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4

FINANCIAL STATEMENTS

4.1 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement and earnings per share

		Year ended December 31	
(in € millions, except earnings per share in €)	Notes	**2016**	**2017**
Sales	2.4, 5.2	**21,944**	**24,677**
Cost of goods sold		(10,744)	(12,459)
Selling expense		(5,562)	(5,890)
General and administrative expense		(2,004)	(2,225)
Research and Development expense		(333)	(342)
Other income (expense)	5.3	(278)	(219)
Recurring operating income		**3,022**	**3,543**
Other operating income (expense)	6.1	(99)	192
Operating income		**2,923**	**3,734**
Interest income on cash equivalents and short-term investments		130	151
Interest expense		(276)	(414)
Cost of net debt	10.7	(146)	(263)
Other financial income	11.3	67	137
Other financial expense	11.3	(214)	(312)
Income before tax		**2,630**	**3,296**
Income tax expense	8.1	(804)	(842)
Net income from fully consolidated companies		**1,826**	**2,454**
Share of profit of associates	4.8	1	109
Net income		**1,827**	**2,563**
Net income – Group share		**1,720**	**2,453**
Net income – Non-controlling interests		107	110
Net income – Group share, per share	13.4	**2.79**	**3.92**
Net income – Group share, per share after dilution	13.4	**2.79**	**3.91**

Consolidated statement of comprehensive income

	Year ended December 31	
(in € millions)	**2016**	**2017**
Net income – Group share	**1,720**	**2,453**
Translation adjustments	(33)	(1,724)
Cash flow hedge derivatives		
Gross unrealized gains and losses [a]	385	(422)
Tax effects	(134)	18
Available-for-sale financial assets		
Gross unrealized gains and losses	–	7
Amount recycled to profit or loss in the current year	–	–
Tax effects	(1)	2
Other comprehensive income, net of tax	–	–
Items that may be subsequently recycled to profit or loss	**217**	**(2,120)**
Actuarial gains and losses on retirement commitments		
Gross gains and losses	(134)	11
Tax effects	19	(5)
Items not subsequently recyclable to profit or loss	**(116)**	**5**
Total comprehensive income – Group share	**1,821**	**339**
Total comprehensive income – Non-controlling interests	99	79
Total comprehensive income	**1,920**	**418**

(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. In 2016, relates mainly to the impact of the effective portion of these hedges.

Consolidated balance sheet

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Assets			
Goodwill		11,620	18,132
Brands		3,879	6,412
Other intangible assets		304	401
Intangible assets	2.4, 9.1 to 9.3	15,803	24,945
Property, plant and equipment	5.5	5,036	6,005
Investments in associates	4.1 to 4.8	2,730	2,678
Investments in other non-consolidated companies		81	83
Long-term loans and long-term financial assets		208	177
Other financial assets	11.1, 11.2	288	260
Derivatives – assets [a]	12.2, 12.3	148	16
Deferred taxes	8.2	831	722
Non-current assets		**24,836**	**34,627**
Inventories	5.4	1,380	1,668
Trade receivables	5.4	2,524	2,794
Other current assets	5.4	1,061	1,046
Short-term loans		18	14
Derivatives – assets [b]	12.2, 12.3	419	19
Short-term investments	10.1, 10.5	13,063	3,462
Cash and cash equivalents		557	638
Assets held for sale		92	–
Current assets		**19,113**	**9,641**
Total assets		**43,949**	**44,268**

(a) Derivatives used to manage net debt.
(b) Derivatives used to manage net debt. As of December 31, 2016, also included instruments used to hedge the acquisition price of WhiteWave, whose fair value was €377 million.

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Equity and liabilities			
Share capital		164	168
Additional paid-in capital		4,178	4,991
Retained earnings and others [a]	10.3	12,035	14,723
Cumulative translation adjustments		(1,460)	(3,182)
Accumulated other comprehensive income		(126)	(545)
Treasury shares and DANONE call options [b]	13.2	(1,682)	(1,653)
Equity – Group share		**13,109**	**14,501**
Non-controlling interests	3.5	85	73
Consolidated equity		**13,194**	**14,574**
Financing	10.1 to 10.4	18,438	15,529
Derivatives – liabilities [c]	12.2, 12.3	19	149
Liabilities related to put options granted to non-controlling interests	3.5	315	38
Non-current financial debt		18,771	15,716
Provisions for retirement obligations and other long-term benefits	7.3	959	919
Deferred taxes	8.2	1,090	1,644
Other non-current provisions and liabilities	14.2	885	1,003
Non-current liabilities		**21,705**	**19,282**
Financing	10.1 to 10.4	2,119	3,221
Derivatives - liabilities [c]	12.2, 12.3	8	1
Liabilities related to put options granted to non-controlling interests	3.5	384	569
Current financial debt		2,510	3,792
Trade payables	5.4	3,772	3,904
Other current liabilities	5.4	2,741	2,716
Liabilities directly associated with assets held for sale		26	–
Current liabilities		**9,050**	**10,411**
Total equity and liabilities		**43,949**	**44,268**

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

Consolidated statement of cash flows

		Year ended December 31	
(in € millions)	Notes	**2016**	**2017**
Net income		**1,827**	**2,563**
Share of profit of associates net of dividends received	4.8	52	(54)
Depreciation, amortization and impairment of tangible and intangible assets	5.5, 9.3	786	974
Increases in (reversals of) provisions	14.2	51	153
Change in deferred taxes	8.2	(65)	(353)
(Gains) losses on disposal of property, plant and equipment and financial investments		(74)	(284)
Expense related to Group performance shares	7.4	24	22
Cost of net financial debt	10.7	149	265
Net interest paid		(148)	(186)
Net change in interest income (expense)		–	80
Other components with no cash impact		13	(15)
Cash flows provided by operating activities, before changes in net working capital		**2,615**	**3,085**
(Increase) decrease in inventories		(24)	(122)
(Increase) decrease in trade receivables		(110)	(190)
Increase (decrease) in trade payables		298	145
Change in other receivables and payables		(127)	40
Change in working capital requirements	5.4	37	(127)
Cash flows provided by (used in) operating activities		**2,652**	**2,958**
Capital expenditure [a]	5.5	(925)	(969)
Proceeds from the disposal of property, plant and equipment [a]	5.5	27	45
Net cash outflows on purchases of subsidiaries and financial investments [b]	2.3	(66)	(10,949)
Net cash inflows on disposal of subsidiaries and financial investments [b]	2.5	110	441
(Increase) decrease in long-term loans and other long-term financial assets		6	(4)
Cash flows provided by (used in) investment activities		**(848)**	**(11,437)**
Increase in share capital and additional paid-in capital		46	47
Purchase of treasury shares (net of disposals) and DANONE call options [c]	13.2	32	13
Issue of perpetual subordinated debt securities	10.3, 10.4	–	1,245
Interest on perpetual subordinated debt securities	10.4	–	–
Dividends paid to Danone shareholders [d]	13.5	(985)	(279)
Buyout of non-controlling interests	3.5	(295)	(107)
Dividends paid		(94)	(86)
Contribution from non-controlling interests to capital increases		6	1
Transactions with non-controlling interests		(383)	(193)
Net cash flows on hedging derivatives [e]		50	(52)
Bonds issued during the period	10.3, 10.4	11,237	–
Bonds repaid during the period	10.3, 10.4	(638)	(1,487)
Net cash flows from other current and non-current financial debt	10.3	(442)	(564)
Net cash flows from short-term investments		(10,531)	9,559
Cash flows provided by (used in) financing activities		**(1,616)**	**8,289**
Effect of exchange rate and other changes [f]		(151)	272
Increase (decrease) in cash and cash equivalents		**38**	**81**
Cash and cash equivalents as of January 1		**519**	**557**
Cash and cash equivalents as of December 31		**557**	**638**
Supplementary disclosures			
Income tax payments during the year		(891)	(1,116)

(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. As of December 31, 2016, also includes and consists almost entirely of cash flows related to the hedging of the WhiteWave acquisition price that expired in 2017.
(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 functional currency, (ii) translating the financial statements of companies with a functional currency other than the euro, (iii) changes in the consolidation scope, and (iv) other non-monetary items.

Consolidated statement of changes in equity

(in € millions)	Notes	As of January 1, 2017	Movements during the period: Other comprehensive income	Capital increase	Other transactions involving treasury shares and DANONE call options [b]	Counterpart entry to pre social-tax expense relating to performance shares [c]	Dividends paid to Danone shareholders – portion in shares	Dividends paid to Danone shareholders – portion in cash	Issue of undated subordinated notes	Other transactions with non-controlling interests	Other changes	As of December 31, 2017
Share capital		**164**					3					**168**
Additional paid-in capital		**4,178**		46			766					**4,991**
Retained earnings and others [a]	10.3	**12,035**	2,453			22	(770)	(279)	1,245	(10)	27	**14,723**
Cumulative translation adjustments		**(1,460)**	(1,724)							1	1	**(3,182)**
Gains and losses related to cash flow hedging derivatives, net of tax		**271**	(405)								(26)	**(160)**
Gains and losses related to available-for-sale financial assets, net of tax	12	**41**	9									**50**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	8	**(439)**	5								(2)	**(436)**
Other comprehensive income		**(126)**	(391)	–	–	–	–	–	–	–	(28)	**(545)**
Treasury shares and DANONE call options	13.2	**(1,682)**			28							**(1,653)**
Equity – Group share		**13,109**	**338**	**47**	**28**	**22**	**–**	**(279)**	**1,245**	**(8)**	**–**	**14,501**
Non-controlling interests		**85**	79					(86)		(6)		**73**
Consolidated equity		**13,194**	**417**	**47**	**28**	**22**	**–**	**(365)**	**1,245**	**(14)**	**–**	**14,574**

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

			Movements during the period								
(in € millions)	Notes	**As of January 1, 2016**	**Other comprehensive income**	**Capital increase**	**Other transactions involving treasury shares and DANONE call options [a]**	**Counterpart entry to pre-tax expense relating to performance shares [b]**	**Dividends paid to Danone shareholders – portion in shares**	**Dividends paid to Danone shareholders – portion in cash**	**Other transactions with non-controlling interests**	**Other changes**	**As of December 31, 2016**
Share capital		**164**									**164**
Additional paid-in capital		**4,132**		46							**4,178**
Retained earnings		**11,454**	1,720		(5)	24		(986)	(118)	(56)	**12,035**
Cumulative translation adjustments		**(1,177)**	(33)							(250)	**(1,460)**
Unrealized gains and losses related to cash flow hedging derivatives, net of tax		**21**	251								**271**
Unrealized gains and losses related to available-for-sale financial assets, net of tax	12	**42**	(1)								**41**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	3.5	**(323)**	(116)								**(439)**
Other comprehensive income	3.5	**(261)**	**134**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(126)**
Treasury shares and DANONE call options	13	**(1,707)**			28				(2)		**(1,682)**
Equity – Group share		**12,606**	**1,821**	**46**	**23**	**24**	**–**	**(986)**	**(120)**	**(306)**	**13,109**
Non-controlling interests	2.5	**63**	99					(93)	(11)	27	**85**
Consolidated equity		**12,669**	**1,920**	**46**	**23**	**24**	**–**	**(1,079)**	**(131)**	**(279)**	**13,194**

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

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NOTE 1. ACCOUNTING PRINCIPLES

Note 1.1. Bases for preparation

The consolidated financial statements of Danone (the "Company"), its subsidiaries and associates (together, the "Group") as of and for the year ended December 31, 2017 were approved by Danone's Board of Directors on February 15, 2018 and will be submitted for approval to the Shareholders' Meeting on April 26, 2018.

The consolidated financial statements and the Notes to the consolidated financial statements are presented in euros. Unless indicated otherwise, amounts are expressed in millions of euros and rounded to the nearest million. Generally speaking, the values presented are rounded to the nearest unit. Consequently, the sum of the rounded amounts may differ, albeit to an insignificant extent, from the reported total. In addition, ratios and variances are calculated on the basis of the underlying amounts and not on the basis of the rounded amounts.

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

	Notes
Measurement of intangible assets	9.3
Measurement of investments in associates	4.1, 4.4, 4.7, 4.8
Measurement of deferred tax assets	8.3
Recognition of liabilities related to put options granted to non-controlling interests	1.2, 3.1, 3.5
Determination of the amount of provisions for risks and charges	14.1, 14.2, 14.3
Determination of the amount of rebates, trade supports and other deductions related to agreements with customers	5.1

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

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

Note 1.2. Accounting framework applied

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

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

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

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

- IFRS 15, *Revenue from Contracts with Customers*;
- IFRS 9, *Financial Instruments*.

Danone did not exercise the option to apply these standards, amendments and interpretations in advance to the consolidated financial statements for the year ended December 31, 2017.

In the case of IFRS 15, Danone conducted a qualitative and quantitative analysis of the main subjects that could affect the financial statements in collaboration with key personnel in the operating entities. 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 reclassifications between sales and selling expense related to services performed by customers as part of their contractual obligations. Danone has applied IFRS 15 since January 1, 2018 and has elected to restate the comparative financial statements.

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.

Danone has, since January 1, 2018, applied IFRS 9 in its entirety, including the provisions relating to hedge accounting, which are optional, and has elected not to restate the comparative financial statements.

Main standards, amendments and interpretations published by the IASB whose application is mandatory within the European Union as of January 1, 2019

- IFRS 16, *Leases*.

The impact of this standard on Danone's results and financial position is currently being assessed.

Other standards

None.

Other IASB and IFRIC projects

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

NOTE 2. ACQUISITION OF THE WHITEWAVE FOODS COMPANY

Note 2.1. Description of the transaction

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

The acquisition in cash, for USD 56.25 per share, represented, as of the date of the agreement, a total enterprise value of approximately USD 12.5 billion, including debt and certain other WhiteWave liabilities.

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

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

The transaction was finalized on April 12, 2017. In the course of finalizing the transaction, WhiteWave's shares were delisted from the New York Stock Exchange. Danone now holds 100% of the company's share capital.

Note 2.2. Organization of WhiteWave's activities

Danone organized WhiteWave's activities as follows:

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

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

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

Note 2.3. Acquisition price

The effective transaction price totaled USD 12.1 billion:

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

It should be noted that the full amount of financing needed for the transaction was raised at year-end2016:

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

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

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

Note 2.4. Recognition of the transaction

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

Preliminary goodwill

This business combination was recognized on a preliminary basis.

	As of the acquisition date [b]
(in € billions)	**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
Preliminary goodwill	**8.0**

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

The fair value adjustments relate mainly to intangible assets and the related deferred taxes.

The main components of the intangible assets were brands with an indefinite useful life and customer relationships. The provisional amount for the brands recognized was €3.0 billion, the most significant being *International Delight*, *Alpro* and *Silk*. The valuation method used was the relief-from-royalty method:

- the royalty rate was determined for each brand, based on benchmarks in the food and beverages sector. It was then adjusted as a result of qualitative analysis of the brand;
- it was applied to the forecast sales for each brand as per the long-term strategic plan;
- the discount rate used corresponded to the transaction's internal rate of return.

In addition, WhiteWave's bond debt was revalued at fair value as of the acquisition date, in accordance with the principles of Revised IFRS 3, on the basis of its listed price, *i.e.* USD 552.5 million.

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

Other information

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

WhiteWave's contribution to 2017 consolidated sales totaled €2.7 billion. Had the transaction been completed on January 1, 2017, the Group's 2017 consolidated sales would have been €25.7 billion, with recurring operating income of €3.6 billion.

Meanwhile, integration expenses for the period totaled €91 million, recognized under Other operating income (expense). These expenses corresponded mainly to transition and reorganization costs.

Note 2.5. Disposal of Stonyfield (EDP Noram, United States)

On July 3, 2017, Danone entered into an agreement with Lactalis for the sale of Stonyfield. The sale took place on August 1, 2017, at a price equivalent to €758 million.

The sale generated a capital gain of €628 million, which was recognized in Other operating income (expense) for the year ended December 31, 2017.

The net amount received after tax in respect of the transaction totaled €427 million and was recognized on the Net cash inflows on disposals of subsidiaries and financial investments line in the consolidated statement of cash flows for the year ended December 31, 2017.

Note 2.6. Early repayment of WhiteWave's bond debt

WhiteWave exercised its early repayment option in respect of the full amount of its USD 500 million bond debt which was due to mature in 2022 and had a coupon of 5.375%. The net, pre-tax impact of this early repayment was USD 76 million, corresponding mainly to the contractual penalty of USD 122 million net of the recycling of the USD 52.5 million revaluation reserve.

These amounts are fully recognized in the income statement for the year ended December 31, 2017 under Other financial income (expense). The USD 122 million cash flow is classified within Cash flows provided by (used in) financing activities in the consolidated statement of cash flows.

NOTE 3. FULLY CONSOLIDATED COMPANIES AND NON-CONTROLLING INTERESTS

Note 3.1. Accounting principles

Fully consolidated companies

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

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

Business combinations: acquisitions resulting in control being obtained, partial disposals resulting in control being lost

The accounting treatment of acquisitions resulting in control being obtained and partial disposals resulting in control being lost is as follows:

- when control is obtained, the incidental transaction costs are recognized in the income statement under the heading Other operating income (expense), and presented in the cash flow statement within cash flows from operating activities, in the year in which they are incurred. In addition, price adjustments are initially recognized at their fair value in the acquisition price and their subsequent changes in value are recognized in the income statement under the heading Other operating income (expense), all payments relating to these adjustments are presented in the cash flow statement within cash flows from operating activities;
- when control is obtained (or lost), the revaluation at its fair value of the interest previously held (or the residual interest) is recognized in the income statement under the heading (i) Other operating income (expense) when control is lost, (ii) Share of profit of associates when control is obtained of an entity previously accounted for as an associate, and (iii) Other financial income (expense) when control is obtained of an entity previously accounted for as an investment in a non-consolidated company;
- when control is obtained, non-controlling interests are recognized, either at their share of the fair value of the assets and liabilities of the acquired entity, or at their fair value. In the latter case, the goodwill is then increased by the portion relating to these non-controlling interests. The treatment adopted is selected on an individual basis for each acquisition.

Business combinations may be recognized on a provisional basis, as the amounts allocated to the identifiable assets acquired, liabilities assumed and goodwill may be amended during a maximum period of one year from their acquisition date.

Acquisitions or disposals of interests in controlled companies with no impact on control

Purchases or disposals of interests in controlled companies that do not result in control being obtained or lost are recognized directly in equity under the heading Retained earnings, as transfers between the Group share and the non-controlling interests'share in the consolidated equity, with no impact on profit or loss, and the corresponding cash flows are presented within cash flows relating to financing activities. The same accounting treatment is applied to the costs associated with these transactions.

Note 3.2. Main changes during the period

2017 fiscal year

(in percentage)	Notes	Reporting entity	Country	Transaction date [a]	Ownership as of December 31 2016	Ownership as of December 31 2017
Main companies consolidated for the first time during 2017						
WhiteWave group companies	2	EDP International and EDP Noram	Several countries, mainly United States and Europe	April	–	100.0%
Main consolidated companies with changes in ownership percentage						
Danone-Unimilk group	3.5	EDP International	CIS	October	92.9%	97.6%
Happy Family	3.5	Specialized Nutrition	United States	July	91.9%	100.0%
Main companies no longer fully consolidated as of December 31						
Stonyfield	2.5	EDP Noram	United States	July	100.0%	–

(a) Month in the 2017 fiscal year.

2016 fiscal year

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

(a) Month in the 2016 fiscal year.
(b) Dumex Baby Foods Co. Ltd.

Note 3.3. Fully consolidated companies

The list of companies included in the Group's consolidation scope, whether they are fully consolidated directly or indirectly or recognized as investments in associates as of December 31, 2017, is available on the Group's website (www.danone.com).

Note 3.4. Accounting for acquisitions resulting in control being obtained in 2017 other than WhiteWave

The business combinations carried out in 2017 other than WhiteWave were not material.

Note 3.5. Non-controlling interests

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

As a result of the buyouts carried out in recent years, non-controlling interests in companies that are fully consolidated but not wholly owned were not material as of December 31, 2017.

Liabilities related to put options granted to non-controlling interests

Accounting principles

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

In accordance with IAS 32, *Financial instruments: presentation*, when non-controlling interests hold put options enabling them to sell their investment to the Group, a financial liability is recognized in an amount corresponding to the present value of the option strike price, and the counterpart of the liability arising from these obligations is:

- on the one hand, a reduction in the carrying amount of the non-controlling interests;
- on the other, a reduction in the equity – Group share for the amount of the liability that exceeds the carrying amount of the corresponding non-controlling interests. This item is adjusted at the end of each reporting period to reflect changes in the strike price of the options and the carrying amount of non-controlling interests. In the absence of specific provisions stipulated in IFRS, the Company has applied the recommendations issued by the AMF (*Autorité des Marchés Financiers*) in November 2009.

Changes during the period

(in € millions)	**2016**	**2017**
As of January 1	862	699
New options and options recognized previously in accordance with IAS 39	–	–
Options exercised [a]	(285)	(111)
Changes in the present value of the options	121	19
As of December 31 [b]	**699**	**607**

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

NOTE 4. ASSOCIATES

Note 4.1. Accounting principles

Accounting treatment

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

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

The main components of Net income of associates are:

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

Impairment review

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

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

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

As of December 31

(in € millions except percentage)	Notes	Country	Listing market [a]	2016 Ownership	2017 Ownership	2017 Market capitalization [a][b]
Mengniu [c]	4.4	China	Hong Kong	9.9%	9.9%	9,742
Yashili [d]	4.4	China	Hong Kong	25.0%	25.0%	759
Yakult [e]	4.5	Japan	Tokyo	21.3%	21.3%	11,077

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

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

In 2017, these companies accounted for more than 70% in total of Investments in associates (other investments in associates did not, individually, account for more than 10% of the total). In addition, none of these companies accounted for more than 5% of the net income or consolidated net assets.

Note 4.3. Main changes during the period

2017 fiscal year

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

2016 fiscal year

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

(a) Month of the 2016 fiscal year.

Note 4.4. Mengniu (EDP International, China) and Yashili (Specialized Nutrition, China)

Background to the acquisition of these equity interests

In 2013, Danone, COFCO and Mengniu announced the signing of agreements to accelerate the development of fresh dairy products in China. Under the terms of these agreements, Danone became a strategic shareholder in Mengniu and a joint venture for the production and sale of fresh dairy products in China was established by the pooling of the respective assets of the two companies. Danone owns 20% and Mengniu 80% of the new joint venture. In 2014, Danone, Mengniu and Yashili decided to extend their strategic alliance into infant milk formula in China. This enabled Danone to hold a 25% stake in Yashili and become its second-largest shareholder behind Mengniu, which owns a 51% stake. Lastly, in 2016, the Dumex activity in China was merged with Yashili, thereby building a strong local infant milk formula brand platform.

Mengniu (EDP International, China)

Accounting treatment of the investment

This investment, which is a strategic investment for the Group, is recognized under Investments in associates, since the Group has significant influence over the financial and operating policies of the Mengniu group as (i) a strategic shareholder in the Mengniu group pursuant to the agreements with COFCO, (ii) its participation in Mengniu's governance, and (iii) the Group's operating involvement in Mengniu's fresh dairy products activities.

Main financial information

(in € millions)	2016 Interim financial statements as of June 30	2016 Financial statements for the year ended December 31	2017 Interim financial statements as of June 30
Non-current assets [a]	4,015	4,000	4,121
Current assets [a]	2,944	2,709	3,102
Equity [a]	3,631	3,483	3,396
Non-current liabilities [a]	986	1,136	1,591
Current liabilities [a]	2,341	2,090	2,236
Sales [a]	3,736	7,316	3,958
Net income [a]	162	(111)	150
Other comprehensive income [a]	(8)	(5)	(6)

(a) Published financial statements prepared in accordance with IFRS. Income statement items have been translated into euros at the average exchange rate for the reporting period. Balance sheet items were translated into euros at the exchange rate in effect at the end of the reporting period.

Impairment review as of December 31, 2017

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

Impairment review as of December 31, 2016

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

As of December 31, 2016, the carrying amount of the investment in Mengniu (€786 million) was subjected to an impairment test based on estimated future cash flows. This resulted in no impairment provision being recognized as of December 31, 2016.

Yashili (Specialized Nutrition, China)

This shareholding, acquired under the terms of the Group's strategic agreement with Mengniu, is recognized under Investments in associates. As of December 31, 2017, Danone held 25% of Yashili's share capital, had significant influence over its operating policies and was involved in its governance, in particular through its right to appoint two members of the board of directors and it proposed the candidate for appointment as Chief Executive Officer. Consequently, its shareholding is recognized within Investments in associates.

Impairment review as of December 31, 2017

The Group noted significant volatility in the Yashili stock price in 2017, which remained below the average purchase price of its shares, resulting in a 2017 financial performance impacted by the delay in delivering the expected effects of the strategic changes made by management since 2015.

As of December 31, 2017, the carrying amount of the investment in Yashili (€324 million) was subjected to an impairment test based on estimated future cash flows.

The assumptions used reflect the results expected from the strategic changes made by management and gradually implemented since year-end 2015, *i.e.* dynamic sales growth over the period 2018 to 2022 and a significant increase in profitability. Meanwhile, the assumptions for the discount rate and long-term growth rate were 9.0% and 3.0%, respectively.

Following the impairment test carried out in late 2017, no change was made as of December 31, 2017 to the impairment provision recognized in 2016.

Lastly, the sensitivity analyses on the key assumptions used to calculate this value in use, taken individually, gave the following results:

Assumptions	Indicators	Additional impairment *(in € millions)*
(500) bps	Sales growth (applied each year for five years)	–
(500) bps	Recurring operating margin (applied each year for five years)	(42)
(100) bps	Long-term growth rate	–
+100 bps	Discount rate	

Impairment review as of December 31, 2016

The Group noted a significant fall in the stock price of Yashili compared to the average purchase price paid by the Group for its shares, which was due to the 2016 financial performance falling short of expectations as well as its profit warning issued on December 15, a decline that constituted an indication of impairment.

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

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

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

Note 4.5. Yakult (EDP International, Japan)

Main characteristics of the investment

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

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

As of December 31, 2017, Danone had 21.3% of the voting rights and two representatives on the company's board of directors. Consequently, its shareholding is recognized within Investments in associates.

It should be noted that, as Yakult's fiscal year closing date is March 31, the amounts prepared for Group consolidation purposes as of December 31 are estimated on the basis of the most recent financial statements published for each fiscal year (interim financial statements for the six months ended September 30, 2016 for 2016 and interim financial statements for the six months ended September 30, 2017 for 2017).

Danone's share in Yakult net income for 2017 fiscal year was estimated at €55.4 million.

New phase in Danone's strategic partnership with Yakult

On February 14th, 2018 Danone has announced a new phase in its partnership with Yakult, thus strengthening their long-term strategic collaboration in probiotics, while optimizing its capital allocation:

- Intensified collaboration to promote and develop probiotics activities;

- Reduced stake in Yakult: in accordance with its continued focus on disciplined capital allocation, Danone announced in parallel its intention to sell part of its stake in Yakult. The intended divestiture will be carried out through:
  - a market transaction launched on February 14th, 2018 by Yakult and expected to settle in March;
  - a share buyback program launched in Yakult, in which Danone will participate.

Following the completion of these transactions, Danone's resulting stake in Yakult's issued share capital is expected to be approximately 7%, subject to market conditions. With this, Danone is expected to remain Yakult's largest shareholder and will continue to sit on the company's Board of Directors.

Main financial information

	2016		2017	
(in € millions)	Financial statements for the year ended March 31	Interim financial statements as of September 30	Financial statements for the year ended March 31	Interim financial statements as of September 30
Non-current assets [a]	2,783	2,994	2,989	2,754
Current assets [a]	1,733	1,935	1,916	1,857
Equity [a]	2,857	3,039	3,156	3,016
Non-current liabilities [a]	785	837	793	709
Current liabilities [a]	873	1,053	956	886
Sales [a]	3,074	1,562	3,129	1,588
Net income [a]	227	124	249	144
Other comprehensive income [a]	(121)	(260)	(103)	56

(a) Published financial statements prepared in accordance with Japanese GAAP. Income statement items have been translated into euros at the average exchange rate for the reporting period. Balance sheet items have been translated into euros at the exchange rate in effect at the end of the reporting period.

Carrying amount

	As of December 31	
(in € millions)	2016	2017
Carrying amount	785	824

Note 4.6. Carrying amount and changes during the period

		2016			2017		
(in € millions)	Notes	Net goodwill	Group's share in net assets and net income	Total	Net goodwill	Group's share in net assets and net income	Total
As of January 1		**1,414**	**1,468**	**2,882**	**1,290**	**1,440**	**2,730**
Acquisitions, influence acquired during the year and capital increase	4.3	24	10	34	12	24	36
Disposals and losses of influence during the year and changes in ownership percentage	4.3	(38)	58	21	(1)	(1)	(2)
Share of profit of associates before impact of disposals, revaluation and other	4.8	–	104	104	–	114	114
Dividends paid		–	(53)	(53)	–	(55)	(55)
Translation adjustments		(12)	18	6	(95)	(111)	(206)
Impairment		(98)	–	(98)	–	–	–
Adjustment of the Group's share in net assets		–	(165)	(165)	–	61	61
As of December 31		**1,290**	**1,440**	**2,730**	**1,207**	**1,472**	**2,678**

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

Impairment review as of December 31, 2017

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

Impairment review as of December 31, 2016

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

Note 4.8. Share of profit of associates

	Year ended December 31	
(in € millions)	**2016**	**2017**
Share of profits of associates before gains (losses) on disposal, revaluation and other	104	114
Impairment charges	(98)	–
Gains (losses) on disposal, revaluation and other	(5)	(5)
Total	**1**	**109**

NOTE 5. INFORMATION CONCERNING THE GROUP'S OPERATING ACTIVITIES

Note 5.1. Accounting principles

Sales

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

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

Cost of goods sold

The cost of goods sold mainly comprises industrial costs (including raw material costs, depreciation of industrial assets and personnel costs relating to production activity) and certain logistics and transportation costs.

Selling expense

Selling expenses mainly comprise marketing expense and consumer promotions as well as sales force overheads.

General and administrative expense

General and administrative expenses mainly comprise other personnel and administrative costs.

Research and Development expense

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

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

Note 5.2. Operating segments

General principles

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

- Sales;
- Recurring operating income;
- Recurring operating margin, which corresponds to the ratio of Recurring operating income to Sales.

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

Reporting by Reporting entity

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

- EDP International, which comprises Danone's Fresh Dairy Products activities in Europe, the CIS and ALMA zones, as well as WhiteWave's activities in Europe, Latin America and China;
- EDP Noram, which includes the Fresh Dairy Products activities of Danone and WhiteWave in North America after they were combined into a single entity called DanoneWave with a common management organization;

- the Specialized Nutrition Reporting entity, which combines the Early Life Nutrition and Advanced Medical Nutrition Businesses under common management. These Businesses have similar long-term economic characteristics, and this reorganization seeks to promote synergies and accelerate their potential;
- the Waters Reporting entity continues to be presented as before.

Reporting by geographical area

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

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

The aggregate figures by operating segment for the comparable period are therefore presented below in a comparable manner.

Information by Reporting entity

Year ended December 31

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2016	2017	2016	2017	2016	2017
EDP International	8,229	8,424	731	760	8.9%	9.0%
EDP Noram	2,506	4,530	351	556	14.0%	12.3%
Specialized Nutrition	6,634	7,102	1,419	1,685	21.4%	23.7%
Waters	4,574	4,621	521	541	11.4%	11.7%
Group total	**21,944**	**24,677**	**3,022**	**3,543**	**13.8%**	**14.4%**

(a) Sales to third parties.

Information by geographical area

Sales, Recurring operating income and Recurring operating margin

Year ended December 31

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2016	2017	2016	2017	2016	2017
Europe and Noram [b]	10,933	13,193	1,842	2,048	16.8%	15.5%
Rest of the World	11,011	11,484	1,180	1,495	10.7%	13.0%
Group total	**21,944**	**24,677**	**3,022**	**3,543**	**13.8%**	**14.4%**

(a) Sales to third parties.
(b) Including net sales of €2,104 million generated in France in 2017 (€2,174 million in 2016).

Top ten countries contributing to sales

Year ended December 31

(in percentage)	2016	2017
United States	11%	18%
France	10%	9%
China	7%	7%
Russia	7%	7%
Indonesia	6%	5%
United Kingdom	5%	5%
Argentina	4%	4%
Mexico	5%	4%
Spain	5%	4%
Germany	4%	4%

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

	As of December 31	
(in € millions)	**2016**	**2017**
Europe and Noram [a]	11,532	22,517
Rest of the World	9,307	8,433
Group total	**20,839**	**30,950**

(a) Including €2,159 million in France as of December 31, 2017 (€2,011 million as of December 31, 2016).

Note 5.3. Other components of recurring operating income

Other income (expense)

		Year ended December 31	
(in € millions)	Notes	**2016**	**2017**
Employee benefits [a]	7.2, 7.3	(164)	(165)
Various taxes [b]		(56)	(59)
Restructuring costs [c]		(42)	(60)
Capital gains on disposals of property, plant and equipment and intangible assets		7	3
Other [d]		(23)	62
Total		**(278)**	**(219)**

(a) Employee profit-sharing, Group performance shares and stock-options, defined benefit retirement plans and other employee benefits.
(b) Comprises notably sales taxes.
(c) Excluding restructuring of the Group's activities in Argentina and of EDP International Reporting entity mainly in Europe and Latin America.
(d) Comprises mainly currency translation differences, asset impairment, the effects of provisions, notably for doubtful receivables, compensations received from insurance companies and several other components.

Note 5.4. Working capital

Accounting principles

Inventories

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

Trade receivables

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

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

Transactions in foreign currencies

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

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

Carrying amount

	As of December 31	
(in € millions, except percentage)	**2016**	**2017**
Goods purchased for resale	66	77
Raw materials and supplies	655	745
Semi-finished goods and work-in-progress	130	164
Finished goods	617	779
Non-refundable containers	46	38
Impairment provisions	(134)	(134)
Inventories, net	1,380	1,668
Trade and other receivables from operations	2,622	2,905
Impairment provisions	(99)	(111)
Trade receivables, net	2,524	2,794
State and local authorities	695	707
Derivatives – assets [a]	67	47
Other	298	292
Total other current assets	1,061	1,046
Total current assets	**4,964**	**5,508**
Trade payables	(3,772)	(3,904)
Year-end rebates payable to customers	(1,032)	(1,143)
State and local authorities	(293)	(181)
Personnel costs, including social security charges	(872)	(935)
Derivatives – liabilities [a]	(44)	(35)
Other	(500)	(422)
Total other current liabilities	(2,741)	(2,716)
Total current liabilities	**(6,513)**	**(6,620)**
Working capital	**(1,549)**	**(1,112)**
As a percentage of consolidated sales	7.1%	4.5%

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

Credit risk on trade receivables

Credit risk exposure

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

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

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

	Year ended December 31	
(in percentage)	**2016**	**2017**
Portion of consolidated sales made to the Group's largest customers		
Group's largest customer	4.9%	5.4%
Group's five largest customers	13.0%	12.6%
Group's ten largest customers	19.0%	19.1%
Portion of overdue trade receivables for which no impairment provision has been recognized [a]	**5.8%**	**6.4%**

(a) More than 30 days overdue.

The increase between 2016 and 2017 was mainly due to transactions for which payment was delayed for administrative reasons but with no risk of non-payment.

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

	As of December 31	
(in € millions)	**2016**	**2017**
Total trade receivables derecognized in connection with the non-recourse factoring program [a]	107	23

(a) These relate to several Group subsidiaries that use non-recourse factoring programs (with transfer of risks and benefits).

Reverse factoring programs

The Group uses reverse factoring programs in the normal course of its business.

These programs are implemented within a strict framework, notably with respect to:

- use and function as a payment tool;
- exclusively for approved invoices;
- payment by Danone respecting the invoice terms, notably due dates, in accordance with applicable regulations and practices;
- at no cost to Danone.

The amounts to be paid using these payment tools are not reclassified. They remain commitments to suppliers and are carried as operating liabilities under Trade payables until paid by Danone, which has the effect of clearing the commitment.

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

Note 5.5. Property, plant and equipment and capital expenditure

Accounting principles

Property, plant and equipment acquired by the Group are recognized at cost of acquisition or at construction cost.

Assets used by the Group under finance leases are recognized as Property, plant and equipment in the consolidated balance sheet, when, in substance, the terms of the lease transfer to the Group essentially all of the risks and rewards associated with the ownership of the asset. The asset is recognized for an amount that corresponds to the lower of fair value and the discounted value of future lease payments. The assessment of the level of risks and rewards transferred is based on an analysis of the lease agreement. The financial debt associated with the leased asset is recognized as a liability in the consolidated balance sheet under Financial debt.

Interest on borrowings to finance the construction of property, plant and equipment until their operational start date is considered to be an integral part of the cost price of the property, plant and equipment, provided that the criteria of IAS 23, *Borrowing Costs* are met.

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- buildings: 15 to 40 years;
- equipment, furniture and fixtures: 5 to 20 years;
- other: 3 to 10 years.

The depreciation charges in respect of property, plant and equipment are allocated to various headings in the income statement on the basis of the nature and utilization of the assets concerned.

Refundable containers

Refundable containers (including, in particular, jugs in the Waters Reporting entity) are recognized at cost. They are depreciated on a straight-line basis, based on available statistics for each Group entity, over the shorter of the following lengths of time:

- physical useful life, taking into account the internal and external breakage rates and wear and tear;
- commercial useful life, taking into account planned or likely modifications of containers.

When the amount of the refund changes, the liability for deposits received is measured based on the new amount.

Carrying amount and changes during the period

(in € millions)	Land and buildings	Machinery and equipment	Other and assets in progress	Total 2016	Land and buildings	Machinery and equipment	Other and assets in progress	Total 2017
				2016				2017
Gross amount								
As of January 1	**2,541**	**5,994**	**1,917**	**10,452**	**2,758**	**6,547**	**2,006**	**11,312**
Capital expenditure [a]	64	189	721	974	108	134	776	1,018
Disposals	(19)	(86)	(42)	(147)	(19)	(54)	(78)	(151)
Reclassification of assets held for sale	47	(8)	4	43	11	33	4	48
Changes in consolidation scope	(45)	(22)	(12)	(78)	420	727	294	1 441
Translation adjustments	34	87	(29)	92	(172)	(455)	(136)	(763)
Impairment	(14)	(72)	(52)	(138)	(22)	(201)	(39)	(262)
Other [b]	150	466	(501)	115	268	486	(837)	(84)
As of December 31	**2,758**	**6,547**	**2,006**	**11,312**	**3,352**	**7,216**	**1,990**	**12,558**
Depreciation								
As of January 1	**(1,058)**	**(3,737)**	**(904)**	**(5,701)**	**(1,190)**	**(4,107)**	**(979)**	**(6,276)**
Depreciation charges and impairment	(122)	(432)	(130)	(684)	(125)	(470)	(142)	(737)
Disposals	13	77	41	130	14	47	46	108
Reclassification of assets held for sale	(37)	(3)	(6)	(46)	(6)	(20)	(2)	(28)
Changes in consolidation scope	30	20	8	58	(27)	(214)	(28)	(269)
Translation adjustments	(14)	(46)	26	(34)	48	236	61	346
Impairment	11	60	49	120	15	182	37	234
Other	(12)	(46)	(63)	(121)	(6)	22	52	69
As of December 31	**(1,190)**	**(4,107)**	**(979)**	**(6,276)**	**(1,276)**	**(4,323)**	**(954)**	**(6,553)**
Carrying amount								
As of December 31	**1,569**	**2,440**	**1,027**	**5,035**	**2,076**	**2,894**	**1,036**	**6,005**
Including assets in progress			*668*	*668*			*673*	*673*

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

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Impairment review of property, plant and equipment

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

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

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

Capital expenditure during the period

	Year ended December 31	
(in € millions, except percentage)	**2016**	**2017**
Related cash flows	(925)	(969)
As a percentage of sales	*4.2%*	*3.9%*

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

Commitments given in 2017

		Amount of financial flows for the period				
(in € millions)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022 and after**
Commitments to purchase goods and services [a]	(4,252)	(2 397)	(780)	(478)	(281)	(317)
Capital expenditure commitments	(197)	(187)	(9)	–	–	(1)
Operating lease commitments	(748)	(223)	(139)	(101)	(65)	(220)
Guarantees and pledges given	(25)	(22)	(1)	–	–	(2)
Other	(55)	(34)	(11)	(6)	(3)	(2)
Total	**(5,278)**	**(2 863)**	**(939)**	**(585)**	**(349)**	**(542)**

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

Commitments given in 2016

		Amount of financial flows for the period				
(in € millions)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021 and after**
Commitments to purchase goods and services [a]	(2,995)	(1,960)	(541)	(261)	(95)	(139)
Capital expenditure commitments	(226)	(199)	(18)	(9)	–	–
Operating lease commitments	(694)	(213)	(132)	(102)	(68)	(179)
Guarantees and pledges given	(23)	(23)	–	–	–	–
Other	(46)	(26)	(11)	(8)	–	–
Total	**(3,984)**	**(2,421)**	**(702)**	**(380)**	**(163)**	**(318)**

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

Other commitments

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

Note 5.7. Financial risks associated with operating activities

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

Foreign exchange risk

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

Risk identification

The Group mainly operates on a local basis and consequently in the currency of the country in which it is operating, thereby incurring no currency risk. However, the location of some of the Group's production units may result in intercompany billings in foreign currencies. This applies particularly to the Specialized Nutrition Reporting entity and, to a lesser extent, to EDP Noram excluding WhiteWave and EDP International Reporting entities. Similarly, some raw materials are billed or indexed in foreign currencies, in particular as regards the Waters, EDP International and EDP Noram Reporting entities. Lastly, the Group is also developing some export activities. The sales and operating margin of some subsidiaries are therefore exposed to fluctuations of foreign exchange rates against their functional currency.

Risk monitoring and management

Pursuant to its financial currency risk hedging policy, the Group's residual exposure (after hedging) is not significant during the hedging period.

As of December 31, 2017, the main hedged currencies in terms of value included the British pound, Australian dollar, Chinese yuan, Mexican peso, Brazilian real, Russian ruble and U.S. dollar (see Note 12.2 of the Notes to the consolidated financial statements).

Commodities risk

Danone's raw materials needs consist mainly of:

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

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

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

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

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

Impact on the cost of raw materials for the fiscal year concerned of an increase/decrease in their price applied uniformly across all countries, throughout that fiscal year, using like-for-like exchange rates (projected annual rate determined by Danone for the 2017 fiscal year).

	Year ended December 31 at like-for-like exchange rates	
	2016	**2017**
(in € millions)	**Gain (loss)**	**Gain (loss)**
Increase of 5%		
Liquid milk, milk powder and other milk-based ingredients	(119)	(124)
Plastics, including PET	(78)	(81)
Decrease of 5%		
Liquid milk, milk powder and other milk-based ingredients	119	124
Plastics, including PET	78	81

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

Note 6.1. Other operating income (expense)

Accounting principles

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

Other operating income (expense) in 2017

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

(in € millions)	Notes	**Related income (expenses)**
Capital gain on disposal of Stonyfield	2.5	628
Compensation received following the decision of the Singapore arbitration court in the Fonterra case	14.3	105
Territorial risks, mainly in certain countries in the ALMA region		(148)
Costs associated with the integration of WhiteWave [a]	2.4	(118)
Impairment of several intangible assets in Waters and Specialized Nutrition Reporting entities	9.3	(115)
Costs relating to the restructuring of EDP International Reporting entity in certain countries [b]		(78)
Restructuring of the Group's activities in Argentina as a result of the economic climate		(39)

(a) Integration costs for €(91) million and impact on income of inventory revaluations performed in connection with the purchase price allocation for €(27) million.
(b) Mainly concerns the adaptation of EDP International Reporting entity in Europe and Latin America.

Other operating income (expense) in 2016

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

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

(a) Corresponds mainly to the recycling of unrealized currency translation differences.

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

Note 7.1. Number of employees at fully consolidated companies

Number of employees as of December 31 and breakdown by Reporting entity and geographical area

	As of December 31	
	2016	**2017**
Total number of employees	**99,187**	**104,843**
By geographical area		
Europe and North America	26%	31%
North America	2%	7%
Europe	24%	24%
Rest of the World	74%	69%
Asia, Pacific and Middle East	22%	20%
China	9%	8%
CIS	11%	9%
Africa	8%	9%
Latin America	24%	23%
Total	**100%**	**100%**
By Reporting entity		
EDP International	37%	36%
EDP Noram	2%	6%
Specialized Nutrition	20%	20%
Waters	38%	35%
Corporate functions	3%	3%
Total	**100%**	**100%**

Note 7.2. Personnel costs of fully consolidated companies

	Year ended December 31	
(in € millions)	**2016**	**2017**
Salaries and social security charges [a]	(3,433)	(3,614)
Retirement obligations – defined benefit plans [b]	(33)	(39)
Expenses relating to Group performance shares and stock-options	(25)	(24)

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

Note 7.3. Retirement obligations and other long-term benefits

General principles

The Group contributes to employee retirement benefit plans in accordance with the laws and usual practices of countries in which its subsidiaries operate. As a result of contributions paid under such plans to private or state sponsored pension funds, the Group has no actuarial liability in that respect.

The Group also has contractual obligations for supplementary retirement plans, severance pay, retirement indemnities and personal protection plans. The related actuarial commitments are taken into account either through the payment of contributions to independently-managed funds responsible for their service and the fund administration, or through provisions.

Accounting principles

Defined contribution retirement plans

Contributions due under defined contribution plans are expensed as incurred. These expenses are allocated to different headings in the consolidated income statement.

Defined benefit retirement plans

The Group's obligations relating to defined benefit retirement plans are calculated using the projected unit credit method and by taking into account several actuarial assumptions, including employee turnover, salary increases and employees' expected active lives.

The carrying amounts of these plans on the consolidated balance sheet correspond to the actuarial value of the obligations, as defined above, less the fair value of the plan assets (retirement funds to which the Group contributes, for example). They are presented under the heading Provisions for retirement obligations and other long-term benefits.

In addition, the expected return on plan assets is measured on the basis of the discount rate used to estimate the actuarial value of retirement commitments.

Actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions that are used to calculate the obligations net of the assets (including the difference between the expected return and the actual return on plan assets) are fully recognized within Other comprehensive income.

The recognized costs and income of defined benefit plans correspond mainly to:

- the cost of services provided during the year and of prior services (where relevant) recognized within Recurring operating income;
- the accretion of the present value of the obligations, net of the expected return on plan assets, recognized within Other financial income (expense).

Other long-term benefits

Other long-term benefits may be granted by certain Group companies to their employees, such as personal protection coverage and long-service awards. The Group's obligations in respect of these benefits are determined by applying a similar method to that used to determine the obligations relating to post-employment defined benefit plans.

The amounts recognized in the balance sheet in respect of these plans correspond to the present value of the obligations, as detailed above. They are presented under the heading Provisions for retirement obligations and other long-term benefits.

The actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions used to calculate obligations are recognized in full within Recurring operating income of the fiscal year in which they are incurred.

Defined benefit retirement plans

Provisions for retirement obligations and other long-term benefits

		As of December 31
(in € millions)	**2016**	**2017**
Defined benefit retirement plans	932	898
Other long-term benefits	27	21
Total	**959**	**919**

Defined benefit retirement plans and other post-employment benefits

Carrying amount of gross obligations

	As of December 31	
(in percentage)	**2016**	**2017**
Retirement plan for senior managers	33%	33%
Other	16%	17%
France	49%	50%
Germany	13%	12%
Indonesia	8%	8%
Belgium	5%	7%
United States	7%	7%
Ireland	7%	5%
Other [a]	11%	11%
Total	**100%**	**100%**

(a) Several countries, none of which represent more than 5% of the Group's gross obligations.

Group's principal obligation

The Group's principal defined benefit retirement plan obligations involve the Retirement plan for senior managers in France. This retirement plan, which was set up in 1976 to retain key managers, may also include certain senior executives who were "Group Directors" on December 31, 2003, at which date the plan was closed to new beneficiaries. On December 31, 2017, 115 Group Directors were members of this plan (excluding plan beneficiaries who had already claimed their pension benefits), compared to 170 potential beneficiaries in 2003.

General principles

This plan provides for a pension based on years of service and the amount of final salary, under the condition that the beneficiary is still in Danone's employment at the time of retirement. The pension:

- is paid after deducting certain pensions corresponding:
  - with respect to a first category of senior executives, to the full amount of retirement benefits they acquired over the course of their professional career;
  - with respect to a second category of senior executives, to the full amount of retirement benefits that they acquired due to the implementation of a Company non-contributory supplementary retirement plan;
- and may reach a maximum of 65% of final salaries.

In the event of leaving Danone before the age of 55 or in the event of death before retirement, the employee loses all benefits under this plan, it being specified that if the employee is laid off after the age of 55, the plan benefits are preserved, subject to the beneficiary not taking any salaried position in the future.

Other obligations

Most of the other retirement plans introduced by the Group relate only to a given subsidiary in a given country. Consequently, the Group is required to manage several different plans in a given country. None is material.

Carrying amount of provisions (gross obligations net of plan assets)

	As of December 31					
	2016			2017		
(in € millions)	**Retirement plan for senior managers**	**Other plans**	**Total**	**Retirement plan for senior managers**	**Other plans**	**Total**
Vested rights with projected salaries	484	968	1 452	481	969	1 449
Fair value of plan assets	(156)	(364)	(520)	(165)	(386)	(551)
Vested rights net of fair value of plan assets	**328**	**604**	**932**	**316**	**583**	**898**
Impact of ceiling on assets	–	–	–	–	–	–
Obligations for which provisions have been recorded on the balance sheet	**328**	**604**	**932**	**316**	**583**	**898**

In addition, the total amount of contributions/benefits to be paid in 2018 in connection with these plans is estimated at €46 million.

Actuarial assumptions

Methodology

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

The discount rates used in 2017 were obtained on the basis of investment grade (AA rating) bond yields of private issuers for durations equivalent to that of the commitment in the corresponding monetary areas. The level of quality used is assessed on the basis of the rating obtained from the leading financial rating agencies. In the case of illiquid markets, the discount rate is determined using government bonds of equivalent maturity to the term of the assessed plans.

Retirement plan for senior managers

Main actuarial assumptions

	Year ended December 31	
	Retirement plan for senior managers	
(in percentage, except for ages in number of years)	**2016**	**2017**
Discount rate	1.7%	1.8%
Expected return on plan assets	1.7%	1.8%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Sensitivity analysis of the key assumption, the discount rate

	Year ended December 31	
	Retirement plan for senior managers	
	2016	**2017**
(in € millions)	**Increase (decrease)**	**Increase (decrease)**
50 bps increase	(47)	(44)
50 bps decrease	53	51

Changes in carrying amount of provisions

	2016				2017			
(in € millions)	**Vested rights**	**Plan assets**	**Impact of ceiling on assets**	**Obligations provisioned**	**Vested rights**	**Plan assets**	**Impact of ceiling on assets**	**Obligations provisioned**
As of January 1	**1,255**	**(486)**	**–**	**769**	**1,452**	**(520)**	**–**	**932**
Service cost	33	–	–	33	39	–	–	39
Interest cost	38	–	–	38	35	–	–	35
Expected return on plan assets	–	(13)	–	(13)	–	(10)	–	(10)
Other	(1)	–	–	(1)	(19)	–	–	(19)
Expense for the year	69	(13)	–	57	56	(10)	–	46
Payments made to retirees	(44)	27	–	(18)	(51)	25	–	(26)
Contributions to plan assets	–	(19)	–	(19)	–	(39)	–	(39)
Changes in demographic assumptions	(2)	–	–	(2)	1	–	–	1
Changes in economic assumptions	134	–	–	134	(9)	–	–	(9)
Experience effects	41	(35)	–	6	10	(8)	–	1
Actuarial gains and losses	173	(35)	–	138	2	(8)	–	(7)
Translation adjustments	(2)	7	–	5	(35)	12	–	(22)
Other	1	–	–	1	26	(11)	–	15
As of December 31	**1,452**	**(520)**	**–**	**932**	**1,449**	**(551)**	**–**	**898**

Defined benefit retirement plan assets

The investment policy for plan assets depends, for each company, on the employees' age structure and the expected return on the various asset classes.

Plan assets of retirement plan for senior managers

As of December 31

	Retirement plan for senior managers	
(in € millions, except percentage)	**2016**	**2017**
Fair value of plan assets	**(156)**	**(165)**
Main class of plan assets		
Bonds [a] [b]	91%	89%
Equities [b]	3%	4%
Real estate and other asset classes [b]	6%	7%

(a) These assets are diversified and, in particular, exposure to individual sovereign risk is limited.
(b) Do not include any financial instruments issued by the Group.

Defined contribution retirement plans

Contributions paid as part of defined contribution plans are recognized under Recurring operating income.

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

Group policy

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

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

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

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

General principles applicable to stock-options

Stock-options are options to purchase shares in the Company that were granted to certain employees and corporate officers up until the Combined Shareholders' Meeting of April 22, 2010. No stock-options have been granted since that date and the last plans expired in 2017. As was the case in 2016, no expense was recognized in 2017 in respect of the stock-options.

Group performance shares and stock-options in effect

	Year ended December 31	
(in number of shares)	**2016**	**2017**
Group performance shares		
As of January 1	**1,987,707**	**2,299,567**
Shares granted during the year [a]	624,828	644,420
Shares that lapsed or were cancelled during the year	(90,538)	(243,884)
Shares delivered during the year	(222,430)	(385,113)
As of December 31 [b]	**2,299,567**	**2,314,990**
Stock-options		
As of January 1	**1,345,171**	**333,016**
Options that lapsed or were cancelled during the year	(117,116)	(39,644)
Options exercised during the year	(895,039)	(293,372)
As of December 31	**333,016**	**–**

(a) If the continuous employment and performance conditions are fully met, the number of shares granted in respect of the 2017 fiscal year could reach 676,741.
(b) If the continuous employment and performance conditions are fully met, the number of Group performance shares could reach 2,347,311 in respect of the year ended December 31, 2017.

Accounting treatment of Group performance shares

Accounting principles

The fair value of Group performance shares is calculated on the basis of assumptions made by the Group's management. The corresponding charge is spread over the vesting period (4 years). To the extent that performance conditions are based on internal performance, charges recognized in respect of shares that lapse due to the failure to achieve said performance conditions are written back in the income statement for the period in which it is probable they will lapse.

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

Valuation

	Year ended December 31	
(in € per share except number of shares)	**2016**	**2017**
Number of shares granted during the year	624,828	644,420
Fair value of Group performance shares granted during the year [a]	58.8	57.5
Average DANONE share price during the year	63.4	65.7

(a) Fair value as of the grant date.

Expense related to Group performance shares including taxes

	Year ended December 31	
(in € millions)	**2016**	**2017**
Group performance shares	(25)	(24)
Total expense	**(25)**	**(24)**

Note 7.5. Company Savings Plan

General and accounting principles

Employees of the Group's French entities can, on an annual basis, subscribe a capital increase in the Company through a Company Savings Plan. The purchase price of the shares corresponds to 80% of the average DANONE share price over the 20 listing days preceding the meeting of the Board of Directors that approves the plan.

The benefit granted to the employees is calculated based on the fair value of the shares on the grant date. The fair value is calculated after taking into account the five-year holding period on these shares and the market parameters applicable to employees, in particular the borrowing rate.

The corresponding charge is recorded under Other income (expense) for the year at the time of the capital increase.

Capital increase reserved for employees as part of the Company Savings Plan

In 2017, under the terms of the Company Savings Plan, Danone implemented a capital increase involving 982,913 new shares issued at a price of €47.44 per share.

NOTE 8. INCOME TAX

Note 8.1. Income tax

Income before tax and tax expense

	Year ended December 31	
(in € millions except tax rate in percentage)	**2016**	**2017**
Income before tax	**2,630**	**3,296**
Current tax (expense) income	(869)	(1,131)
Deferred tax (expense) income	65	289
Current and deferred tax (expense) income	**(804)**	**(842)**
Effective tax rate	30.6%	25.5%
Amount (paid) received during the year	(891)	(1,116)

Tax rate and tax systems

French tax system

Danone forms a tax group with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital, enabling taxable profits and losses to be offset subject to certain limits and conditions.

The statutory tax rate for companies with sales exceeding €3 billion was raised to 44.43% in 2017 following the introduction of an exceptional tax contribution on companies. Since this measure applies only in 2017, the standard tax rate used to calculate the effective tax rate was retained at 34.43%.

Other tax systems

Similar tax grouping arrangements exist in other countries, in particular in the United States, the Netherlands, the United Kingdom, Germany and Spain.

In the case of the United States, the tax reform enacted in December 2017 reduced the tax rate from 35% to 21% as from 2018, resulting in a €285 million decrease in deferred tax liabilities with a corresponding tax income.

Effective tax rate

In 2017, the Group effective tax rate was 25.5%, lower than the 2016 rate due to the inclusion of non-recurring items related to the favorable impacts on the measurement of the deferred tax balances of the changes made to the tax rates in several countries.

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

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

			Year ended December 31
(in percentage)	Notes	**2016**	**2017**
Statutory tax rate in France		34.4%	34.4%
Differences between French and foreign tax rates [a]		(10.8)%	(9.5)%
Tax on dividends and royalties [b]		2.9%	1.0%
Permanent differences		1.3%	1.4%
Tax loss carryforwards [c]	8.3	0.8%	3.7%
Tax adjustments and unallocated taxes [d]		3.8%	(5.3)%
Impact of capital gains and losses on disposal and asset impairment [e]	2.5	(1.1)%	1.3%
Other differences		(0.7)%	(1.5)%
Effective income tax rate		**30.6%**	**25.5%**

(a) Various countries, none of which generates a significant difference with the French tax rate.
(b) In 2017, this comprises the repayment of the 3% dividends tax.
(c) In 2017, this comprises the impacts of the deferred tax asset impairment in certain Latin American countries.
(d) In 2017, this corresponds mainly to the favorable impacts of the change in the tax rates in the United States and France on the measurement of the deferred tax balances.
(e) In 2017, this corresponds mainly to the unfavorable impact of the gain on the disposal of Stonyfield. In 2016, it corresponded mainly to the positive impact of the recycling to profit of the unrealized foreign exchange gains and losses in respect of the disposal of the Dumex activity in China.

Note 8.2. Deferred taxes

Accounting principles

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

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

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

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

Carrying amount

			As of December 31
(in € millions)	Notes	**2016**	**2017**
Breakdown by type of deferred tax			
Property, plant and equipment and intangible assets		(1,151)	(1,708)
Tax loss carryforwards	8.3	469	294
Provisions for retirement obligations and other long-term benefits		242	211
Employee profit-sharing provisions		17	13
Restructuring provisions		10	11
Other		154	258
Net deferred taxes		**(259)**	**(922)**
Deferred tax assets		831	722
Deferred tax liabilities		(1,090)	(1,644)
Net deferred taxes		**(259)**	**(922)**

Changes during the period

(in € millions)	Notes	2016	2017
As of January 1		**(224)**	**(259)**
Changes recognized in Other comprehensive income		(89)	10
Changes recognized in profit or loss		52	367
Changes in consolidation scope	3.2, 4.4	17	(1, 114)
Other		(15)	74
As of December 31		**(259)**	**(922)**

Note 8.3. Tax loss carryforwards

Accounting principles

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

Carrying amount

	As of December 31	
(in € millions)	**2016**	**2017**
Tax losses – recognized portion		
Recognized tax loss carryforwards [a] [b]	1,623	1,275
Tax savings [c]	469	303
Tax losses – unrecognized portion		
Tax loss carryforwards and tax credits not yet used [a]	468	512
Potential tax savings	118	147

(a) Basis amount.
(b) In 2017, they mainly come from the French consolidated tax group.
(c) Corresponds to deferred tax assets based on tax loss carryforwards

Consumption horizon

Most of the tax losses as of December 31, 2017 can be carried forward indefinitely. The probable consumption horizon for most of these losses is less than ten years.

NOTE 9. INTANGIBLE ASSETS

Note 9.1. Accounting principles

Goodwill

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

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

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

For the purposes of impairment testing, goodwill is allocated to the Cash generating units (CGU) or groups of CGUs most likely to benefit from the synergies of the business combination and to the lowest level at which goodwill is monitored by the Group. The CGUs correspond to subsidiaries or groups of subsidiaries that are included in the same Reporting entity and that generate cash flows largely independent from those generated by other CGUs.

Brands with indefinite useful lives

Acquired brands that are distinguishable, having a significant value, are supported by advertising expense and having indefinite useful lives are recorded under the heading Brands in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and their contribution to earnings. These brands, which are legally protected, are not amortized but are tested for impairment annually or more frequently if signs of impairment exist (see hereafter).

Other brands

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

Development costs

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

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

Technologies, development costs and other intangible assets

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

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

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

Note 9.2. Carrying amount and changes during the period

		2016				2017			
(in € millions)	Notes	Goodwill	Brands [a]	Other intangible assets	Total	Goodwill	Brands [a]	Other intangible assets	Total
Gross value									
As of January 1		**11,653**	**3,848**	**856**	**16,357**	**11,620**	**3,898**	**908**	**16,426**
Changes in consolidation scope	2.2, 2.5, 3.2	(63)	(79)	–	(142)	7,949	3,025	185	11,160
Capital expenditure		–	–	58	58	–	–	66	66
Disposals		–	–	(41)	(41)	–	–	(10)	(9)
Translation adjustments		20	(16)	8	13	(1,392)	(425)	(49)	(1,867)
Impairment	9.3	(31)	–	–	(31)	(48)	(67)	(15)	(130)
Reclassification of assets held for sale		67	79	(1)	145	–	–	1	1
Other [b]	3.5	(25)	66	26	66	2	–	17	19
As of December 31		**11,620**	**3,898**	**908**	**16,426**	**18,132**	**6,432**	**1,103**	**25,666**
Amortization									
As of January 1		**–**	**(14)**	**(564)**	**(579)**	**–**	**(19)**	**(603)**	**(623)**
Charges		–	(2)	(68)	(70)	–	(2)	(91)	(93)
Disposals		–	(1)	31	30	–	–	23	23
Other		–	(2)	(2)	(4)	–	1	(30)	(29)
As of December 31		**–**	**(19)**	**(603)**	**(623)**	**–**	**(20)**	**(701)**	**(722)**
Carrying amount									
As of December 31		**11,620**	**3,879**	**304**	**15,803**	**18,132**	**6,412**	**401**	**24,945**

(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 9.3. Impairment review

Methodology

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

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

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

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

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

- five years for the CGUs and groups of CGUs in EDP International Reporting entity that had been established before the acquisition of WhiteWave, and for the Waters Reporting entity;
- nine years for the Specialized Nutrition Reporting entity, to better reflect the expected development of its activity on the estimation of the value in use. The Group uses projections over nine years to better reflect the Reporting entity's growth over this period, since the actual growth rate of these CGUs and groups of CGUs exceeds the long-term growth rate that the Group applies to each of these CGUs.

Future cash flows beyond that period are extrapolated using a long-term growth rate that is specific to each CGU or group of CGUs:

- the operational assumptions used to calculate the terminal value are in line with the last year of projections described above in terms of sales and recurring operating margin;
- the long-term growth rate is determined for each CGU or group of CGUs taking into account its average growth rate in recent years and its geographical area (macro-economic fundamentals, demographics, etc.).

Finally, future cash flows are discounted using the weighted average cost of capital method, according to which the cost of debt and the after-tax cost of equity are weighted based on their respective proportions in the business sector concerned. It is calculated for the Group and increased, for certain CGUs or groups of CGUs, by a premium to take into account the risk factors affecting certain countries.

Impairment tests carried out as of December 31, 2017

Assets of companies in the WhiteWave group

Since the allocation of the acquisition price had not been finalized at the reporting date, the value of these assets is provisional. As Danone had not identified any indications of impairment, they were not tested for impairment as of December 31, 2017.

Other assets

The impairment tests on the assets in EDP International, EDP Noram excluding WhiteWave, Waters and Specialized Nutrition Reporting entities were carried out on the basis of the CGUs as defined as of December 31, 2016.

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

As of December 31

	Carrying amount of goodwill and brands with indefinite useful lives		Long-term growth rate [h]		Discount rate after tax [h]	
(in € millions)	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
EDP International and EDP Noram						
Centrale Danone	921	866	3.5%	3.0%	9.1%	8.2%
Danone CIS [a]	349	323	3.0%	3.0%	9.0%	7 to 12%
Europe [b]	567	564	0%	0%	7 to 15%	6 to 12%
Other CGUs [c]	680	504	0 to 3%	0 to 3%	7 to 13%	6 to 17%
Total EDP International and EDP Noram	**2,517**	**2,257**				
• of which, goodwill	1,821	1,650				
• of which, brands with indefinite useful lives [d]	696	606				
Waters						
Danone Waters France	428	428	1%	1%	6.9%	6.4%
Other CGUs [e]	340	268	0 to 3%	0 to 3%	7 to 13%	6 to 11%
Total Waters	**767**	**696**				
• of which, goodwill	569	502				
• of which, brands with indefinite useful lives [d]	198	194				
Specialized Nutrition						
Early Life Nutrition Asia	2,755	2,509	2.5%	2.5%	7.9%	7.8%
Early Life Nutrition Rest of the World	4,956	4,750	2.5%	2.5%	8.3%	8.3%
Advanced Medical Nutrition	4,199	4,044	2.5%	2.5%	7.7%	7.8%
Other CGUs	193	170	2.5%	2.5%	7.4%	6.9%
Total Specialized Nutrition	**12,103**	**11,473**				
• of which, goodwill	9,230	8,765				
• of which, brands with indefinite useful lives [d]	2,873	2,708				
Assets of companies in the WhiteWave group [g]		**10,014**				
• of which, goodwill	–	7,214				
• of which, brands with indefinite useful lives	–	2,800				
Total	**15,387**	**24,440**				
• of which, goodwill	11,620	18,132				
• of which, brands with indefinite useful lives	3,767	6,309				

(a) Consists mainly of Russia and Ukraine.
(b) Covers the Reporting entity's entire activity in Europe.
(c) More than 10 CGUs, the largest of which is the EDP Noram CGU, none of which exceeded €300 million as of December 31, 2017 or December 31, 2016.
(d) Several brands, none of which is material individually.
(e) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €200 million as of December 31, 2017 or December 31, 2016.
(f) Consists of several brands, the largest of which are *Nutricia* and *Milupa*.
(g) Since the allocation of the acquisition price had not been finalized at the reporting date, their value is provisional and, in the absence of any indications of impairment, they were not tested for impairment in 2017. As is the case for the other CGUs, the assets are stated in this table at their value as of December 31, 2017.
(h) Applicable to those CGUs whose recoverable amount is determined on the basis of their value in use, *i.e.* the CGUs corresponding to the companies consolidated before 2016.

Goodwill of the groups of CGUs in the Specialized Nutrition Reporting entity

As of December 31, 2017, the recoverable amount exceeded the carrying amount by €3.1 billion in the case of the Advanced Medical Nutrition group of CGUs, €3.7 billion in the case of the Early Life Nutrition Rest of the World group of CGUs and €5.9 billion in the case of the Early Life Nutrition Asia group of CGUs.

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

Results of sensitivity analysis

Year ended December 31	Impact on recoverable amount *(in € billions)*		Annual decrease to make recoverable amount equal carrying amount *(in percentage)*	
	2016	**2017**	**2016**	**2017**
Sales – 50 bps decrease [a]				
Early Life Nutrition Asia	(0.2)	(0.3)	(9)	(26)
Early Life Nutrition Rest of the World	(0.3)	(0.3)	(6)	(9)
Advanced Medical Nutrition	(0.2)	(0.3)	(5)	(9)
Recurring operating margin – 100 bps decrease [b]				
Early Life Nutrition Asia	(0.3)	(0.4)	(9)	(17)
Early Life Nutrition Rest of the World	(0.5)	(0.4)	(7)	(10)
Advanced Medical Nutrition	(0.3)	(0.3)	(6)	(11)
Long-term growth rate – 50 bps decrease				
Early Life Nutrition Asia	(0.3)	(0.5)		
Early Life Nutrition Rest of the World	(0.4)	(0.4)		
Advanced Medical Nutrition	(0.3)	(0.4)		
Discount rate – 50 bps increase				
Early Life Nutrition Asia	(0.3)	(0.7)		
Early Life Nutrition Rest of the World	(0.4)	(0.7)		
Advanced Medical Nutrition	(0.3)	(0.6)		

(a) Decrease applied, each year, to the assumed growth in sales, including the final year, based on (i) the 2017 projections for tests performed in 2016, and (ii) the 2018 projections for the tests performed in 2017.

(b) Decrease applied, each year, to the assumed recurring operating margin, including the final year, based on (i) the 2017 projections for tests performed in 2016, and (ii) 2018 projections for tests performed in 2017.

Goodwill of other CGUs

As of December 31, 2017, the CGUs of EDP International Reporting entity established before the acquisition of WhiteWave and the Waters Reporting entity represented in total 20% of the carrying amount of the Group's goodwill and comprised more than 20 CGUs located in diverse geographical areas and in different countries.

As of December 31, 2017, following the impairment review of intangible assets with indefinite useful life of these CGUs, the Group recognized impairment on two CGUs in the Waters Reporting entity totaling €47 million, which were recognized in Other operating income (expense) for the period.

As of December 31, 2016, following the impairment review of intangible assets with indefinite useful life of these CGUs, the Group recognized impairment on a Waters Reporting entity CGU in the amount of €31 million.

Brands with indefinite useful lives

The Group's main brands that were tested for impairment were *Nutricia* and *Milupa*. As of December 31, 2017, they represented more than 25% of the carrying amount of the Group's brands with indefinite useful lives. The other brands are spread over all Reporting entities and located in diverse geographical areas and different countries and none represented individually more than 5% of the carrying amount of the Group's brands with indefinite useful lives as of December 31, 2017.

Impairment review of the main brands with indefinite useful lives

As of December 31, 2017, the Group reviewed the value of the *Nutricia* and *Milupa* brands in accordance with the methodology and the valuation model described above and on the basis of assumptions based on those of the groups of CGUs concerned. This review did not result in the recognition of any impairment provisions.

In addition, analysis of the sensitivity of the value in use to the key assumptions was carried out on each of these other main brands. The key assumptions involved in the valuation model used by the Group are (i) the growth in sales, (ii) the royalty rate, (iii) the long-term growth rate used to calculate the terminal value, and (iv) the discount rate.

The following changes, deemed reasonably possible, in the key assumptions do not alter the findings of the impairment review, *i.e.* the absence of any impairment:

- 50 bps decrease in sales (decrease applied, each year, to the assumptions concerning growth in sales, including the final year, on the basis of the 2018 projections);
- 50 bps decrease in the royalty rate;
- 50 bps decrease in the long-term growth rate;
- 50 bps increase in the discount rate.

Other brands with indefinite useful lives

As of December 31, 2017, following the impairment review of the other brands with indefinite useful lives, the Group recognized, under Other operating income (expense) for the period, an impairment provision in respect of certain brands in EDP International and Specialized Nutrition Reporting entities in the aggregate amount of €68 million.

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

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

Note 10.1. Accounting principles

Financing

Debt instruments are recognized in the consolidated balance sheet (i) under the amortized cost method, using their effective interest rate, or (ii) at their fair value.

When the fair value risk of a debt is hedged by a derivative, the changes in the fair value of the hedged component of said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to the heading Other financial income (expense), which thereby offsets the changes in fair value of the derivative instrument.

When future cash flows of a debt are hedged by a derivative, the changes in the fair value of the effective portion of the derivative hedging said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to consolidated equity, and is recycled to profit or loss when the hedged item (the interest flows relating to the hedged debt) impacts the consolidated net income.

Hybrid financing

Since the contractual terms of the perpetual subordinated debt securities issued by Danone do not stipulate any redemption or coupon payment obligation (payment of a coupon is mandatory mainly in the event of the payment of a dividend to Danone's shareholders):

- they are classified as equity instruments;
- the related coupons are recognized as a deduction from consolidated equity, net of the related tax income. In the consolidated statement of cash flows, they are included in Cash flows provided by (used in) financing activities, the related tax being included in Cash flows provided by (used in) operating activities.

Short-term investments

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

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

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

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

Translation of transactions denominated in foreign currencies

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

Note 10.2. Liquidity risk and management policy

Risk identification

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

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

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

Liquidity risk arises mainly from the maturities of its (i) interest-bearing liabilities (bonds, bank debt, etc.), and (ii) non-interest-bearing liabilities (liabilities related to put options granted to non-controlling interests), and from payments on derivative instruments.

As part of its debt management strategy, Danone regularly seeks new financing to refinance its existing debt.

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, Danone is exposed to liquidity risk involving limited amounts in those countries.

More generally, it is possible that in the context of a systemic financial crisis, Danone may not be able to access the financing or refinancing it needs on the credit or capital markets, or to access such finance on satisfactory terms, which could have an adverse impact on its financial situation.

In addition, Danone's ability to access financing and its interest expense could depend in part on its credit rating by financial rating agencies. The Company's short- and long-term debt ratings and any potential deterioration therein could result in higher financing costs and affect its access to financing.

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

Risk monitoring and management

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

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

Use of its financing sources

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

Note 10.3. Financing structure and changes during the period

Financing classified as debt

(in € millions)	As of December 31, 2016	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of accrued interest [d]	Impact of changes in exchange rates and other non-cash impacts [c]	Non-current portion becoming current	Changes in consolidation scope	As of December 31, 2017
Financing managed at Company level									
Bonds – non-current portion	18,113	–	(544)	–		(750)	(2,156)	521	15,184
Bonds – current portion	934	–	(943)	–		8	2,156	–	2,156
Short-term debt instruments [a]	788	–	–	(65)		(4)	–	–	719
Total	19,835	–	(1,487)	(65)	–	(746)	–	521	18,058
Other financing arrangements [b]									
Non-current portion	325	–	–	10		95	(102)	17	345
Current portion	397	–	–	(509)	80	130	102	147	347
Total	722	–	–	(499)	80	225	–	164	692
Total	**20,557**	**–**	**(1,487)**	**(564)**	**80**	**(521)**	**–**	**685**	**18,750**

(a) As of December 31, 2016 and 2017, these were included in Current financial debt.
(b) Subsidiaries' bank financings, other financing arrangements and debts in respect of finance leases.
(c) Mainly the net changes in finance leases.
(d) Net flows of accrued interest as of December 31, 2016 (included in cash flows provided by operations), and accrued interest in respect of the period.

Financing classified as equity

As part of its permanent focus on optimizing its capital structure, Danone launched a hybrid perpetual bond issue totaling €1.25 billion, taking advantage of the exceptionally attractive market conditions.

This issuance contributes to the diversification of Danone's sources of funding and strengthened its capital structure, providing balance sheet flexibility for the execution of its strategy.

The issue consists of a euro-denominated undated bond, offering a first 1.75% coupon, with a first call date on June 23, 2023. The bonds, fully accounted as equity in accordance with IFRS, received an equity credit of 50% from Moody's and Standard & Poor's.

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

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

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

As of December 31

	2016		2017	
(in € millions)	**Principal amount**	**Amount used**	**Principal amount**	**Amount used**
Bank financing [a]				
Syndicated credit facility [b]	2,000	–	2,000	–
Committed credit facilities [c]	1,519	–	1,450	–
Capital markets financing [a]				
EMTN financing [d] [e]	21,000	13,020	21,000	17,340
U.S. dollar bonds [e]	NA	6,027	NA	5,294
Hybrid financing	NA	–	NA	1,250
Short-term debt instruments	3,000	788	3,000	719

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

Main financing transactions in 2017

Year ended December 31

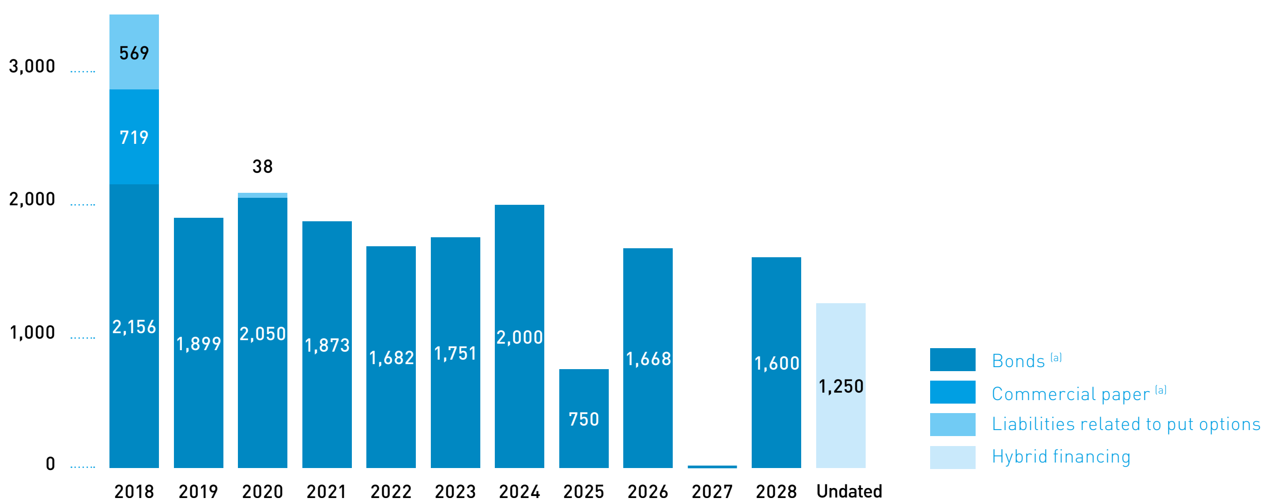
	2017		
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Hybrid financing	EUR	1,250	Undated
Repayments			
WhiteWave bond	USD	553	2022
Eurobonds	EUR	750	2017
Yen private placement	JPY	11,000	2017
Euro private placement	EUR	95	2017

Main financing transactions in 2016

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

Repayment schedule for financial debt managed at Company level and put options granted to non-controlling interests

Projected cash outflows related to the contractual repayment of the principal amount based on the assumption of non-renewal
(in € millions)



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

Projected cash outflows related to the contractual repayment of interest on the financial assets and liabilities managed at the Company level, including premiums to be paid on derivative financial instruments based on the assumption of non-renewal

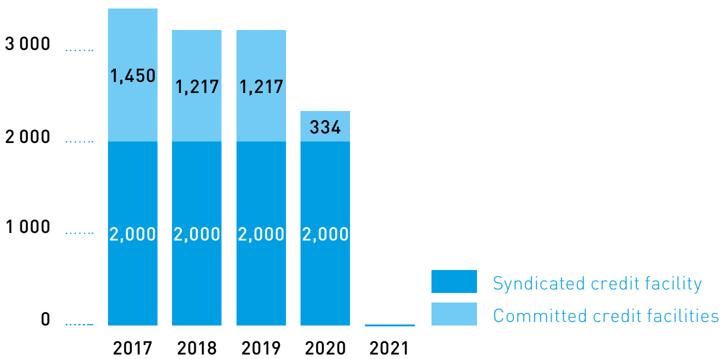
(in € millions)	Cash flows 2018	Cash flows 2019	Cash flows 2020	Cash flows 2021	Cash flows 2022 and after
Interest on debt [a]	(280)	(269)	(248)	(223)	(575)
Flows on derivatives [a] [b] [c]	59	57	42	42	153

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2017.
(b) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at year-end.
(c) Concerns derivative instruments used to manage net debt, assets and liabilities.

Sources of financing available at any time

The sources of financing available at any time established by the Group are composed mainly of available committed credit facilities and a syndicated credit facility carried by the Company.

(in € millions)



Company rating

As of December 31

	2016		2017	
	Moody's	Standard and Poor's	Moody's	Standard and Poor's
Short-term rating [a]				
Rating	–	A-2	–	A-2
Long-term rating [b] [c]				
Rating	Baa1 [c]	BBB+	Baa1 [c]	BBB+
Outlook	Stable	Negative [d]	Stable	Negative [d]

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

Note 10.5. Short-term investments

Carrying amount

(in € millions)	Note	As of December 31 2016	2017
Money market funds		12,682	3,085
Including funds (French SICAV) associated with the WhiteWave acquisition project	2.2	*11,429*	–
Bank deposits, negotiable debt instruments and other short-term investments		380	377
Total		**13 063**	**3 462**

Counterparty risk in respect of short-term investments

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

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

Note 10.6. Net debt

(in € millions)	As of December 31 2016	2017
Non-current financial debt	18,771	15,716
Current financial debt	2,510	3,792
Short-term investments	(13,063)	(3,462)
Cash and cash equivalents	(557)	(638)
Derivatives – assets – Non-current [a]	(148)	(16)
Derivatives – assets – Current [a]	(42)	(19)
Net debt	**7,472**	**15,372**

(a) Used solely to manage net debt. The net debt has not been restated in respect of the portion of the derivatives (assets) used to hedge the WhiteWave acquisition price, *i.e.* €377 million as of December 31, 2016. As of December 31, 2017, these hedging instruments were settled on payment of the acquisition.

Changes in net debt in 2017

Danone's net debt totaled €15,372 million as of December 31, 2017, €7,900 million higher than as of December 31, 2016.

The main reasons for this variation were the acquisition of WhiteWave and the disposal of Stonyfield. It included €607 million of put options granted to non-controlling shareholders, *i.e.* €92 million lower than as of December 31, 2016.

Changes in net debt in 2016

Danone's net debt totaled €7,472 million as of December 31, 2016, €327 million lower than as of December 31, 2015.

Note 10.7. Cost of net debt

Accounting principles

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

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

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

Cost of net debt in 2017

During 2017, cost of net debt increased in absolute terms from €(146) million in 2016 to €(263) million in 2017, reflecting the additional charges associated with financing the WhiteWave acquisition.

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

Interest rate risk

Interest rate risk exposure

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

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

The Group has implemented a policy to monitor and manage this interest rate risk in connection with its net debt management, as described in Note 12.3 of the Notes to the consolidated financial statements.

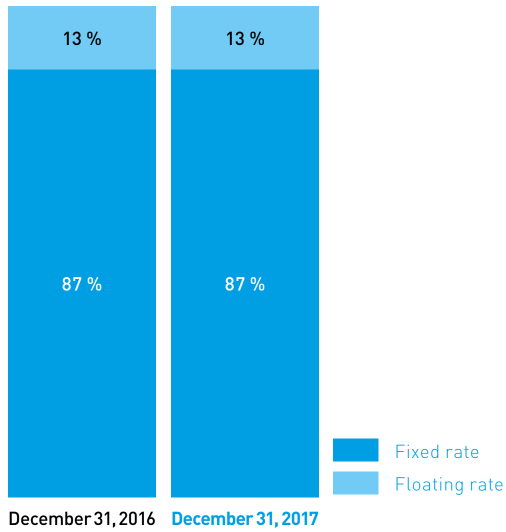
Sensitivity of net income to changes in the cost of net debt resulting from changes in the short-term interest rate

Sensitivity to interest rate changes reflects the following factors:

- financial debt net of short-term investments, cash and cash equivalents. It excludes the financial liabilities related to put options granted to non-controlling interests as these are not interest-bearing;
- active interest rate hedges as of December 31.

Hedged and unhedged portion of net debt in respect of an increase in short-term interest rates

Net debt breakdown between fixed and floating rates



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

In 2017 as in 2016, the impact of changes in short-term interest rates would not have had a significant impact on the cost of the Group's net debt.

Financial currency risk

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

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

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

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

Note 11.1. Accounting principles

Investments in other non-consolidated companies

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

Fair value

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

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

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

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

Other long-term financial assets

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

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

Long-term loans

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

Note 11.2. Other financial investments

Main changes during the period

In 2017 as in 2016, the Group did not carry out any material transactions.

Carrying amount

		As of December 31
(in € millions)	**2016**	**2017**
Investments in non-consolidated companies	81	83
Bonds and money-market funds [a]	122	98
danone.communities	13	13
Other [b]	52	50
Other long-term financial assets	187	162
Long-term loans	21	15
Other financial assets	**288**	**260**

(a) Bonds and money-market funds held as the counterpart to certain "damage and personal protection" risk provisions.
(b) Comprises mainly security deposits required by the tax regulations of some countries in which the Group operates.

Note 11.3. Other financial income and other financial expense

Accounting principles

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

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

NOTE 12. ORGANIZATION OF FINANCIAL RISKS AND DERIVATIVES MANAGEMENT

Note 12.1. Organization of financial risks management

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

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

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

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

Note 12.2. Accounting principles

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

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

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

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

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

Note 12.3. Derivatives

Group's policy

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

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

The Group mainly applies cash flow hedge accounting.

Based on pending transactions as of December 31, 2017, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2018, the main currencies partially hedged being the Russian ruble, the Brazilian real and the Turkish lira.

Management of currency risk related to financing activities and translation risk on net assets
The Group has established a policy for monitoring and hedging the net situation of certain subsidiaries, with regular assessments of risks and opportunities to use hedging instruments.

The Group's policy consists of maintaining the debtor and/or surplus cash positions of Danone and its subsidiaries in their respective functional currencies. Furthermore, in compliance with its policy of managing risks centrally, the Group may manage multi-currency borrowings and surplus cash.

As part of these policies, the Group therefore uses cross-currency swaps.

Net debt management
In connection with its net debt management, the Group has implemented a policy to monitor and manage interest rate risk in order to limit the volatility of its financial income (expense) through the use of hedging instruments.

These derivatives are mainly interest rate swaps and sometimes collars. All these instruments are plain vanilla. The interest rate derivatives are contracted to manage interest rate risk and are either eligible for hedge accounting or not in accordance with IAS 39.

Hedging acquisitions and disposals of companies or other equity investments
The Group's policy is, generally, not to hedge amounts payable or receivable in connection with acquisitions or disposals of companies or other equity investments. However, in certain circumstances, the Group may decide to hedge certain transactions. This was the case in particular for the WhiteWave acquisition project (see Note 2.3 of the Notes to the consolidated financial statements).

Portfolio of derivatives

Notional and fair value amounts

As of December 31

	2016			2017		
(in € millions)	**Notional**	**Fair value**	**Of which, recognized in equity**	**Notional**	**Fair value**	**Of which, recognized in equity**
Used to hedge operational currency risk	**(1,554)**	**20**	**42**	**(1,815)**	**10**	**31**
Cash flow hedge – currency options	(253)	2	7	(229)	(3)	–
Cash flow hedge – forward currency contracts	(1,278)	19	36	(1,588)	13	30
No hedge accounting applied	(23)	(1)	–	2	–	–
Used to manage net debt	**6,896**	**148**	**86**	**4,262**	**(126)**	**(16)**
Fair value hedge	750	26	–	2,274	8	–
Cash flow hedge	2,142	121	71	2,052	(141)	(18)
Net investment hedge	111	15	15	89	3	3
No hedge accounting applied	3,893	(14)	–	(154)	4	–
Used to hedge WhiteWave's acquisition price	**7,612**	**377**	**356**	**–**	**–**	**–**
Cash flow hedge	7,612	377	356	–	–	–
No hedge accounting applied	–	–	–	–	–	–
Total	**12,954**	**546**	**485**	**2,447**	**(116)**	**15**

Additional information

Operational currency risk management

Net notional amount of derivative instruments hedging main currencies

As of December 31

	2016			2017		
(in € millions)	**Forward contracts, net [a]**	**Currency options, net [b]**	**Total**	**Forward contracts, net [a]**	**Currency options, net [b]**	**Total**
(Sales)/Purchases of currencies						
GBP [c]	(511)	(158)	(669)	(485)	(189)	(674)
MXN [c]	(258)	–	(258)	(153)	–	(153)
USD [c]	260	(40)	220	62	(17)	44
AUD [c]	(115)	(31)	(146)	(324)	–	(324)
RUB [c]	(96)	–	(96)	(63)	–	(63)
BRL [c]	(81)	–	(81)	(93)	–	(93)
CNY [c]	(110)	–	(110)	(190)	–	(190)
Other [c]	(389)	(24)	(413)	(341)	(23)	(364)
Total	**(1,301)**	**(253)**	**(1,554)**	**(1,586)**	**(229)**	**(1,815)**

(a) Spot portion of notional amount, based on closing rates.
(b) Spot portion of notional amount, includes in- and out-of-the-money options.
(c) Transactions denominated with the EUR or other currencies as counterpart.

Sensitivity of equity and net income to changes in fair value

A change in the fair value of the derivative financial instruments hedging the operating currency risk, induced by a change in foreign exchange rates, could impact the Group's equity and net income. The impact recognized in profit or loss relates to:

- the time value and swap point variations, when they are excluded from the hedging relationship;
- transactions to which hedge accounting is not applied.

Sensitivity to a change in the euro against currencies exposed to exchange rate fluctuations

				As of December 31
	2016		2017	
(in € millions)	Equity	Gain (loss)	Equity	Gain (loss)
10% increase in EUR [a]				
GBP [b]	60	(2)	57	(2)
MXN [b]	1	–	1	–
USD [b]	14	2	24	–
AUD [b]	12	–	28	–
RUB [b]	7	–	3	–
BRL [b]	2	1	1	–
10% decrease in EUR [a]				
GBP [b]	(65)	(2)	(57)	(2)
MXN [b]	(2)	–	(1)	–
USD [b]	(20)	1	(27)	–
AUD [b]	(14)	–	(34)	–
RUB [b]	(8)	–	(4)	–
BRL [b]	(2)	(1)	(1)	–

(a) Increase/decrease in EUR applied to transactions that are outstanding and at constant interest rate volatility.
(b) Transactions denominated with the EUR or other currencies as counterpart. In the case of transactions denominated in currencies other than the EUR, the increase or decrease in the EUR is applied to the base currency and the secondary currency.

These instruments and the hedged items typically have maturities of less than one year. Consequently the cash flows related to these instruments will, for the most part, be recognized in the consolidated income statement in 2018.

Gains and losses related to fair value changes recognized in profit or loss

Gains and losses recognized in profit or loss involve the following items:

- the ineffective portion, during the year, of the changes in fair value of instruments designated as cash flow hedges: in 2017 as in 2016, the amounts are not material;
- the effective portion deferred in equity the previous year of instruments designated as cash flow hedges and recycled to income during the year: in 2017 as in 2016, the amount recycled corresponded to the portion of hedges recorded in equity as of December 31 of the previous year, with these hedges having for the most part a maturity of less than one year.

Management of currency risk related to financing activities and translation risk on net assets

Sensitivity of equity and net income to changes in fair value

A change in the fair value of these derivative financial instruments induced by a change in foreign exchange rates at the reporting date would not have a significant impact on the Group's equity or net income. Changes in the foreign exchange rates of the financial instruments are offset by changes in the foreign exchange rates on loans and borrowings in hedged currencies or on net foreign investments.

Net debt management

Sensitivity of equity and net income to changes in fair value

A change in the fair value of interest rate derivatives induced by a change in the yield curve recognized at the reporting date would have the following impact on the Group's equity and net income:

- impacts recognized in equity relate to the effective portion of the instruments eligible to be used as hedges of future cash flows;
- impacts recognized in profit or loss relate to the ineffective portion of the instruments eligible to be used as hedges of future cash flows, as well as to the impact of the change in fair value of the instruments not qualifying as hedges.

Sensitivity to a change applied to the entire yield curve

In 2017 as in 2016, a rate change applied to the yield curve would not have a material impact on consolidated equity or net income.

Gains and losses related to fair value changes and shown through profit or loss

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

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

In 2017 as in 2016, the corresponding amounts are not material.

Note 12.4. Counterparty risk

Counterparty risk inherent to financial risk management

Risk identification

The Group is exposed to counterparty risk, especially on banking counterparties, as part of its financial risk management activities.

As part of its normal activities, the Group has financial institutions as counterparties, mainly to manage its cash and foreign exchange rate and interest rate risks. The failure of these counterparties to comply with one or more of their commitments could adversely affect the Group's financial situation.

Risk management

The Group's overall exposure to counterparty risk has been significantly reduced through the centralization of financial risks and implementation of centralized applications as well as its cash management policy of minimizing and managing surpluses.

The Group's banking policy aims to apply deposit limits per counterparty and emphasizes the importance of its credit rating quality by concentrating its transactions among first-tier counterparties that (i) have credit ratings at least in the BBB+ category; (ii) possess international branch networks and (iii) provide it with financing. Moreover, in order to invest its short-term surpluses, the Group mainly invests in either money-market funds (French OPC *monétaires*) or short-term money-market funds (French OPC *monétaires court terme*), which are not rated. These funds are very liquid and diversified. The other short-term investments are made in accordance with the Group's above-mentioned banking policy.

Finally, in certain countries, the Group may be obliged to conduct transactions with local banks that have lower credit ratings.

Exposure related to short-term investments

See Note 10.4 of the Notes to the consolidated financial statements.

Exposure related to derivative instruments

	As of December 31	
(as a percentage of the total fair value as of December 31) [a]	**2016**	**2017**
Counterparty rating (Standard & Poor's)		
AAA, AA and A	85%	92%
BBB, BB and B	15%	8%
Unrated	–	–

(a) Total, when positive, of fair values of outstanding derivatives by counterparty as of December 31.

Fair value associated with derivatives counterparty risk

The valuation associated with derivatives counterparty risk is calculated on the basis of historical default probabilities derived from the calculations of a leading rating agency, to which a recovery rate is applied. As of December 31, 2017 and December 31, 2016, the impact associated with the adjustment required by IFRS 13 is not material.

Note 12.5. Equity securities risk

		As of December 31	
(in € millions)	Notes	**2016**	**2017**
Risk on Company shares			
Treasury shares and DANONE call options [a]	13.3	1,682	1,653
Risk on other shares			
Investments in associates	4	2,730	2,678
Investments in other non-consolidated companies	11.2	81	83

(a) DANONE call options acquired by the Company.

Note 12.6. Reconciliation of the consolidated balance sheet by class and accounting category

(in € millions)	Assets recorded at fair value	Assets available for sale	Loans and receivables	Liabilities recorded at fair value	Liabilities at amortized cost	Carrying amount	Fair value	Fair value level [b]
As of December 31, 2017								
Financial assets								
Investments in other non-consolidated companies	–	83	–	–	–	83	83	1-3
Long-term loans and other long-term financial assets	–	162	15	–	–	177	177	1-3
Derivatives - assets	35	–	–	–	–	35	35	2
Trade receivables [a]	–	–	2,794	–	–	2,794	2,794	-
Other current assets [a]	47	–	999	–	–	1,046	1,046	-
Short-term loans	–	–	14	–	–	14	14	-
Money market funds	3,085	–	–	–	–	3,085	3,085	1
Other short-term investments	377	–	–	–	–	377	377	2
Cash and cash equivalents	638	–	–	–	–	638	638	1
Carrying amount of financial assets by category	**4,182**	**245**	**3,822**	**–**	**–**	**8,249**	**8,249**	
Financial liabilities								
Financing	–	–	–	2,329	16,422	18,750	19,279	2
Derivatives - liabilities	–	–	–	150	–	150	150	2
Trade payables [a]	–	–	–	–	3,904	3,904	3,904	-
Other current liabilities [a]	–	–	–	35	2,681	2,716	2,716	-
Carrying amount of financial liabilities by category	**–**	**–**	**–**	**2,514**	**23,007**	**25,520**	**26,049**	
As of December 31, 2016								
Financial assets								
Investments in other non-consolidated companies	–	81	–	–	–	81	81	1-3
Long-term loans and other long-term financial assets	–	187	21	–	–	208	208	1-3
Derivatives - assets	567	–	–	–	–	567	567	2
Trade receivables [a]	–	–	2,524	–	–	2,524	2,524	-
Other current assets [a]	67	–	994	–	–	1,061	1,061	-
Short-term loans	–	–	18	–	–	18	18	-
Money market funds	12,682	–	–	–	–	12,682	12,682	1
Other short-term investments	380	–	–	–	–	380	380	2
Cash and cash equivalents	557	–	–	–	–	557	557	1
Carrying amount of financial assets by category	**14,254**	**268**	**3,557**	**–**	**–**	**18,079**	**18,079**	
Financial liabilities								
Financing	-	–	–	783	19,774	20,557	21,226	2
Derivatives - liabilities	–	–	–	27	–	27	27	2
Trade payables [a]	–	–	–	–	3,772	3,772	3,772	-
Other current liabilities [a]	–	–	–	44	2,697	2,741	2,741	-
Carrying amount of financial liabilities by category	**–**	**–**	**–**	**854**	**26,243**	**27,097**	**27,766**	

(a) The carrying amount corresponds to the fair value given the short-term nature of these items.
(b) Valuation hierarchy used to assess fair value.

Valuation hierarchy in accordance with IFRS 7, *Financial instruments – Disclosures*

Level 1

Fair value is based on (unadjusted) prices listed on active markets for identical assets and liabilities.

Level 2

Fair value is based on data other than listed prices as per level 1, which are observable for the asset or liability concerned, directly or indirectly.

Level 3

Fair value is based on data relating to the asset or liability which are not based on observable data on active markets.

For asset and liability derivative instruments recognized at fair value, the Group uses measurement techniques that include data observable on the market, notably for interest rate swaps, forward currency purchases and sales, or currency options. The model integrates diverse data such as spot and forward exchange rates and the yield curve.

NOTE 13. DANONE SHARES, DIVIDEND, EARNINGS PER SHARE

Note 13.1. Accounting principles

DANONE shares

DANONE shares held by the Company and its fully consolidated subsidiaries are recognized as a reduction in consolidated equity, under the heading Treasury shares and DANONE call options, and are measured at effective cost.

DANONE call options

DANONE call options are options held by the Company to purchase DANONE shares to hedge certain of its stock-option plans granted to certain employees and corporate officers. They do not constitute financial assets but are instead equity instruments in accordance with IAS 32, *Financial instruments: Presentation*. They are recognized upon acquisition as a deduction from consolidated equity, under the heading Treasury shares and DANONE call options. They are measured at effective cost, *i.e.* the premium paid plus transaction expense, and are not subsequently remeasured.

Note 13.2. Transactions and changes involving DANONE shares

2017 changes involving treasury shares in terms of transactions and use according to the Company's purpose

		Changes during the period					
(in number of shares)	**As of December 31, 2016**	**Buyback**	**Exercise of DANONE call options**	**Sales/ Transfers**	**Delivery following exercise of stock-options**	**Delivery of Group performance shares**	**As of December 31, 2017**
Acquisition transactions	**30,769,360**	–	–	–	–	–	**30,769,360**
Liquidity agreements	**–**	–	–	–	–	–	–
Hedging of performance shares and stock-options	**2,359,838**	–	76,279	–	(293,372)	(385,113)	**1,757,632**
Cancellation of shares	**–**	-	-	–	–	–	**–**
Shares held by the Company	**33,129,198**	**–**	**76,279**	**–**	**(293,372)**	**(385,113)**	**32,526,992**
Shares held by Danone Spain	**5,780,005**	–	–	–	–	–	**5,780,005**
Total shares held by the Group	**38,909,203**	**–**	**76,279**	**–**	**(293,372)**	**(385,113)**	**38,306,997**

2017 changes involving DANONE call options, in terms of transactions

		Changes during the period			
(in number of shares, except percentage)	**As of December 31, 2016**	**Acquisitions**	**Expired options**	**Exercises**	**As of December 31, 2017**
Number of call options	**76,279**	–	–	(76,279)	**–**
Percentage of the Company's share capital as of December 31	**0.01%**				**–**

Note 13.3 Outstanding DANONE shares

Year ended December 31

		2016			2017		
(in number of shares)	Notes	**Share capital**	**Treasury shares**	**Outstanding**	**Share capital**	**Treasury shares**	**Outstanding**
As of January 1		654,951,200	(39,726,175)	615,225,025	655,892,000	(38,909,203)	616,982,797
Dividend in shares	13.5	–	–	–	13,835,487	–	13,835,487
Other capital increases	7.5	940,800	–	940,800	982,913	–	982,913
Changes in treasury shares	13.2	–	816,972	816,972	–	602,206	602,206
As of December 31		**655,892,000**	**(38,909,203)**	**616,982,797**	**670,710,400**	**(38,306,997)**	**632,403,403**

Note 13.4. Earnings per share – Group share

Accounting principles

Earnings per share correspond to the ratio of Net income – Group share adjusted for hybrid financing divided by the Number of shares. Pursuant to IFRS, the income used to calculate Earnings per share is adjusted for the coupon related to the hybrid financing accrued for the period and presented net of tax. The Number of shares corresponds to the average number of outstanding shares during the year, after deducting the treasury shares held by the Company and its fully consolidated subsidiaries.

Earnings per share after dilution (or diluted earnings per share) correspond to the ratio of Net income – Group share adjusted for hybrid financing divided by the Diluted number of shares. The Diluted number of shares corresponds to the Number of shares increased by the net impact, when it is positive, of the following two elements:

- the increase in the weighted average number of shares that would result from the acquisition of Group performance shares, taking into account only those shares whose performance conditions are met as of the closing date.
- the reduction in the number of shares that could theoretically be acquired, in accordance with the treasury stock method specified by IAS 33, *Earnings per Share*.

Earnings per share

Year ended December 31

(in € per share, except for number of shares)	Notes	2016	2017
Net income – Group share		1,720	2,453
Coupon relating to hybrid financing, net of tax		–	2
Adjusted net income – Group share		1,720	2,451
Number of outstanding shares			
As of January 1		615,225,025	616,982,797
Effects of changes during the year	13.3	1,757,772	15,420,606
As of December 31		616,982,797	632,403,403
Average number of outstanding shares			
• Before dilution		616,442,041	625,986,636
Dilutive impact			
Dividend in shares		–	968,125
Group performance shares and stock-options		258,577	166,505
Other capital increases		–	–
• After dilution		616,700,618	627,121,266
Net income, Group share, per share			
• Before dilution		2.79	3.92
• After dilution		2.79	3.91

Note 13.5. Dividend

Distributable reserves of the parent company Danone

The legally distributable reserves of subsidiaries and associated companies may differ from their reported retained earnings as a consequence of (i) consolidation adjustments applied to their separate financial statements, and (ii) the laws applicable in the countries in which the Group operates.

In the case of the Group, under French law, dividends can only be paid out of the net income for the year and the distributable reserves of the parent company Danone.

Payment of the 2016 dividend with the option of payment in shares

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

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

	Year ended December 31, 2017		
(in € millions, except number of shares)	**Number of outstanding shares**	**Consolidated shareholders' equity**	**Consolidated cash flows**
Portion paid in shares			
Portion paid in newly-issued shares [a]	13,835,487	–	–
Fractional shares	–	(14)	(14)
Portion paid in cash [b]	–	(265)	(265)
Total	**13,835,487**	**(279)**	**(279)**

(a) *I.e.* 2.11% of Danone's share capital based on the share capital as of April 30, 2017.
(b) Excluding share of the dividend paid to Danone Spain, *i.e.* €10 million.

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

These shares carry dividend rights as of January 1, 2017 and are identical in all respects to the previously issued shares.

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NOTE 14. OTHER NON-CURRENT PROVISIONS AND LIABILITIES AND LEGAL AND ARBITRATION PROCEEDINGS

Note 14.1. Accounting principles

Other non-current provisions and liabilities consist mainly of:

- provisions;
- investment subsidies.

Other non-current provisions and liabilities also include the short-term portion due in less than one year since it is deemed immaterial.

Provisions are recognized:

- when the Group has a present obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Group. The timing or amount of the net outflow may be uncertain, but the amount must be estimated in a reliable manner;
- on the basis of management's best estimate, as of the reporting date, of the outflow of resources deemed probable to cover these obligations.

A provision is reversed when it no longer appears probable that the corresponding payment or an outflow of resources will occur (provision not used).

Note 14.2. Carrying amount and changes during the period

		Movements during the period						
(in € millions)	**As of December 31, 2016**	**Changes in scope**	**Increase**	**Reversal of provisions used**	**Reversal of provisions not used**	**Translation adjustments**	**Other**	**As of December 31, 2017**
Tax and territorial risks	445	33	241	(11)	(83)	(20)	(32)	572
Employee-related and commercial disputes and other provisions	380	34	98	(43)	(43)	(15)	(46)	366
Restructuring provisions	60	–	41	(24)	(11)	(1)	–	64
Total [a]	**885**	**67**	**380**	**(78)**	**(137)**	**(35)**	**(78)**	**1,003**

(a) The current portion totaled €38 million as of December 31, 2017 (€62 million as of December 31, 2016).

Changes to Other provisions and non-current liabilities during 2017 were as follows:

- increases result primarily from lawsuits against the Company and its subsidiaries in the normal course of business;
- reversals of used provisions occur when corresponding payments are made. Reversals of unused provisions relate mainly to reassessments and situations where some risks ceased to exist. They relate to several provisions, none of which is material individually;
- other changes correspond primarily to reclassifications.

As of December 31, 2017, provisions for tax risks, and commercial, employee-related, and other disputes included several provisions for legal, financial, tax and territorial risks, mainly in certain countries in the ALMA region, 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 14.3. Legal and arbitration proceedings

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

Proceedings relating to the false alarm given by Fonterra with respect to certain ingredients supplied to the Group in Asia in 2013

Danone has reviewed its recourse and compensation options and decided to initiate proceedings in the New Zealand High Court, as well as arbitration proceedings in Singapore to bring all facts to light and to obtain compensation for the harm it has suffered. Proceedings are still in progress.

On November 30, 2017, the Singapore arbitration court awarded Danone damages of €105 million (excluding costs and interest to be determined subsequently) to be paid immediately by Fonterra as compensation for the costs suffered as a result of the Fonterra food safety failures of 2013.

The full amount of this €105 million income was therefore recognized in 2017, in Other operating income (expense) in the income statement and in Cash flows provided by operating activities in the consolidated statement of cash flows.

Other proceedings

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

NOTE 15. RELATED PARTY TRANSACTIONS

Note 15.1. Accounting principles

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

Note 15.2. Transactions with associates

Transactions with these companies are generally carried out at arm's length. They mainly involve:

- management fees and royalties paid to the Group;
- services, mainly logistics;
- financing.

As in 2016, the amounts pertaining to 2017 are not material.

Note 15.3. Compensation and benefits granted to members of the Executive Committee and Board of Directors

Compensation paid

	Year ended December 31	
(in € millions)	**2016**	**2017**
Compensation paid to corporate officers and members of the Executive Committee [a]	17.0	14.9
Attendance fees paid to Directors [b]	0.8	0.7
Total	**17.8**	**15.6**
Severance pay	–	–
Carrying amount of shares subject to performance conditions granted during the year [c]	7.8	7.1

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €7.3 million in 2017 (€7.9 million in 2016).

(b) Amount paid to eligible Directors, in respect of the retirement plan for their benefit for positions they held previously in the Group.

(c) The carrying amount represents the full estimated value as of the grant date in accordance with IFRS 2 on the assumption that the performance conditions have been satisfied.

Danone's commitment to the corporate officers and Executive Committee members with respect to the retirement plan

As of December 31, 2017, the portion of the total amount of Danone's obligation relating to Danone's corporate officers and Executive Committee members under this defined benefit retirement plan amounted to €23 million.

In addition, the corporate officers benefit also from the executives' supplementary retirement plan (defined contribution retirement plan set up for executives whose gross annual compensation is greater than or equal to three times the French social security ceiling). Contributions for this plan in respect of 2017 amounted to €15,103 and €16,476 for Mr. Franck RIBOUD and Mr. Emmanuel FABER respectively. The plan rules stipulate that the benefit derived from this plan will be deducted in full from the possible defined benefit retirement plan.

Loans and guarantees

In 2017, as in 2016, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

Note 15.4. Related party agreements

See section 6.6 *Related party agreements and commitments*.

NOTE 16. SUBSEQUENT EVENTS

Note 16.1 New phase in Danone's strategic partnership with Yakult

See Note 4.5 of the Notes to the consolidated financial statements.

Note 16.2 Other subsequent events

To the Company's knowledge, no other material events occurred after the approval date of the 2017 consolidated financial statements (approved by the Board of Directors on February 15, 2018).

NOTE 17. FEES TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

(in € millions except percentage)	PricewaterhouseCoopers Audit				Ernst & Young Audit			
	2016 fees		2017 fees		2016 fees		2017 fees	
Statutory audits: certification of the individual and consolidated financial statements	4.7	89%	5.0	79%	4.6	72%	5.4	84%
Services other than the certification of the financial statements	0.6	11%	1.3	21%	1.8	28%	1.0	16%
Total [a]	**5.3**	**100%**	**6.3**	**100%**	**6.4**	**100%**	**6.4**	**100%**

(a) Fees invoiced in foreign currencies have been translated into euros on the basis of the annual average exchange rates used by Danone.

In 2017, the fees of the Statutory auditors of the parent company and its French subsidiaries in respect of the certification or limited review of the individual and consolidated financial statements totaled €2.5 million (€2.1 million in 2016), of which €1.1 million for PricewaterhouseCoopers Audit (€0.9 million in 2016) and €1.4 million for Ernst & Young Audit (€1.2 million in 2016).

The fees of the Statutory auditors of the parent company and its French subsidiaries for services other than the certification of the financial statements for the year ended December 31, 2017 totaled €1.2 million (€2 million in 2016), of which €0.4 million for PricewaterhouseCoopers Audit (€0.4 million in 2016) and €0.8 million for Ernst & Young Audit (€1.6 million in 2016) and included in particular fees for due diligence performed in connection with proposed corporate acquisitions or disposals, which totaled €0.2 million for PricewaterhouseCoopers Audit (€0.3 million in 2016) and €0.6 million for Ernst & Young Audit (€1.4 million in 2016).

The fees of the Statutory auditors' networks for services other than the certification of the financial statements to certain foreign subsidiaries of Danone totaled €1.1 million (€0.4 million in 2016), of which €0.9 million for PricewaterhouseCoopers Audit (€0.2 million in 2016) and €0.2 million for Ernst & Young Audit (€0.2 million in 2016) and included in particular fees for tax services related notably to the review of technical documentation or the technical analysis of tax positions adopted by certain foreign subsidiaries.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Danone for the year ended 31 December 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Recognition of revenue.

RISK IDENTIFIED	OUR RESPONSE
As indicated in Note 5.1 to the consolidated financial statements, the Danone Group's sales are stated net of trade discounts and customer rebates (including costs relating to trade support and listing agreements or occasional promotional actions invoiced by retailers). Revenue measurement therefore involves making estimates related to such agreements or actions. We deemed the valuation of trade discounts and rebates to be a key audit matter given: • the Group's broad customer base across different countries and with varying contractual relationships (based on sales volumes, promotional agreements or trade practices), • the materiality of trade discounts and rebates, and • the complexity of estimating these amounts at the year end.	We assessed the consistency of the revenue recognition methods applied by the Danone Group with international financial reporting standards (IFRS). Given the large number of sales transactions carried out by the Group's various entities, we examined the internal control procedures relating to the estimation of trade discounts and rebates as part of the revenue recognition process and tested the key controls in the main operating entities. We also performed substantive tests to assess: • whether amounts to be refunded to customers were being measured correctly and recognized on the reporting date by (i) reconciling the estimates with the contractual data in the information systems used to manage trade terms and conditions or in the contracts with the relevant customers, and (ii) examining the assumptions used, where applicable, with regard to actions taken or specific situations and customary trade practices; • whether revenue was being recognized in the appropriate period by (i) testing the transactions booked after the reporting date to identify any non-accrued discounts and rebates and (ii) analysing the change in accruals and their breakdown by age.

Goodwill, brands and investments in associates

RISK IDENTIFIED	OUR RESPONSE
As at 31 December 2017, goodwill amounted to 18,132 million euros, brands with indefinite useful lives amounted to 6,309 million euros and investments in associates amounted to 2,678 million euros. These assets are subject to impairment tests, at least once a year in the case of goodwill and brands with indefinite useful lives, and whenever there is an indication of impairment in the case of investments in associates. The recoverable amounts of these assets or groups of assets are generally estimated on the basis of the discounted cash flows method or market values in the case of goodwill and investments in associates, and according to the royalties method for brands, as explained in Notes 4 and 9 to the consolidated financial statements. The impairment tests are based on estimates and on management's judgment concerning (i) the allocation of these assets to cash generating units (CGUs) in the case of goodwill (ii) the estimation of the future performance of the assets or CGUs and (iii) the determination of the discount and long-term growth rates. We therefore deemed the measurement of goodwill, brands and investments in associates, in particular the investment in Yashili due to the narrow difference between the estimated recoverable amount and net carrying amount, to be a key audit matter.	*Goodwill and brands* We examined the processes set up to allocate the goodwill to CGUs or groups of CGUs, in order to identify any indications of loss in value and to perform the cash flow projections underlying the impairment tests. For a sample of CGUs and brands, identified on the basis of quantitative and qualitative factors, we examined the main methods and assumptions used to determine recoverable value, including: • the forecast cash flows: the assumptions relating to the growth of the business and market shares were corroborated by the market analyses available. We also compared the main assumptions with past performance and assessed the trends between past forecasts and actual figures; • the long-term growth rates, the discount rates and the royalty rates, with the support of our financial valuation experts. We also analysed the sensitivity of the test results to the main assumptions used by management and examined the disclosures provided in the notes to the consolidated financial statements. *Investments in associates* We assessed the approach adopted and the data used by the Company (market valuation, recent performance and forecast results) to identify any indications of loss in value. For Yashili, we examined the main assumptions used to determine the recoverable amount, as well as the disclosures provided in the notes to the consolidated financial statements, implementing the procedures described above for goodwill and brands.

Tax assets and liabilities – provisions for tax risks

RISK IDENTIFIED	OUR RESPONSE
Danone operates in many different tax jurisdictions throughout the world. Consequently, the Company and its subsidiaries may be subject to audits or questioning by local tax authorities. The situations where outflows of resources are considered probable give rise to provisions measured on the basis of facts known in the jurisdiction concerned and the probability of tax reassessments as assessed by management. As stated in Note 14 to the consolidated financial statements, the provisions for territorial tax risks amount to 572 million euros as at 31 December 2017, including 241 million euros provisioned during the financial year. As at 31 December 2017, the amount of 294 million euros is recognized in the consolidated balance sheet in respect of the deferred tax assets relating to tax loss carryforwards as set out in Note 8 to the consolidated financial statements. The recoverability of these deferred tax assets resulting from tax loss carryforwards is based primarily on the ability of the entities concerned to meet their targets defined in the business plans drawn up by management. In addition, as stated in Note 8.1 to the consolidated financial statements, the recent changes to French tax regulations concerning Corporate Income Tax and the US tax reform have had an impact on the calculation of current and deferred taxes. The recognition of tax assets and liabilities and provisions for tax risks constitutes a key audit matter, given the following: (i) the judgment required to assess the recoverability of deferred taxes and the probable outflows of resources related to tax disputes, and (ii) the materiality of the impacts of changes made to tax legislation during the financial year.	We examined the procedures implemented within the Group to identify the main tax risks, as well as management's assessments of these risks. We also relied on the opinions of third parties, past and current experience with the tax authorities in the jurisdictions concerned, and the expertise of our tax specialists in order to assess the assumptions used by management to determine the provisions for tax risks. We examined the deferred tax calculations for the most significant entities. In this respect, our work consisted primarily in the following: (i) comparing the consistency of the assumptions concerning the use of the tax loss carryforwards against future taxable profits with those derived from management's business projections, used in particular within the scope of the impairment tests on goodwill, and (ii) examining the accounting implications of the changes to tax legislation.

Accounting treatment of the WhiteWave Foods Company acquisition

RISK IDENTIFIED	OUR RESPONSE
Danone acquired The WhiteWave Foods Company ("WhiteWave") on April 12, 2017 for 12.1 billion US dollars after hedging. The Group consolidated the entities acquired on the date on which it obtained control, which gave rise to the recognition of intangible and tangible assets of 4.5 million euros and provisional goodwill of 8 million euros, as described in Note 2 to the consolidated financial statements. We deemed the accounting treatment and presentation of this transaction to be a key audit matter given the significant amount of assets acquired and liabilities assumed, and the judgment required in identifying and measuring those assets and liabilities in accordance with the provisions of IFRS 3 and, in particular, estimating the fair value of tangible and intangible assets and the measurement of contingent liabilities.	We examined the calculation of the acquisition price after the impact of exchange rate hedges. We also performed specific audit procedures on WhiteWave's opening balance sheet at 12 April 2017 covering the main entities in the United States and Belgium, with a view to assessing (i) the allocation of income statement items to the pre- and post-acquisition periods, and (ii) the impacts of converting from US GAAP to IFRS as adopted in the European Union. As regards the measurement of the fair value of intangible and tangible assets acquired, with guidance from our financial valuation experts, we assessed the methods used and management's main assumptions, including business plans, discount rates, long-term growth rates and royalty rates used. We assessed the measurement of the liabilities assumed, including liabilities arising from tax risks, with guidance from our tax experts. Lastly, we examined the disclosures provided in the notes to the consolidated financial statements.

Verification of the information pertaining to the Group presented in the management report

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the management report of the Board of Directors.

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

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Danone by the Shareholders' Meetings held on 28 April 2016 for Ernst & Young et Autres and on 21 May 1992 for PricewaterhouseCoopers Audit.

As at 31 December 2017, Ernst & Young et Autres and PricewaterhouseCoopers Audit were in the second year and the twenty-sixth year of total uninterrupted engagement, respectively. Ernst & Young Audit previously acted as Statutory Auditor of Danone from 2010 to 2015.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- Evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

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Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris La Défense, March 5, 2018

The Statutory auditors

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

4.2 FINANCIAL STATEMENTS OF DANONE SA, THE PARENT COMPANY

FINANCIAL STATEMENTS OF DANONE SA

Income statement

		Year ended December 31	
(in € millions)	Notes	**2016**	**2017**
Net sales		648	609
Other income		31	59
Total operating income	3	**679**	**668**
Personnel costs	4	(244)	(317)
Other operating expense	5	(632)	(524)
Total operating expense		**(876)**	**(841)**
Net operating expense		**(197)**	**(173)**
Income from equity interests		1,596	223
Interest on loans and receivables and similar income		61	229
Interest on borrowings and similar expense		(171)	(279)
Other financial income (expense)		(1)	88
Net financial income	6	**1,485**	**261**
Net income before non-recurring items and tax		**1,288**	**88**
Net non-recurring income (expense)	7	**1**	**(12)**
Income tax	8	59	100
Net income		**1,347**	**176**

Balance sheet

Assets

As of December 31

(in € millions)	Notes	2016 Net amount	2017 Gross amount	2017 Depreciation, amortization and provisions	2017 Net amount
Intangible assets		34	116	(68)	48
Property, plant and equipment		16	34	(17)	17
Equity interests		21,855	28,203	(82)	28,121
Other long-term financial assets		6,686	5,973	–	5,973
Financial assets	9	28,541	34,176	(82)	34,094
Non-current assets		**28,591**	**34,326**	**(167)**	**34,159**
Short-term loans and receivables	10	293	372	(1)	371
Marketable securities	11	11,535	81	–	81
Cash and cash equivalents		63	–	–	–
Current assets		**11,891**	**453**	**(1)**	**452**
Deferrals and prepaid expense		476	813	–	813
Total assets		**40,957**	**35,592**	**(168)**	**35,424**

Equity and liabilities

As of December 31

(in € millions)	Notes	2016	2017
Share capital		164	168
Share premium		3,975	4,787
Revaluation adjustment		4	4
Other reserves		3,781	3,781
Retained earnings		3,974	4,263
Net income for the year		1,347	176
Regulated provisions		2	2
Equity	**12**	**13,247**	**13,181**
Other equity	14		1,250
Other provisions for risks and charges	13	59	66
Bonds	14	18,961	17,395
Other financial debt	14	6,065	719
Other liabilities	15	2,424	2,061
Deferrals and accrued expenses		201	752
Total equity and liabilities		**40,957**	**35,424**

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY DANONE

The financial statements of the parent company Danone ("the Company") for the year ended December 31, 2017 were approved by Danone's Board of Directors on February 15, 2018 and will be submitted for approval to the Shareholders' Meeting on April 26, 2018. Danone and its consolidated subsidiaries constitute "the Group".

Unless indicated otherwise, amounts are expressed in millions of euros and rounded to the nearest million. Generally speaking, the values presented in the financial statements of the parent company Danone and in the Notes to the financial statements of the parent company Danone are rounded to the nearest unit. Consequently, the sum of the rounded amounts may differ, albeit to an insignificant extent, from the reported total. In addition, ratios and variances are calculated on the basis of the underlying amounts and not on the basis of the rounded amounts.

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NOTE 1. ACCOUNTING PRINCIPLES

The Company's financial statements are prepared in accordance with French statutory and regulatory provisions and generally accepted accounting principles.

The main accounting methods used are detailed hereafter.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are valued at acquisition cost (including acquisition-related costs) and are amortized or depreciated on a straight-line basis according to the duration of their estimated use, as follows:

Buildings	15 to 20 years
Fixtures and fittings	8 to 10 years
Other property, plant and equipment	4 to 10 years
Software	1 to 7 years

Long-term financial assets

Financial assets comprise Equity interests and Other long-term financial assets.

Equity interests are shares in companies, the long-term holding of which is deemed to be useful for the Company's activity, notably because it enables the Company to exercise an influence on or control over the issuing company. Investments that do not meet this definition are classified as Other long-term financial assets.

Equity interests are recognized at acquisition cost, including acquisition-related costs, which are amortized over five years as of the date of acquisition. For tax purposes, these assets are subject to accelerated tax amortization rates. An impairment provision is recognized when the recoverable amount of Equity interests is below their carrying amount.

Recoverable amount is determined using various criteria including;

- market value;
- value in use based on forecast discounted cash flows;
- revalued equity.

Assumptions, estimates or appraisals used to determine the net realizable value are made on the basis of available information and conditions at the end of the financial period presented, which may differ from the reality, particularly in an economically and financially volatile context. Impairment provisions are recognized as Other financial income (expense), with the exception of reversals of impairment in connection with disposals of equity interests, which are recognized as Non-recurring income (expense). Gains or losses on disposals of equity interests are recognized as Non-recurring income (expense).

Other long-term financial assets consist mainly of a portion of the DANONE treasury shares held in connection with the authorizations given by the Shareholders' Meeting (see hereafter) and long-term loans and receivables granted by the Company.

DANONE treasury shares

DANONE shares repurchased by the Company are recognized under the heading:

- Other long-term financial assets, when they are repurchased in connection with corporate acquisitions or to be cancelled;
- Marketable securities, when they are repurchased to hedge Group performance share plans under which shares are allocated to certain Danone employees and corporate officers.

They are recognized at acquisition cost, excluding acquisition-related costs. On disposal, the cost of the DANONE shares sold is calculated by allocation category in accordance with the weighted average cost method, this cost being calculated individually for each plan for the shares held to hedge Group performance share plans.

DANONE shares recognized as Other long-term financial assets

In the case of DANONE shares recognized as Long-term financial assets that are not to be cancelled, an impairment provision is recognized when their recoverable amount (assessed at the average price for the last month of the fiscal year) falls below their carrying amount.

DANONE shares recognized as Marketable securities

Hedging of out-of-the-money Group performance share plans

In the case of treasury shares allocated to hedge plans that cannot be exercised (it is probable that the performance conditions will not be met), a provision for impairment is recognized when the market value of the shares (assessed at the average price for the last month of the fiscal year) is less than their carrying amount.

Hedging of in-the-money Group performance share plans

In the case of treasury shares allocated to hedge plans that can be exercised (it is probable that the performance conditions will be met), a provision for impairment is not recognized. However, a provision for risks and charges is, where necessary, recognized in respect of these plans and corresponds to the carrying amount of the shares allocated to said plans.

The provision is booked prorata to the rights vesting period. It is recognized in Personnel costs in the income statement.

Loans and receivables

Loans and receivables are stated at their nominal value. An impairment provision is recognized when the recoverable amount is less than the carrying amount.

Recognition of transactions in foreign currencies

Expense and income in foreign currencies are recorded at their exchange value in euros at the date of the transaction.

Liabilities, receivables and cash denominated in foreign currencies are recorded in the balance sheet at their exchange value in euros at the year-end rate. The differences resulting from translation at this latter rate are recorded in the balance sheet in the line items Deferrals and prepaid expense and Deferrals and accrued expense in the case of liabilities and receivables. A provision for risks is recognized for non-hedged unrealized exchange losses.

Marketable securities

Marketable securities comprise a portion of the treasury shares and other investments made by the Company.

The gross value of Marketable securities corresponds to the acquisition cost excluding acquisition-related costs. When the market value of each category of securities of the same nature is lower than the acquisition cost, a provision for impairment is recognized equal to the difference. For further information about treasury shares reclassified as Marketable securities, see the above section *DANONE shares recognized as Marketable securities*.

Bonds

Bonds consist in borrowings raised by Danone, on debt and capital markets, notably under its EMTN (Euro Medium Term Note) program, through public issues and private placements, denominated in euros or foreign currencies. Bonds denominated in foreign currencies may be maintained in those currencies or swapped into euros ; bonds are recognized at their nominal value, translated at the closing exchange rate.

Derivatives

Danone hedges part of its bonds denominated in foreign currencies by cross-currency swaps. Since January 1, 2017, the Company has applied Regulation 2015-05, issued by the French Accounting Standards Authority (*Autorité des Normes Comptables* – ANC) on financial instruments to all material hedging transactions. Implementation of this change of accounting method did not have a material impact on the presentation of the financial statements or their comparability with those for the 2016 fiscal year.

In addition, Danone Corporate Finance Services, a wholly-owned subsidiary, also carries out interest rate hedging transactions on behalf of the Company in respect of certain borrowings and commercial paper (*Billets de trésorerie*) issued by the Company.

Provisions for risks and charges

Provisions are recognized for identified risks and charges of uncertain timing or amount, when the Company has an obligation to a third party and it is certain or probable that this obligation will result in a net outflow of resources for the Company.

For further information about provisions against Group performance share plans, see the above section *DANONE shares recognized as Marketable securities*.

Retirement commitments

Supplementary retirement commitments and severance pay borne by the Company are presented within Off-balance sheet commitments (see Note 17 and Note 18 of the Notes to the financial statements of the parent company Danone).

NOTE 2. HIGHLIGHTS OF THE YEAR

- As part of its permanent focus on optimizing its capital structure, Danone successfully launched a hybrid perpetual bond issue worth €1.25 billion, taking advantage of the exceptionally attractive market conditions. The issue consisted of a euro-denominated perpetual bond offering a first 1.75 % coupon, with a first call date on June 23, 2023. This hybrid issue is fully recognized under Other equity.
- Danone, via its direct and indirect subsidiaries, acquired the company WhiteWave on April 12, 2017. The hedging instruments booked for this transaction as of December 31, 2016 were released for the payment of the acquisition, resulting in a currency gain of €74 million recognized as financial income;
- Danone recapitalized certain subsidiaries for a total amount of €6,267 million in order to refinance the acquisition of shares;
- The Shareholders' Meeting held in Paris on April 27, 2017 approved the proposed dividend for 2016 of €1.70 per share, and decided that each shareholder could choose to receive the dividend payment in cash or in DANONE shares. 74.1 % of the rights were exercised in favor of dividend payment in shares. The total cash dividend paid to shareholders who did not choose the payment in shares option was €275 million.

NOTE 3. OPERATING INCOME

Operating income comprises mainly the billing of direct and indirect subsidiaries for services rendered by the Company to those subsidiaries. It totaled €609 million in 2017 (€648 million in 2016).

Other operating income totaled €58 million (€31 million in 2016) and comprised mainly the reimbursement of insurance income and the reversal of a provision for risks and charges relating to hedging of the stock-option and Group performance share plans granted by the Company.

NOTE 4. PERSONNEL COSTS AND COMPENSATION OF THE MEMBERS OF THE MANAGEMENT BODIES AND THE BOARD OF DIRECTORS

Personnel costs

Personnel costs comprise the gross compensation of the Company's employees and senior executives and the related social charges as well as the charges relating to the stock-option plans and Group performance share plans under which shares are allocated to certain Danone employees and corporate officers subject to performance conditions.

Company's share of the compensation paid to the members of the Board of Directors and the Executive Committee

	Year ended December 31	
(€ millions)	**2016**	**2017**
Compensation paid to corporate officers and members of the Executive Committee [a]	10	11
Attendance fees paid to non-executive members of the Board of Directors [b]	1	1
Total	**11**	**12**

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

See Note 17 of the Notes to the financial statements of the parent company Danone.

NOTE 5. OTHER OPERATING EXPENSE

Other operating expense comprised mainly fees paid to external service providers and charges for rent and services provided and totaled €524 million in 2017 (€632 million in 2016). The decrease as compared with 2016 was due mainly to the one-off costs associated with the WhiteWave acquisition project.

NOTE 6. NET FINANCIAL INCOME (EXPENSE)

Net financial income totaled €261 million in 2017 (€1,485 million in 2016).

Income from equity interests

Income from equity interests consisted mainly of dividends received from the Company's equity interests. In 2017, these dividends amounted to €223 million (€1,596 million in 2016). In 2016, the Company had received an advance payment of dividend of €650 million.

Interest on loans and receivables and similar income

Interest on loans and receivables and similar income comprised interest received on the loans and receivables granted to the company DanoneWave of €194 million, the companies Zywiec Zdroj and Danone Poland totaling €9 million, the company PLF Est Europe of €2 million and interest received from cross currency swaps of €24 million.

Interest on borrowings and similar expense

		As of December 31
(€ millions)	**2016**	**2017**
Bonds [a]	155	263
Medium-term loan from and current account with Danone Finance International [a]	14	7
Short-term borrowings from indirect subsidiaries [a]	4	13
Commercial paper [a]	2	(4)
Total	**175**	**279**

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

Other financial income (expense)

As regards Other financial income (expense), the Company generated net income of €88 million in 2017, comprising mainly the allocation of a provision on equity interests. The rise as compared with 2016 was due mainly to a currency gain of €74 million generated by the unwinding of hedging instruments for the acquisition of WhiteWave.

NOTE 7. NET NON-RECURRING INCOME (EXPENSE)

In 2017, Danone generated net non-recurring expense of €12 million, which consisted mainly of costs related to the organization of Danone and its direct and indirect subsidiaries. In 2016, Danone had generated net income of €1 million, consisting mainly of provision reversals.

NOTE 8. INCOME TAX

Tax group

The Company forms a tax group with the French subsidiaries in which it holds, directly or indirectly, a stake of more than 95 %.

Companies that were members of the tax group in 2017

	As of December 31, 2017
ALPRO FRANCE	DANONE RESEARCH
BLEDINA	FERMINVEST
COMPAGNIE GERVAIS DANONE	HELDINVEST 11
DAN INVESTMENTS	HELDINVEST 9
DANOBUREAU	HOLDING INTERNATIONALE DE BOISSONS
DANONE [a]	LES PRES RIENT BIO
DANONE BABY AND MEDICAL HOLDING	NUTRICIA NUTRITION CLINIQUE SAS
DANONE CORPORATE FINANCE SERVICES	PRODUITS LAITIERS FRAIS ESPAGNE
DANONE DAIRY ASIA	PRODUITS LAITIERS FRAIS EST EUROPE
DANONE FINANCE INTERNATIONAL	PRODUITS LAITIERS FRAIS SUD EUROPE
DANONE MANIFESTO VENTURE EUROPE	SOCIETE ANONYME DES EAUX MINERALES D'EVIAN
DANONE NUTRICIA AFRICA & OVERSEAS	SOCIETE DES EAUX DE VOLVIC
DANONE PRODUITS FRAIS France	

(a) The Company.

The subsidiaries that are members of the tax group recognize and pay their tax to the Company as if they were taxed separately, in compliance with the rules set by the French tax authorities.

The savings (or additional charges) – based on the difference between the sum of the tax charges recorded by the different subsidiaries of the tax group and the tax charge resulting from the computation of the consolidated tax results of the tax group – are recognized in the income statement under Income tax. The amount booked in this line for 2017 relates mainly to these savings and the repayment of the 3 % dividends tax.

At year end 2017, the tax group recorded taxable income. As of December 31, 2017, tax loss carry-forwards accumulated within the tax group in France amounted to €995 million, compared with €1,277 million as of December 31, 2016.

Other information

In accordance with Article 39.4 of the French Tax Code, in 2017 the Company recognized €0.5 million as taxable income in respect of tourism vehicle depreciation and rental.

The application of Article 39.5 of the French Tax Code did not result in any add-backs to taxable income in 2016.

As of December 31, 2017, items likely to result in a reduction of future tax liabilities consisted mainly of accrued charges. They totaled €750 million and would reduce future tax charges by €258 million.

NOTE 9. FINANCIAL ASSETS

Carrying amount and changes during the period

(€ millions)	As of December 31, 2016	Changes during the period: Increase [a]	Decrease	Reclassification, translation	As of December 31, 2017
Gross amount					
Equity interests	21,936	6,267			28,203
Long-term loans and receivables	5,095		(209)	(498)	4,387
DANONE treasury shares [b]	1,578				1,578
Other	14		(7)		7
Other financial assets	6,686	–	(216)	(498)	5,973
Total	**28,622**	**6,267**	**(216)**	**(498)**	**34,176**
Provisions [c]	(81)	(3)	2		(82)
Net total	**28,541**	**6,263**	**(214)**	**(498)**	**34,094**

(a) See Note 2 of the Notes to the financial statements of the parent company Danone.
(b) Portion of DANONE treasury shares recognized as Long-term financial assets (See Note 1 of the Notes to the financial statements of the parent company Danone).
(c) Consists mainly of provisions for impairment of Equity interests.

Equity interests

Equity interests held in portfolio as of December 31, 2017

(in € millions, except percentages)	Share Capital [a]	Other equity [a] [c]	Share of equity held	Number of shares held	Carrying amount of shares held – Gross	Carrying amount of shares held – Net	Maximum authorized amount of guarantees, security interests and endorsements given by the Company	Previous year's sales [b]	Previous year's net income (loss) [b]	Dividends received by the Company during the year
Subsidiaries (at least 50% of the share capital held by the Company)										
French investments										
DANONE CORPORATE FINANCE SERVICES	142	125	100%	8,875,000	179	179	–	–	13	–
COMPAGNIE GERVAIS DANONE	9,685	900	100%	384,330,458	9,315	9,315	–	–	63	–
DANONE BABY AND MEDICAL HOLDING	13,619	217	100%	13,618,704,074	13,615	13,615	–	–	54	–
DAN INVESTMENTS	82	(2)	100%	4,100,000	82	76	–	–	(3)	–
HOLDING INTERNATIONALE DE BOISSONS	324	902	100%	161,768,722	1,116	1,116	–	–	(27)	–
Foreign investments										
DANONE SINGAPORE HOLDINGS PTE LTD	158	(4)	61%	173,987,816	118	118	–	–	25	15
FPS DANONE COMMUNITIES		11	64%	14,392	7	7	–	–	–	–
DANONE ASIA PTE LTD	1,385	310	88%	2,288,111,264	1,263	1,263	–	–	186	170
DANONE FINANCE NETHERLANDS	8	1	100%	800,000	94	26	–	–	–	–
Investments in associates (at least 10% to 50% of the share capital held by the Company)										
NV DANONE SA	983	883	23%	21,988	400	400	–	326	37	–
DANONE FINANCE INTERNATIONAL	965	4,971	33%	4,034,154	2,012	2,004	2,000	–	58	38
Total					**28,200**	**28,117**				

(a) Amounts related to foreign companies are translated at the year-end exchange rate.
(b) Amounts related to foreign companies are translated using the average exchange rate for the year.
(c) Excluding net income (loss) for the year.

Foreign currency loans

Foreign currency loans are translated at the closing rate, resulting in the recognition of translation differences at the year end, which are presented in the balance sheet under Deferrals and prepaid expense and Deferrals and accrued expense.

	As of December 31, 2017			
(in € millions, except Nominal value in foreign currency, in currency millions)	**Nominal value in foreign currency**	**Historical value**	**Translation difference**	**Carrying amount**
Yen	32,000	283	237	237

NOTE 10. SHORT-TERM LOANS AND RECEIVABLES

As of December 31, 2017, this balance sheet item comprised mainly €345 million of receivables due to the Company within less than one year, including tax receivables totaling €116 million (€98 million as of December 31, 2016) and receivables from customers totaling €125 million (€82 million as of December 31, 2016).

NOTE 11. MARKETABLE SECURITIES

Carrying amount and changes during the period

		Changes during the period				
(€ millions)	As of December 31, 2016	Increase	Decrease (exercised) [c]	Reallocation	Reclassification	As of December 31, 2017
DANONE shares						
DANONE shares hedging stock-option plans [a]	34		(7)		(27)	–
DANONE shares hedging Group performance shares [a]	57		(16)		27	68
Total	**91**	**–**	**(23)**	**–**	**–**	**68**
DANONE call options	3		(3)			–
Short-term investment	11,429	475	(11,904)			–
danone.communities [b]	13					13
Total	**11,536**	**475**	**(11,930)**	**–**	**–**	**81**

(a) Portion of DANONE treasury shares recognized as Marketable securities (see Note 1 of the Notes to the financial statements of the parent company Danone).
(b) danone.communities is a mutual fund (French SICAV) aimed at financing social projects through an investment vehicle that generates a return comparable to the money market rate.
(c) Decrease related to the WhiteWave acquisition (see Note 2 of the Notes to the financial statements of the parent company Danone).

NOTE 12. EQUITY

Carrying amount and change during the period

	As of December 31, 2016			Changes during the period		As of December 31, 2017
(€ millions)	Before allocation	After allocation [b]	Net income	Capital decrease	Capital increase [c]	Before allocation
Share Capital	164	164	–	–	4	168
In number of shares [a]	*655,892,000*	*655,892,000*	–	–	*14,818,400*	*670,710,400*
Share premium	3,975	3,975	–	–	812	4,787
Legal reserve	16	16	–	–	–	16
Other reserves	3,769	3,769	–	–	–	3,769
Retained earnings	3,974	4,263	–	–	–	4,263
Net income for the year	1,347	–	176	–	–	176
Regulated provisions	2	2	1	–	–	3
Total	**13,247**	**12,189**	**177**	**–**	**816**	**13,182**

(a) Ordinary shares with a par value of €0.25.
(b) Following shareholder approval at the Shareholders' Meeting of April 27, 2017, €1,115 million of the amount available for allocation of net income from the year ended December 31, 2016 was allocated to the dividend, and the remainder to retained earnings.
(c) Issue carried out on June 1, 2017 for the payment of the dividend in shares for €3.5 million, and on June 8, 2017 under the terms of the Company savings plan (*Plan d'Épargne Entreprise*) for €0.3 million.

NOTE 13. PROVISIONS FOR RISKS AND CHARGES

Carrying amount and changes during the period

(€ millions)	As of December 31, 2016	Changes during the period			As of December 31, 2017
		Allocation	Reversal	Reversal, unused	
Provisions in respect of stock-option and Group performance share plans [a]	47	23	(26)	–	44
Other provisions	12	13	(3)	–	22
Total	**59**	**36**	**(29)**	**–**	**66**

(a) Provisions in respect of stock-option plans hedged by DANONE call options and Group performance share plans.

NOTE 14. BONDS, OTHER EQUITY AND OTHER FINANCIAL DEBT

Bonds and Other equity

Carrying amount of bonds

(€ millions)	As of December 31	
	2016	2017
Nominal value	18,896	17,331
Accrued interest	65	64
Total	**18,961**	**17,395**

Bonds issued by the Company are disclosed on the Group's website.

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

2017 transactions

(in millions of currency)	Year ended December 31		
	2017		
	Currency	Nominal	Maturity
New financing			
Hybrid financing (Other equity)	EUR	1,250	Indefinite
Repayments			
Yen bonds	JPY	98	2017
Euro bonds	EUR	845	2017

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

		Changes during the period				
(€ millions)	As of December 31, 2016	New borrowings	Repayment	Change in accrued interest	Revaluation	As of December 31, 2017
Fixed rate portion						
Bonds	16,846	–	(943)	–	(622)	15,281
Accrued interest	65	–	–	(1)	–	64
Floating rate portion						
Bonds	2,050	–	–	–	–	2,050
Accrued interest	–	–	–	–	–	–
Total	**18,961**	**–**	**(943)**	**(1)**	**(622)**	**17,395**

Breakdown by currency with interest accrued as of the reporting date

As of December 31, 2017

(in € millions except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value	Translation difference	Carrying amount
Bonds denominated or swapped into euros				
Euro	11,845	11,845	11,845	11,845
U.S. dollar	6,350	5,719	5,313	5,313
Bonds denominated in other currencies				
Yen	32,000	283	237	237
Total		**17,847**	**17,395**	**17,395**

Portfolio of cross-currency swaps and short-term currency swaps hedging certain foreign-currency denominated bonds

As of December 31, 2017

(in € millions, except Nominal value in foreign currency, in currency millions)	Nominal value in foreign currency	Historical value in euros
Euro - U.S. Dollar	2,346	2,052
Total		**2,052**

In addition, as specified in Note 1 of the Notes to the financial statements of the parent company Danone, Danone Corporate Finance Services, a wholly-owned subsidiary, also carries out interest rate hedging transactions in respect of certain bonds issued by the Company.

Other financial debt

Fixed rate/floating rate breakdown and changes during the period

(in € millions)	As of December 31, 2016	Changes during the period				As of December 31, 2017
		New borrowings	Repayment	Change in accrued interest	Revaluation	
Fixed rate portion						
Loan from Danone Finance International	–	–	–	–	–	–
Floating rate portion						
Commercial paper [a]	782	–	(63)	–	–	719
Short-term loan from subsidiaries	5,283	–	(5,283)	–	–	–
Other	–	–	–	–	–	–
Total	**6,065**	**–**	**(5,346)**	**–**	**–**	**719**

(a) Changes in commercial paper are net changes

Maturity of Bonds and Other financial debt

(in € millions)	As of December 31 2016	2017
Due date less than 1 year	7 064	2 939
Due date between 1 and 5 years	8 108	9 132
Due date more than 5 years	9 854	6 017
Total	**25 026**	**18 088**

NOTE 15. OTHER LIABILITIES

Composition of Other liabilities

(in € millions)	As of December 31 2016	2017
Amounts owed by the Company to certain subsidiaries and affiliates	1,842	1,602
Trade payables	61	17
Unrealized foreign exchange gains	205	–
Accrued expenses	316	442
Total	**2,424**	**2,061**

Composition of Accrued charges

(in € millions)	As of December 31 2016	2017
Services provided	192	196
Personnel costs	89	2
Social charges	30	128
Tax liabilities	3	5
Financial debt	2	111
Total	**316**	**442**

NOTE 16. NET DEBT

Composition of net debt

	As of December 31	
(in € millions)	**2016**	**2017**
Bonds	18,961	17,395
Other financial debt	6,065	719
Amounts owed by the Company to certain subsidiaries and affiliates [(a)]	1,842	1,602
Total debt	**26,868**	**19,716**
Amounts owed to the Company by certain subsidiaries and affiliates [(b)]	–	–
Marketable securities	11,535	81
Cash	63	–
Total cash and cash equivalents	**11,598**	**81**
Total net debt	**15,270**	**19,635**

(a) Portion of the amounts owed by the Company to subsidiaries and affiliates presented in Other liabilities.
(b) Portion of amounts owed to the Company by subsidiaries and affiliates presented in Short-term loans and receivables.

Change during the period

Other financial debt and marketable securities decreased this year with the unwinding of the various financing transactions carried out as part of the WhiteWave acquisition.

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

Post-employment benefit commitments

	As of December 31	
(in € millions)	**2016**	**2017**
Supplementary benefits in addition to defined benefit retirement plans [(a)]		
Gross commitments	579	581
Commitments net of retirement plan assets	390	382

(a) Commitments measured using the actuarial method.

These net commitments are presented off-balance sheet (see Note 18 of the Notes to the financial statements of the parent company Danone). The main commitment involves the retirement plan granted to some Danone senior managers.

Retirement plan granted to some Danone senior managers

Commitments measured using the actuarial method

	As of December 31	
	Retirement plan for senior managers	
(in € millions)	**2016**	**2017**
Gross commitments	484	481
Commitments net of plan assets	328	316

The €3 million decrease in commitments net of plan assets was due mainly to the rise in discount rates.

Main actuarial assumptions

	Year ended December 31	
	Retirement plan for senior managers	
(as a percentage, except for age in years)	**2016**	**2017**
Discount rate	1.7%	1.8%
Expected return on plan assets	1.7%	1.8%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Commitments to management bodies and the Board of Directors

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

	As of December 31	
(in € millions)	**2016**	**2017**
Supplementary benefits in addition to defined benefit retirement plans [a]		
Gross commitments	58	23

(a) Commitments measured using the actuarial method.

Severance pay for Executive Committee members

Severance pay for members of the Executive Committee in certain cases where they cease to continue their terms of office or exercise their functions were set at twice the annual gross compensation (fixed, variable, and in-kind) they received over the 12 months preceding the date on which they cease to continue their functions, and, in the case of the Company's two corporate officers, the Board of Directors decided on February 15, 2018 that the severance pay would be subject to the fulfillment of defined performance conditions.

NOTE 18. OFF-BALANCE SHEET COMMITMENTS

Main commitments given directly and indirectly by the Company

	As of December 31	
(in € millions)	**2016**	**2017**
Put options held by non-controlling interests over some of the Company's direct and indirect equity interests [a]	699	607
Post-employment benefits [b]	390	382
Rents	78	65
Services provided	6	157
Derivative instruments [c]	7,143	2,079
Security interests [d]	2,000	2,000
Guarantees [e]	750	14
Total	**11,066**	**5,304**

(a) Commitments given directly or indirectly by the Company (see details hereafter in section *Put options over the Company's direct and indirect equity interests*).
(b) Net commitments in respect of defined benefit retirement plans (see Note 17 of the Notes to the financial statements of the parent company Danone).
(c) Corresponds to cross-currency swaps for €2,052 million and forward currency agreements for €27 million.
(d) The Company acted as joint and several guarantor for Danone Finance International.
(e) The Company may grant a guarantee or security interest for the various financial risk management transactions to be carried out by its subsidiary Danone Corporate.

Put options over the Company's direct and indirect equity interests

The Company or certain of its direct or indirect subsidiaries granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all of their investment in these subsidiaries. Their exercise price is generally based on the profitability and financial position of the company concerned at the exercise date of the put option.

Commitments received

Commitments received by the Company concerned €3.5 billion in available committed credit facilities as of December 31, 2017.

Other commitments

The Company and certain of its subsidiaries are parties to a variety of legal and arbitration proceedings arising in the ordinary course of business. Some of these proceedings involve claims for damages, and liabilities are provided for when a loss is probable and can be reliably estimated.

NOTE 19. WORKFORCE

Average number of Company employees during the year

	Year ended December 31			
(in number, except percentages)		**2016**		**2017**
Executives and managers	683	81%	715	82%
Supervisors and technicians	121	14%	117	13%
Clerical staff	40	5%	37	4%
Total	**844**	**100%**	**869**	**100%**

NOTE 20. RELATED PARTY TRANSACTIONS

Transactions with related parties

	Year ended December 31	
(in € millions)	**2016**	**2017**
Operating income	581	631
Income from equity interests	1,596	223
Interest on loans and receivables and similar financial income	61	229
Total income	**2,238**	**1,083**
Operating expense	(59)	(74)
Interest on borrowings and similar financial expense	(16)	(279)
Total expense	**(75)**	**(353)**

Balances with related parties

	As of December 31	
(in € millions)	**2016**	**2017**
Long-term loans and receivables	4,746	4,150
Short-term loans and receivables	293	345
Total assets	**5,039**	**4,495**
Other financial debt	–	–
Other liabilities	57	65
Total liabilities	**57**	**65**

NOTE 21. SUMMARY OF SHARES HELD IN PORTFOLIO

Securities of subsidiaries and associates

	As of December 31	
(in € millions)	**2016**	**2017**
Gross amounts	21,936	28,203
Provisions for impairment	(81)	(82)
Carrying amount	**21,855**	**28,121**

DANONE treasury shares

(in € millions, except number of shares)	2016		2017	
	Number of shares	**Carrying amount**	**Number of shares**	**Carrying amount**
Treasury shares classified as Long-term financial assets [a]	30,769,360	1,578	30,769,360	1,578
Treasury shares classified as Marketable securities [a]	2,359,838	91	1,757,632	68
Total	**33,129,198**	**1,669**	**32,526,992**	**1,646**

(a) See classification in Note 1 of the Notes to the financial statements of the parent company Danone.

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NOTE 22. RESULTS AND OTHER SIGNIFICANT INFORMATION RELATING TO THE LAST FIVE YEARS

	2013	**2014**	**2015**	**2016**	**2017**
Capital at year-end					
Share capital *(in €)*	157,757,000	160,948,000	163,737,800	163,973,000	167,677,600
Number of shares issued	631,028,000	643,792,000	654,951,200	655,892,000	670,710,400
Operations and results for the year *(in € millions)*					
Net sales	520	474	492	648	609
Net income before tax, depreciation, amortization and provisions	686	482	2,070	1,318	105
Income tax [a]	77	76	111	59	107
Income after tax, depreciation, amortization and provisions	762	541	2,217	1,347	176
Dividends paid [b]	860	915	995	1,115	1,140
Earnings per share *(in € per share)*					
Income after tax but before depreciation, amortization and provisions	1.19	0.85	3.33	2.10	0.32
Net income after tax, depreciation, amortization and provisions	1.16	0.84	3.38	2.05	0.26
Dividend per share	1.45	1.50	1.60	1.70	1.90
Personnel					
Average number of employees for the year	740	725	798	844	869
Payroll expense *(in € millions)*	149	159	180	160	207
Amounts paid in respect of employee benefits [c] (social security, social benefit schemes, etc.) *(in € millions)*	66	71	77	90	115

(a) Income (expense).
(b) Amount relative to the 2017 fiscal year estimated as of December 31, 2017 based on the number of treasury shares held on that date by the Company. The 2016 dividend corresponds to the amount actually paid out during the 2017 fiscal year.
(c) Includes personnel expense excluding social charges (see Note 4 of the Notes to the financial statements of the parent Company Danone) as well as provisions related to stock-options and Group performance shares (see Note 13 of the Notes to the financial statements of the parent company Danone).

NOTE 23. SUBSEQUENT EVENTS

To the best of the Company's knowledge, no significant events occurred between the end of the reporting period and February 15, 2018, the date on which the Board of Directors approved the financial statements of the parent company Danone for the year ended December 31, 2017.

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

This is a free translation into English of the Statutory auditors' report on the financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Danone

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of DANONE for the year ended 31 December 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French code of ethics (code de déontologie) for statutory auditors.

Observation

Without qualifying our opinion, we draw your attention to the matter set out in Note 1 to the financial statements regarding the first-time application, as from 1 January 2017, of the regulation concerning financial futures and hedging transactions (regulation 2015-05 of the Autorité des Normes Comptables (French Accounting Standards Authority)).

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Evaluation des titres de participation

RISK IDENTIFIED	OUR RESPONSE
As at 31 December 2017, equity holdings are recorded for a net amount of 28,121 million euros, for a total balance sheet of 35,424 million euros. As stated in Note 1 to the financial statements, an impairment loss is recorded when the realisable value of the equity holdings is lower than their carrying amount. The realisable value is determined by management on the basis of various criteria, including market value, value in use based on discounted cash flows and revalued shareholders' equity. The estimation of the realisable value of these equity holdings requires management to exercise its judgment in choosing the items to be taken into consideration depending on the holdings concerned, as well as in determining the value in use, estimating the future performance of the entities concerned and the discount and long-term growth rates. In view of the materiality of the equity holdings in the company's balance sheet and the judgment required to estimate their realisable value, we considered the valuation of these holdings to be a key audit matter.	Our work mainly consisted in the following, for a sample of equity holdings determined based on qualitative and quantitative criteria: ● For valuations based on historical data: • examining the concordance between the shareholders' equity used and the accounts of the corresponding entities, as well as any adjustments performed on this shareholders' equity. ● For valuations based on forecast data: • obtaining the operating cash flow forecasts for the activities of the entities concerned and reconciling them with the forecast data provided in the latest strategic plans; • examining the assumptions used in the light of the economic environment at the closing date and the date on which the accounts were drawn up; • comparing the forecasts used for prior periods with the corresponding actual figures in order to assess the achievement of past targets; We also examined the information provided in Note 9 to the financial statements.

Verification of the management report and of the other documents provided to the shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

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

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

Report on Corporate Governance

We confirm the existence in the Report on Corporate Governance of the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (Code de commerce).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Regarding the information on factors that your Company considered could have a potential incidence in case of public takeover or swap bid, given in accordance with the requirements of Article L. 225-37-5 of the French Commercial Code (Code de commerce), we have verified they are in accordance with the underlying documentation provided to us. Based on this work, we have no matter to report on this information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Report on other legal and regulatory requirements

Appointment of the statutory auditors

We were appointed as statutory auditors of DANONE by the annual general meeting held on 21 May 1992 for PricewaterhouseCoopers Audit and on 28 April 2016 for ERNST & YOUNG Audit.

As at 31 December 2017, PricewaterhouseCoopers Audit and ERNST & YOUNG Audit were in the 26th year and 2nd year of total uninterrupted engagement respectively. Previously, Ernst & Young et Autres held office as statutory auditor of DANONE from 2010 to 2015.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory auditors' responsibilities for the audit of the financial statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France as set out in particular in Articles L.822-10 to L.822-14 of the French Commercial Code (Code de commerce) and in the French code of ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris La Défense, 5 March 2018

The Statutory Auditors

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

4.3 INFORMATION ON PAYMENT TERMS GRANTED TO SUPPLIERS AND CUSTOMERS OF THE PARENT COMPANY DANONE SA

As of December 31, 2017

	Invoices received, unpaid and overdue as of the reporting date					
(in € millions)	**Due in 0 day**	**Due between 1 and 30 days**	**Due between 31 and 60 days**	**Due between 61 and 90 days**	**Due 91 or more days**	**Total (1 or more days)**
A. Overdue payment categories						
Number of invoices concerned	56					**282**
Total amount of invoices concerned (including taxes)	0.6	0.6	0.9	0.1	1.0	**2.6**
Percentage of total purchases for the year (excluding taxes)	0.1%	0.1%	0.2%	0.0%	0.2%	**0.6%**
Percentage of sales for the year (excluding taxes)						
B. Invoices excluded from (A) relating to payables and receivables in dispute or not recognized						
Number of excluded invoices			75			
Total amount of excluded invoices			4,5			
C. Benchmark contractual payment terms used						
Payment terms used to calculate overdue payments	Contractual terms: 60 days of invoice date, in the absence of statutory terms					

As of December 31, 2017

	Invoices issued, unpaid and overdue as of the reporting date					
(in € millions)	**Due in 0 day**	**Due between 1 and 30 days**	**Due between 31 and 60 days**	**Due between 61 and 90 days**	**Due 91 or more days**	**Total (1 or more days)**
A. Overdue payment categories						
Number of invoices concerned	838					**1 396**
Total amount of invoices concerned (including taxes)	60.3	21.5	0.1	8.2	45.7	**75.4**
Percentage of total purchases for the year (excluding taxes)						
Percentage of sales for the year (excluding taxes)	9.9%	3.5%	0.0%	1.3%	7.5%	**12.4%**
B. Invoices excluded from (A) relating to payables and receivables in dispute or not recognized						
Number of excluded invoices			0			
Total amount of excluded invoices			0			
C. Benchmark contractual payment terms used						
Payment terms used to calculate overdue payments	Contractual terms: 30 days from end of month of invoice					

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

Nil.