt	2,510	4,173
Short-term investments	(13,063)	(2,959)
Cash and cash equivalents	(557)	(749)
Derivatives – assets – non-current [a]	(148)	(64)
Derivatives – assets – current [a]	(42)	(18)
Net debt	**7,472**	**18,174**

(a) For debt management only. Net debt is not restated for the portion of derivatives carried as assets related to the hedging of the WhiteWave acquisition price, *i.e.* €377 million as of December 31, 2016. As of June 30, 2017, these hedging instruments were settled to pay for the acquisition.

Note 10. Earnings per share – Group share

Note 10.1. Earnings per share – Group share

	Six-month period ended June 30	
(in € per share, except number of shares)	**2016**	**2017**
Net income, Group share	880	977
Number of outstanding shares		
As of January 1	615,225,025	616,982,797
Effect of changes during the period	1,536,822	15,034,587
As of June 30	616,761,847	632,017,384
Average number of outstanding shares		
• Before dilution	615,906,712	619,570,960
Dilutive impacts		
Dividend in shares	–	1,936,251
Group performance shares and stock-options	180,140	274,044
Other capital increase	–	–
• After dilution	616,086,852	621,781,256
Net income – Group share, per share		
• Before dilution	1.43	1.58
• After dilution	1.43	1.57

Note 10.2. Payment of 2016 dividend with the option of payment in shares

The Shareholders' meeting of April 27, 2017 held in Paris approved the proposed dividend relating to the 2016 fiscal year of €1.70 per share and decided that each shareholder could choose to receive the dividend payment in cash or in DANONE shares.

The period to make this choice was open from May 5, 2017 (inclusive) to May 19, 2017 (inclusive). At the end of this period, 74.01% of the rights were exercised in favor of the 2016 dividend payment in shares.

	Six-month period ended June 30 2017		
(in € millions, except number of shares)	**Number of outstanding shares**	**Consolidated shareholders' equity**	**Consolidated cash flows**
Portion paid in shares			
Portion paid in newly issued shares [(a)]	13,835,487	–	–
Fractional shares	–	14	14
Portion paid in cash [(b)]	**–**	**265**	**265**
Total	**13,835,487**	**279**	**279**

(a) *I.e.* 2.11% of Danone's share capital based on the share capital as of April 30, 2017.

(b) Excluding share of the dividend paid to Danone Spain, *i.e.* € 10 million.

It should be noted that the issue price of new shares used for the dividend payment is €55.64. It corresponds to 90% of the average Euronext opening list prices during the 20 trading days preceding the date of the Shareholders' Meeting less the amount of the dividend, rounded up to the next euro cent.

These shares carry dividend rights as of January 1, 2017 and will be completely identical with the previously issued shares.

Note 11. Other provisions and non-current liabilities and legal and arbitration proceedings

Note 11.1. Other provisions and non-current liabilities

(in € millions)	As of December 31, 2016	Movements during the period: Changes in scope	Increase	Reversal of used provisions	Reversal of unused provisions	Currency translation differences	Other	As of June 30, 2017
Tax risks	445	26	56	(2)	(4)	(10)	3	514
Employee-related and commercial disputes and other provisions	368	12	42	(24)	(21)	(6)	(4)	365
Restructuring provisions	60	–	32	(13)	(6)	–	–	72
Investment subsidies	13	2	–	(1)	–	–	–	13
Total [(a)]	**885**	**40**	**129**	**(40)**	**(31)**	**(17)**	**(1)**	**965**

(a) The current portion totaled €48 million as of June 30, 2017 (€62 million as of December 31, 2016).

Changes to Other provisions and non-current liabilities during the first half of 2017 were as follows:

- increases result primarily from lawsuits against the Company and its subsidiaries in the normal course of business;
- reversals of used provisions occur when corresponding payments are made. Reversals of unused provisions relate mainly to reassessments and situations where some risks are extinguished;
- other changes correspond primarily to reclassifications and changes in scope.

As of June 30, 2017, provisions for tax risks and employee-related, commercial and other disputes include several provisions for legal, financial and tax risks as well as provisions for multi-year variable compensation granted to some employees, with these provisions established in the context of the normal course of business.

Also as of this date, Danone believes that it is not subject to known risks that could, individually, have a material impact on its financial situation or profitability.

Note 11.2. Legal and arbitration proceedings

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

Proceedings in relation with the false alarm issued by Fonterra with respect to certain ingredients supplied to Danone 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 12. Main related party transactions

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

The Shareholders' Meeting of April 27, 2017 authorized the Board of Directors to grant Group performance shares in 2017 to Group employees and executive directors (including the Executive Committee) of the Company. In the first six months of 2017, no Group performance shares were granted. The grant of Group performance shares under the 2017 authorization is subject to the approval of the Board of Directors on July 26, 2017.

Note 13. Subsequent events

Note 13.1 Disposal of Stonyfield

See Note 2.5 of the Notes to the consolidated financial statements.

Note 13.2 Other events

To the best of the Company's knowledge, no other material events occurred between the end of the reporting period and July 26, 2017, the date on which the Board of Directors approved the 2017 condensed interim consolidated financial statements.

Statutory Auditor’s review report on the 2017 interim financial information

This is a free translation into English of the statutory auditors' review 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.

To the shareholders,

In compliance with the assignment entrusted to us by the shareholder’s meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code Monétaire et Financier), we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of DANONE, for the six months period from January 1st to June 30th, 2017;
- the verification of the information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our limited review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 – the standard of IFRS as adopted by the European Union applicable to interim financial information.

Without qualifying the conclusion expressed above, we draw attention to Note 2 “Acquisition of The WhiteWave Foods Company” of the condensed interim consolidated financial statements, which describes the impacts of the acquisition of The WhiteWave Foods Company.

2. Specific verification

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, July 26, 2017

The Statutory Auditors

French original signed by

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

Statement of the person responsible for the interim financial report

"I certify that, to my knowledge, the condensed interim financial statements have been prepared in accordance with applicable accounting standards and provide a faithful representation of the assets, liabilities, financial position and results of Danone and of all companies within its scope of consolidation, and that the attached interim management report presents a faithful representation of the significant events that occurred in the first six months of the fiscal year, their impact on the interim financial statements, and the main related party transactions, and it describes the major risks and uncertainties for the remaining six months of the year."

Paris, July 26, 2017

Chief Executive Officer,

Emmanuel FABER

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