



SECOND PARTY OPINION¹ ON THE SUSTAINABILITY OF DANONE'S SOCIAL BOND²

March 2018

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Social Bond (hereafter the “Bond”) proposed to be issued by Danone (the “Issuer”), according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) assessment methodology, and on the alignment with the Social Bond Principles voluntary guidelines (the “SBP”).

The opinion is based on the review of the two following components:

- **Issuer:** document-based evaluation of the sustainability profile of Danone, including:
 - ESG performance, assessed in February 2017³ through the complete process of rating and benchmark developed by Vigeo Eiris Rating.
 - ESG controversies’ management and capacity to mitigate these risks, and the issuer’s involvement in controversial activities⁴, assessed at the hereby due diligence date.
- **Issuance:** analysis of the coherence between the Social Bond Framework and issuer’s sustainability strategy and commitments, and document-based evaluation of the Social Bond Framework.

Vigeo Eiris’ sources of information are gathered from our rating database, Danone, press content and stakeholders, complemented by interviews with involved departments or managers, held at the Issuer’s head office in Paris (France). Vigeo Eiris has carried out its due diligence from February 2nd to March 9th 2018.

We were able to access all appropriate documents and to speak to all solicited people. We consider that the provided information enables us to establish our opinions with a reasonable level of assurance of their completeness, precision and reliability.

VIGEO EIRIS’ OPINION

Vigeo Eiris confirms that the Bond considered by Danone is a “Social Bond” with positive contribution to sustainable development, in line with the Social Bond Principles.

Vigeo Eiris reaches a reasonable⁵ level of assurance of the Bond’s contribution to sustainability.

- **Issuer:** Danone displays an overall advanced⁵ ESG performance (see Part I).
 - As of February 2017, Danone ranks first in Vigeo Eiris’ “Food” sector which covers 17 European companies. Danone’s managerial approach appears advanced in the Environmental, Social/Societal and Governance pillars. Vigeo Eiris’ assurance that ESG risk factors of Danone are adequately managed is reasonable, including reputational, human capital, legal and operational risks.
 - As of today, Danone faces occasional allegations⁶ regarding Human Resources and Business Behaviour domains. The severity ranges from minor to significant based on the analysis of their impact on the company and its stakeholders. The company is overall reactive: it reports in a detailed way on its position on five cases and provided some corrective measures for two cases of minor severity.

Regarding the 15 controversial activities⁴ analysed by Vigeo Eiris, Danone has a major involvement in Animal Welfare and minor involvements in Genetic Engineering, Alcohol and Gambling.

¹ This opinion is to be considered as the “Second Party Opinion” described by the Social Bond Principles (‘External Review’ section). www.icmagroup.org

² The “Social Bond” is to be considered as the potential forthcoming bond, which issuance is subject to market conditions.

³ Date of the last rating cycle for Danone’s sector – all potential evolutions and data published after February 2017 are not included in the rating.

⁴ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

⁵ Definition of Vigeo Eiris’ scales of assessment (as detailed in the Methodology section of this document):
Level of Evaluation: Advanced, Good, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

⁶ The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of the issuer or its financial obligations.

- **Issuance:** The Issuer’s Social Bond Framework is coherent with Danone’s main strategic priorities and is considered to be good. The issuer is committed to make its Social Bond Framework and this Second Party Opinion publicly available in its website⁷ by the time of the Bond pricing (see Part II).
 - ▶ The net proceeds of the Bond issuance will be used to finance and refinance selected Eligible Projects, which contribute to clear social benefits and in most cases target specific populations with identified social needs. Eligible Projects mainly contribute to five United Nations Sustainable Development Goals (the “UN SDGs”). The social objectives associated with the selected Eligible Projects are clearly defined, measurable, relevant, although partially precise. We have recommended to quantify the social objectives of the selected Eligible Projects. The issuer will assess and when feasible quantify the social benefits.
 - ▶ The process for project evaluation and selection is clearly defined, is considered to be good in terms of transparency and governance, and relies on relevant selection criteria. The identification and management of environmental and social risks associated with the selected Eligible Projects are considered to be overall good, covering the identification and management of the main ESG risks associated with the selected Eligible Projects.
 - ▶ The rules for the management of proceeds are clearly defined by the Issuer and would enable a transparent allocation process.
 - ▶ The reporting process and commitments are good, covering both the funds allocation and sustainability objectives of the selected projects, reaching an overall reasonable level of assurance of the issuer’s capacity to report on the Social Bond’s use and outputs. Vigeo Eiris has recommended defining additional social benefits (impacts) indicators for most projects.

EXTERNAL REVIEW

Danone’s Social Bond issuance is supported by external reviews:

- The sustainability consultant review, i.e. the hereby Second Party Opinion performed by Vigeo Eiris, on the sustainability credentials of the Social Bond, based on pre-issuance commitments and covering the key features of the Social Bond, i.e. Issuer’s sustainability profile and commitments related to the issuance (use of proceeds, evaluation, selection and allocation processes, and reporting).
- An annual verification, i.e. the Third Party auditor, covering the allocation of funds on an annual basis and until the full allocation of proceeds.

This Opinion is valid as of the date of issuance limited to Danone’ first Social Bond intended to be issued in March 2018.

Paris, March 13^{en}, 2018



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: over the past 5 years, Vigeo Eiris has executed one audit mission for Danone and provided rating services. No established relationship (financial or other) exists between Vigeo Eiris and Danone.

This opinion aims to explain to investors why the Social Bond is considered sustainable and responsible, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer’s employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The correctness, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the projects financed by the Social Bond. Danone is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Social Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of Danone or its financial obligations. We do not express an opinion as a score when controversial activities, products and services are not prohibited by international standards or treaties. The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Restriction on distribution and use of this Opinion: the opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication is at the discretion of the Issuer, submitted to Vigeo Eiris approval.

⁷ www.danone.com/

DETAILED RESULTS

Part I. ISSUER

Level of Danone's ESG performance

As of February 2017 (date of the last rating cycle for this sector), Danone's overall approach to manage ESG related issues is advanced.

Domain	Comments	Opinion	
Environment	Danone's performance in the Environment pillar is advanced.	Advanced	
	The Company discloses a comprehensive environmental strategy, including quantitative targets in terms of biodiversity protection, water and energy consumption, GHG emissions and environmental impacts from packaging. The Company's commitments to environmental protection are formalized, notably in its Animal Welfare Position Paper, its Packaging Policy, its Climate Policy and several specific position papers, such as the position paper on Food Waste. In addition, Danone has set relevant and specific quantifiable environmental targets in its Nature 2020 strategy related to fighting climate change by reducing the Company's footprint and helping nature sequester more carbon, protecting water resources, increasing the amount of biodegradable or renewable materials in packaging, promoting sustainable agricultural techniques and reducing food-waste.		Good
	Danone bases its environmental management policy on the international ISO 14001 standard. In 2015, 49% of the company's sites had obtained the ISO 14001 certification.		Limited
	For all the areas under review, relevant measures are disclosed – such as, the purchase of RSPO certified and physically segregated palm oil or watershed protection programmes. Of note, the company has allocated significant resources to promote sustainable agriculture. Most performance indicators disclosed show positive trends. However, reported CO2 emissions linked to energy use and wastewater chemical oxygen demand increased between 2013 and 2015. In addition, the Company does not disclose historical and consolidated data on wastewater biological oxygen demand, GHG emissions not linked to energy use or its transport mix.		Weak
Social	Danone's performance in the Social pillar is advanced.	Advanced	
	The Company's performance in the Human Rights domain is advanced. Danone's approach to fundamental labour rights and non-discrimination is framed by agreements signed with the International Union of Food and Allied Workers (IUF8) (the company has signed a group wide agreement with the IUF regarding trade union rights and in favour of professional equality and diversity). The Company has implemented extensive measures to monitor and inform employees on labour rights and to prevent discrimination and promote diversity. However, only basic measures have been implemented to manage fundamental human rights risks. The Company's performance on both fundamental labour rights and non-discrimination is best in class and disclosed key performance indicators for the share of women in management roles show steady improvement.		Good
	Danone's performance in the Human Resources domain is advanced. Danone has formalised several agreements with the IUF that cover social dialogue, sustainable employment, reorganisations, career management and health and safety and reports extensive measures for all issues under review. For instance, significant measures to limit the impact of "One Danone" reorganisation project, to promote employability and to develop employees' skills have been implemented. 'Working in a Safe Environment' audits are regularly conducted and quantitative targets have been set up to eradicate fatal accidents at work and to reach a lost-time accident frequency rate of 1 by 2020. Reported key performance indicators related to injury frequency present positive trends, however, accident severity and employee absenteeism show increasing and stable trends respectively.		
	Danone's performance in the Community Involvement domain is advanced. Danone discloses highly relevant policies, including its 2020 Nutrition commitments, and information on significant measures for all issues under review. Danone notably discloses a policy on implementing a responsible tax strategy. Relevant and significant resources are disclosed, including local production support through Danone Ecosystem Fund projects, capacity co-construction with the Livelihoods Fund, participation in initiatives to prevent land over exploitation and impact measurements audited by external parties. Danone contributes to increase the access to products and combating health problems linked to food by having operations and programmes in countries considered by the Global Hunger Index 2016 as having either 'extremely alarming', 'alarming' or 'serious' situations regarding hunger. However, room for improvement remains, notably regarding the lack of comparable historical data to assess trends for Danone's performance on access to nutrition and combating health problems.		Limited
		Weak	

⁸ The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) is an international federation of trade unions representing workers employed in: agriculture and plantations; the preparation and manufacture of food and beverages; hotels, restaurants and catering services; and all stages of tobacco processing.

Domain	Comments	Opinion
Governance	Danone's performance in the Governance pillar is advanced.	Advanced
	Danone's Corporate Governance performance is advanced. The majority of Board members is considered to be independent and Board diversity appears to be advanced. The Company has a Board Social Responsibility Committee which oversees social, environmental and ethical issues. Major voting rights restrictions as well as anti-takeover devices are still identified. On a positive note, Danone remains transparent on executive remuneration as well as the rationales that guide them: all elements of executive remuneration are disclosed on an individual basis. In addition, the fair value estimates of individual grants under the long term incentive plans are disclosed, in accordance with standards advocated by Vigeo Eiris. Remuneration is also reportedly linked to performance on corporate social responsibility objectives.	
	The Company's performance in the Business Behaviour domain is advanced. All issues under review are covered by formalised commitments and quantified targets have been set with regards to food safety, sustainable relationships with suppliers and the integration of environmental factors in the supply chain. The Company achieves its best performances in criteria linked to information to customers, due to a comprehensive system to ensure responsible marketing and commercial practices, and the integration of environmental and social factors in the supply chain. However, room for improvement remains regarding the prevention of anti-competitive practices, where no formalized training seems to be organized, and sustainable relationships with suppliers, since it is unclear which share of the Company's suppliers benefit from training or technical assistance.	Limited
		Weak

Danone is included in the following Vigeo Eiris Indices (as December 1st, 2017):

- Euronext Vigeo Eiris World 120
- Euronext Vigeo Eiris Europe 120
- Euronext Vigeo Eiris Eurozone 120
- Euronext Vigeo Eiris France 20.

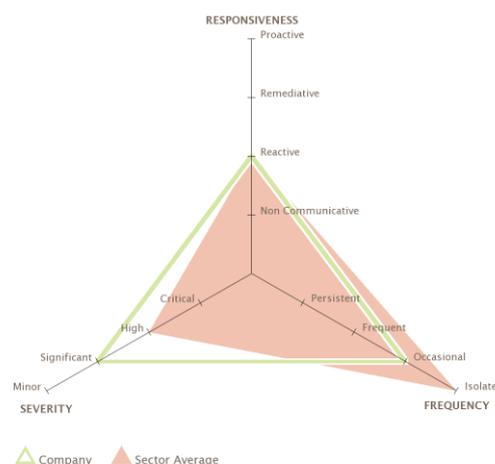
Stakeholder-related ESG controversies

Frequency: Danone faces occasional allegations: the Company is involved in seven controversies related to two domains analysed by Vigeo Eiris:

- Business Behaviour, namely in Product safety, Labelling and marketing, Responsible Customer Relations, Supplier relations, and Anti-competitive practices.
- Human Resources, namely in Social Dialogue and Reorganisation.

Severity: The level of severity ranges from minor to significant based on the analysis of their impact on the company and its stakeholders: the company faces 3 cases of minor severity and 4 cases of significant severity.

Responsiveness: Danone is overall reactive: the Company reports in a detailed way on its position on five cases and provided some corrective measures for two cases of minor severity.



Involvement in controversial activities

Regarding the involvement in the 15 controversial activities analysed by Vigeo Eiris and based on an estimation of the level and type of company involvement, Danone has a major involvement in Animal Welfare, and minor involvements in Genetic Engineering, Alcohol and Gambling:

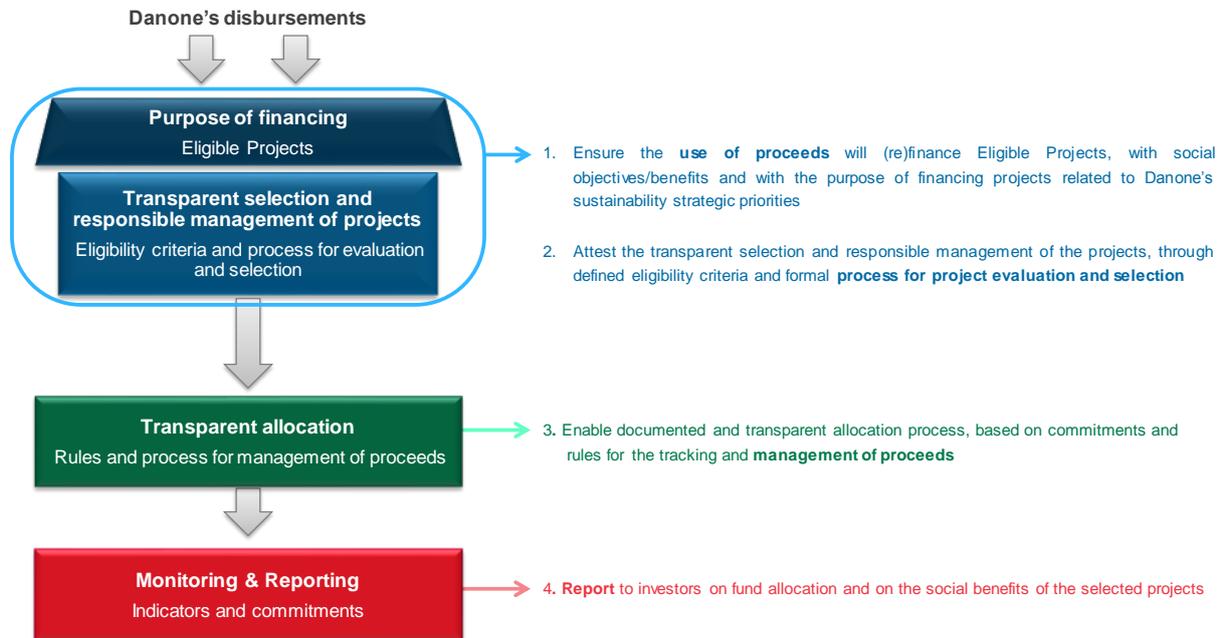
- Animal Welfare: the Company has an estimated turnover between 0-5% from the production of non-cosmetic products and potentially intensive farming operations.
- Genetic Engineering: Danone's controversial involvement in Genetic Engineering is due to the supply of own-branded food products potentially containing GMOs in the US. The Company is committed to communicate transparently to costumers by labelling all products that may contain more than 0.9% of GMO ingredients in the US. Furthermore, Danone has launched a Pledge with which it has committed to make all products from the Dannon brand family and the Oikos, Danimals, Non-GMO Project Verified products.
- Alcohol and Gambling: Danone has an estimated turnover from alcohol and gambling below 1% of the total turnover. Danone holds a 100% stake in the subsidiary Evian Resort which operates the Evian casino, including bars and restaurants, providing alcoholic beverages to its customers, and games of chance in its business.

Danone has no involvement in any of the other 11 controversial activities analysed by Vigeo Eiris.

Part II. ISSUANCE

Danone has established a Social Bond Framework to document its first Social Bond issuance. Danone will make its Social Bond Framework and Vigeo Eiris' Second Party Opinion available for investors during the roadshow and publicly available on its website by the time of the Bond's pricing.

The framework refers to the four core components of the Social Bond Principles, as presented in the following graphic:



Coherence of the issuance

Danone's Social Bond issuance is coherent with the organization's main sustainability priorities, and contributes to achieve its commitments and objectives.

Vigeo Eiris has a reasonable level of assurance of Danone's capacity to integrate relevant issues in terms of social responsibility with the financed projects.

Danone's interest in the social and environmental impact of its business activities was translated into an action plan in 2001 with the launch of "Danone Way". This initiative is the engine with which the company integrates the culture of sustainable development across all its operations and subsidiaries. Danone Way provides recommendations of sustainable practices categorized in four categories: "Economic", "Social", "Health & Nutrition" and "Nature". By 2017, the program covered 83.9% of sales and the results are audited by an independent third party.

By issuing a Social Bond to finance Projects that directly refer to Danone Way, Danone coherently responds to its overall sustainability strategy. In addition, the selected Eligible Projects are in line with the main social responsibilities of the food sector, namely the contribution to end obesity and malnutrition, product safety, responsible procurement and appropriate labelling of its products.

Vigeo Eiris has recommended to quantify the contribution of this Social Bond issuance to its 2020 objectives.

Use of proceeds

Vigeo Eiris estimates that the definition of the selected Eligible Projects is clear and most of them target specific populations with identified social needs as recommended by the Social Bond Principles. The associated social objectives are defined, relevant, measurable, although partially precise. We have recommended to quantify the social objectives of the selected Eligible Projects. The issuer will assess and when feasible quantify the social benefits, in line with the Social Bond Principles.

Vigeo Eiris considers that the Eligible Projects’ contribution to sustainable development is positive due to the expected social benefits identified by the issuer and formalized in their Social Bond Framework.

The net proceeds of the Social Bond will be used to finance and refinance, in whole or in part, new and existing disbursements related to a list of Eligible Social Projects (the “Eligible Projects”) selected by the issuer based on Danone’s sustainability strategy.

- “Existing” meaning disbursements made between 2015 and the Bond issuance date.
- “New” meaning disbursements to be made by December 31st, 2020 at the latest.

The issuer has classified the selected Projects in 5 general categories:

- Research & Innovation for Advanced Medical Nutrition
- Social Inclusiveness
- Responsible Farming and Agriculture
- Entrepreneurship Financing
- Quality Healthcare and Parental Support.

The Eligible Project categories’ were outlined to respond to a list of already selected Projects. Hence, they appropriately define the Projects to be financed by Danone’s first Social Bond issuance, but limit its use to constitute a framework for potential future issuances.

For Danone’s first Social Bond issuance, the selected Eligible Projects are clearly defined, they will contribute to clear social benefits and in most cases target specific populations with identified social needs:

- Access to specialized nutrition products for people with specific nutritional needs
- Socio-economic development of local communities/small-scale farmers, mainly in developing countries
- Progress towards gender equality in developing countries
- Promotion of a healthy environment
- Access to adequate food and clean drinking water for low-income populations
- Socio-economic development of SMEs operating in the health and nutrition sectors
- Development of responsible farming practices and socio-economic development of milk producers
- Equal access to health and progress towards gender equality for Danone employees.

Vigeo Eiris estimates that the associated social objectives are clearly defined, measurable, relevant, although partially precise. We have recommended to quantify the social objectives of the selected Projects.

The issuer will assess and when feasible quantify the social benefits, in line with the Social Bond Principles.

In addition, Vigeo Eiris considers that the defined Eligible Projects categories mainly contribute to five UN SDGs.

Categories	Selected Eligible Projects	Contribution to UN SDGs
Research & Innovation for Advanced Medical Nutrition	Utrecht R&I centre for advanced medical nutrition	SDGs 3.2, 3.4, 9.5
Responsible Farming and Agriculture	CPM Milk Supply	SDG 8.5
	Danone US Pledge – non GMO Project	SDGs 2.3, 2.4, 2.5, 8.5
Social Inclusiveness	Danone Communities	SDGs 1.2, 2.2, 8.5
	Livelihoods Carbon Fund	SDGs 1.2, 2.3, 2.4, 8.5
	Ecosystem Fund	SDGs 1.2, 2.3, 2.4, 8.5
	Livelihoods fund for family farming	SDGs 2.3, 2.4, 8.5

Entrepreneurship Financing	Danone Manifesto Venture -AccelFoods Fund II LP	SDG 9.3
	Health for Life Capital	SDG 9.3
Quality Healthcare and Parental Support	Dan'Cares	SDGs 3.8, 8.5
	Danone Global Parental Policy (DGPP)	SDGs 3.8, 8.5



Contribution to UN SDG 1. No poverty

The UN SDG 1 consists in ending poverty in all its forms everywhere. More precisely, 2030 targets include actions to reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions

By using the Social Bond proceeds to finance Danone Communities, Livelihoods Carbon Fund and Ecosystem Fund, Danone contributes to UN SDG 1, with regards to the above-mentioned target.



Contribution to UN SDG 2. Zero hunger

The UN SDG 2 consists in ending hunger, achieving food security and improved nutrition and promoting sustainable agriculture. SDG 2 targets by 2030 include:

- To end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons.
- To double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.
- To ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
- To maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed.

By using the Social Bond proceeds to finance the Danone's US Pledge – non GMO Project, Danone Communities, Livelihoods Carbon Fund, Ecosystem Fund and Livelihoods fund for family farming, Danone contributes to UN SDG 2, with regards to the above-mentioned targets.

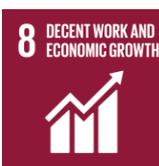


Contribution to UN SDG 3. Good health and well-being

The UN SDG 3 consists in ensuring healthy lives and promoting well-being for all at all ages. In particular, 2030 targets include:

- To promote mental health and well-being.
- To achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

By using the Social Bond proceeds to Utrecht R&I centre for advanced medical nutrition, Dan'Cares and the Parental Policy, Danone is in line with UN SDG 3, with regards to the above-mentioned targets.



Contribution to UN SDG 8 Decent work and economic growth

The UN SDG 8 consists in promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. In particular, 2030 targets include the achievement of full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. By using the Social Bond proceeds to finance CPM Milk Supply, Danone's US Pledge – non GMO Project, Danone Communities, Livelihoods Carbon Fund, Ecosystem Fund, Livelihoods fund for family farming, Dan'Cares and Danone Global Parental Policy, Danone's Manifesto Venture, Health for Life Capital, Danone contributes to UN SDG 8, with regards to the above-mentioned target.



Contribution to UN SDG 9. Industry, innovation and infrastructure

The UN SDG 9 consists in building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation. More precisely, 2030 target include:

- To increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
- To enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.

By using the Social Bond proceeds to finance Utrecht R&I centre for advanced medical nutrition, Danone's Manifesto Venture and Health for Life Capital, Danone contributes to UN SDG 9, with regards to the above-mentioned targets respectively.

Process for project evaluation and selection

Vigeo Eiris estimates that the process for project evaluation and selection is clearly defined, is considered to be good in terms of transparency and governance, and relies on relevant selection criteria.

As a result, the process is considered in line with the Social Bond Principles guidelines.

- The evaluation and selection of Eligible Projects is based on relevant internal expertise, with well-defined roles and responsibilities:
 - A Steering Committee has been created for the evaluation and selection of the projects that are going to be (re)financed by Danone's first Social Bond issuance. The Steering Committee is integrated by directors of the Legal, Corporate Affairs & Sustainability, Nature & Cycles Sustainability, Investors Relations, Financing & Treasury, Corporate Finance Control & Services and Procurement.
 - Danone has a Sustainability Integration Committee (SIC), integrated by directors and senior managers from the relevant business units related to the selected Projects⁹. The overall SIC mission is to oversee the integration of sustainable development issues within Danone's strategy and to ensure their operating implementation and communication.
 - As of the Social Bond issuance, the SIC will be in charge of monitoring the project selection and allocation process. The decisions taken by the SIC will be communicated to the Social Responsibility Committee responsible for overseeing Danone's societal project.
- This process was reasonably structured:
 - For the project evaluation and selection process, the Steering Committee conducted a series of interviews with senior directors and managers from the business units in charge of the management and/or development of the different Eligible Projects¹⁰ and an external member coming from the banking sector.
 - The senior managers responsible for the development and/or management of the pre-selected Eligible Projects were asked to fill in a form in order to collect detailed information about the projects.
 - The Steering Committee reviewed and selected the final list of Eligible Projects.
- The verification and traceability is ensured throughout the process:
 - The Steering Committee met two times to evaluate and select the Eligible Projects of Danone's first Social Bond issuance and meeting minutes have been created.
 - The Steering Committee will annually verify if all projects continue to comply with the eligibility criteria and communicate the conclusion to the SIC.

The eligibility criteria were defined to respond to the already selected Projects. Hence, they are relevant exclusively for the selected Projects financed by Danone's first Social Bond issuance.

- In case of a future potential issuance, Vigeo Eiris has recommended to precisely define selection and exclusion criteria in order to ensure the appropriate selection of projects.

The identification and management of environmental and social risks associated with the selected Eligible Project are considered to be overall good, covering the identification and management of the main ESG risks associated with the selected Eligible Projects.

- Due to the variety of practices undergone by the concerned business units to identify and manage the ESG risks associated to the selected Eligible Projects, we have limited visibility of the eligibility criteria used by each of them. However, considering Danone's overall advanced ESG performance, we have a reasonable level of assurance of Danone's ability to identify and manage these risks at project level.

Danone has committed to undergo an annual controversies screening on the Social Bond portfolio. In the event of any material ESG controversy related to an eligible project within the Social Bond portfolio, the SIC, upon recommendation of the Steering Committee, may decide to cease to invest any new money in the corresponding project. The materiality of the controversy is left to the judgement of the SIC.

⁹ Corporate Affairs & Sustainability, Nature & Cycles Sustainability, Danone Communities, Livelihoods Funds, Alimentation Initiative Catalyst, Advanced Medical Nutrition, Water, Strategy & Corporate Development, Global Nutrition, Cycles & Procurement, Dairy, Head of Culture, Engagement & Social Innovation, Secretary of the Board and Marketing

¹⁰ Sustainability, Financial Management, Danone Communities, Ecosystem Funds, Nature & Climate, Ecosystem Fund, R&I Nutricia centre, Global Benefits, Danone Manifesto Ventures, Milk Procurement, Original Material, Health for Life Capital

Management of proceeds

Vigeo Eiris considers that Danone's rules for management of proceeds are clearly defined and would enable a documented and formalized transparent allocation process, aligned with the Social Bond Principles guidelines.

The net proceeds of the Social Bond will be managed by Danone S.A in the form of liquidity in a single funding pool. The Sustainability Integration Committee will then validate the allocation of the funds to the selected Eligible Projects. The issuer has committed to allocate all the proceeds to the selected Eligible Projects at settlement or by 31st December 2020.

The allocation of funds to Eligible Projects will be tracked by the Financing & Treasury and Sustainability Integration teams.

Unallocated funds will be held temporarily in form of cash, cash equivalent or in labelled Socially Responsible Investment Funds.

In case of divestment or if a project fails to comply with the eligibility criteria or in the event of any material ESG controversy related to an eligible project within the Social Bond portfolio, the SIC, upon recommendation of the Steering Committee, may decide to replace this project with another one respecting the eligibility criteria.

- Vigeo Eiris has recommended the issuer to undergo an external review in case of any modification of the list of financed and refinanced projects to ensure the appropriate use of proceeds.

In addition, an independent party will verify that the allocation of funds complies with the use of proceeds defined in the issuer's Social Bond Framework once a year until full allocation.

Monitoring & Reporting

The reporting process and commitments are good, covering both the funds allocation and sustainability objectives of the selected projects, reaching an overall reasonable level of assurance of the issuer's capacity to report on the Social Bond's use and outputs. Vigeo Eiris has recommended defining additional social benefits (impacts) indicators for most projects.

The process for ESG monitoring, data collection, consolidation and reporting is clearly defined and formalized through Vigeo Eiris' second party opinion.

This process is based on relevant internal expertise:

- Relevant people across Danone's business units in charge of the Eligible Projects will be responsible of collecting and transmitting the sustainability results and impact data to Danone Sustainability Integration team, who will be in charge of consolidating all the information to present it to the SIC.
- The Sustainability Integration team will be in charge of creating the Integrated Report, which will include the Social Bond's reporting.

The Integrated Report will be publicly available in Danone's website.

Danone has selected a set of relevant indicators to report on annual basis on the fund allocation and sustainability benefits from the financed Projects.

- The selected reporting indicators related to the use of proceeds and the social outputs are relevant for the selected Eligible Projects.
- We have recommended defining additional indicators to report on the social benefits (impacts) of most selected Eligible Projects.
- Calculations methodologies will be made publically available on the Issuer website.

Beyond the Social Bond Principles guidelines, the Issuer will monitor and report on the responsible management of the selected Projects at corporate level. Vigeo Eiris has recommended reinforcing the information on ESG management at project level, depending on the available information and ESG matters relevance.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

Vigeo Eiris' methodology to define and to assess corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. The evaluation framework has been customized regarding material issues, based on the Food assessment framework, projects specificities and emerging issues.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable. Vigeo Eiris has reviewed the Issuer's related documents and websites related to the bond evaluation (including but not limited to Danone's Social Bond Framework, Integrated Report 2016, Danone's Manifesto, Nutritional Commitments, Minutes and presentation of the Steering Committee and documents describing each one of the selected Eligible Projects) and interviewed members from several issuer's businesses units.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB: the Issuer performance, i.e., commitments, processes, results of the Issuer, related to ESG issues have been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating.

Level of the Issuer's ESG performance

The Issuer has been evaluated by Vigeo Eiris on its Corporate Social Responsibility (CSR) performance, based on relevant ESG drivers organized in the 6 sustainability domains. Danone's performance has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).
 - Implementation: coherence of the implementation (process, means, control/reporting).
 - Results: indicators, stakeholders' feedbacks and controversies.
- Scale for assessment of ESG performance: Advanced, Good, Limited, Weak.

Stakeholder-related ESG controversies and involvement in controversial activities

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Severity: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non Communicative).
- Frequency: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

In addition, 15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Social Bond framework has been evaluated by Vigeo Eiris according to the Social Bond Principles and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds guidelines are defined to ensure that the funds raised are used to finance and/or refinance an Eligible Projects and are traceable within the issuing organisation. Each Project endorsed shall comply with at least one of the Eligible Projects category definition in order to be considered as an Eligible Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Social Bond related Eligible Projects has been precisely defined, with regard to the Issuer's commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for project evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Social Bond framework, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, environmental benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the Social Bond proceeds, collected at project level and potentially aggregated at Bond level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of assessment for processes and commitments: Weak, Limited, Good, Advanced.
- Scale of level of assurance of the Issuer's capacity: Reasonable, Moderate, Weak.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework.
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is a global provider of environmental, social and governance (ESG) research to investors and public and private corporates. The agency evaluates the level of integration of sustainability factors into organisations' strategy and operations, and undertakes a risk assessment to assist investors and companies' decision-making.

Vigeo Eiris offers two types of services through separate business units

- ▶ **Vigeo Eiris rating** offers databases, sector-based analyses, ratings, benchmarks and portfolio screening, to serve all ethical and responsible investment strategies.
- ▶ **Vigeo Eiris enterprise** works with organisations of all sizes, from all sectors, public and private in order to support them in the integration of ESG criteria into their business functions and strategic operations.

Vigeo Eiris methodologies and rating services adhere to the strictest quality standards and have been certified to the independent ARISTA® standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Santiago, Stockholm and Tokyo and has a team of 200. The agency works with partners through its Vigeo Eiris Global Network.

For more information: www.vigeo-eiris.com