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OVERVIEW OF ACTIVITIES,
RISK FACTORS

2.1 HISTORY

THE COMPANY'S ROOTS: FROM GLASS TO FOOD

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

1973-1990: EUROPEAN EXPANSION

During the 1970s and 1980s, after selling off its flat glass operations, the BSN group focused its growth on food and beverages, primarily in Western Europe. In particular, this expansion included the acquisition of breweries, Générale Biscuit, a French holding company that owned LU and other European biscuit brands, the

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

1990-1996: GLOBAL AMBITIONS

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

biscuit subsidiaries of Nabisco, Inc. and also Galbani, Italy's leading cheese maker. BSN group became the third-largest diversified food and beverage company in Europe, and the largest in France, Italy and Spain.

1996-2007: REFOCUS ON HEALTH FOOD

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

Eastern Europe, as well as in selected markets such as South Africa and the Middle East).

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

2007-2014: ACCELERATION OF INTERNATIONAL DEVELOPMENT

In order to pursue its international development strategy around its four businesses, Danone acquired the Unimilk group's companies in Russia in 2010 and the Wockhardt group's nutrition activities in India in 2012. In 2013, the Company forged a strategic alliance with Mengniu, the Chinese fresh dairy products market leader, to accelerate the growth of this product category in China. In 2014, an

agreement was signed calling for this alliance to be extended to the infant formula category through Danone's acquisition of a stake in Yashili, a Mengniu subsidiary. Since 2013 Danone has also accelerated its development on the African continent, notably with the acquisition of a controlling interest in Centrale Danone in Morocco and Fan Milk in West Africa and equity interests in Brookside in Kenya.

SINCE 2014: TOWARD STRONG, PROFITABLE AND SUSTAINABLE GROWTH

2014 was a turning point for Danone, which changed its governance structure and launched a transformational plan whose goal is to generate strong, profitable and sustainable growth. To reinforce the Company's economic and social impact, Danone also created its Manifesto, which expresses Danone's convictions and commitments

to implement its mission. The 2017 acquisition of WhiteWave, the global leader in organic and plant-based products, represented another major step forward toward completing the Danone transformation plan.

2.2 PRESENTATION OF DANONE

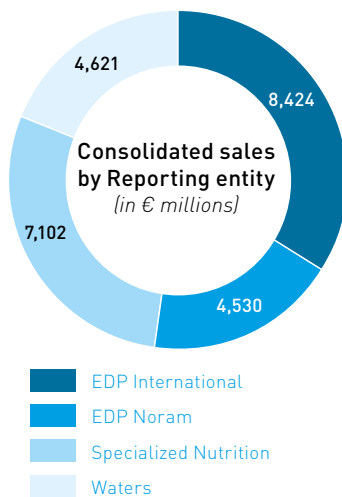
ACTIVITIES

With its mission to “bring health through food to as many people as possible”, Danone is among the global leaders in the food and beverage sector, and since the acquisitions of Numico and WhiteWave in 2007 and 2017, respectively, it relies on four main Businesses:

- Essential Dairy and Plant-Based: production and distribution of fresh fermented dairy products and other dairy specialties; plant-based products and beverages (from soy, almond, hazelnut, rice, oat, coconut) and coffee creamers;
- Early Life Nutrition: production and distribution of specialized nutrition for infants and young children to complement breast feeding;
- Waters: production and distribution of packaged natural water and flavored and vitamin-enriched waters;
- Advanced Medical Nutrition: production and distribution of specialized nutrition for people who have certain illnesses or are weakened by age.

To reflect recent changes at Danone and in its organization, the Company reorganized its Reporting entities:

- EDP International (34% of Company sales in 2017);
- EDP Noram (18% of Company sales in 2017);
- Specialized Nutrition (29% of Company sales in 2017);
- Waters (19% of Company sales in 2017).



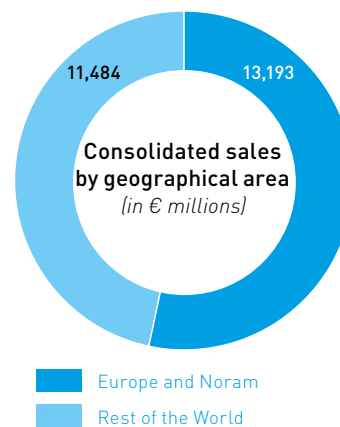
Danone enjoys, in value, the following leadership positions (in the relevant categories and markets):

- No. 1 worldwide for fresh dairy products;
- No. 1 worldwide for plant-based foods and beverages;
- No. 3 worldwide for packaged waters;
- No. 2 worldwide for early life nutrition;
- No. 1 in Europe for medical nutrition.

MAIN MARKETS

To reflect recent changes at Danone, the Company reorganized the regional reporting segments of its activities:

- the Europe and Noram region, which represented 53% of the Company's Sales in 2017, with an activity covering all of Danone's Businesses. The main countries in this region are the United States, France, the United Kingdom and Spain;
- the Rest of the World region, which represented 47% of the Company's Sales in 2017:
 - in Latin America, the main contributors are Mexico, Argentina and Brazil, with all Company activities present in this region;
 - in the Asia/Pacific region, the leading countries are China and Indonesia thanks to their strong presence in the Waters and Early Life Nutrition Businesses;
 - in Africa and the Middle East, the largest markets are Morocco and Turkey, with Danone's activity focused mainly on Essential Dairy and Plant-Based and Waters.



Top 10 countries in terms of sales

<i>(in percentage)</i>	Year ended December 31	
	2016	2017
United States	11%	18%
France	10%	9%
China	7%	7%
Russia	7%	7%
Indonesia	6%	6%
United Kingdom	5%	5%
Argentina	4%	4%
Mexico	5%	4%
Spain	5%	4%
Germany	4%	4%

Changes in these rankings from one year to the next are mainly due to currency fluctuations, especially high volatility in emerging markets.

2.3 STRATEGIC PRIORITIES

"ONE PLANET. ONE HEALTH": A CONSUMER-ORIENTED VISION AT THE CORE OF DANONE'S AMBITION

The new "Danone, One Planet. One Health" Company signature launched in 2017 expresses Danone's vision, at the core of its strategic priorities, both at Company level and for its Businesses. Given the challenges that exist in today's world, and in the continuity of its responsible business stewardship since several years, this signature reflects the vision that our health and preservation of the planet are totally interdependent. Consistent with this vision, Danone aims to reconnect consumers with their food by promoting healthier and more sustainable eating and drinking habits and consumer behaviors.

This ambition is inspired by the "Food Revolution" and new expectations of consumers, who want to know more about where their food comes from, how it has grown, how it arrived in their hands, and how

Top 10 customers

In 2017, Danone's top 10 customers worldwide (five of which are French) accounted for approximately 19% of its consolidated sales; the top five customers represented approximately 13% of its consolidated sales.

it impacts their health and the health of the planet. Global food and retail companies have an important role to play in this revolution through a transformation of their business models, moving away from standardized food production systems to new models inspired by local dietary practices and leveraging on local sourcing models.

Danone has a broader vision of its mission to "bring health through food to as many people as possible". In addition to satisfying the nutritional needs of consumers, Danone has chosen to offer them a superior experience through products and services suited to each community's own way of life by taking into account the cultural, social, emotional and physiological aspects related to dietary practices in each part of the world, while at the same time pursuing the goal of building, nurturing and protecting health capital.

BUILDING A CONSISTENT PORTFOLIO OF ACTIVITIES, WITH A UNIQUE POSITIONING IN CATEGORIES OFFERING STRONG GROWTH POTENTIAL

Attractive categories aligned with consumer trends

Over the past 20 years, Danone has built a portfolio of activities that is consistent with its mission, in line with consumer trends, positioned in categories oriented toward health and offering an attractive and diversified growth profile.

Between 1996 and the acquisition of WhiteWave in 2017, Danone successfully adapted its portfolio, from a diversified European food conglomerate to a global health focused portfolio around four businesses: essential dairy and plant-based; waters; early life nutrition and advanced medical nutrition.

Strong leadership at the local, regional and global levels

In addition to the attractive profile of the categories it plays in, the Company also ensures that it can exercise strong leadership at the local, regional and global levels.

Danone's strategy is therefore marked by an ongoing strategic assessment of its portfolio, ensuring that it is aligned with new and changing consumer trends, to fuel future growth.

Building on a portfolio of strong brands that include both global brands and local and young brands with leadership positions in their respective markets, Danone develops its business activities in all regions of the world, in particular emerging countries.

Danone therefore develops its activities in all of the world's regions, notably emerging countries. These countries are an important driver for Danone to successfully complete its mission while ensuring its long-term growth. The main markets with strong potential where



Danone has strong positions in Indonesia, China, Russia, Mexico and Brazil. In these countries, the Company continues to develop its product categories, especially through innovation. Danone is also penetrating new markets in order to develop new growth drivers. Since 2013, Danone has accelerated its growth in Africa, with the

increase of its majority stake in Centrale Danone (EDP International, Morocco) and Fan Milk (EDP International, West Africa), and the purchase of an equity interest in Brookside (EDP International, East Africa).

A unique organization serving a portfolio of global and local brands

Present in more than 120 markets, Danone has developed and optimized its organizational model in order to leverage its global scale while strongly supporting its local brands. In the near term, Danone's priority is to strengthen its various supply, distribution, manufacturing base and quality control platforms and to fuel future growth by relying in particular on its ability to innovate.

Innovation plays a key role in the implementation of this strategy in order to adapt both products and distribution to local conditions and local consumer practices. In order to better capture growth opportunities, Danone relies in particular on its venture incubation unit, Danone Manifesto Ventures, which seeks to support the development of innovative, high-growth-potential companies in the food and food tech sectors as well as on strategic partnerships.

BUILD A BALANCED MODEL OF GROWTH

Danone has set as its goal to build a balanced, profitable and sustainable growth model.

Growth, at the core of the business model

Positioned in the most dynamic categories of the food and beverage industry, Danone has a strong leadership position in all its markets. The Company relies on a unique portfolio of strong brands, solid

execution capabilities in terms of innovation, brand activation and the development of new distribution channels.

Generating profitable growth

In an increasingly volatile and complex environment, Danone strives to strengthen its model of growth through disciplined resource allocation, efficiency gains and cost optimization with a permanent

balance in managing the short, mid and long-term horizons. The Company therefore favors strategic growth opportunities that create long-term value over tactical short-term allocations.

Launch of an efficiency program: generate cost savings to fuel growth

In that context, Danone launched an efficiency program called Protein on its selling, general and administrative expenses. The program aims to strengthen the Company's competitiveness by generating cost savings of €1 billion by 2020. The program consists of incorporating sustainable efficiency into the Company's business

model, and creating the best conditions to spend better, buy better and work more efficiently. Danone will reinvest a significant portion of the gains in growth to support the implementation of its strategy and mission.

Responsible business stewardship: continuing the dual economic and social project with B Corp

Collaboration with the international non-profit organization B Lab to receive B Corp certification represents a major new milestone in Danone's dual economic and social project, first expressed by Antoine RIBOUD in his 1972 speech in Marseille (see section 5.1 *Danone's integrated vision of social, societal, and environmental responsibility*).

As part of this approach, which creates value for consumers and shareholders, Danone is transforming the way in which the food and beverages of its flagship brands are designed and produced, notably by reducing the number of ingredients, and proposing new organic and non-GMO product lines. The Company also commits to promoting sustainable agriculture, encouraging the circular economy, conserving water, reducing waste, reducing its carbon footprint, promoting animal welfare and investing in the community.

A new approach to management of strategic resources

As a further example of its approach to act as an engaged and responsible company, Danone is transforming the upstream of its business (environmental management, raw materials supply and

manufacturing processes and logistics) to optimize its costs, protect the lifecycles of its strategic resources and create a lever for value creation and differentiation from competition.

One of Danone's key strategic orientations is therefore a new approach for managing its strategic resources (milk, water and plastic). These resources are essential for Danone, not just from an economic but also from an environmental and social standpoint. Danone's key raw materials come from nature and must therefore be protected by

creating and sharing value for ecosystems and communities where Danone operates. These resources are therefore managed as cycles in order to ensure their long-term viability, limit their volatility and, lastly, gain a true competitive advantage as detailed in section 5.4 *Contribute to the protection of the environment.*

CREATING OPTIMAL CONDITIONS FOR GROWTH AND EFFICIENCY

As part of its transformation plan, Danone decided to make organizational changes to become more agile in rapidly changing markets and promote more rapid decision-making at the local level close to the consumer. Danone therefore launched several initiatives to strengthen its efficiency, expertise, agility and flexibility.

This organization relies in particular on three principal factors:

Beyond Budget: a dynamic resource allocation process

Danone has reworked the methods used to monitor its performance, time horizons and business cycles in its Beyond Budget initiative. This initiative marked a radical shift in how Danone allocates resources. Danone has thus replaced the traditional budgeting process

with a rolling forecast, *i.e.* a dynamic forecasting process based on new forecasts determined at the end of each quarter, with the aim to strengthen discipline, flexibility, agility and the accuracy of its organization to allocate resources.

One Danone (30 clusters)

The goal of this project is to share and strengthen the expertise of Danone through greater mutualization of resources across its activities and thereby build a solid and efficient backbone for the business. In this manner, Danone can better serve the development of

its activities and the growth of its local businesses. It enables on the one hand optimization of its organizational entities by pooling certain support functions, and on the other investing in key functions, which are essential to ensure the long-term viability of Danone's model.

A newly-empowered regional business leadership team

Extended responsibilities were delegated in 2017 to this team of regional business leaders, in order to promote decision-making as close as possible to consumers and enable the Executive Committee

to completely focus on strategic topics. Meanwhile, Danone decided to tighten the Executive Committee, extending the accountability of each member.

2020 OBJECTIVES

As part of its transformation plan aimed at ensuring a safe journey to deliver strong, profitable and sustainable growth, Danone set objectives for 2020 that include like-for-like sales growth between 4% and 5%, which include the following performances at the Reporting entity level:

- strong like-for-like growth above 5% for EDP Noram, Specialized Nutrition and Waters; and
- like-for-like growth of between 3% and 4% for EDP International.

Danone aims for a recurring operating margin of over 16% in 2020, driven primarily by:

- a structural improvement of margin in all categories, via more discipline and a stricter resource allocation process to guarantee profitable growth;

- the Protein program, which will generate over €1 billion savings by 2020, with at least €300 million net of reinvestment falling through into margin expansion by 2020 (€100 million per year from 2018);
- a \$300 million synergies program generated in 2020 at recurring operating income level through the acquisition of WhiteWave.

Finally, Danone will continue to focus on growing its free cash flow, which will contribute to financial deleverage with an objective of a ratio of Net debt/EBITDA below 3x in 2020. Danone is committed to reaching a ROIC level around 12% in 2020.

2.4 DESCRIPTION AND STRATEGY OF THE REPORTING ENTITIES

Danone elaborates a strategy for each of its Reporting entities.

EDP INTERNATIONAL

EDP International primarily sells fresh dairy products as well as plant-based products and beverages, two distinct but complementary pillars.

Started in 1919 with the creation of the first yogurt in a pharmacy in Barcelona, fresh dairy products (notably yogurt) is Danone's original business. They are natural, fresh, healthy and local. This product line also includes so-called dessert yogurts, to be eaten occasionally.

To promote the consumption of fresh dairy products, Danone strives to build a consensus around the central role of its products as part of a balanced daily diet. Fresh dairy products certainly do provide essential nutritional benefits for the human body, notably proteins, carbohydrates, calcium, phosphorus and vitamins B2 and B12. The extraordinary transformative power of live lactic cultures makes yogurt a condensed form of essential nutrients and one of the least-processed food products sold.

The plant-based products and beverages line that came with the acquisition of WhiteWave in April 2017 combines natural or flavored beverages made from soy, almonds, coconuts, rice, oats, etc., as well as plant-based alternatives to yogurt and cream (cooking products). Through this acquisition, Danone seeks to develop and promote the plant-based category around the world.

Thanks to this expanded and more diversified portfolio, Danone can satisfy the growing demand for natural, nutritious and environmentally friendly products as well as the needs of "flexitarians", i.e. consumers looking to diversify their sources of protein, for whom plant-based products represent an alternative meeting their needs.

EDP International constantly renews its product line in terms of flavor, texture, ingredients, nutritional content and packaging. This innovative capability enables it to reach new consumers and develop new consumption opportunities while adapting to local tastes and dietary habits in all markets and making sure to cover all price points.

The strategy of this Reporting entity revolves around increasing market penetration and consumption of these products in all regions around the world.

EDP NORAM

EDP Noram includes five categories, each having its own brand portfolio:

- the Yogurt category (roughly 40% of the Reporting entity's sales) comprises mainly yogurts (spoonable or drinkable) sold under the key brands *Activia*, *DanActiv*, *Danimals*, *Dannon*, *Danonino*, *Happy Family*, *Horizon Organic*, *Light & Fit*, *Oikos* and *YoCrunch*. The strategy in this category consists of increasing per capita consumption of yogurt in the United States and Canada by creating additional consumption moments and offering products that satisfy various consumer expectations;
- the Plant-Based Products and Beverages category (around 20% of the Reporting entity's sales) mainly includes (i) plant-based beverages (such as almond milk or soy milk), (ii) plant-based ice creams and novelties, (iii) nutrition products in the form of powdered proteins, originally intended to enhance athletic performance and development. These products are marketed under the brands *Silk*, *So Delicious* and *Vega*. The strategy in this segment consists of offering numerous nutritious and tasty

Regarding fresh dairy products, this strategy aims to:

- maintain/stabilize business activity in the mature European countries, notably through product quality, the constant renewal of product lines and innovation;
- strengthen the main growth platforms (such as Mexico and Russia) and develop new regional markets (notably Africa and Asia) in the rest of the world.

As for plant-based products, the strategy seeks to:

- consolidate growth in four key European countries (United Kingdom, Germany, Belgium and the Netherlands);
- accelerate the expansion of *Alpro* in other countries in Europe and the rest of the world, relying on the strength of Danone's distribution network.

The Reporting entity relies on a very large portfolio of brands, both international and local, that are very well known and have a good reputation, including:

- *Alpro*, which takes in the entire plant-based line offered in Europe and exported to 54 countries worldwide;
- *Danone*, the flagship brand in the yogurt category;
- the Greek yogurt brands such as *Oikos* or *Danio*, which contain twice as much protein as a normal yogurt;
- *Activia*, sold in more than 70 countries for 20 years;
- *Actimel*, sold for more than 15 years;
- brands intended for children such as *Danonino*, which is offered in numerous countries, or *Tema* in Russia;
- dessert brands such as *Danette* or *Danissimo*;
- the organic brand *Les 2 Vaches*;
- the Light & Free line, gathering low-fat products with brands such as *Light&Fit*, *Taillefine* and *Ser*.

options to consumers who are looking to diversify their sources of protein or are lactose intolerant;

- the Coffee Creamers category (roughly 20% of the Reporting entity's sales) includes coffee creamers (fresh or UHT) and coffee beverages sold under the key brands *International Delight*, *Magicow*, *Dunkin Donuts* (under license), *Land O Lakes* (under license) and *SToK*. The goal is to offer practical and tasty products that enable consumers to replicate the coffeehouse experience at home or on the road;
- the Premium Dairy category (around 10% of the Reporting entity's sales) includes organic milks (fresh and UHT), traditional milks, cheese and organic snacks as well as other organic dairy products sold under the *Horizon* brand. The strategy consists of offering dairy products to parents and adapted to the family for health, convenient and fun eating;



- the Fresh Foods category (roughly 10% of the Reporting entity's sales) includes packaged salads and green vegetables and fresh and frozen organic fruits and vegetables sold under the *Earthbound Farm* brand.

SPECIALIZED NUTRITION

Early Life Nutrition and Advanced Medical Nutrition, which make up the Specialized Nutrition Reporting entity, offer a portfolio of nutritional solutions aiming to impact the health and well-being of vulnerable individuals across the full life span, from preterm birth until old age, with activities offering similarities and synergies in terms of innovation and scientific research. The Specialized Nutrition Reporting entity focuses notably on allergy, from prevention to treatment, where Early Life Nutrition and Advanced Medical Nutrition are working hand in hand to foster synergies and strengthen Danone's leadership position in this sector. The *Nutricia* brand is a key asset for both businesses, with a legacy in healthcare of over 120 years, and acknowledged by health leaders worldwide.

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

The infant milk formula segment accounts for more than 85% of the Early Life Nutrition business' activity. These products are available worldwide. The complementary foods segment (also known as "weaning foods") is less than 15%, and these products are only available in selected countries. The business has several global brands (such as *Aptamil* and *Nutrilon*) and a large number of local brands (*Cow & Gate*, *Blédina*, *Bebelac*, *Malyutka* and *Dumex*).

Danone aims to grow the Early Life Nutrition business in a credible, sustainable way, providing products, services and education that contribute to the health of next generations. For this, Danone collaborates with many scientists, suppliers, consumers and healthcare professionals in the sector. It also performs surveys to better understand local dietary habits and nutritional needs, in order to fuel its innovation.

WATERS

The Waters Reporting entity comprises the plain waters business along with aquadrinks (waters flavored and enriched with natural fruit juice extracts, fruit juice and vitamins).

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

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

As one of the 15 largest food and beverage companies in the United States, Danone aims at maintaining and strengthening its leadership position. The Company will continue to develop the high-growth categories where it is currently positioned by creating nutritionally balanced, tasty, convenient and environmentally friendly products.

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

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

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

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

- promotion of hydration-related health benefits: Danone is establishing initiatives to promote healthier hydration through partnerships with public health authorities and scientists and by communicating directly with consumers in order to inspire healthier hydration practices. In particular, the Company runs the "Hydration for Health" scientific platform: 150 scientists and public health authority researchers from around the world meet annually to share and promote advances in the area of hydration science and its positive effect on health;

- long-term management and environmental protection of water resources: Danone strives to preserve the unique quality and sustainable nature of its plain waters products by strengthening the protection of its springs and respecting the water cycle. Danone is also committed to getting all socio-economic players involved through associations and partnerships that promote the development of non-polluting activities and the establishment of more environmentally friendly agricultural practices around the catchment areas;
- the development of a line of healthier natural beverages, alternatives to sodas and other sweetened beverages. The challenge is to facilitate the adoption of healthier hydration practices for consumers of sweetened beverages. Many of the Company's water brands also come in flavored versions or mixed with fruit juice, *i.e.* aquadrinks;
- packaging innovation: in order to reduce its environmental impact, the business has substantially reduced the weight of its bottles over many years and uses new packaging materials such as those made from plant-based or recycled materials.

2.5 OTHER ELEMENTS RELATED TO DANONE'S ACTIVITY AND ORGANIZATION

DISTRIBUTION

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

- distribution aimed at major retail chains;
- distribution to traditional points of sale;
- distribution to e-commerce.

Moreover, a significant portion of the products in the Early Life

Major retail chains

Danone establishes global partnerships with its main distributors in order to help develop the sales of its products. These partnerships are related in particular to logistics collaboration, online sales development and food safety management. Matters involving pricing policies, which are up to each subsidiary, are not included in these agreements.

In particular, Danone has taken several initiatives to work closely with large retailers in order to optimize the flow of goods and the inventory levels of its customers with the Efficient Consumer Response (ECR)

Traditional market outlets

Globally, and particularly in emerging countries, a large portion of Danone's sales is generated through traditional market outlets thanks to small-scale point of sale networks. In-house sales forces and exclusivity agreements with wholesalers represent a competitive advantage for the Company in countries where traditional commerce and independent supermarkets continue to account for a significant share of food and beverage sales.

E-commerce

Danone is stepping up its partnerships and investments with e-commerce companies to satisfy growing consumer demand through this distribution channel. There are three different types of e-commerce channels:

- brick-and-mortar companies (major retailers that have created an e-commerce activity);

Nutrition and Advanced Medical Nutrition markets are distributed through more specialized distribution channels such as hospitals, clinics and pharmacies.

Danone is constantly streamlining its logistics flows in order to improve service quality while reducing costs. This policy is based on an ongoing assessment of its organization, notably through outsourcing of distribution in collaboration with specialized companies.

approach. In addition to inventory management, automatic inventory replenishments and just-in-time delivery, ECR aims at working with distributors to better manage consumer demand and expectations at the points of sale. To that end, the Company has implemented shared inventory management systems with its leading distributors that are used to coordinate inventory levels among stores, as well as at the distributors' and Danone's warehouses.

Danone also works with its customers to develop specific marketing activities such as joint promotions.

Moreover, in Latin America and Asia, a significant portion of the Waters business products are distributed directly to consumers (Home & office delivery, or HOD).

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

- pure players (companies selling exclusively through e-commerce);
- direct to consumer (a proprietary Danone website that enables Danone to sell directly to consumers without intermediaries).

Danone is growing in all these channels and gaining expertise.



Specialized distribution channels of hospitals, clinics and pharmacies

In the Early Life Nutrition and Advanced Medical Nutrition markets, a significant portion of products are marketed in hospitals, clinics and pharmacies, through specialized distributors or following a tendering process. Danone also maintains an ongoing relationship

with healthcare professionals through its medical representatives, who meet with general practitioners and specialists (pediatricians, nutritionists, etc.) as well as pharmacists.

COMPETITION

The packaged food and beverage sector is highly competitive due to the large number of national and international competitors. Danone is confident that its strategy for profitable growth is strongly supported by its products' quality, taste, affordability and innovative aspect, and by the powerful brand image conveyed on health, nutrition or societal and environmental responsibility.

Considering that success in this food and beverage industry is achieved through strong local market positions, Danone strives to be the market leader of each segment in every country where it operates, always in compliance with laws and regulations relating to competition. This strategy allows for a long-lasting, balanced and constructive relationship with major distribution networks, by marketing key products yielding growth and profitability for both parties.

Reporting entity	Business / Category	Competitive environment
EDP International and EDP Noram	Fresh Dairy Products (including Yogurts and Premium Dairy)	Large multinational food and beverage companies (Nestlé, General Mills, Lactalis, Muller, Unilever, Chobani, Hain Celestial), many predominately local companies specializing in certain product lines or markets (Lactalis, Chobani, Friesland Campina, Lala, Yakult, Fage, Organic Valley), and numerous retail chains offering generic or private label products.
	Plant-based Products and Beverages	A few large global players (Campbell, Hain Celestial, Unilever), predominantly local companies specializing in certain product lines or markets (Blue Diamond, Califia Farms, Triballat, Wessanen, Valsoia) and many retail chains offering generic or private-label products.
	Coffee Creamers	A few large food and beverage multinationals (Nestlé), predominantly local companies specializing in certain product lines or markets (Hood) and retail chains offering generic or private label products.
	Fresh Foods	Some food and beverage companies (Bonduelle, Campbell, Organic Girl, Taylor Farms, Olivia's Organic) and numerous retail chains offering generic or private label products.
Specialized Nutrition	Early Life Nutrition	Large early life nutrition companies (Abbott, Reckitt/Mead Johnson, Nestlé) and predominantly local companies and/or companies specializing in certain product lines or markets (Lactalis, Biostime).
	Advanced Medical Nutrition	Large medical nutrition companies (Nestlé, Abbott) and predominantly local companies specializing in certain product lines or markets (Fresenius)
Waters	Waters	Historical beverage market leaders (Coca-Cola, Pepsi, Nestlé) and predominantly local companies (Mayora in Indonesia, Kang Shi Fu in China, Epura in Mexico).

RESEARCH AND INNOVATION

Danone's Research and Innovation

Research and Innovation plays a central role in the implementation of Danone's growth strategy. Its main mission is to drive Danone's conviction that food is an essential channel for addressing health concerns, and to spearhead a dietary revolution to prepare Danone and its products for the challenges of tomorrow's world.

Danone's Research and Innovation strategy is structured around four areas:

- Innovation: conduct and stimulate scientific research in key areas of nutrition and health; integrate this knowledge into increasingly healthy and innovative products to constantly adapt to new consumer habits and demands;
- Responsibility and Commitment: constantly reinforce commitments

Research and Innovation Organization

The Research and Innovation function has approximately 1,700 people spread across two international research centers (in Palaiseau, France and in Utrecht, Netherlands), four specialized centers (Danone Research Packaging in Evian, France; Nutricia

Scientific cooperation

To carry out their mission, Danone's Research and Innovation teams are involved in cooperation initiatives and partnerships with the academic and scientific world, especially with top universities and research centers worldwide. They lead scientific committees on strategic topics such as cultures, probiotics, microbiota, hydration and ageing and seek to improve understanding of health and nutrition issues through this permanent contact with the scientific world. These initiatives particularly give rise to scientific cooperation, joint investments in research work, and pooling of resources and skills. Danone expresses support for research and ongoing

to the nutritional quality of products, preserve and sustainably manage the raw materials and natural resources that are vital for our products, and minimize our environmental footprint, particularly through our innovative, eco-design packaging;

- Health: beyond the nutritional profile of Danone's products, pursue cooperation with the academic world to demonstrate the effects of diet on health; contribute with our products to developing, improving and safeguarding lifelong health;
- Eating Practices: building on our understanding of local eating practices, integrate the cultural differences and needs of the various populations to encourage healthier dietary practices within communities and design future products that will contribute to the health of each individual.

Research Singapore in Singapore; Danone Research Fresh Dairy Technological Expertise in Madrid, Spain; Danone Research Fresh Dairy Technological Expertise, in Chekhov, Russia) and local teams in 55 Danone subsidiaries.

dialogue with the scientific community, which are among the beliefs and commitments in its Manifesto.

As part of its contribution to nutrition research, Danone created the Danone Institutes (non-profit entities) in 1991 to help strengthen the understanding of the links between food, nutrition and health. As of end 2017, 15 Danone Institutes have been established worldwide. Their initiatives cover everything from support for scientific research to information and training for health professionals, to educational programs for children and the general public.

PLANTS AND EQUIPMENT

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

Danone has production facilities around the world in its principal markets. As of December 31, 2017, Danone had 202 production sites including the production sites from recent acquisition WhiteWave legacy (see section 5.5 *Methodology note*).

Lastly, Danone rents some facilities, notably offices and warehouses (see section 3.4 *Balance sheet and financial security review*).

The production sites are inspected regularly to assess possibilities for improving quality, environmental protection, safety, and productivity. On the basis of these reviews, management establishes plans for the expansion, specialization, upgrading, and modernization (or closing) of specific sites.

Production during the year and main production sites

Year ended December 31, 2017

	Key sites by Business ^(a)		
	Production ^(b)	Localization	Share of production ^(b) by Business
Essential Dairy and Plant-Based	7.9 million metric tons	Mexico, United States	11%
Waters	28.3 billion liters	France, Indonesia	12%
Early Life Nutrition	0.9 million metric tons	Ireland	16%
Advanced Medical Nutrition	189.5 million liters	Netherlands	59%

(a) Two of the largest sites for the Essential Dairy and Plant-Based and Waters Businesses, the largest site for the Early Life Nutrition and Advanced Medical Nutrition Businesses.

(b) For the fiscal year.

RAW MATERIALS PURCHASING

Danone's principal raw material needs consist primarily of:

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

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

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

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

See section 5 *Social, societal and environmental responsibility*.

FINANCIAL RISK MANAGEMENT

See section 2.7 *Risk factors*.

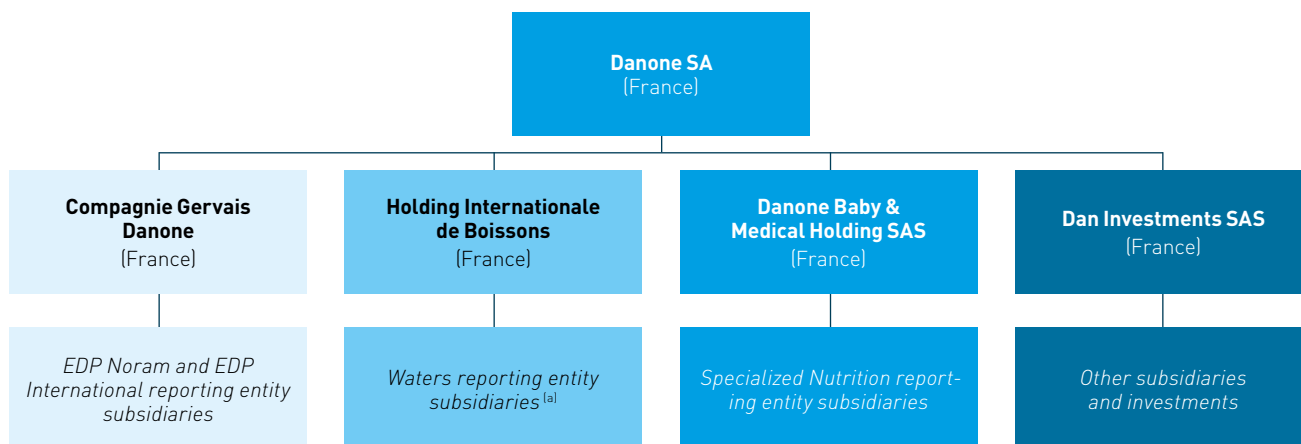
- lastly, Danone's main challenge at the heart of the water cycle remains protecting its springs.

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

- continuous productivity gains: Danone strives in particular to optimize its use of raw materials (reductions in production waste, lighter packaging and more effective use of milk sub-components in the Company's various products) and take advantage of pooled purchasing for its various subsidiaries; since 2013, for example, the Company has used a centralized purchasing system for the non-milk purchases of the Essential Dairy and Plant-Based business;
- implementation of a purchasing policy ("Market Risk Management") that consists of defining rules for securing the physical supply and price setting with suppliers and/or on financial markets when they exist. The monitoring of exposures and the implementation of this policy are made for each raw materials category by the Company's central purchasing team. The buyers typically negotiate forward purchase agreements with suppliers, since no financial markets exist that would allow full hedging of the volatility of Danone's main raw materials purchase prices. Forward purchase agreements are monitored at the Company level at the end of each year. Information regarding these future purchasing commitments is presented in section 3.4 *Balance sheet and financial security review*. Also, with respect to Danone's two main raw materials categories (milk and dairy ingredients/plastics including PET), a sensitivity analysis of the impact of changes in their prices on the Company's annual purchasing costs is presented in Note 5.7 of the Notes to the consolidated financial statements.

2.6 SIMPLIFIED ORGANIZATIONAL CHART AS OF DECEMBER 31, 2017

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



(a) The company Evian Resort, related to the Waters Reporting entity, operates the Evian's Casino and is therefore submitted to the French Ministry of Interior's control and to the regulation applicable to the Casino games activity.

PARENT COMPANY DANONE

Danone SA is the parent company of the Danone group. Danone SA has mainly a role of (i) holding directly or indirectly companies of the group; and (ii) coordination of the main functions and activities, with an average number of employees of 869 in 2017.

SUBSIDIARIES

The subsidiaries list can be consulted on the Danone's website.

MAIN PUBLICLY TRADED COMPANIES

As of December 31, 2017

	Reporting entity	Country	Listing market
Centrale Danone ^(a)	EDP International	Morocco	Casablanca
China Mengniu Dairy ^(b)	EDP International	China	Hong Kong
Yakult Honsha ^(b)	EDP International	Japan	Tokyo
Yashili ^(b)	Specialized Nutrition	China	Hong Kong

(a) Fully consolidated company.

(b) Associate.

2.7 RISK FACTORS

RISK IDENTIFICATION AND CONTROL POLICY

Like any company, Danone faces external and internal risks which can affect achievement of its targets. The main risks Danone is exposed to as of the date of this Registration Document are described in the following section.

Danone maintains an active risk identification and management policy aimed at protecting and developing its assets and reputation, the achievement of its targets and objectives, and protecting the interests of its consumers, shareholders, employees, customers, suppliers, the environment and its other stakeholders without guaranteeing the total absence of risks.

This risk identification and management policy is described in section 2.8 *Risk management and internal control*.

PRINCIPAL RISK FACTORS

Summary of principal risk factors to which Danone believes it is exposed as of the date of this Registration Document

Risks associated with Danone's business sector	<ul style="list-style-type: none"> Laws and regulations Risks associated with product quality and safety, and with their positioning Consumer tastes, preferences, and environmental preferences Raw materials: price volatility and availability Concentration of distribution Competition Natural and climate change risks Weather conditions and seasonal cycles
Risks associated with Danone's strategy	<ul style="list-style-type: none"> Intellectual property Risks associated with Danone's image and reputation External growth Principal markets Danone's position in certain markets
Risks associated with Danone's organization and operation	<ul style="list-style-type: none"> Concentration of purchases with a limited number of suppliers Human resources Risk related to ethics and to human rights Information systems Internal control deficiency Industrial risks Insurance coverage deficiency
Financial market risks	<ul style="list-style-type: none"> Financial market risks Currency risk related to operating activities Currency risk related to financing activities Liquidity Interest rates Counterparty, credit

These primary risk factors are described hereafter.

Other risks

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

- exchange rate risk associated with the conversion of accounts in euro;
- risk associated with companies' fluctuating share prices.

All these risks could unfavorably impact Danone's business and results, and impair the Company's reputation and image.

Other risks that could adversely affect the Company in the future may exist, even though Danone was unaware of them or considered them immaterial as of the date of this Registration Document.

DESCRIPTION OF PRINCIPAL RISK FACTORS

Risks associated with Danone's business sector

IDENTIFICATION OF RISK

Laws and regulations

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

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

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

RISK MONITORING AND MANAGEMENT

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

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

In addition, Danone has developed and implemented internal policies and procedures relating to compliance detailed in section 2.8 *Risk management and internal control*. In order to ensure that such measures are commonly practiced at Danone, the Company has integrated compliance into its quality approach and internal control system.

In addition, to comply with applicable environmental regulations, Danone has established organizations and implemented procedures and tools, in addition to setting targets for reducing its environmental footprint. These various initiatives as well as the measures taken in 2017 are described in section 5.4 *Contribute to the protection of the environment*.

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

2

IDENTIFICATION OF RISK

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

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

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

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

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

More generally, Danone is exposed to situations involving non-compliance with food standards and product ingredient regulations.

The materialization of such risks could have multiple consequences:

- Danone's sales and results related to these products could be severely affected;
- this impact could then extend beyond just the products involved to include other products of the same brand;
- given media coverage and the development of social networks, this impact could also spread to other geographic areas than the ones initially involved;
- the combined impacts could therefore have a significant adverse effect on Danone's overall sales and results;
- in addition to the immediate financial impact, the reputation of Danone, its brands and products as well as its quality image could be adversely affected over the long term, thereby exacerbating the financial risk for Danone.

RISK MONITORING AND MANAGEMENT

Danone's strategy in the field of nutrition and health is consistent with the main orientations set by health authorities in various countries. In implementing this strategy, Danone pays close attention to scientific fundamentals, the regulatory environment and the origin of ingredients used through organizations, actions and procedures that it implements, in particular (i) the Research and Innovation strategy and organization, which are described in section 2.5 *Other elements related to Danone's activity and organization*; (ii) the development of partnerships with reference scientific organizations and an ongoing dialogue with public health authorities; and (iii) the establishment of an internal procedure to ensure the consistency, scientific foundation of health and nutrition claims disseminated in its communications.

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

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

IDENTIFICATION OF RISK

RISK MONITORING AND MANAGEMENT

Consumer tastes, preferences, and environmental preferences

Consumers' purchasing preferences are influenced by tastes and eating customs, and also increasingly by environmental concerns (in particular (i) greenhouse gas emissions, mainly methane emissions by cows producing milk; (ii) the preservation of water resources); and (iii) packaging and its recycling. Distributors also pay increasing attention to communications with consumers (in particular the labeling of the products' carbon footprint).

If Danone is unable to anticipate changes in preference in terms of consumer tastes, eating customs and environmental expectations, its activities, results and reputation could be negatively impacted.

Danone has developed a broad portfolio of product lines that allows it to offer a wide variety of products to respond to different consumption needs and situations. In addition Danone strives to foster ongoing dialogue with its consumers, and more generally with all stakeholders, by adapting to new communication and consumer patterns.

Danone undertakes continuous efforts to reinforce its societal and environmental commitment and to improve the management of its business activities throughout the entire product life cycle, notably through its Nature, Health & Nutrition strategies, their implementation and achievements in 2017 are described in section 5 *Social, societal and environmental responsibility*.

Raw materials: price volatility and availability

Danone's raw material needs consist primarily of:

- materials needed to produce food and beverage products, mainly milk and fruits (the "food raw materials");
- product packaging materials, in particular plastics and cardboard ("packaging");
- energy supplies. These account for only a limited portion of Danone's purchases.

Variations in supply and demand at global or regional levels, weather conditions, government controls, regulatory changes and geopolitical events (changes in production methods, trade saturation, etc.) could substantially impact the price and availability of (i) raw materials, and (ii) materials needed to package certain Danone products, which could have an adverse effect on its results. In particular, a potential increase in the prices of these raw materials (especially milk) and other materials may not be passed on, either in full or in part, in the sales price of Danone's products, notably in countries whose economic environment has deteriorated. This could have a significant adverse effect on Danone's activities and results.

In the context of high raw materials price volatility and in order to limit its impact on Danone's activity and results to the greatest possible extent, Danone manages this cost inflation through actions described in section 2.5 *Other elements related to Danone's activity and organization*.

Danone's supply policy and exposure to principal raw materials risks, including milk, are described in Note 5.7 of the Notes to the consolidated financial statements.

Concentration of distribution

While the end customers of Danone products are individual consumers, Danone sells its products mainly to major retail and grocery chains. Overall, the distribution market has become increasingly concentrated globally and locally. A continuation of the trend to concentrate distribution at the global level along with the emergence of key players at the local level would result in a smaller number of customers for Danone companies and could lead to retailers demanding better terms, which could in particular affect these companies' and therefore Danone's operating margins, and impact their market share.

The presence of Danone brands in different types of distribution channels helps to mitigate the potential negative impact of the concentration risk.

Danone has also taken measures that help to reduce this risk, in particular action programs related to the trade policy towards key customer accounts (see section 2.5 *Other elements related to Danone's activity and organization*).

IDENTIFICATION OF RISK

Competition

Danone conducts its business in highly competitive markets that include large multinational companies and numerous local players of different sizes.

This competition could lead Danone to lose market share, increase its advertising and promotional expenditures, reduce its prices in order to defend its market shares or prevent it from raising its prices in order to overcome cost increases, which could have a significant adverse effect on Danone's strategy and results.

Natural and climate change risks

Natural risks

Danone's geographic expansion sometimes leads it to be present in regions exposed to natural risks, notably seismic. Natural disasters could therefore cause damage to persons, property or the environment, and directly affect Danone, its consumers or the regions where it is present, potentially having a negative impact on Danone's activities, financial situation and image.

Climate change risks

Danone's businesses are directly related to nature and agriculture and are naturally faced with climate change, which could have negative effects on the natural water cycles, soil, biodiversity and ecosystems. Climate change could therefore affect the activity of Danone, its suppliers and its customers, which could have negative impacts on its results and financial situation.

Weather conditions and seasonal cycles

Seasonal consumption cycles pertaining to certain Danone products and weather variations could adversely affect Danone's activities and results.

RISK MONITORING AND MANAGEMENT

Danone limits the effects of competition from the leading players in its markets, notably through its strategy of (i) differentiation relative to its competitors, especially in terms of product lines, price/quality ratios and positioning; and (ii) development through organic and external growth. These elements of Danone's strategy are described in sections 2.3 *Strategic priorities* and 2.5 *Other elements related to Danone's activity and organization*.

For its new site development projects, Danone conducts a risk exposure analysis for such risks in order to choose the site with the least possible exposure. If, however, the site chosen (or the existing site in the case of an expansion) is exposed to these risks, the building construction and equipment installation take into account recommendations from prevention/protection experts to limit the potential impacts of these natural risks. In addition, each year, Danone conducts a screening of its production sites' localization to identify its exposure to water cycles and climate change risks.

Danone is developing and implementing actions, procedures, tools and policies that seek to prevent and reduce these risks, notably its Climate Policy which aims in particular to reduce its greenhouse gas emissions, foster "carbon positive" solutions, offer healthy and sustainable products, reinforce the resiliency of its water and food cycles, and eliminate deforestation from its supply chain by 2020.

Lastly, to strengthen the resiliency of its food chain, Danone is developing collaborative "co-created" solutions involving all its stakeholders and local communities.

These initiatives are described in section 5 *Social, societal and environmental responsibility*.

The intensity of the seasonal impact is variable for Danone's different businesses. Moreover, Danone's international growth results in a geographical distribution of its activities that helps to diversify and limit the concentration of this risk of weather changes for a given region. Lastly, Danone relies on its operating experience (notably through the development of its product lines and management of its markets) to limit the impact of weather conditions as much as possible.

Risks associated with Danone's strategy

IDENTIFICATION OF RISK

Intellectual property

Danone owns rights to brand names, registered designs and patterns, copyrights and domain names throughout the world. Intellectual property represents a significant portion of Danone's net assets.

The territorial extent of the protection depends on the significance of the products and activities concerned: the protection is global for products intended for the international arena, and local or regional for other products.

Danone also owns patents, licenses, proprietary recipes and substantial expertise related to its products and packaging, as well as to their manufacturing processes. Finally, the Company has established licensing agreements with its subsidiaries and partners that use these intellectual property rights.

Danone cannot be certain that third parties will not attempt to infringe on its intellectual property rights. Moreover, Danone's potential recourse to intellectual property rights protection varies by country. The degree of protection may be different, as may be Danone's implementation of a defense strategy. If Danone were unable to protect its intellectual property rights against such infringement or misuse, its results and growth could be negatively affected, as could its reputation.

In addition, certain employees have access to confidential documents in the course of their work. The loss or dissemination of sensitive and/or confidential information could harm Danone's interests and reputation, and have an adverse effect on its results.

Risks adversely affecting Danone's image and reputation

In addition to the aforementioned risks linked to its products, Danone is exposed to criticisms of all types and origin, whether well-founded or not and whether in good or bad faith, that could affect its image and reputation.

Danone may therefore face negative publicity that could result from an actual situation, or even a simple allegation, concerning its activities, its brands or its practices in commercial affairs, its communication and marketing – notably towards children, or its societal responsibilities toward its stakeholders. The media publicity of such criticisms, whether they are founded or not, is facilitated by the development of social networks, which can amplify the impact considerably.

Such events could adversely affect Danone's image and have repercussions on sales, activities, results and growth prospects.

RISK MONITORING AND MANAGEMENT

In order to monitor its assets and ensure the protection, management and defense of its rights in a coherent and optimal manner, Danone has drawn up an Intellectual Property charter. The Company regularly contacts each of its subsidiaries in order to update its intellectual property rights portfolio and thereby protect and defend, to the best of its ability, the brand names, graphic design, forms, packaging, advertisements, websites, etc. that are used by Danone. Danone also takes all appropriate legal measures, notably through actions in the area of infringement and/or unfair competition, to protect and defend its intellectual property rights at both international and local level.

Danone is continuing its efforts to develop awareness among staff with access to and/or in possession of sensitive and/or confidential information and provides updates to employees on best practices with a view to limiting this risk, notably as regards the use of information systems and social networks.

In order to limit the risk of criticism, the Company has developed governance rules and best practices – which are communicated to the subsidiaries – notably with respect to (i) business conduct; (ii) societal responsibility toward suppliers; (iii) relations with local communities; (iv) responsible communication and marketing, and (v) ethics. In order to ensure that these rules and best practices are communicated and followed, Danone has integrated the subsidiaries' assessments with respect to these rules and best practices into its Danone Way approach. Further information is available in sections 2.8 *Risk management and internal control* and 5.1 *Social, societal and environmental responsibility*.

Danone has also established procedures to manage (i) risks so as to avoid and anticipate potential crisis; and (ii) crises in order to prevent the spread and scope of such criticisms and to limit their impacts as much as possible.



IDENTIFICATION OF RISK

External growth

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

In addition, during an acquisition, in case of allocation of the acquisition price a significant amount may be allocated to intangible assets (in particular goodwill).

Acquisitions may have an adverse effect on Danone's activities, asset values and results if the Company does not succeed in rapidly and efficiently integrating the acquired companies and achieving the expected benefits of the acquisitions, in particular:

- develop the expected business and generate the expected cash flow;
- identify the risks associated with historic structures and practices;
- achieve the expected synergies and savings.

An unfavorable change in business activity, business-activity forecasts and assumptions used in the projection of cash flows during impairment tests of the intangible assets acquired could result in the recognition of impairment charges, which would have a negative impact on Danone's results. In the case of joint-ventures, the relationships with Danone's partners in certain entities are governed by shareholder agreements that may provide for certain decisions to be made either with the agreement of the partners or without the agreement of Danone. Therefore, difficulties could be encountered with joint-venture partners, notably in the case of differences over strategy, development or operational management of these joint-ventures, and could adversely affect Danone's activities and results.

Principal markets

Geopolitical environment

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

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

RISK MONITORING AND MANAGEMENT

For each acquisition, Danone prepares an integration program and provides the resources necessary for its implementation.

The 2017 acquisition of the WhiteWave group's companies, for example, had been subject to an integration plan, and these assets have been integrated to Danone's internal control system.

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

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

However, Danone cannot guarantee that its results will not be significantly affected by a disruption in economic, political or regulatory conditions or by a crisis in some of the countries where it is present.

IDENTIFICATION OF RISK

Lastly, Danone conducts business in certain countries, notably Iran and Russia, which may be targeted by economic and financial sanctions imposed in particular by American or European regulations. These regulations notably prohibit transactions with certain financial institutions and certain persons, and require prior authorization with the proper authorities before executing certain transactions. If the Company and/or its subsidiaries do not comply with these regulations, Danone could be subject to criminal penalties and/or significant financial penalties. Any period of political or economic instability in a country in which Danone operates, or any economic, regulatory or political measure such as the ones described above that may be implemented in some countries, could have a negative impact on its activities, results and reputation.

Economic conditions

In periods of slowing economic growth and/or deficit and public debt reductions that may affect some of its main markets, Danone may have to contend with the following phenomena:

- contraction in purchases by consumers, whose purchasing power has diminished, and/or change in consumption patterns as a result of economic conditions;
- increase of existing taxes or establishment of new taxes on consumers and/or companies, especially in heavily indebted countries;
- specifically in the case of the Advanced Medical Nutrition business, a reduction in the insurance reimbursement of medical products and/or pressure on prices and contraction in healthcare expenditures.

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

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

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

RISK MONITORING AND MANAGEMENT

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

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

IDENTIFICATION OF RISK

Danone's position in certain markets

Danone is market leader in some of its markets. As a consequence, the Company may be accused by third parties of abusing a dominant position in these markets and/or of engaging in anti-competitive practices. More generally, the provisions of competition law apply to Danone in the vast majority of countries where Danone does business. Actual or alleged violations of competition law could affect Danone's reputation, and result in investigations by competition authorities in countries where Danone is present, in legal proceedings or even criminal and/or significant financial penalties. This could have an adverse effect on Danone's activities and results.

RISK MONITORING AND MANAGEMENT

In its Compliance department, Danone has put together a specialized team of competition law experts who are responsible for developing and deploying a competition law policy for the Group's entities. Meanwhile, the Company has developed an international network of competition law specialists within the legal function to monitor this risk.

Danone also pays close attention to this matter and seeks to limit the corresponding risk, mainly by communicating and promoting the Business Conduct Principles and Code of Conduct dedicated to the sales functions; and Danone has integrated these rules and best practices into its Danone Way approach in order to ensure that they are communicated and followed. Further information is available in sections 2.8 *Internal control and risk management* and 5 *Social, societal and environmental responsibility*.

Risks associated with Danone's organization and operations

IDENTIFICATION OF RISK

Concentration of purchases with a limited number of suppliers

Danone depends on a limited number of outside suppliers for (i) the delivery of certain goods, in particular raw materials (for example the ferments used in the Essential Dairy and Plant-Based business, or powdered milk for the Advanced Medical Nutrition business in some Asian countries); and (ii) certain services (in particular sub-contracted services or information technology services).

If some of these suppliers were unable to provide Danone with the quantities and qualities of products or goods that it needs under the conditions set forth, or if the suppliers were unable to provide services in the required time period, Danone's activities and results could be materially adversely affected.

RISK MONITORING AND MANAGEMENT

In order to limit this risk, Danone selects and then monitors and supervises its key suppliers. It also prepares and implements procedures designed to secure its supplies and services as well as business continuity plans designating alternative suppliers.

IDENTIFICATION OF RISK

Human resources

The availability, quality and commitment of Danone's employees play an essential role in Danone's success. If Danone's ability to attract and retain employees with the necessary skills or talents – notably in the emerging countries, Danone's principal markets, newly acquired companies and/or during times of transformation for the Company – were to diminish or be insufficient – especially in an environment marked by efforts to control wage and salary costs and/or in light of the impact of the economic crisis on Danone's various annual and multi-year variable compensation plans – then Danone's ability to achieve its objectives could be adversely affected, which could also negatively affect its results.

Moreover, mobilizing Danone's management and staff to successfully implement these restructuring projects and, more generally, the Company's transformation projects could affect their availability and focus on the Company's business and its operational projects, which could have a negative impact on its activities and results. This is particularly the case of the transformational project towards Danone 2020 implemented starting in 2015.

Risk related to ethics and to human rights

Certain Danone products belong to food categories in which respect for ethical values and integrity is of particular importance.

Moreover, supply chains in the agricultural sector may entail risks related to human rights, in particular working conditions, the health and safety of farm workers or even forced or child labor.

Actions by Danone, its suppliers, employees or any other agent acting on its behalf that are contrary to ethical principles or applicable laws and regulations – especially in the areas of combatting fraud and corruption and respecting human rights – could result in consumer mistrust of Danone products and expose Danone to criminal and civil liability and, more generally, have a negative impact on its results and reputation.

RISK MONITORING AND MANAGEMENT

As described in section 5 *Social, societal and environmental responsibility* related to Compensation and promotion, Danone offers competitive and fair compensation, and to that end has developed appraisal systems and procedures that are also described in this section.

Danone has also developed a social, societal and environmental responsibility approach that it deploys in its subsidiaries, including in emerging countries. Danone believes that its approach and the actions implemented contribute to its appeal. This approach and the actions implemented are described in section 5 *Social, societal and environmental responsibility*.

Back in 2001, the Company formulated its Fundamental Social Principles, which prohibit any form of human rights violations in its supply chains as well as in its own operations.

In 2017, Danone developed its vigilance plan for respect of human rights, the environment and personal health and safety, applicable to both its own activities as well as those of its suppliers.

Danone also established its ethical code (Business Conduct Policy) as well as its Integrity Policy. These policies, which apply to all Danone employees, formalize its commitment to the integrity of and compliance with applicable legal requirements. They define strict ethical rules as well as the action and conduct principles applicable to all employees for all Danone-related activities in all countries where the Company does business.

Finally, the RESPECT policy aims to extend this commitment to the Company's suppliers. In 2017, Danone sought to advance the policy toward one of reasonable due diligence, with close attention paid to human rights using a continuous improvement approach. These elements are described in section 5 *Social, societal and environmental responsibility*.



IDENTIFICATION OF RISK

Information systems

Danone is increasingly dependent upon shared infrastructures and information technology applications for all its business activities. The main risks are related to the availability of information technology services and the confidentiality and integrity of data. Whether due to involuntary technical breakdowns or to deliberate attacks, any failure of these infrastructures, applications or data communication networks, any interruption linked to the failure of security of data centers or networks as well as any loss of data and any use of data by third parties, could block or slow down production or sales, delay or taint certain decisions and, more generally, have an adverse impact on Danone's finances, operations or image. In addition, former Numico subsidiaries, as well as more recently acquired companies, rely on different information systems, which may increase the complexity of the monitoring and management of these risks by Danone.

Internal control deficiency

The risk of an internal control deficiency is mainly associated with (i) reliability of financial information, (ii) compliance with the applicable laws, regulations and internal policies, and (iii) efficiency and effectiveness of internal processes, including those related to the protection of the Company's assets.

If Danone's internal control systems were to experience deficiencies or prove to be inadequate, particularly in the area of fraud, the quality of its financial information, the ability of its executives to take the correct decisions and, more generally, its results, could be adversely affected.

RISK MONITORING AND MANAGEMENT

Danone's policy is to consolidate data centers. In particular, Danone's central applications are hosted in a highly secured data center managed by IBM.

In addition, Danone is developing and implementing specific information systems (SAP/Themis, etc.) in its subsidiaries to optimize and streamline information technology investment while promoting global synergies and reducing risks. The former Numico subsidiaries and recently acquired subsidiaries are gradually benefitting from the implementation of SAP/Themis, Danone's integrated information system. Further information is available in section 2.8 *Internal control and risk management*.

In addition, Danone integrates into its global strategy action plans to resolve identified weaknesses and to continuously improve its security system, in particular with respect to intrusion detection. To strengthen the protection of its information systems and data, Danone notably ensures that digital security is taken into consideration starting in the design phase for IT projects.

Danone has implemented an internal control system, which is described in section 2.8 *Internal control and risk management*. Regardless of how adequate it may be, this system can only provide reasonable assurance and not an absolute guarantee with respect to the achievement of the Company's objectives, given the limitations inherent in any control process. While Danone cannot fully exclude the risk of an internal control failure, the performance level and widespread deployment of its five internal control components (Control environment, Risk identification and assessment, Control activities, Information and communication, and Continuous monitoring) reduce Danone's exposure to this risk.

Similarly, Danone cannot exclude all risks associated with fraud. However, the risk profile of its businesses and the existence of a widely disseminated anti-fraud program that covers all aspects for reducing the risk of fraud or the potential impact of any fraud – awareness, prevention, detection, investigation, penalty, reporting and continuous improvements of the internal control system – (see section 6.6 *Internal control and risk management*) limit Danone's exposure to this risk.

IDENTIFICATION OF RISK

Industrial risks

Industrial risks are mainly water pollution (essentially organic and biodegradable pollution), environmental risks related to (i) cooling installations (ammonia and other cooling liquids); (ii) the storage of raw materials or products for the cleaning and disinfection of the plants (acid and alkaline products), especially when these plants are located in residential areas; and (iii) wastewater treatment. In the event that Danone is exposed to potential environmental liability as a result of a significant accident or pollution, its results and reputation could be adversely affected. Like any industrial activity, Danone's sites are exposed to various risks: fire, explosion, equipment failure, security systems failure or human error in equipment operation or works management.

Such events could cause damage to persons, property or the environment and possibly have a negative impact on Danone's activities, financial situation and image.

Insurance coverage deficiency

Danone's insurance coverage could be insufficient and/or Danone could be unable to renew its insurance programs on acceptable terms, which could have an adverse effect on its financial situation and results.

RISK MONITORING AND MANAGEMENT

Danone prepares and implements actions, procedures, tools and policies aimed at (i) preventing and reducing these risks; (ii) measuring and controlling Danone's impact, and implementing action plans and policies when necessary to address the risks related to these challenges.

Concerning industrial risks, to reduce if not eliminate these risks and their potential impact, Danone has decided to elevate personal safety and industrial plant and environmental protection to core values of its policy. These values are "measured" through various programs with ambitious targets and action plans monitored by Danone departments, notably the Reporting entities' industrial departments.

See section *Insurance and risk coverage* hereafter.

Financial market risks

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

IDENTIFICATION OF RISK

Financial market risks

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

RISK MONITORING AND MANAGEMENT

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

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

Additional information and figures, in particular on Danone's exposure to these different risks, once they are managed, are presented in Notes 5.4, 5.7, 10.3 to 10.8, 11.2 and 12.3 to 12.5 of the Notes to the consolidated financial statements.

Currency risk related to operating activities

Danone mainly operates on a local basis and consequently in the currency of the country in which it is operating, thereby incurring no foreign exchange risk. However, the location of some of Danone's production units may result in inter-company billings in foreign currencies. This applies particularly to the Specialized Nutrition Reporting entity and, to a lesser extent, to the EDP International and EDP Noram 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, Danone is also developing some export activities. The sales and operating margin of some subsidiaries are therefore exposed to fluctuations of foreign exchange rates against their functional currency.

Pursuant to its financial currency risk hedging policy, Danone's residual exposure after hedging is not significant during the hedging period (see Note 5.7 of the Notes to the consolidated financial statements).

Currency risk related to financing activities

In conducting its risk centralization policy, Danone manages multi-currency financings and liquidities. Consequently, fluctuations in exchange rates of foreign currencies against the euro may have an impact on Danone's consolidated income statement and balance sheet.

Pursuant to its financial currency risk hedging policy, Danone's residual exposure (after hedging) is not material (see Note 10.8 of the Notes to the consolidated financial statements).

IDENTIFICATION OF RISK**Liquidity**

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

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

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

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

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

In countries where centralized financing is not accessible, when medium-term financing is unavailable and/or in cases where certain types of financing existed at a company prior to being acquired by Danone, then Danone is exposed to liquidity risk on limited amounts in these countries.

More generally, it is possible that in the event of a systemic financial crisis, Danone could be unable to access the financing or refinancing it needs on the credit or capital markets, or to access it on satisfactory terms, which could have an adverse impact on its financial situation.

Meanwhile, Danone's ability to access financing and its interest expense may depend in part on its credit rating from credit rating agencies. The Company's short-term and long-term credit ratings and their possible downgrade could result in higher financing costs and affect Danone's access to financing.

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

RISK MONITORING AND MANAGEMENT

Under its refinancing risk management policy, Danone reduces its exposure by (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium-term financing, (iv) maintaining financing sources available at all times, (v) distributing maturity dates based on forecasted needs and cash flows generation; and (vi) ensuring that it is not subject to any covenant relative to maintaining financial ratios in connection with financing contracts.

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, some Danone companies may, for operational reasons, be required to borrow from local sources; for Danone, this financing involves limited amounts both individually and cumulatively, given a volume of operating cash flows generally sufficient to self-finance its business operations and organic growth.

IDENTIFICATION OF RISK

Interest rates

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

In addition, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, interest rate fluctuations may have an impact on Danone's consolidated results and consolidated equity (see Note 10.8 of the Notes to the consolidated financial statements).

Counterparty, credit

Danone is exposed to counterparty risk, especially regarding banking counterparties, as part of its financial risk management activities.

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

RISK MONITORING AND MANAGEMENT

Danone has established a policy for monitoring and managing interest rate risk aimed at limiting the volatility of its financial result through the use of hedging instruments.

Danone's banking policy aims to reduce its risks by focusing on the quality of counterparty credit and by applying limits for each counterparty. Danone's exposure to these risks is described in Notes 5.4 and 12.5 of the Notes to the consolidated financial statements.

INSURANCE AND RISK COVERAGE

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

Insurance programs for property damage, business interruption and commercial general liability risk are negotiated at Company level for all subsidiaries, with leading international insurers. The "all risks except" policies are based on the broadest guarantees available on the market, coupled with deductibles of varying amounts, which are relatively low compared to those extended to groups of comparable size to reflect the autonomous management of the subsidiaries. The guarantee limits are set on the basis of worst case scenarios and on insurance market availability. These programs were renewed on January 1, 2016 for a term of three years; the total cost of these programs was approximately €33.6 million in 2017.

Insurance programs for "traditional" risks, which require local management, such as coverage of vehicle fleets, guarantees for the transportation of merchandise, work-related accidents (in countries in which these accidents are covered by private insurance), and insurance specific to some countries, are negotiated and managed in accordance with local practices and regulations, within the framework of precise directives provided and controlled by the Group. Total premiums came to approximately €23.8 million in 2017.

Lastly, insurance programs for potentially significant special risks, which require centralized management, such as the liability of the Company's corporate officers, fraudulent acts, and assorted risks (product recalls, credit risk, environmental risk, etc.) are negotiated according to market availability, on the basis of scenarios estimating the probable impact of any claims. The total cost of this category of coverage amounted to approximately €3.5 million in 2017.

In addition, in order to optimize its insurance costs and properly control its risks, Danone has a self-insurance policy through its captive reinsurance subsidiary Danone Ré (a fully consolidated entity). The self-insurance policy applies to specific risks where the costs can be accurately estimated, as Danone is aware of their frequency and financial impact. This concerns essentially (i) coverage of property damage, business interruption and commercial general liability for a large majority of Danone's companies (these self-insurance programs are limited to frequent claims with a maximum of €7.5 million per claim) as well as transportation in some cases; and (ii) for the French subsidiaries, payments for death, long-term disability, and education. Moreover, stop-loss insurance protects Danone Ré against any increased frequency of claims. These self-insurance programs are managed by professional insurers under Danone's supervision and the provisions are determined by independent actuaries.

2.8 RISK MANAGEMENT AND INTERNAL CONTROL

GENERAL ORGANIZATION OF INTERNAL CONTROL

Internal control objectives and framework used

Internal control is a process put in place by Danone's General Management, managers and operational teams. It is designed to provide reasonable assurance, albeit not absolute certainty, that the following main objectives are met:

- reliability of financial information;
- compliance with applicable laws, rules and internal policies;
- effectiveness and efficiency of internal processes, including those related to the protection of the Company's assets.

Danone's internal control framework: DANgo

Danone's internal control system is adapted to its strategic policies and consistent with its international development. The internal control framework developed and used by Danone, DANgo (Danone Governing and Operating Processes), is based on the reference framework proposed in 2007 by the French Financial Markets Authority, together with its application guide, and updated in 2010. This reference framework relates to risk management and internal control procedures and describes the monitoring processes and the preparation of accounting and financial information. This reference framework is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidelines.

It was created in its present form in 2003 and greatly enhanced in 2005 and 2006 when Danone, a publicly traded corporation in the United States at the time, was subject to the Sarbanes-Oxley Act.

It includes process mapping, Standard Operating Models, Danone Operating Models and Danone Internal Control Evaluations. It is reviewed annually (see section *Control environment* hereafter).

In addition, this DANgo framework is supported by a software application of the same name accessible to everyone worldwide.

Scope of internal control

Danone's internal control system applies to all its fully consolidated subsidiaries and to some associates. In the specific case of very small or newly-acquired subsidiaries, a simplified framework focused on the DANgo "fundamentals" has been created to facilitate their integration and development and to ensure appropriate control of their financial and accounting processes.

During fiscal year 2017, Danone entities located in around 60 different countries and accounting for more than 89% of total consolidated sales were evaluated under the internal control system. The WhiteWave and Alpro entities will be integrated into Danone's internal control in 2018.

Internal control participants

General Management

General Management is responsible for Danone's internal control system, while the Audit Committee is responsible for monitoring the effectiveness of Danone's control and risk management systems (see section 6.1 *Governance bodies*). To this end, General Management relies on the Finance Department and the operational reporting entities (reporting entities, regions, businesses, subsidiaries).

Company Finance Department

The Company Finance Department is responsible for the Finance function within the Company, both directly through centralized functions (Financial Control, Corporate Finance, Consolidation, Reporting and Standards, Treasury and Financing, Tax, Strategy, Financial Communication, Acquisitions, Corporate Legal) and, through functional ties, with the finance directors of the various Reporting entities.

The Finance Department is also responsible for risk management, internal control and internal audit, which enables a focus on corporate governance and compliance related topics.

The Chief Financial Officer, who reports to the Chief Executive Officer, is a member of the Executive Committee. The main heads of the Finance functions and Reporting entities are members of an Executive Finance Committee, which meets monthly.

Risk management

Danone has organized its risk identification and risk management system around two complementary processes:

- identification and management of operational risks, under the responsibility and monitoring of the Internal Control Department;
- identification and management of strategic risks, under the responsibility and monitoring of the Strategic Planning Department.

The process of identifying and managing Danone's risks is described hereafter in the *Risk identification and assessment* section.

Strategic Planning Department

Part of the Company Finance Department, the Strategic Planning Department is responsible for identifying and monitoring Danone's strategic risks. It relies in particular on the financial directors of the Reporting entities (see section *Organization of the finance function* hereafter).



Internal Control Department

Part of the Corporate Finance, Control and Services Department [see section *Organization of the finance function* hereafter], the Internal Control Department is composed of a five-member central team, which is supported by a large network of local internal controllers who generally report to the finance directors of the Clusters Business Services. These internal controllers ensure that the procedures defined by the Company are properly applied at their entities and organizations.

The Internal Control Department's main responsibilities are as follows:

- preparing and implementing DANgo, Danone's internal control framework;
- defining (i) priorities related to internal control, and (ii) the methodology to be used for self-assessment, its testing and documentation;
- managing and analyzing (i) the internal control indicators, and (ii) the results of the assessments and action plans implemented by the community of internal controllers;
- establishing and monitoring operational risk mapping at the various levels of the organization and managing the network of internal controllers on priority actions to be defined in response to these risk maps;
- supporting and overseeing the international network of internal controllers through coordination, communication and training initiatives.

Internal Audit Department

In 2017, the Internal Audit Department conducted 43 internal audits of subsidiaries or cross-company functions, based on the plan previously approved by the Audit Committee. These audits seek to verify the quality of the DANgo self-assessment performed by the subsidiaries. In light of the increased staffing on the Internal Audit teams and heightened compliance requirements, these audits periodically identify some gaps in the self-assessments of certain subsidiaries. We have strengthened communication with management of the Reporting entities concerning these gaps.

Following each audit, an action plan is prepared by the subsidiary's management to correct weaknesses identified in the audit report. The implementation of action plans is monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2017, 25 follow-up audits on implementation of action plans were conducted within 12 months of the initial audit wherever possible.

Moreover, the Treasury and Financing, Tax, Information Systems, Environment, Legal/Compliance, Food Safety, Quality, Industrial, Safety, Environment, Organization, Human Resources and Crisis Management departments arrange audits and periodic reviews at the subsidiaries, in addition to the general internal audits.

Compliance Department

As part of the General Secretary team, the Compliance Department directly reports via the Chief Compliance Officer to Danone's General Counsel and to the Audit Committee. It is supported by Compliance teams as well as the local Compliance Committees, which are assigned to 30 clusters [a cluster covers all of the Reporting entities and activities in a country or group of countries], with each cluster's Compliance Officer reporting to the Chief Compliance Officer. The Compliance department has developed and oversees Danone's Compliance Program, which is an integral part of Danone's *control environment*. It is described in the section hereafter, *Control environment*. Lastly, the Chief Compliance Officer oversees the Corporate Compliance & Ethics Board [see section *Monitoring of internal fraud* hereafter].

Other internal control participants

In Danone's largest and most complex subsidiaries, particularly in emerging countries, the local head of internal control is supported by a team of operational internal controllers, who are responsible for ensuring the proper operational application of internal control practices at the sites (warehouses, plants, etc.).

In addition, the operational line managers at the subsidiaries and headquarters play a major role in internal control and its implementation in their respective areas of responsibility, with support from the relevant corporate functions (mainly Finance, but also Human Resources, Sustainable Development, Environment, Safety, Quality, Information Systems, Legal, etc. – see section *Risk identification and assessment* hereafter).

Finally, (i) the DANgo Steering and Cross-functional Coordination Committee, (ii) the Internal Control Steering Committee and (iii) the Compliance Committee described hereafter are also involved in the management and continuous monitoring of internal control, with a view to ensuring consistency with the operating activity at all levels.

DANONE'S OVERALL INTERNAL CONTROL AND RISK MANAGEMENT PROCESS

Internal control consists of the following five closely related components:

- control environment;
- risk identification and assessment;

Control environment

The aim of the control environment is to make staff aware of the usefulness and necessity of internal control; it is the foundation of all the other components of internal control and imposes an ethical standard, discipline and an organization.

Danone's control environment is based on the following:

- Danone's values which are widely communicated across all of the subsidiaries, and Danone's dual economic and social project;
- the Business Conduct Policy defined by the Company;
- the human resources and social policy, particularly with regard to employee development and training;
- the impetus given by the Board of Directors and the willingness to achieve continuous improvements in all operating procedures, as expressed by Danone's General Management;
- the Danone Way approach, which is deployed in nearly all Danone's subsidiaries;
- the Compliance Program, which aims at protecting Danone and its subsidiaries against risks related, in particular, to corruption, anti-competitive practices, non-compliance with laws on confidentiality of personal data and international laws on trade sanctions. It describes the key principles and defines the responsibilities, organization and governance at all Company levels. It is also responsible for risk assessment, the integration of compliance

Risk identification and assessment

Every company faces internal and external risks that may hinder the achievement of its objectives. The principal risks to which Danone believes it is exposed as of the date of this Registration Document are described in section 2.7 *Risk factors*.

Danone has established a system for identifying and managing risks based on two distinct systematic risk identification processes.

Operational risks

The first process for risk identification and management focuses on operational risks related to the Company's current activity and deficiencies identified by the internal control review (through the self-assessment and testing of control indicators, see section *Internal Control Department* above). A local standardized mapping of these deficiencies (Internal Control Deficiencies Impact Mapping) at the level of each operating unit makes it possible to classify them based on two categories qualifying (i) their potential financial impact on the Company; and (ii) the expected difficulty in resolving the deficiency under consideration. This mapping may then be used at different levels of the organization (management committee of the operating unit, region, Reporting entity, function, etc.) as a prioritization tool for action plans to be implemented in order to reduce the identified risk.

- control activities;
- dissemination of information;
- continuous monitoring.

They are implemented as described hereafter.

- and control procedures in the business, training, advisory, as well as prevention, investigation and reporting audits;
- the standardization of Danone's operating processes through the implementation of the DANgo framework and the regular use of a single integrated information system (Themis, see section *SAP/Themis integrated information system* hereafter) which contribute to the strength of the control environment;
- the DANgo framework (see section *Danone's internal control framework: DANgo* above): accessible to all Danone employees in an electronic version, it is subject to a systematic annual review by which the Company ensures that the DANgo internal control and best practices framework is kept up to date. DANgo is updated by (i) experts from the network of internal controllers; and (ii) operational teams of various Reporting entities, which enables DANgo to be used by those in the various functions and allows the framework to be enhanced through best operating practices;
- in addition to DANgo, an intranet site for Danone's internal controllers and a Danone social network present all the documents useful for internal control and contribute to the sharing of experiences and best practices in the area of internal control. These documents may also be accessed by all Danone employees and are updated regularly;
- the writing and distribution of internal control guidelines, which are updated annually.

Strategic risks

The second risk identification and management process focuses on strategic risks and takes the form of a risk mapping hierarchy based on their likelihood of occurrence and their estimated impact on the Company.

Methodology

This risk mapping is prepared and updated semi-annually by the Company Finance Department. The following methodology is used:

- identification of the risks considered as material by Reporting entity with support from the main corporate transversal functions and integration of systemic risks not perceptible at the subsidiary level;
- consolidation of the major risks of the Reporting entities at Company level and integration of systemic risks not perceptible at the Reporting entity level;
- ranking of risks based on their likelihood of occurrence and estimated financial impact, at the level of a Reporting entities or the Company;
- determination of preventive or corrective actions, which may be local or global depending on the case.



This process is an integral part of annual strategic planning: the strategic plan for each Reporting entity starts from the previous year's mapping of strategic risks and results in the development of the new mapping with its related preventive actions.

Risk monitoring

For each Reporting entity, the most significant risks are reviewed twice a year by the Reporting entity managers and Danone's Head of Strategic Planning at special meetings attended by the General Manager and Finance Director of each Reporting entity and the Head of Strategic Planning.

A review of the most significant risks is also presented twice a year by Danone's Head of Strategic Planning to the Danone Chief Executive Officer and Chief Financial Officer. A mapping of Danone's major risks and risk mitigation plans are reviewed and assessed. This work serves as the basis for the presentations made to Danone's Executive Committee and Audit Committee.

Other elements of Danone's organization that contribute to risk identification and analysis

The existence of procedures – regarding the monitoring of competition,

Control activities

Control activities are intended to ensure the application of the standards, procedures and recommendations that contribute to the implementation of General Management's policies.

All the subsidiaries integrated into the DANgo scope use an annual self-assessment process. The largest of them follow a more detailed internal control review methodology that includes information flows, control points and tests conducted by management:

- the IT application that hosts the DANgo system allows subsidiaries to perform self-assessments and determine whether they are compliant with Danone's internal control framework. It also makes it possible to monitor any action plan that may be needed;

Transmission of information

Appropriate information must be identified, collected, quantified and disseminated in a manner and within a timeframe that enables each person to assume his or her responsibilities.

To this end, Danone relies on:

- its organization and information systems, which facilitate the communication of information needed for decision-making;
- the various intranet sites and documentation databases that enable information to be shared within Danone. This information includes not only financial information but also non-financial information that meets the needs of the various operating and administrative departments. Since 2012, Danone has deployed its social network, which is accessible to all, to transmit information and develop communication and experience sharing;
- the distribution of the DANgo framework by the Internal Control Department, which oversees, trains and coordinates the network of internal controllers:

training, risk prevention and protection, etc. – and the initiatives taken by specialized departments – such as the Environment Department and the Quality and Safety Department for food – contribute to the identification and analysis of risks.

The Safety Department also helps to identify threats against Danone's employees and assets.

In addition, the Crisis Management Department uses information made available by the risk maps established by each Reporting entity to identify potential crises and prepare the affected entities accordingly, ensuring that an appropriate response is provided for all crises, even if the related risk was not previously identified.

The identification and reporting of risks is also facilitated by the relatively low number of reporting levels within the Company, short decision-making channels and input from the operating units in strategic discussions. In addition, the Corporate Compliance & Ethics Board, a semi-annual cross-functional committee led by the Chief Compliance Officer, was created to supervise Danone's Compliance Program, notably by reviewing compliance-related risks. It is supported at local level by the 31 Compliance Committees.

- the results of the subsidiaries' DANgo self-assessment campaign are sent periodically to the Internal Control Department, which analyzes them and sends relevant summaries to the various stakeholders. Appropriate action plans are put in place by the entities under the supervision of the Internal Control Department with a goal of continuous improvement, and internal audits are subsequently carried out to validate that corrective measures have indeed been taken.

In addition, the performances and results of each operating unit in the area of internal control are regularly and systematically monitored by the entities' Management Committees.

- it organizes working and annual training sessions for the network of internal controllers, including workshops and information-sharing seminars. More than 130 people covering 173 entities attended the session organized in 2017;
- it is responsible for the training and integration of new internal controllers, including those working for newly acquired companies;
- it is also responsible for internal control training sessions open to all managers of the finance functions;
- it communicates regularly at various levels of the organization (Corporate Committees, meetings at Reporting entity level with the finance directors or operational employees, systematic annual presentations to the general managers and finance directors of the regions, and participation in functional Management Committees).

Continuous monitoring

The internal control system is reviewed periodically so that its performance and effectiveness may be qualitatively assessed.

The continuous monitoring of control procedures is part of the ongoing activities of Danone and its subsidiaries.

The quality of the internal control system's steering and monitoring is ensured by two Committees, led by the Internal Control Department, which meet regularly:

- the DANgo Steering and Cross-functional Coordination Committee, which consists of operational senior executives appointed as representatives of Danone's key functions: Research and Development, Purchasing, Operations, Marketing, Sales, Finance, Human Resources, Information Systems, etc.;
- the Internal Control Steering Committee, which consists mainly of the heads of Danone's Finance function and the Reporting entities and meets quarterly.

In addition, the Audit Committee, as well as Danone's General Management, are informed at least twice a year of the status of the subsidiaries' self-assessment processes, the results thereof and the results of the audits conducted by the Internal Audit Department. The following year's targets are also presented as well as the priorities selected by the Internal Control and Internal Audit functions.

Monitoring of internal control indicators

The Internal Control Department has introduced and monitors internal control performance indicators (coverage rate, internal control intensity rate and deficiency rate on control points) to analyze and communicate the internal control results of the subsidiaries and of Danone together with monitoring by geographic region and by Reporting entity.

The targets for these performance indicators are discussed by the Internal Control Steering Committee and by the DANgo and cross-functional coordination Steering Committee, and are then presented to Danone's Audit Committee (see section 6.1 *Governance bodies*), before being sent to the subsidiaries, which helps to harmonize and develop a shared vision of the internal control priorities.

In 2017, Danone's internal control key indicators recorded the following changes: the internal control intensity rate remained stable, the coverage ratio and the deficiency rate been slightly down compared to 2016.

Danone Ethics Line

A central whistleblowing system is available for all employees, suppliers and other third parties to submit confidential reports of suspected bribery, corruption, fraud or other cases of non-compliance. In 2016, a new system (Danone Ethics Line) was implemented to replace Dialert, comprising new features such as an advanced investigation management system. The Danone Ethics Line Committee was also formed and is responsible for the management of cases of non-compliance with the Corporate Compliance Program and the establishment and application of the Danone Ethics Line system. The Committee is composed of the Chief Compliance Officer, the Anti-Corruption Compliance Officer, the Internal Audit Director and Directors of the HR Department HQ. In 2017 Danone received 188 alerts related to various topics including human resources, corruption, fraud, etc. None of these cases had a significant impact on Danone's consolidated accounts.

Internal audit assignments

In 2017, the Internal Audit Department conducted 43 internal audits at subsidiaries or cross-company functions, based on the plan previously approved by the Audit Committee. These audits seek to verify the quality of the DANgo self-assessment performed by the subsidiaries. In light of the increased staffing on the Internal Audit teams and heightened compliance requirements, these audits periodically identify some gaps in the self-assessments of certain subsidiaries. We have strengthened communication with management of the Reporting entities concerning these gaps.

Following each audit, an action plan is prepared by the management of the subsidiary to correct weaknesses identified in the audit report. The implementation of action plans is monitored by the operational and functional managers, under the supervision of the Internal Audit Department. In 2017, 25 follow-up audits on implementation of action plans were conducted within 12 months of the initial audit wherever possible.

Moreover, the Treasury and Financing, Tax, Information Systems, Environment, Legal/Compliance, Food Safety, Quality, Industrial, Safety, Environment, Organization, Human Resources and Crisis Management departments arrange audits and periodic reviews at the subsidiaries, in addition to the general internal audits.

INTERNAL CONTROL PROCESS RELATED TO THE PREPARATION AND PROCESSING OF DANONE'S FINANCIAL AND ACCOUNTING INFORMATION

Organization of the finance function

The finance function's organization is based on:

- functional departments: Corporate Finance, Control and Services (to which the following departments report: (i) Treasury and Financing; (ii) Tax; (iii) Insurance; (iv) Consolidation, Reporting and Standards; (v) Internal Control; and (vi) Internal Audit); Management and Performance Control; Strategy and External Development; Financial Communication; the corporate functions (accounting, treasury, etc.) and certain expertise functions are then organized by geographic area (Region Business Services) including several units covering all the Reporting entities and activities in a given country or group of countries (Cluster Business Services);
- operational finance departments for the Reporting entities and key operating activities responsible for managing and steering the business; each Business therefore has its own operational finance department, which is itself organized by region (Region Business Units) including one unit per country (Category Business Unit).

Production of financial and accounting information

Financial information is generated by a rigorous and comprehensive financial planning process. This process includes, in particular:

- a three-year strategic plan specifying annual key financial targets;
- 12-month rolling forecasts performed quarterly on all financial indicators as well as monthly updates for certain indicators;
- monthly reports;
- monthly performance review meetings attended by the financial teams and the general managers of the Reporting entities;
- quarterly meetings to monitor execution of the strategy with the participation of the finance teams and general managers of the Reporting entities.

The relevance of the financial indicators selected to monitor performance is reviewed on a regular basis.

In this context, a detailed monthly financial report and a semi-annual exhaustive consolidation package used in the preparation of Danone's consolidated financial statements are prepared for each operating unit.

These consolidation packages are verified by a central team, which is also responsible for the elimination and consolidation entries and for analyzing and validating the most significant line items of the consolidated financial statements (intangible assets, taxes, equity, provisions and liabilities, etc.).

In addition, the production of financial information includes the following preliminary control stages, carried out by the Consolidation, Reporting and Standards Department:

- validation by the central team, throughout the year, of the main accounting options adopted by the subsidiaries and central functions and simulation of complex transactions in the consolidation software;
- in-depth review of certain subsidiaries' monthly closings at the end of May and November (known as the hard close procedures) based on the specific risks and transactions identified for preparing the interim and annual consolidated financial statements, respectively;
- maintenance and implementation of a central tool called WeFi, which identifies the finance function's main organizational principles and processes and the accounting principles validated for Danone;

Control environment

The control environment relating to the preparation and processing of Danone's financial and accounting information is based on the following:

- the organization of the finance function, which is based on central functional departments and the finance department of each of the Reporting entities (see section *Organization of the finance function* above). In all cases, the operating units are responsible for the production and content of their financial statements as well as their internal control;
- the DANgo control practices and procedures, which help to ensure the reliability of the processes for preparing the financial statements. Indeed, the DANgo framework includes many points that address the quality of the financial and accounting information;

- meetings to share information and best practices are attended regularly by the main financial managers, notably those from Cluster Business Services and some central department heads, and training sessions covering specific accounting topics are also held regularly;
- (i) preparatory meetings with the financial staff of Danone's main subsidiaries and the Cluster Business Services covering them based on the specific transactions and risks identified; (ii) presentations to the Audit Committee (specific transactions during the period, the main accounting options concerning the closing and the potential significant changes introduced by developments of the International Financial Reporting Standards) (see section 6.1 *Governance bodies*).

In addition, Danone's financial and accounting information is produced using the following applications.

SAP/Themis integrated information system

The management and optimization of information flows for the financial functions as well as the purchasing, industrial, quality, supply chain and sales functions, both within the subsidiaries and between them, is performed primarily through the SAP/Themis integrated information system. This application is being steadily deployed in all Danone subsidiaries and its features are constantly being improved.

As of December 31, 2017, the activities supported by Themis accounted for 71% of consolidated sales in the Fresh Dairy Products and Waters Businesses. The rollout of Themis continued in 2018, in particular for WhiteWave and Alpro.

The same information system is currently being rolled out at the subsidiaries of the Specialized Nutrition Businesses (covering 82% of total sales for the year ended December 31, 2017).

Consolidation and reporting software

Monthly financial reports and, more generally, the financial information used to manage and control the activities of the operating units are produced by a unified information system (SAP/Business Objects Financial Consolidation).

This same system is also used to produce the interim and full-year consolidated financial statements. The procedures related to the security, use and development of new features of this consolidation system are documented.

- the controls carried out by the Consolidation, Reporting and Standards Department (see section *Production of financial and accounting information* above);
- the definition for the Company of the roles and skills required at the various levels of the financial organization and the development, as a result, of internal training programs;
- the production and communication of the Company's financial and accounting information via the unified tools described above;
- the single set of guidelines covering the Company's accounting procedures and principles, which are consistent with its internal control principles. Available on the WeFi intranet, these guidelines are accessible to all the finance function's employees.

Risk identification and assessment

The monitoring and management of the main identified risks related to the preparation and processing of Danone's financial and accounting information is organized as follows:

- the risks identified in the results obtained from the annual assessment of internal control (DANgo) and internal audits are monitored;

- the budgeting and strategic planning processes, performance monitoring, the regular meetings mainly attended by the finance functions (Controlling, Treasury and Financing, Consolidation, Reporting and Standards, Development) and the meetings of the Risks Executive Committee and the Executive Committee allow the main risks identified to be monitored and managed;
- the internal control system is also adapted based on the risks identified.

Control activities

Each Reporting entity has a finance department, which is responsible for monitoring performance, capital expenditure and operating cash flow, primarily through the rigorous financial planning and reporting process. The Reporting entities' finance departments are supported by the finance departments in the geographic regions and operating units, with the overall financial planning process administered by the Controlling Department.

Members of the central departments visit the operating units on a regular basis (performance monitoring, procedure reviews, pre-closing meetings, ad hoc audits, progress on improving internal controls, follow-up on action plans, and training in accounting standards). The appropriate documents are provided sufficiently well in advance for them to be reviewed by Danone's management bodies.

Twice a year, the general manager and finance director of each subsidiary and the finance director of the Cluster Business Service covering it, along with their counterparts in the regions and Reporting entities, provide written confirmation of compliance with Danone's applicable procedures and with all of the standards applicable to the financial information sent to the central teams. This confirmation is provided in a representation letter that covers the closing of the interim and annual financial statements, including all subjects involving risk management, internal control and corporate law.

The control activities are therefore conducted at all of Danone's hierarchical and functional levels and include a variety of actions such as approving and authorizing, verifying and comparing, assessing operational performances, ensuring the protection of assets and monitoring the segregation of duties. The audits conducted independently by the Internal Audit Department provide appropriate validation.

Transmission of information

Danone's financial and accounting information is produced and communicated via the tools described above.

To disseminate financial information within Danone, each quarter the entire finance function can log onto a website where the Chief Financial Officer comments on the activity for the quarter, the year-to-date financial results and the main challenges for the Company.

Lastly, Danone's guidelines related to financial and accounting information (WeFi, DANgo, etc.) are accessible to all employees of the finance function and some are available to all Danone employees.

Continuous monitoring

One of the responsibilities of each Reporting entity's finance director and function manager is to improve the procedures used to prepare and process financial information. Detailed audits are conducted on the key control procedures in the preparation of financial information (particularly published disclosures) in the subsidiaries and in Danone's headquarters and on their effective

application. Moreover, the internal audit assignments conducted in the operating units are aimed primarily at verifying the quality of the accounting and financial information. The Reporting entities' Finance Departments ensure that the action plans established subsequent to the above-mentioned internal and external audits have been carried out correctly.

Assessment

The procedures intended to control the accounting and financial information provided by the consolidated subsidiaries, as well as the internal control procedures used to prepare the consolidated financial statements, are adequate to provide reliable accounting and financial information.

