Danone

ONE PLANET. ONE HEALTH

2018

INTERIM FINANCIAL REPORT

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

2018

INTERIM FINANCIAL REPORT

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

The English version of the 2018 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

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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 & 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, 2018;
- 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,
- all balances as of December 31, 2017 and all items related to the six-month period ended June 30, 2017 in these consolidated financial statements were restated from IFRS 15 (see Note 1.3 of the Notes to the consolidated financial statements);
- “2017 restated” corresponds to the restatement of 2017 consolidated financial statements only for IFRS 15.

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 income tax rate;
- recurring net income;
- recurring EPS;
- recurring EPS growth excluding Yakult Transaction Impact;
- free cash flow;
- net financial debt.

1.1 H1 2018 business review and 2018 outlook

Business highlights

2018 first-half results

- Double-digit recurring EPS growth at constant exchange rate: +13.4% excluding Yakult Transaction Impact;
- Solid sales growth, up +4.0% in H1 and +3.3% in Q2 on a like-for-like New Danone basis;
  - All reporting entities growing and positive company volumes, excluding Morocco;
  - Key drivers: Specialized Nutrition, Waters and return to growth at EDP Noram in second quarter;
  - Negative FX impact ;
- Improved recurring operating margin at 14.27%, up +51bps on a like-for-like New Danone basis;
- Morocco consumer boycott adversely impacting first-half performance;
- Accelerated free cash flow delivery up +20.0% at €1.1 billion.

2018 guidance reaffirmed

Full-year 2018 guidance reaffirmed.

Emmanuel FABER, Chairman and CEO comments

“In the first half of the year, Danone delivered another semester of strong results, combining sales growth momentum, strong margin improvement, and improved free cash flow. This performance, achieved despite ongoing volatility and unexpected headwinds in some markets, reflects the underlying strengths of our business and our continued financial discipline. The performance was underpinned by notable progress in rebalancing the growth profile of our portfolio and widening sources of growth, while delivering initial savings from our €1bn efficiency program Protein. Excluding the exceptional situation in Morocco, all reporting entities delivered growth in the second quarter. Demand remained strong for Specialized Nutrition in China, Waters achieved broad-based growth and Essential Dairy and Plant-Based returned to growth, reflecting benefits from the WhiteWave acquisition and organic improvements in fresh dairy in key regions. This leads me to confirm our guidance for the year. Looking to the longer term, we have this summer started to work on the Danone 2030 Goals that were unveiled at our last annual shareholder meeting. These goals reinforce the importance of our « One Planet. One Health » vision which has become a unique way to create and share sustainable value for all.”

Key figures

Six-month period ended June 30, 2018

(in € millions, except if stated otherwise)	**2017 Restated**	**2018**	**Change as reported**	**Like-for-like New Danone change**
Sales	**12,200**	**12,498**	**2.4%**	**4.0%**
Recurring operating income [(a)]	**1,717**	**1,784**	**3.9%**	**7.9%**
Recurring operating margin [(a)]	**14.07%**	**14.27%**	**+20 bps**	**+51 bps**
Operating income	1,583	1,089	-31.2%	
Operating margin	12.98%	8.71%	-427 bps	
Recurring net income – Group share [(a)]	**1,047**	**1,132**	**+8.2%**	
Net income – Group share	975	1,204	+23.5%	
Recurring EPS (in €) [(a)]	**1.68**	**1.76**	**+4.6%**	
EPS (in €)	1.57	1.87	+19.5%	
Free cash flow [(a)]	**921**	**1,104**	+20.0%	
Cash flow from operating activities	1,199	1,427	+8.0%	

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

Key financial transactions and events in H1 2018

(from press releases issued in the past six months of 2018)

- On April 12, 2018, Danone announced that its US and Canadian subsidiaries have achieved B CorpTM Certification, two years ahead of target. Thanks to these new achievements, approximately 30% of Danone's global business is now covered by B CorpTM certification. Danone North America becomes the largest Certified B Corporation® in the world, while Danone Canada becomes the largest consumer-facing Certified B Corporation® in Canada.

- On April 26, 2018, the Shareholders' Meeting approved the appointments as new Directors of Michel Landel, Cecile Cabanis and Guido Barilla. Michel Landel became at this occasion Lead Independent Director and Chairman of the Nomination and Compensation Committee.

- On April 26, 2018, Danone introduced its 2030 Goals embedding the business, brand and trust models of the company to drive long-term sustainable value creation and deliver the company's 'One Planet. One Heath' vision. As a founding act for its goals, Danone launched 'One Person, One Voice, One Share', an innovative employee engagement program and governance model for all of its 100,000 employees to co-own the company agenda, actively participate in defining roadmaps to bring the goals to life, and deepen their ownership mindset.

- On May 29, 2018, Danone announced the result of the option offered to shareholders to receive payment of their 2017 dividend in the form of Danone shares. At the end of the option period, 64.64% of rights were exercised in favor of the 2017 dividend payment in shares, representing 13,475,904 new shares.

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

Consolidated net income review

Net sales

Consolidated net sales

In the first half of 2018, consolidated sales stood at €12,498 million, up +4.0% on a like-for-like New Danone basis. Sales growth included a +3.7% rise in value and a +0.3% in volume.

Reported sales were up +2.4% vs. the first half of 2017, including:

- the base effect (+8.0%) corresponding to the prior year WhiteWave contribution (from April 1 to 12, 2017);
- other changes in scope of consolidation (-1.4%), resulting from the disposal of Stonyfield in August 2017;
- a negative currency impact (-8.2%) reflecting mainly the appreciation of the euro against the US dollar, the Argentinian peso and the Russian ruble.

Consolidated sales by Reporting Line and by geographical area

	First quarter 2017			Second quarter 2017			Third quarter 2017			Fourth quarter 2017			Total 2017		
(in € millions except percentage)	Reported	IFRS 15 impacts	Restated	Reported	IFRS 15 impacts	Restated	Reported	IFRS 15 impacts	Restated	Reported	IFRS 15 impacts	Restated	Reported	IFRS 15 impacts	Restated
By Reporting Line															
EDP International	2,082	49	**2,131**	2,209	52	**2,261**	2,048	43	**2,091**	2,084	45	**2,129**	8,424	188	**8,612**
EDP Noram	658	(16)	**642**	1,333	(5)	**1,328**	1,290	(15)	**1,275**	1,250	(4)	**1,246**	4,530	(38)	**4,492**
Specialized Nutrition	1,699	(5)	**1,694**	1,762	(6)	**1,756**	1,844	(6)	**1,838**	1,797	(6)	**1,791**	7,102	(23)	**7,079**
Waters	1,024	2	**1,026**	1,360	1	**1,361**	1,272	(4)	**1,268**	964	10	**974**	4,621	9	**4,630**
By geographical area															
Europe & Noram	2,656	(7)	**2,649**	3,619	4	**3,623**	3,532	(9)	**3,523**	3,386	12	**3,398**	13,193	(1)	**13,192**
Rest of the World	2,809	35	**2,844**	3,045	39	**3,084**	2,921	28	**2,949**	2,709	34	**2,743**	11,484	136	**11,620**
Total	**5,464**	**29**	**5,493**	**6,664**	**43**	**6,707**	**6,454**	**18**	**6,472**	**6,095**	**45**	**6,140**	**24,677**	**135**	**24,812**

(in € millions except percentage)	2017 Restated	2018	Like-for-like New Danone change	Volume growth Like-for-like New Danone
			Six-month period ended June 30	
By Reporting Line				
EDP International	4,392	4,115	(0.8)%	(5.6)%
EDP Noram	1,970	2,439	0.6%	2.3%
Specialized Nutrition	3,450	3,644	12.5%	4.8%
Waters	2,388	2,301	4.5%	2,6%
By geographical area				
Europe & Noram	6,272	6,764	(1.0)%	(0.6)%
Rest of the World	5,928	5,735	10.5%	1.6%
Total	**12,200**	**12,498**	**4.0%**	**0.3%**

Recurring operating income and recurring operating margin

Recurring operating margin

In H1 2018, Danone's recurring operating income stood at €1.8bn. Recurring operating margin reached 14.27%, up +20 bps on a reported basis including:

- the dilutive impact resulting from WhiteWave contribution from January 1 to April 12, 2017 (-49 bps);
- other scope effects (+8 bps), resulting from the disposal in August 2017 of Stonyfield;
- a marginal positive impact from currencies (+9 bps).

On a like-for-like New Danone basis, recurring operating margin increased by +51 bps. This strong improvement was achieved despite an inflationary cost environment, in particular for PET plastic packaging, US transportation costs and, to a lesser extent, milk prices.

This improvement reflects:

- Danone's profitable growth model, based on valorized innovations and positive mix;
- growing efficiencies, achieved mainly through the synergies from the integration of WhiteWave, and €75 million of initial savings from the Protein program;
- continued discipline in resource allocation.

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

(in € millions except percentage and bps)	Recurring operating income						Recurring operating margin					
	H1 2017 Reported	IFRS 15 impacts	H1 2017 Restated	2017 Reported	IFRS 15 impacts	2017 Restated	H1 2017 Reported	IFRS 15 impacts	H1 2017 Restated	2017 Reported	IFRS 15 impacts	2017 Restated
By Reporting Line												
EDP International	359	(1)	**358**	760	(1)	**759**	8.36%	+(21) bps	**8.15%**	9.02%	+(21) bps	**8.81%**
EDP Noram	232	(2)	**230**	556	(3)	**553**	11.66%	+3 bps	**11.69%**	12.28%	+3 bps	**12.31%**
Specialized Nutrition	839	–	**839**	1,685	1	**1,686**	24.23%	+9 bps	**24.32%**	23.73%	+9 bps	**23.82%**
Waters	290	–	**290**	541	(1)	**540**	12.17%	+(2) bps	**12.15%**	11.70%	+(4) bps	**11.66%**
By geographical area												
Europe & Noram	967	(7)	**960**	2,048	(10)	**2,038**	15.40%	+(9) bps	**15.31%**	15.52%	+(7) bps	**15.45%**
Rest of the World	753	4	**757**	1,495	4	**1,499**	12.87%	+(10) bps	**12.77%**	13.02%	+(12) bps	**12.90%**
Total	**1,720**	**(3)**	**1,717**	**3,543**	**(6)**	**3,537**	**14.18%**	**+(11) bps**	**14.07%**	**14.36%**	**+(10) bps**	**14.26%**

	Six-month period ended June 30				
	Recurring operating income		**Recurring operating margin**		
(in € millions except percentage and bps)	**2017 Restated**	**2018**	**2017 Restated**	**2018**	**Like-for-like New Danone change**
By Reporting Line					
EDP International	358	347	8.15%	8.44%	+26 bps
EDP Noram	230	243	11.69%	9.96%	(43) bps
Specialized Nutrition	839	930	24.32%	25.53%	+121 bps
Waters	290	263	12.15%	11.45%	(96) bps
By geographical area					
Europe & Noram	960	878	15.31%	12.98%	(126) bps
Rest of the World	757	906	12.77%	15.80%	+260 bps
Total	**1,717**	**1,784**	**14.07%**	**14.27%**	**+51 bps**

Other operating income and expense

Other operating income and expenses were -€695 million, mainly related to a non-cash charge of €661 million corresponding to the impairment of the Centrale brand for €78 million and to an impairment charge of Centrale Danone's goodwill for €583 million in Morocco, as a consequence of the ongoing consumer boycott started in April 2018.

Financial income and expense

The cost of net debt decreased in absolute amount, from -€134 million in H1 2017 to -€115 million in H1 2018, mainly reflecting the positive FX impact in the US denominated portion of net debt, and the early redemption of WhiteWave's outstanding 5.375% $500 million senior notes in October 2017.

Tax rate

The recurring income tax rate was 29.5% in H1 2018, representing a 0.8 point decrease from H1 2017, mainly driven by the positive impact of the US tax reform enacted in December 2017.

Share of profit of associates

Recurring net income from associates was stable at €46 million, reflecting mainly the good results from the participation in Mengniu and the reduction in Danone's stake in Yakult from 21.3% to 6.6% in March 2018. The transaction resulted in a €701 million non-recurring capital gain.

Share of minority interests

Recurring minority interests decreased to €48 million, as the result of the increased ownership in Unimilk from 93% to 98%.

Recurring net income – Group Share and recurring EPS

Recurring net income – Group share was €1,132 million in H1 2018, up +8.2%.

Recurring EPS increased by +4.6% to €1.76, up +12.8% at constant exchange rate and +13.4% excluding Yakult Transaction Impact.

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

	Six-month period ended June 30					
	2017 Restated			2018		
(in € millions except percentage)	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Recurring operating income	**1,717**		**1,717**	**1,784**		**1,784**
Other operating income (expense)		(134)	(134)		(695)	(695)
Operating income	**1,717**	**(134)**	**1,583**	**1,784**	**(695)**	**1,089**
Cost of net debt	(134)		(134)	(115)		(115)
Other financial income (expense)	(66)	35	(31)	(60)	3	(57)
Income before tax	**1,516**	**(99)**	**1,417**	**1,608**	**(692)**	**916**
Income tax expense	(459)	29	(431)	(475)	63	(412)
Effective tax rate	30.3%		30.4%	29.5%		45.0%
Net income from fully-consolidated companies	**1,057**	**(70)**	**987**	**1,134**	**(629)**	**504**
Share of profit of associates	47	(2)	45	46	701	747
Net income	**1,104**	**(72)**	**1,032**	**1,180**	**71**	**1,251**
• **Group share**	**1,047**	**(72)**	**975**	**1,132**	**72**	**1,204**
• Non-controlling interests	57	–	57	48	(1)	47

Bridge from EPS to Recurring EPS

	Six-month period ended June 30			
	2017 Restated		2018	
	Recurring	Total	Recurring	Total
Net Income - Group share *(in € millions)*	**1,047**	**975**	**1,132**	**1,204**
Coupon relating to hybrid financing net of tax *(in € millions)*	-	-	(7)	(7)
Average number of shares				
• Before dilution	621,507,211	621,507,211	638,169,867	638,169,867
• After dilution	621,781,256	621,781,256	639,083,725	639,083,725
EPS *(in €)*				
• Before dilution	1.68	1.57	1.76	1.88
• After dilution	1.68	1.57	1.76	1.87

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

(in € millions except %)	H1 2017 [a]	WhiteWave base effect [b]	Impact of other changes in scope of consolidation	Impact of changes in exchange rates	Like-for-like New Danone growth [c]	H1 2018 [d]
Sales	12,200	+8.0%	-1.4%	-8.2%	+4.0%	12,498
Recurring operating margin	14.07%	-49 bps	+8 bps	+9 bps	+51 bps	14.27%

(a) Consolidated data as reported by Danone after IFRS 15 restatement.
(b) WhiteWave base effect: corresponds primarily to the contribution of WhiteWave over the period from January 1 to April 12, 2017.
(c) Like-for-like growth of Danone and WhiteWave combined, including the contribution of WhiteWave as a whole in H1 2017 and H1 2018.
(d) Consolidated data as reported for Danone and WhiteWave combined, including the contribution of WhiteWave as a whole in H1 2018.

Free cash flow

Free cash flow stood at €1.1 bn, up +20.0% from H1 2017, supported by the rise in recurring operating income, with capex amounting to €363 million, or 2.9% of sales, in line with last year.

Bridge from operating cash flow to free cash flow

	Six-month period ended June 30	
(in € millions)	**2017 Restated**	**2018**
Cash flow from operating activities	**1,199**	**1,427**
Capital expenditure	(367)	(363)
Disposal of tangible assets	39	10
Transaction fees related to business combinations [a] or disposals	49	30
Earn-outs related to business combinations [b]	–	–
Free cash flow	**921**	**1,104**

(a) Represents acquisition costs related to business combinations or disposals paid during the period.
(b) Represents earn-outs related to business combinations and paid subsequently to acquisition date and over the period.

Balance sheet review

Simplified consolidated balance sheet

	As of December 31	As of June 30
(in € millions)	**2017 Restated**	**2018**
Non-current assets	34,627	33,536
Current assets	9,632	11,692
Total assets	**44,259**	**45,228**
Equity - Group share	**14,456**	**15,154**
Non-controlling interests	73	98
Non-current liabilities	19,271	18,858
Current liabilities	10,459	11,118
Total equity and liabilities	**44,259**	**45,228**
Net debt	15,372	13,663
Financial net debt	14,765	13,077

Net debt and financial net debt

Danone's net debt decreased by €1.7 bn from December 31, 2017, in line with its deleverage priority, as a result of the sale of part of its stake in Yakult and free cash flow delivery. It stood at €13.7 bn on June 30, 2018.

Bridge from Net debt to Net financial debt

(In € millions)	As of December 31 **2017 Restated**	As of June 30 **2018**
Non-current financial debt	15,716	15,382
Current financial debt	3,792	4,063
Short term investments	(3,462)	(5,027)
Cash and cash equivalents	(638)	(700)
Derivatives - assets - Non-current [(a)]	(16)	(33)
Derivatives - assets - Current [(a)]	(19)	(22)
Net debt	**15,372**	**13,663**
Liabilities related to put options granted to non-controlling interests - Non-current	(38)	(39)
Liabilities related to put options granted to non-controlling interests - Current	(569)	(547)
Net financial debt	**14,765**	**13,077**

(a) Derivatives managing net debt only

Outlook for 2018

In the current year, Danone will make further progress towards its 2020 ambition through its separate focuses on both mid-term growth and short-term efficiency. It will continue rolling out the 'Protein' efficiency program and capture the synergies from the WhiteWave acquisition. These activities will underpin its ability to deliver sustainable growth in sales and profits.

Macroeconomic outlook

Danone assumes that market volatility will continue.

In 2018, Danone expects further cost-inflation with a mid-single digit rise in the costs of raw and packaging materials, including:

- milk price inflation of low to mid-single digit overall;
- a double-digit increase of PET pricing driven by the crude oil price rebound and;
- inflationary conditions in other raw materials, including sugar and fruits.

Danone also expects an ongoing impact from currency volatility, particularly the UK pound.

2018 guidance

Danone's focus will remain on accelerating growth and maximizing efficiencies, including the first year of delivery of its Protein program's savings. In 2018, the Company will progress towards its 2020 ambition through further sales growth and an improved recurring operating margin.

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

Subsequent events

Major events occurring after the end of the reporting period are detailed in Note 13 of the Notes to the 2018 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 2017 Registration Document and listed hereafter, including in particular overall uncertain economic conditions, input cost inflation, volatility in currency exchange rates and specific difficulties for some key markets, notably Morocco 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
	Risk related to ethics and to human rights
	Information systems
	Internal control deficiency
	Industrial risks
	Insurance coverage deficiency
Financial market risks	Financial market risks
	Currency risk related to operating activities
	Currency risk related to financing activities
	Liquidity
	Interest rates
	Counterparty, credit

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. This being the case, Danone decided to monitor and then report its performance by integrating the contribution of WhiteWave as a whole into its organic growth from the time of the acquisition by using an additional indicator - like-for-like New Danone changes.

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

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

This indicator is used starting with the second quarter of 2017 and running through the end of 2018.

Danone does not publish like-for-like New Danone changes for prior periods given the way they are computed. Finally, Danone does not monitor internally nor publish like-for-like changes and will not do so until year-end 2018. Indeed like-for-like changes would not reflect accurately the Company's real performance, which is reflected in like-for-like New Danone changes and, by extension, the difference between like-for-like changes and like-for-like New Danone changes would not accurately reflect the contribution to this real performance of WhiteWave and its companies.

Financial indicators not defined in IFRS

These indicators are calculated as follows:

Like-for-like changes in sales and 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 with both previous-year and current-year indicators calculated using the same exchange rates (the exchange rate used is a projected annual rate determined by Danone for the current year and applied to both previous and current year).

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

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

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

- Financial data post acquisition date are extracted from the historical statements of Danone (after restatement for IFRS15) and WhiteWave combined, prepared in euros under IFRS (thus after allocation of WhiteWave's acquisition price).
- Financial data prior to the acquisition are extracted from the historical income statements of, respectively, Danone (prepared in euros under IFRS) and WhiteWave (prepared in US dollars under US-GAAP). However, to ensure comparability with the income statement of Danone and WhiteWave combined, the following adjustments are performed:
    - WhiteWave's income statements for periods prior to the closing date have been restated to reconcile them with Danone's accounting principles;
    - The effect of the WhiteWave purchase price allocation is also reflected in periods prior to the acquisition so as to neutralize its impact on the improvement in recurring operating margin on a like-for-like New Danone basis.

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

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

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

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

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

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

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

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

Yakult Transaction Impact corresponds to the amount to deduct from Danone's 2017 recurring net income to reflect an interest in Yakult in 2017 identical to the interest prevailing in 2018 following the completion of the partial disposal finalized at the end of Q1 2018. It is computed as the difference between Danone's interest in Yakult after the transaction (6.61%) and 21.29% applied, prorata temporis, to 2017 profit from Yakult as estimated by Danone for its 2017 consolidated financial statements. Yakult Transaction Impact amounts to -0.6% of H1 2017 recurring EPS and -1.5% of FY 2017 recurring EPS.

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

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

1.2 Related party transactions

Major related party transactions are detailed in Note 12 of the Notes to 2018 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, 2018 (the “consolidated financial statements”) were approved by the July 26, 2018 meeting of the Danone Board of Directors.

Unless otherwise mentioned:

- all balances as of December 31, 2017 and all items related to the six-month period ended June 30, 2017 in these consolidated financial statements were restated from IFRS 15 (see Note 1.3 of the Notes to the consolidated financial statements);
- “2017 restated” corresponds to the restatement of 2017 consolidated financial statements only for IFRS 15;
- 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	**2017 Restated**	2018
Sales	1.3, 5	**12,200**	**12,498**
Cost of goods sold		(6,197)	(6,397)
Selling expense		(2,901)	(2,924)
General and administrative expense		(1,110)	(1,111)
Research and Development expense		(162)	(163)
Other income (expense)		(113)	(120)
Recurring operating income	5	**1,717**	**1,784**
Other operating income (expense)	6	(134)	(695)
Operating income		**1,583**	**1,089**
Interest income on cash equivalents and short-term investments		99	76
Interest expense		(233)	(191)
Cost of net debt		(134)	(115)
Other financial income		38	27
Other financial expense		(69)	(84)
Income before tax		**1,417**	**916**
Income tax expense	7	(431)	(412)
Net income from fully consolidated companies		**987**	**504**
Share of profit of associates	4	45	747
Net income		**1,032**	**1,251**
Net income – Group share		**975**	**1,204**
Net income – Non-controlling interests		57	47
Net income – Group share, per share	10	**1.57**	**1.88**
Net income – Group share, per share after dilution	10	**1.57**	**1.87**

Consolidated statement of comprehensive income

	Six-month period ended June 30	
(in € millions)	**2017 Restated**	**2018**
Net income – Group share	**975**	**1,204**
Translation adjustments	(1,051)	(103)
Cash flow hedging derivatives		
Gross unrealized gains and losses [(a)]	(413)	(11)
Tax effects	16	6
Financial assets		
Gross unrealized gains and losses	3	–
Amount recycled to profit or loss in the current year	–	–
Tax effects	–	–
Other comprehensive income, net of tax	–	–
Items that may be subsequently recycled to profit or loss	**(1,445)**	**(108)**
Financial assets		
Gross unrealized gains and losses	–	(19)
Tax effects	–	1
Actuarial gains and losses on retirement commitments		
Gross gains and losses	49	40
Tax effects	(16)	(8)
Items not subsequently recyclable to profit or loss	**33**	**15**
Total comprehensive income – Group share	**(437)**	**1,110**
Total comprehensive income – Non-controlling interests	46	36
Total comprehensive income	**(390)**	**1,147**

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

Consolidated balance sheet

(in € millions)	Notes	As of December 31 **2017 Restated**	As of June 30 **2018**
Assets			
Goodwill		18,132	17,651
Brands		6,412	6,329
Other intangible assets		401	381
Intangible assets	5, 8	24,945	24,361
Property, plant and equipment	5	6,005	6,029
Investments in associates	4	2,678	2,119
Investments in other non-consolidated companies		83	90
Long-term loans and long term financial assets		177	171
Other financial assets		260	261
Derivatives – assets [(a)]	9.2	16	33
Deferred taxes		722	734
Non-current assets		**34,627**	**33,536**
Inventories		1,668	1,836
Trade receivables		2,794	2,849
Other current assets		1,037	1,239
Short-term loans		14	18
Derivatives – assets [(a)]	9.2	19	22
Short-term investments	9.2	3,462	5,027
Cash and cash equivalents	9.2	638	700
Assets held for sale		–	–
Current assets		**9,632**	**11,692**
Total assets		**44,259**	**45,228**

(a) Derivatives instruments used to manage net debt.

(in € millions)	Notes	As of December 31 **2017 Restated**	As of June 30 **2018**
Equity and liabilities			
Share capital		168	171
Additional paid-in capital		4,991	5,805
Retained earnings and others [a]		14,677	14,663
Cumulative translation adjustments		(3,181)	(3,255)
Accumulated other comprehensive income		(545)	(577)
Treasury shares and DANONE call options [b]		(1,653)	(1,653)
Equity – Group share		**14,456**	**15,154**
Non-controlling interests	4	73	98
Consolidated equity		**14,529**	**15,252**
Financing	9	15,529	15,230
Derivatives – liabilities [c]		149	114
Liabilities related to put options granted to non-controlling interests	3.2	38	39
Non-current financial debt	9	15,716	15,382
Provisions for retirement obligations and other long-term benefits		919	895
Deferred taxes		1,633	1,607
Other non-current provisions and liabilities	11	1,003	975
Non-current liabilities		**19,271**	**18,858**
Financing	9	3,221	3,508
Derivatives – liabilities [c]		1	8
Liabilities related to put options granted to non-controlling interests	3.2	569	547
Current financial debt	9	3,792	4,063
Trade payables		3,904	4,144
Other current liabilities		2,764	2,911
Liabilities directly associated with assets held for sale		–	–
Current liabilities		**10,459**	**11,118**
Total equity and liabilities		**44,259**	**45,228**

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

Consolidated statement of cash flows

(in € millions)	Notes	Six-month period ended June 30 2017 Restated	2018
Net income		**1,032**	**1,251**
Share of profit of associates net of dividends received		(34)	(739)
Depreciation, amortization and impairment of tangible and intangible assets		388	1,094
Increases in (reversals of) provisions		77	(15)
Change in deferred taxes		(120)	(30)
(Gains) losses on disposal of property, plant and equipment and		16	(5)
Expense relating to Group performance shares and stock-options		14	12
Cost of net financial debt		132	113
Net interest paid		(101)	(94)
Net change in interest income (expense)		31	19
Other components with no cash impact		14	(53)
Cash flows provided by operating activities, before changes in net working		**1,418**	**1,533**
(Increase) decrease in inventories		(124)	(206)
(Increase) decrease in trade receivables		(159)	(142)
Increase (decrease) in trade payables		104	303
Change in other receivables and payables		(40)	(61)
Change in working capital requirements		(219)	(106)
Cash flows provided by (used in) operating activities		**1,199**	**1,427**
Capital expenditure [a]		(367)	(363)
Proceeds from the disposal of property, plant and equipment [a]		39	10
Net cash outflows on purchases of subsidiaries and financial investments [b]	2	(10,915)	(18)
Net cash inflows on disposal of subsidiaries and financial investments [b]		22	1,308
(Increase) decrease in long-term loans and other long-term financial assets		1	(3)
Cash flows provided by (used in) investment activities		**(11,219)**	**935**
Increase in share capital and additional paid-in capital		47	47
Purchase of treasury shares (net of disposals) and DANONE call options [c]		13	–
Perpetual subordinated debt securities coupon		–	(14)
Dividends paid to Danone shareholders [d]		(279)	(431)
Buyout of non-controlling interests	3.2	(3)	(20)
Dividends paid		(37)	(35)
Contribution from non-controlling interests to capital increases		–	–
Transactions with non-controlling interests		(40)	(55)
Net cash flows on hedging derivatives [e]		(36)	7
Bonds issued during the period		–	300
Bonds repaid during the period		(98)	(790)
Net cash flows from other current and non-current financial debt		433	232
Net cash flows from short-term investments		10,073	(1,571)
Cash flows provided by (used in) financing activities		**10,113**	**(2,276)**
Effect of exchange rate and other changes [f]		100	(24)
Increase (decrease) in cash and cash equivalents		**193**	**61**
Cash and cash equivalents as of January 1		**557**	**638**
Cash and cash equivalents as of June 30		**749**	**700**

(a) This expenditure relates to property, plant and equipment and intangible assets used in operating activities.
(b) Acquisition/disposal of companies' shares. In the case of fully consolidated companies, this comprises cash and cash equivalents as of the acquisition/disposal date.
(c) DANONE call options acquired by the Company.
(d) Portion paid in cash.
(e) Derivative instruments used to manage net debt.
(f) Effect of reclassification with no impact on net debt.

The cash flows described correspond to items presented in the consolidated balance sheet. However, these flows may differ from changes in assets and liabilities, mainly as a result of the rules for (i) translating transactions in currencies other than the 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

(in € millions)	As of January 1, 2017	Changes during the period restated for IFRS 15: Other comprehensive income	Capital increase	Other transactions involving treasury shares and DANONE call options [(b)]	Counterpart entry to pre social-tax expense relating to performance share [(c)]	Dividends paid to Danone shareholders – portion in shares	Dividends paid to Danone shareholders – portion in cash	Issuance of perpetual subordinated notes	Other transactions with non-controlling interests	Other changes [(d)]	As of June 30, 2017 Restated
Share capital	**164**					3					**168**
Additional paid-in capital	**4,178**		46			766					**4,991**
Retained earnings and others [(a)]	**12,035**	975			14	(770)	(279)		1	(56)	**11,921**
Cumulative translation adjustments	**(1,460)**	(1,051)								(4)	**(2,514)**
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**	**(437)**	**47**	**13**	**14**	**–**	**(279)**		**1**	**(59)**	**12,408**
Non-controlling interests	**85**	46					(37)		(17)	(1)	**76**
Consolidated equity	**13,194**	**(390)**	**47**	**13**	**14**	**–**	**(316)**		**(16)**	**(60)**	**12,484**

(a) Undated subordinated notes.

(b) DANONE call options acquired by the Company.

(c) Group performance shares granted to certain employees and corporate officers.

(d) Including impact of the application of IFRS 15 (see Note 1.3 of the Notes to the consolidated financial statements).

(in € millions)	As of January 1, 2017	Changes during the period restated for IFRS 15: Other comprehensive income	Capital increase	Other transactions involving treasury shares and DANONE call options [(b)]	Counterpart entry to pre social-tax expense relating to performance share [(c)]	Dividends paid to Danone shareholders – portion in shares	Dividends paid to Danone shareholders – portion in cash	Issuance of perpetual subordinated notes	Other transactions with non-controlling interests	Other changes [(d)]	As of December 31, 2017 Restated
Share capital	**164**		–			3					**168**
Additional paid-in capital	**4,178**		46			766					**4,991**
Retained earnings and others [(a)]	**12,035**	2 449			22	(770)	(279)	1,245	(10)	(15)	**14,677**
Cumulative translation adjustments	**(1,460)**	(1,723)							1	1	**(3,181)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax	**271**	(405)								(26)	**(160)**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	**41**	9									**50**
Actuarial gains and losses related to retirement commitments, not recyclable to profit or loss, net of tax	**(439)**	5								(2)	**(435)**
Other comprehensive income	**(126)**	**(391)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(28)**	**(545)**
Treasury shares and DANONE call options	**(1,682)**			28							**(1,653)**
Equity – Group share	**13,109**	**335**	**47**	**28**	**22**	**–**	**(279)**	**1,245**	**(8)**	**(42)**	**14,456**
Non-controlling interests	**85**	79					(86)		(6)		**73**
Consolidated equity	**13,194**	**414**	**47**	**28**	**22**	**–**	**(365)**	**1,245**	**(14)**	**(42)**	**14,529**

(a) Undated subordinated notes.

(b) DANONE call options acquired by the Company.

(c) Group performance shares granted to certain employees and corporate officers.

(d) Including impact of the application of IFRS 15 (see Note 1.3 of the Notes to the consolidated financial statements.

(in € millions)	As of January 1, 2018	Changes during the period										As of June 30, 2018
		Other comprehensive income	Capital increase	Other transactions involving treasury shares and DANONE call options [b]	Counterpart entry to pre social-tax expense relating to performance share [c]	Dividends paid to Danone shareholders – portion in shares	Dividends paid to Danone shareholders – portion in cash	Payments on of perpetual subordinated notes	Other transactions with non-controlling interests	Other changes		
Share capital	**168**					3						**171**
Additional paid-in capital	**4,991**		47			767						**5,805**
Retained earnings and others [a]	**14,677**	1,204			12	(770)	(431)	(9)	(19)	(1)		**14,663**
Cumulative translation adjustments	**(3,181)**	(103)								30		**(3,255)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax	**(160)**	(5)										**(165)**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	**50**	(18)								(39)		**(7)**
Actuarial gains and losses related to retirement commitments, not recyclable to profit or loss, net of tax	**(435)**	32								(2)		**(405)**
Other comprehensive income	**(545)**	**9**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41)**		**(577)**
Treasury shares and DANONE call options	**(1,653)**											**(1,653)**
Equity – Group share	**14,456**	**1,110**	**47**	**–**	**12**	**–**	**(431)**	**(9)**	**(19)**	**(13)**		**15,154**
Non-controlling interests	**73**	36					(35)		25			**98**
Consolidated equity	**14,529**	**1,147**	**47**	**–**	**12**	**–**	**(466)**	**(9)**	**5**	**(13)**		**15,252**

(a) Undated subordinated notes.

(b) DANONE call options acquired by the Company.

(c) Group performance shares granted to certain employees and corporate officers.

2.2 Notes to the condensed interim consolidated financial statements

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Note 1. Accounting principles

Note 1.1. Basis for preparation

Danone's consolidated financial statements, established for the six-month period ending June 30, 2018, were prepared in accordance with the provisions of 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).

Previous periods i.e. statements as of December 31, 2017 and for the period ended June 30, 2017 presented are restated for IFRS15, which is applicable from January 1, 2018.

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

	Notes
Measurement of intangible assets	6.2, 9
Measurement of investments in associates	4
Determination of the amount of provisions for risks and charges	11
Determination of the amount of rebates, trade supports and other deductions related to agreements with	1.3, 5

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.

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, 2017 (see Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2017, as well as the accounting principles detailed in each Note to the consolidated financial statements for the year ended December 31, 2017), except for standards, amendments and interpretations applicable for the first time as from January 1, 2018.

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2018

- IFRS 15, *Revenue from contracts with customers:* see Note 1.3 of the Notes to the consolidated financial statements;
- IFRS 9, *Financial instruments:* see Note 1.3 of the Notes to the consolidated financial statements;
- Amendment to IFRS 2, *Clarifications of classification and measurement of share based payment transactions*;
- Amendments to IAS 28, *Long-term interests in associates and joint ventures*;
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*.

These amendments and this interpretation do not have a material impact on the interim consolidated financial statements as of June 30, 2018.

Main standards, amendments and interpretations published by the IASB whose application is not mandatory as of January 1, 2018 in the European Union

- IFRS 16, *Leases.*

On January 13, 2016, the IASB issued a new international standard on accounting for leases. IFRS 16 will replace IAS 17, along with the associated IFRIC and SIC interpretations, and for lessees will end the distinction previously made between operating leases and finance leases. Lessees will be required to account for all leases with a term of more than one year in a manner similar to that currently specified for finance leases under IAS 17, involving the recognition of an asset for the rights, and a liability for the obligations, arising under the lease.

Danone has not elected early application of this standard.

The inventory of leases and the collection of necessary data for the assessment of IFRS 16 impacts on Danone financial stituation is on-going. The magnitude of the application of IFRS 16 can be assessed in relation to the amount of lease commitments (see amount as of December 31, 2017 in Note 5.6 of the Notes to the 2017 consolidated financial statements). However, given the normative changes and assumptions that will be retained by Danone, lease commitments may not be fully representative of the lease debt that will be recognized under IFRS 16.

Other standards

- IFRIC 23, *Uncertainty Over Income Tax Treatments*.

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

- IAS 29, *Financial Reporting in Hyperinflationary Economies*

IAS 29, *Financial Reporting in Hyperinflationary Economies* requires 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. Recent inflation data indicates that, from July 1, 2018, the Argentinian economy should qualify as hyperinflationary in accordance with IAS 29.

Note 1.3. Impacts of first-time application of IFRS 15 and IFRS 9

IFRS 15, Revenue from contracts with customers

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

Accounting principles amended following the application of IFRS 15

The Group’s sales mainly comprise sales of finished products. They are recognized in the income statement when the control of goods is transferred.

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

Situation on June, 2018 concerning trade receivables and debts

	As of December 31			As of June 30
(in € millions)	**2017 Reported**	**IFRS 15 Impacts**	**2017 Restated**	**2018**
Trade and other receivables from operations	2,905	–	2,905	2,963
Impairment provisions	(111)	–	(111)	(114)
Fair value of trade receivables	**2,794**	**–**	**2,794**	**2,849**
Rebates payable to customers [(a)]	(1,143)	(5)	(1,148)	(1,265)
Fair value of trade receivables net of discounts granted	**1,651**	**(5)**	**1,646**	**1,584**

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

Restatements of financial statements

Consolidated income statement and earnings per share for six-month period ended June 30, 2017

		Six-month period ended June 30	
(in € millions, except earnings per share in €)	**2017 Reported**	**IFRS 15 Impacts**	**2017 Restated**
Sales	**12,128**	**72**	**12,200**
Cost of goods sold	(6,113)	(84)	(6,197)
Selling expense	(2,928)	27	(2,901)
General and administrative expense	(1,108)	(2)	(1,110)
Research and Development expense	(162)	–	(162)
Other income (expense)	(98)	(15)	(113)
Recurring operating income	**1,720**	**(3)**	**1,717**
Other operating income (expense)	(134)	-	(134)
Operating income	**1,586**	**(3)**	**1,583**
Interest income on cash equivalents and short-term investments	99	–	99
Interest expense	(233)	–	(233)
Cost of net debt	(134)	–	(134)
Other financial income	38	–	38
Other financial expense	(70)	1	(69)
Income before tax	**1,419**	**(2)**	**1,417**
Income tax expense	(430)	(1)	(431)
Net income from fully consolidated companies	**989**	**(2)**	**987**
Share of profit of associates	45	–	45
Net income	**1,034**	**(2)**	**1,032**
Net income – Group share	**977**	**(2)**	**975**
Net income – Non-controlling interests	57	–	57
Net income – Group share, per share	**1.58**	**(0.01)**	**1.57**
Net income – Group share, per share after dilution	**1.57**	**–**	**1.57**

Consolidated income statement and earnings per share for period ended December 31, 2017

	Year ended December 31		
(in € millions, except earnings per share in €)	**2017 Reported**	**IFRS 15 Impacts**	**2017 Restated**
Sales	**24,677**	**135**	**24,812**
Cost of goods sold	(12,459)	(171)	(12,630)
Selling expense	(5,890)	59	(5,831)
General and administrative expense	(2,225)	(4)	(2,229)
Research and Development expense	(342)	–	(342)
Other income (expense)	(219)	(24)	(243)
Recurring operating income	**3,543**	**(6)**	**3 537**
Other operating income (expense)	192	–	192
Operating income	**3,734**	**(5)**	**3,729**
Interest income on cash equivalents and short-term investments	151	–	151
Interest expense	(414)	–	(414)
Cost of net debt	(263)	–	(263)
Other financial income	137	–	137
Other financial expense	(312)	1	(311)
Income before tax	**3,296**	**(4)**	**3,292**
Income tax expense	(842)	–	(842)
Net income from fully consolidated companies	**2,454**	**(4)**	**2,450**
Share of profit of associates	109	–	109
Net income	**2,563**	**(4)**	**2,559**
Net income – Group share	**2,453**	**(4)**	**2,449**
Net income – Non-controlling interests	110	–	110
Net income – Group share, per share	**3.92**	**(0.02)**	**3.90**
Net income – Group share, per share after dilution	**3.91**	**(0.01)**	**3.90**

Consolidated balance sheet as of December 31, 2017

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

(a) Derivatives instruments used to manage net debt.

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

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

IFRS 9, Financial Instruments

On 24 July 2014, the IASB issued a new standard on financial instruments that replaces most of the previous IFRS pronouncements on this subject, in particular IAS 39 and is mandatorily applicable from 1 January 2018. Danone has applied the classification, measurement and impairment principles of IFRS 9 retrospectively from 1 January 2018, with no restatement of prior period comparatives. The hedge accounting principles of IFRS 9 are being applied using a prospective approach in accordance with IFRS 9.

IFRS 9 relating to financial instruments makes changes to:

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

Accounting principles amended following the application of IFRS 9

Investments in other non-consolidated companies

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

Fair value

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

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

Other long-term financial assets

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

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

Their fair value is calculated on the basis of listed prices on active markets.

Long-term loans

Long-term loans are measured at amortized cost using the effective interest rate method.

Trade and other receivables

Trade receivables

Trade receivables are recognized at fair value in the consolidated balance sheet.

Impairment provisions

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

Derivatives instruments

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

- derivatives used to manage net debt and hedges of net investments in foreign operations are recognized in Derivatives assets or liabilities;
- foreign exchange derivatives related to operations are recognized in the heading (i) Other accounts receivable in Derivatives assets or within (ii) Other current liabilities in Derivatives liabilities.

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

When derivatives are designated as hedges of net investments in foreign operations, changes in the fair value of the derivatives are recognized in equity under Cumulative translation adjustments and are recycled as income (expense) when the asset is derecognized.

When derivatives are designated as future cash flow hedges:

- changes in the value of the effective portion are recognized in equity under Accumulated other comprehensive income and are recycled to profit or loss, in the same heading, when the hedged item itself is recognized in profit or loss;
- time value (swap points, FX option premium and basis spread of cross currency swaps) is recognized in Equity in Other comprehensive income and is depreciated over the lifetime of the instrument.

Changes in the value of the ineffective portions of derivatives that meet the conditions for classification as hedging instruments and changes in the fair value of derivative financial instruments that do not meet the conditions for classification as hedging instruments are recognized directly in profit or loss for the period, in a heading within operating income or financial income depending on the nature of the hedge.

Note 2. Finalization of the accounting of the acquisition of The WhiteWave Foods Company

Note 2.1 Final goodwill determination

During the first half of 2018, Danone finalized the accounting treatment of the acquisition of the WhiteWave Foods Company (WhiteWave), acquired on April 12, 2017. This did not result in a material adjustment to the purchase price allocation in the consolidated financial statements for the first half of 2018 as compared to the financial statements for 2017 fiscal year.

	As of the acquisition date [(b)]
(in € billions)	April 12, 2017
Intangible assets	3.2
Property, plant and equipment	1.3
Inventories	0.3
Other assets	1.1
Fair value of acquired assets [(a)]	**5.9**
Financial liabilities	0.7
Deferred tax liabilities	1.1
Other liabilities	0.9
Fair value of assumed liabilities [(a)]	**2.8**
Fair value of purchased net assets	**3.1**
Acquisition price	11.1
Final goodwill	**8.0**

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

The goodwill is not tax deductible.

Note 2.2 Final goodwill allocation

Danone allocated the goodwill to the following group of CGUs:

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

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Note 3. Fully consolidated companies

Note 3.1. Main changes

Main changes during the first half of 2018

Danone did not make any material transactions in the first half of 2018.

Main changes during the first half of 2017

	Notes	Reporting Line	Country	Transaction date[(a)]	Ownership percentage as of December 31, 2016	Ownership percentage as of June 30, 2017
Main companies/activities consolidated for the first time during the period						
WhiteWave group companies	2	EDP 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.		EDP International	Chile	February	100%	–

(a) Month of the fiscal year 2017.

Note 3.2. Liabilities related to put options granted to non-controlling interests

Change during the period

(in € millions)	2017 Restated	2018
As of January 1	**699**	**607**
New options	–	–
Carrying amount of exercised options [a]	(111)	(14)
Changes in value of outstanding	19	(7)
As of December 31 / June 30 [b]	**607**	**586**

(a) Carrying amount at the closing date of the previous period for options exercised and, which have been paid.

(b) Several options, none of which individually exceeds €200 million. In most cases, the strike price is an earnings multiple.

Note 4. Investments in associates

Note 4.1. Main changes

Main changes in the first half of 2018

				Ownership as of	
(in percentage)		Country	Transaction date [a]	December 31, 2017	June 30, 2018
Main companies accounted for using the equity method for the first time in 2018					
-		-	-	-	-
Main associates with change in ownership percentage					
Yakult	EDP International	Japan	March	21,3%	6,6%
Main companies no longer accounted for using the equity method as end of the period					
-		-	-	-	-

(a) Month of 2018 period.

Main changes in the first half of 2017

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

Note 4.2. Partial disposal of Danone's stake in Yakult

On February 14, 2018, Danone announced a new phase in its partnership with Yakult:

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

In March, 2018, Danone finalized the partial disposal of its stake in Yakult for an aggregate amount of JPY175 billion gross proceeds, representing circa €1.3 billion, and thus reduced its stake in Yakult's outstanding share capital from 21.29% to 6.61%.

Danone remains Yakult's largest shareholder and still has two representatives on the company's Board of Directors in a context of enhanced collaboration activities. The investment will thus continue to be accounted for using the equity method under IFRS.

Net of the impact of the currency hedging, transactions fees and recycling of cumulative translation adjustments, the disposal gain amounts to €701 million, recognized in the Share of profit from associates in the consolidated income statement for the first half of 2018.

Note 4.3. 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, 2018

Mengniu (EDP International, China)

As of December 31, 2017, as on June 30, 2018, the Group has not identified any indication of impairment. In particular, the stock price of the Mengniu group is higher than the average purchase price of the shares held by Danone.

Yashili (Specialized Nutrition, China)

As of December 31, 2017, as for June 30, 2018, Yashili's stock price relative to the average purchase price of the shares represented an indication of impairment.

Since Yashili's stock price continued to represent an indication of impairment as of June 30, 2018, the carrying amount of the investment in Yashili (€328 million) was tested for impairment based on projected cash flows using new forecasts. The discount rate and long-term growth rate assumptions were 9.0% 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, 2018. 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	Additional impairment *(in € millions)*
(500) bps	Sales growth (applied each year over 5 years)	–
(500) bps	Recurring operating margin (applied each year over 5 years)	48
(100) bps	Long-term growth rate	–
+100 bps	Discount rate	–

Other investments in associates

Danone did not record any impairment on other investments in associates during the first half of 2018.

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 Chairman and Chief Executive Officer, Emmanuel FABER, and the Chief Financial Officer, IS/IT, Cycles and Procurement, 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.

Note 5.2. Operating segments

Information by Reporting Line

Six-month period ended June 30

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2017 Restated	2018	2017 Restated	2018	2017 Restated	2018
EDP International	4,392	4,115	358	347	8.15%	8.44%
EDP Noram	1,970	2,439	230	243	11.69%	9.96%
Specialized Nutrition	3,450	3,644	839	930	24.32%	25.53%
Waters	2,388	2,301	290	263	12.15%	11.45%
Total	**12,200**	**12,498**	**1,717**	**1,784**	**14.07%**	**14.27%**

(a) Sales to third parties.

Information by geographic area

Sales, recurring operating income and recurring operating margin

Six-month period ended June 30

(in € millions, except percentage)	Sales [a] [b]		Recurring operating income		Recurring operating margin	
	2017 Restated	2018	2017 Restated	2018	2017 Restated	2018
Europe & Noram	6,272	6,764	960	878	15.31%	12.98%
Rest of the world	5,928	5,735	757	906	12.77%	15.80%
Total	**12,200**	**12,498**	**1,717**	**1,784**	**14.07%**	**14.27%**

(a) Sales to third parties.
(b) Including net sales of €1,062 million generated in France in the first half of 2018 (€1,054 million in the first half of 2017).

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

	As of December 31	As of June 30
(in € millions)	2017 Restated	2018
Europe & Noram	22,517	22,822
Rest of the world	8,433	7,567
Total	**30,950**	**30,389**

(a) Including €2,151 million in France in the first half of 2018 (€2,159 million as of December 31, 2017).

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

Note 6.1. Other operating income (expense) in the first half of 2018

Other operating expense totalled €(695) million and consisted mainly of the following items:

		Six-month period ended June 30, 2018
(in € millions)	Notes	**Income (expense)**
Impairment of intangible assets of Centrale Danone	6.2	(661)
Costs relating to the restructuring of the EDP International Business in certain countries		(33)
Costs associated with the integration of WhiteWave		(22)
Financial income in connection with the compensation received in 2017 following the decision of the Singapore arbitration court in the Fonterra case		29

Note 6.2. Boycott in Morocco of Central Danone products (EDP International, Maroc)

Since April 20, 2018 Centrale Danone has been subject to a boycott, notably of its sales of milk under the Centrale brand and is facing a severe downturn in its activity. The total sales of Centrale Danone thus decreased by 40% during 2018 second quarter.

Centrale Danone, which is listed on the Casablanca stock-exchange, issued a profit warning on June 4, forecasting for the first half of 2018 a 20% decrease in its sales and a net income representing a loss amounting to (150) million dirhams (vs net profit of 56 million dirhams for the same period in 2017).

Centrale Danone took immediate initiatives (reduction of milk collection, termination of interim workforce contracts) and is working on a plan to adapt its activity.

In addition, at the send of June, Emmanuel FABER announced that Danone will work on a new model aiming at selling at cost fresh pasteurized milk, Centrale brand thus generating no profit.

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

The 40% decrease in Centrale Danone's net sales impacting primarily the sales of milk under Centrale brand constitutes a triggering event.

Centrale brand has been fully impaired, i.e. for €(78) million as of June 30, 2018. The related impairment charge is recorded in Other operating expense in the first half of 2018.

The Group also tested for impairment the Centrale Danone CGU based on a new 8 year business plan prepared by the management considering this crisis, the recoverable value of Centrale Danone CGU being assessed with reference to expected future discounted cash flows. The net book value as of June 30, 2018 exceeding the recoverable value by €661 million, the Group impaired the goodwill for €583 million, considering the prior impairment of Centrale Brand for €78 million. The goodwill of Centrale Danone CGU after impairment amounts to €160 million as of June 30, 2018.

In addition, the Group performed the following sensitivity analysis on the recoverable value:

Sensitivity	**Indicators**	**Additional impairment** *(in € millions)*
(50) bps	Sales growth (applied each year over 8 years)	16
(100) bps	Recurring operating margin (applied each year over 8 years)	80
(50) bps	Long term growth rate	39
+50 bps	Discount rate	49

In conclusion, the goodwill of Centrale Danone CGU and Centrale brand were impaired for an amount totaling €661 million recognized in Other operating income (expense) in the first half of 2018.

Note 6.3. Other operating income (expense) in the first half of 2017

Other operating income (expense) totalled €(134) million in the first half of 2017 consist mainly of expenses, in particular:

	Six-month period ended June 30 2017
(in € millions)	**Income/(expense)**
Expenses related to the WhiteWave acquisition [(a)]	(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	(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.

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)	**2017 Restated**	**2018**
Statutory tax rate in France	**34.4%**	**34.4%**
Difference between foreign and French tax rates [(a)]	(9.5)%	(10.2)%
Taxes on dividends and royalties [(b)]	3.3%	2.3%
Tax adjustments and unallocated taxes [(c)]	1.7%	1.3%
Other effects	0.4%	(0.2)%
Effective tax rate excluding the impact of the impairment of tangible assets of Centrale Danone	**30.3%**	**27.6%**
Impact of the impairment of tangible assets of Centrale Danone	-	17.4%
Effective tax rate	**30.3%**	**45.0%**

(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.

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, 2018, 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. Carrying amount and change during the period

	2017 Restated				2018			
(in € millions)	Goodwill	Brands [a]	Other intangible assets	Total	Goodwill	Brands [a]	Other intangible assets	Total
Gross value								
As of January 1	**11,620**	**3,898**	**908**	**16,426**	**18,132**	**6,432**	**1,103**	**25,666**
Changes in consolidation	7,949	3,025	185	11,160	23	(17)	–	6
Capital expenditure	–	–	66	66	–	–	19	19
Disposals	–	–	(10)	(9)	–	–	–	–
Translation adjustments	(1,392)	(425)	(49)	(1,867)	80	12	(4)	88
Impairment	(48)	(67)	(15)	(130)	(583)	(78)	(6)	(667)
Reclassification of assets held for sale	–	–	1	1	–	–	–	–
Other [b]	2	–	17	19	–	–	11	11
As of December 31 / June 30	**18,132**	**6,432**	**1,103**	**25,666**	**17,651**	**6,349**	**1,123**	**25,123**
Amortization								
As of January 1	–	**(19)**	**(603)**	**(623)**	–	**(20)**	**(701)**	**(722)**
Charges	–	(2)	(91)	(93)	–	(1)	(47)	(48)
Disposals	–	–	23	23	–	–	6	6
Other	–	1	(30)	(29)	–	1	–	1
As of December 31 / June 30	–	**(20)**	**(701)**	**(722)**	–	**(21)**	**(742)**	**(762)**
Carrying amount								
As of December 31 / June 30	**18,132**	**6,412**	**401**	**24,945**	**17,651**	**6,329**	**381**	**24,361**

(a) Includes brands with indefinite useful lives and the other brands.

(b) As of December 31, 2017, includes mainly the impact of completing in 2017 the allocation of the acquisition price of transactions undertaken in 2016.

Note 8.3. Measurement review

Centrale Danone CGU

As of June 30, 2018, Centrale brand and Centrale Danone goodwill were impaired for respectively €78 million and €583 million (see Note 6.2 of the Notes to the consolidated financial statements).

CGUs and groups of CGUs of the Specialized Nutrition Reporting Lines

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, 2018.

CGUs and groups of CGUs of EDP International (excluded Centrale Danone), EDP Noram and Waters Reporting Lines

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, 2018, the Group identified triggering events for certain countries of EDP International. The impairment tests performed accordingly did not result in any impairment.

Regarding WhiteWave assets, the Group did not identify any triggering event.

Note 9. Financing and net debt

Note 9.1. Financing situation

(in € millions)	As of December 31, 2017 Restated	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of accrued interest [d]	Impacts of changes in exchange rates and other non-cash impacts [c]	Non-current portion becoming current	Change of scope	As of June 30, 2018
Financing managed at Company level									
Bonds – non-current portion	15,184	300	–	–	–	199	(826)	–	14,858
Bonds – current portion	2,156	–	(790)	–	–	17	826	–	2,208
Short-term debt instruments [a]	719	–	–	150	–	3	–	–	872
Total	18,058	300	(790)	150	–	220	–	–	17,938
Other financing arrangements [b]									
Non-current portion	345	–	–	3	–	75	(51)	–	372
Current portion	347	–	–	79	19	(69)	51	–	427
Total	692	–	–	82	19	6	–	–	799
Total	**18,750**	**300**	**(790)**	**232**	**19**	**226**	**–**	**–**	**18,737**

(a) As of December 31, 2017 and June 30, 2018, these were included in Current financial debt.
(b) Subsidiaries' bank financings, other financing arrangements and debts in respect of finance lease.
(c) Mainly the net change in lease financing leases.
(d) Net flows of accrued interest as of December 31, 2017 (included in cash flows provided by operations), and accrued interest in respect of the period.

Note 9.2. Net debt

(in € millions)	As of December 31 **2017 Restated**	As of June 30 **2018**
Non-current financial debt	15,716	15,382
Current financial debt	3,792	4,063
Short-term investments	(3,462)	(5,027)
Cash and cash equivalents	(638)	(700)
Derivatives – assets – non-current [a]	(16)	(33)
Derivatives – assets – current [a]	(19)	(22)
Net debt	**15,372**	**13,663**

(a) Derivatives for net debt management.

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)	**2017 Restated**	**2018**
Net income, Group share	975	1,204
Coupon relating to hybrid financing, net of tax	–	7
Adjusted net income – Group share	975	1,197
Number of outstanding shares		
As of January 1	616,982,797	632,017,384
Effect of changes during the period	15,034,587	14,731,153
As of June 30	632,017,384	646,748,537
Average number of outstanding shares		
• Before dilution	621,507,211	638,169,867
Dilutive impacts		
Group performance shares and stock-options	274,044	913,858
• After dilution	621,781,256	639,083,725
Net income – Group share, per share		
• Before dilution	1.57	1.88
• After dilution	1.57	1.87

Note 10.2. Payment of 2017 dividend with the option of payment in shares

The Shareholders' meeting of April 26, 2018 held in Paris approved the proposed dividend relating to the 2017 fiscal year of €1.90 per share and decided that each shareholder could choose to receive the dividend payment in cash or in DANONE shares.

The period to make this choice was open from May 4, 2018 (inclusive) to May 18, 2018 (inclusive). At the end of this period, 64.64% of the rights were exercised in favor of the 2017 dividend payment in shares.

	Six-month period ended June 30 2018		
(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	13,475,904		
Fractional shares		(13)	(13)
Portion paid in cash [(a)]		**(418)**	**(418)**
Total	**13,475,904**	**(431)**	**(431)**

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

It should be noted that the issue price of new shares used for the dividend payment is €57.17 per share. It corresponds to 90% of the average Euronext opening list prices during the 20 trading days preceding the date of the Shareholders' Meeting less the amount of the dividend, rounded up to the next euro cent. These shares carry dividend rights as of January 1, 2018 and 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

		Movements during the period						
(in € millions)	As of December 31, 2017 Restated	Changes in scope	Increase	Reversal of used provisions	Reversal of unused provisions	Currency translation differences	Other	As of June 30, 2018
Tax and territorial risks	572	–	25	(8)	(8)	(4)	12	590
Employee-related and commercial disputes and	366	–	28	(32)	(9)	(7)	(3)	343
Restructuring provisions	64	–	3	(20)	(5)	–	–	42
Total [(a)]	**1,003**	–	**56**	**(61)**	**(23)**	**(10)**	**9**	**975**

(a) The current portion totaled €98 million as of June 30, 2018 (€38 million as of December 31, 2017).

Changes to Other provisions and non-current liabilities during the first half of 2018 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. They concern several provisions, none of which is significant individually;
- other changes correspond primarily to reclassifications and changes in scope.

As of June 30, 2018, 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.

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 26, 2018 authorized the Board of Directors to grant Group performance shares in 2018 to Group employees and executive directors (including the Executive Committee) of the Company. In the first six months of 2018, no Group performance shares were granted. The grant of Group performance shares under the 2018 authorization is subject to the approval of the Board of Directors on July 26, 2018.

Note 13. Subsequent events

To the best of the Company's knowledge, no material events occurred between the end of the reporting period and July 26, 2018, the date on which the Board of Directors approved 2018 condensed interim consolidated financial statements.

Statutory Auditor’s review report on 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, 2018;
- 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 notes 4.2 “Partial disposal of Danone’s stake in Yakult” and 6.2 “Boycott in Morocco of Central Danone products” which expose the details of the effects of these two events on the condensed interim consolidated financial statements.

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, 2018

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, 2018

Chairman and Chief Executive Officer,

Emmanuel FABER

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