

# Creditreform Corporate Rating

Danone S.A. (Group)

**Creditreform Rating**  
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Rating object	Rating information	
<b>Danone S.A. (Group)</b>	<b>Rating:</b> <b>BBB+</b>	<b>Outlook:</b> <b>stable</b>
Creditreform ID: 2000000610 Incorporation: 1966 (Main) Industry: Food industry Management: Emmanuel Faber, CEO	Prepared on: Monitoring until: Publication: Rating type: Rating systematic: Rating history:	<b>March 29, 2017</b> withdrawal of the rating April 5, 2017 <b>unsolicited</b> corporate rating www.creditreform-rating.de

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## Abstract

### Company

The French *société anonyme* Danone – hereafter referred to as the company, the Group or Danone –, located in Paris, France, was born from the merger of BSN und Gervais Danone in 1973. After having commercialized several types of food products, the company is nowadays specialized in the production and distribution of fresh dairy products, early nutrition products, waters and medical nutrition products. The company operates in the food industry under several brands in 130 markets worldwide.

In a volatile and competitive market environment, Danone S.A. generated EUR 21.9 billion in revenues in 2016 (2015: EUR 22.4 billion), of which 40.5% was generated in the Asia/Pacific, Latin America, Middle East and Africa region (ALMA), 39.1% in Europe and 20.4% in the Commonwealth and Independent States (CIS) and North America. This represents an organic growth of 2.9% in comparison with 2015. The company generated a positive EAT amounting to EUR 1.7 billion (2015: EUR 1.3 billion) in 2016 despite the slower turnaround of dairy products in Europe and the high market volatility, especially in the emerging economies. In 2016, Danone acquired all the shares of The WhiteWave Foods Company. The company will be integrated into the group from 2017 onwards.

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### Rating result

The current rating attests a highly satisfactory level of creditworthiness to Danone S.A., which represents a low to medium default risk in comparison with the sector and the overall economy.

Despite the fragile consumption trends in Europe and general uncertain and volatile environment in the emerging markets, the company should further continue its stable business development. Relevant rating aspects are the predominant market position of the company as well as its product diversification and global presence. Additionally, the forward-looking strategy and the innovative capacity of the company, also in health products, as well as its solid financial base have a positive impact on our rating assessment.

As risk factors, we see the fierce competition and a significant innovation pressure that require high investments and intensive R&D. We furthermore see a high reputation risk if the company does not comply with safety measures. The current business development could be impaired by an economic slowdown in mature and / or in the emerging markets as well as by politic risks that are not negligible. The impacts of the acquisition of The WhiteWave Foods Company, especially regarding the possible synergies and product diversification, remain to be seen.

### Outlook

The yearlong outlook of the rating is stable. This is subject to the supposition that the Group will successfully integrate The WhiteWave Foods Company. Furthermore, the outlook could remain stable if the macroeconomic and political environment in the markets where Danone S.A. is active is not disrupted.

### Relevant rating factors

#### Excerpts from the financial ratios analysis 2016

- + Increased EBITDA
- + Decreasing ratio of net debt / EBITDA
- + Positive liquidity situation
  
- Equity ratio after correction of the goodwill
- Increased leverage

Financial ratios' extract Basis: consolidated annual statement per 31.12 (IFRS)	Standardized balance sheet	
	2015	2016
Total assets	EUR 25,920 million	EUR 36,995 million
Turnover	EUR 22,412 million	EUR 21,944 million
EBITDA	EUR 3,427 million	EUR 3,709 million
EBIT	EUR 2,210 million	EUR 2,923 million
EAT	EUR 1,398 million	EUR 1,827 million
Equity ratio	28.27 %	21.00 %
Capital lock-up period	59.02 days	62.74 days
Short-term capital lock-up	24.89 %	24.05 %
Net Debt / EBITDA adj.	4.53	4.20
Return on investment	6.49 %	5.73 %
Ratio of interest expenses to debt	1.47 %	1.68 %

### General rating factors

- + Worldwide presence
- + Leading market position with well-recognized brands
- + Diversified product portfolio
- + Relatively lower cyclical sensibility
- + Granularity of customers
  
- Low entry barriers and highly competitive environment, both locally and internationally
- Dependence on raw materials price volatility
- Dependence on emotional bond between the user and the products, consumers' needs and choices
- Reputation risks and food safety risks

### Current factors (rating 2017)

- + Stable business development with increasing EBITDA
- + Good overall profitability and cash flow generation
  
- Current trend towards an increase in milk prices
- Current Chinese transition creates volatility in waters and early nutrition business
- Decline in Western Europe revenues and slower turnaround in dairy in Europe than expected

### Prospective rating factors

- + Further acquisitions and synergies
- + Further growth potential in Africa and in China
- + Innovations in product range and in packaging
  
- Integration risks linked to the acquisition of The WhiteWave Foods Company
- Further volatile emerging markets; e.g. high inflation in Brazil and Argentina
- Accrued competition

### Best case scenario

Best case: BBB+

Worst case: BBB

In our best case scenario for one year, we assume a rating of BBB+. Essentially, we see a possible upgrade of Danone corporate rating in A-segment. However, despite the expected upside potential of the acquisition of WhiteWave in the fast US-growing market, the increased debt level as well as the risks involved in the transaction impede the possibility of a rating upgrade in the short term. On the medium term, we expect the financial leverage to reduce after gaining revenues and achieving cost synergies following the acquisition of WhiteWave.

#### Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

### Worst case scenario

In our worst case scenario for one year, we assume a rating of BBB. The expected synergies with WhiteWave take longer than expected to materialize, and it is reflected on the operating performance.

## Business development and outlook

During the business year 2016, the company achieved revenues amounting to EUR 21.9 billion and registered an absolute decline of -2.1% in comparison with 2015 but an organic growth of 2.9% in line with the objectives and analysts' expectations. Approx. 48.9% of the revenues were generated by fresh dairy products (+2.0% growth in comparison with 2015), 20.8% by waters (+2.9%), 22.9% early life nutrition (+3.5%) and 7.4% medical nutrition products (+7.4%). The recurring operating income reached EUR 3.0 billion (2015: EUR 2.9 billion), which represents an operating margin of 13.8% (2015: 12.9%). Danone S.A. achieved a positive net income of EUR 1.8 billion (2015: EUR 1.4 billion).

The four business units of Danone developed differently in 2016.

In the Fresh Dairy Products Division, this growth is mainly due to the acceleration of sales in the USA, Russia and the ALMA zone. In Europe, the turnaround of dairy products is slower than expected, notably following the deterioration of market conditions in Spain in the last quarter of 2016.

In the Waters Division, i.e. bottled water, water sold in large containers (jugs) and in small containers (cups), the company registered strong growth in Europe and the ALMA zone. Sales in China have strongly been impacted by the slowdown in private consumption.

Regarding the Early Life Nutrition Division, markets are rather stable in Europe and dynamic in the ALMA zone, particularly in Brazil and Australia. Danone successfully developed its direct distribution model in China.

The biggest growth has been registered in the Medical Nutrition Division, mostly driven by sales in Europe and the ALMA zone.

The current development of the four group's divisions is shown in the table below:

In EUR million	Revenues				EBITDA				
	December 31	2014	2015	2016	%(2016)	2014	2015	2016	%(2016)
Fresh dairy products		11,129	11,057	10,736	48.92	1,033	1,100	1,083	35.83
Waters		4,186	4,768	4,574	20.84	539	542	521	17.24
Early Life Nutrition		4,397	4,994	5,017	22.86	828	965	1,099	36.36
Medical Nutrition Group		1,432	1,593	1,618	7.37	262	286	319	10.55
<b>Total</b>		<b>21,144</b>	<b>22,412</b>	<b>21,944</b>	<b>100 %</b>	<b>2,662</b>	<b>2,892</b>	<b>3,022</b>	<b>100 %</b>

On December 16, 2016, Danone received the green light from the European Commission to acquire The WhiteWave Foods Company (Denver). The company is a leading consumer packaged food and beverage company that manufactures, markets, distributes and sells branded plant-based foods and beverages, coffee creamers and beverages, premium dairy products and organic produce under well-known brands such as Alpro, Silk, So Delicious, etc. The company is primarily active in North America, Europe and through a joint venture in China.

The WhiteWave Foods Company generated USD 4.2 billion in revenues (+9% in comparison with 2015) and a net income amounting to USD 215 million in 2016. The company entails four divisions: Plant-based Foods and Beverages, Fresh Foods, Premium Dairy, and Coffee Creamers and Beverages. All divisions performed well in 2016 expect for the Fresh Foods Division.

This acquisition impacted the operating result 2016 of Danone in the amount of EUR 57 million and the balance sheet as of December 31, 2016 in the amount of EUR 11.7 billion new bonds (issue of October 25 and 26, 2016).

Since 2014, the company has launched its transformational "Danone 2020" plan in order to achieve strong, profitable and sustainable growth by 2020. The Group has implemented a transformation plan that aims at becoming strong, profitable and sustainable until 2020. This plan foresees a new organizational structure as well as a reinforcement and better coordination of support functions. The company aims at strengthening its various supply, distribution, manufacturing base and quality control platforms (upstream segment) and at fueling future growth by relying in particular on its ability to innovate, notably in order to better use its strategic resources, i.e. milk, water and plastic.

The consolidated sales ambition growth until 2020 is of +5%: the sales ambition growth for fresh dairy products (yogurt) is of 3-5% until 2020 with a cumulative trading operating margin improvement 2015-2020 of +200 bps until 2020. The strategy focuses on strengthening the activities in the USA, maintaining those in Europe and developing African and Asian (Chinese) markets in the near and medium term. The packaging should be adapted to each country / market segment (protein rich products, children and pre-adolescents brands, low-fat products, etc.).

The targeted sales growth for water products is 7-10% until 2020 with the development of bottled water and Aquadrinks consumption. In the Early Life Nutrition Division, i.e. baby formula, milk, fruit-based desserts, cereals, jars of baby food and ready-made baby food, the targeted sales growth is 7-10% until 2020 by building sustainable growth, mostly in China. The Medical Nutrition products' sales growth target is 6-8% by 2020 by developing curative nutrition solutions as well as a unique approach to communities. Savings amounting to EUR 1 billion by 2020 are envisaged.

### Structural risks

The company is registered in the Paris Register of Commerce and Companies under the number 552 032 534. The company prepares financial statements in accordance with IFRS as adopted by the European Union.

Operative independence and synergies between the four products divisions

The company is organized into four divisions:

- Fresh Dairy Products: production and distribution of yogurts, fermented dairy products and other fresh dairy products specialties
- Waters: production and distribution of natural, flavored and vitamin-enriched packaged water
- Early Life Nutrition: production and distribution of specialized food for babies and young children to complement breast feeding
- Medical Nutrition Group: production and distribution of specialized food for people afflicted with certain illnesses or frail elderly people

Danone runs 194 production sites worldwide. The general policy of the company is to own its production facilities. The largest sites are located in Mexico, Brazil (Fresh dairy products), France and Indonesia (Waters), Ireland (Early Life Nutrition), and The Netherlands (Medical Nutrition). The company also rents some facilities, notably offices and warehouses. The Group employed 99,187 people in 2016 and would like to tap into the full range of talent it already employed.

Some of the subsidiaries in the Group, mainly active in the fresh dairy products division, are publicly traded. Approx. 77% of the shares of Danone S.A. are held by institutional investors, 11% by private shareholders, 6% are treasury shares and 6% are held by others (45% in North America, 48% in Europe and the rest elsewhere in the world). Dividends paid in 2016 amounted to EUR 986 million (2015: EUR 317 million).

New organizational structure in the course of the acquisition of WhiteWave. New synergies remain to be seen.

The Board of Directors is composed of 16 members and the executive Board is composed of 12 members. Within the framework of the integration of WhiteWave, Danone adapted the company's organization: implementation of 30 clusters "One Danone", a newly-empowered regional business leadership team, a tighter and more integrated Executive Committee Team. The Chairman and CEO of WhiteWave will be named as a Director of the Group Danone after the acquisition.

Within the framework of this acquisition, Danone will have to divest part of its "growing-up milk" business in Belgium (minus EUR 10 million sales).

We assess overall the structural risks of Danone as moderate. The integration of WhiteWave in the company's organizational structure remains to be seen. It may result in bringing more synergies but may also create integration problems that could affect the company's structure.

### Business risks

Current product and geographical diversification of Danone as positive rating factor in a competitive environment.

Danone's business development mainly depends on consumer trends and on the cost of raw materials. Geopolitical and macroeconomic factors influence consumption, fiscal treatment and/or reimbursement of medical products, which could severely impact Danone's activities. The geographical diversification of the company helps to mitigate these risks. Customer's portfolio of Danone is highly granular.

Sensitivity of the business model to general macroeconomic conditions, raw material prices and regulatory requirements

The company needs raw materials: milk and fruits, fruit-based preparations and sugar, plastics and cardboard (packaging), as well as energy supplies, and is affected by their cost volatility. These are

mitigated by forward purchase agreements negotiated with the suppliers, since there are no financial markets which would allow full hedging of the volatility of Danone's main raw materials' purchase prices. Danone would like to optimize its use of raw materials and take advantage of pooled purchasing for its various subsidiaries.

For liquid milk purchases, Danone entered into agreements with local producers and cooperatives. Liquid milk prices are set locally over contractual periods that vary from one country to another. 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.

Reputation risks as rating minus

Reputation risks and food scandal (product contamination) are some of the most prominent business risks the company faces. Should studies prove Danone's products to be unhealthy or to pose public health risks, it could severely harm the reputation of the company. This is mitigated by compliance with safety measures and an extensive food quality and security policy, as well as controls and audits. Danone follows the guiding principles set by health authorities in the respective countries where it operates.

R&D and the need for constant innovation are keys to Danone's business in order to stay competitive on the market. There are currently trends towards more organically-produced, vegan and environmentally-friendly products. Danone would be at risk if the protection of intellectual property rights were not respected.

The Danone Group operates in a competitive environment. The main competitors of the Group are General Mills, The Kraft Heinz Company, and Nestle S.A., however it also faces competition from other business lines, i.e. food and beverage corporations such as Coca-Cola, General Mills, Kellogg's, Mondelez, PepsiCo, and Unilever; medical nutrition corporations such as Abbott and Mead Johnson; other companies specialized in certain product lines or markets; and retail chains offering generic or private label products.

Overall, we assessed the main business risks of Danone as moderate given its high level of product / division and geographical diversification. Negative effects can be offset relatively easily. Nevertheless, pursuant negative macroeconomic conditions, unfavorable raw material prices, and / or new regulatory requirements could hamper further positive development for the group.

## Financial risks

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. Contrary to our normal practice, we deducted the goodwill shown on the balance sheet from the equity only by 50%, suggesting a certain recoverability of the goodwill. The following descriptions and indicators are based solely on these adjustments.

Adequate equity ratio and net debt / EBITDA ratio

As of December 31, 2016, the overall capital structure of the Group is solid as the company shows an adequate adjusted equity ratio of 21.0% (2015: 28.3%). The company had to reimburse EUR 2.2 billion in 2016, of which EUR 0.6 billion were liabilities related to put options, EUR 1.0 billion commercial papers and EUR 0.6 billion bonds. Total debt amounted to EUR 29.2 billion as of December 31, 2016, of which bonds amounted to EUR 21.3 billion. The adjusted net debt on EBITDA ratio is relatively low at 4.2 (2014: 4.5) despite the debt increase if we take marketable securities into the calculations (waiting for the final payment for the acquisition of WhiteWave).

Leverage increase with the issuance of new bonds to finance the acquisition of WhiteWave

As of December 31, 2016, total financial debt amounted to EUR 21.3 billion as of December 31, 2016 (2015: EUR 11.1 billion) following the two bonds issued on October 25 (EUR 6.2 billion) and October 26 (USD 5.5 billion), 2016 in order to finance the acquisition of WhiteWave.

Danone disposed of cash and cash equivalents amounting to EUR 557 million as of December 31, 2016 as well as of confirmed credit lines amounting to EUR 2.5 billion and syndicated credit amounting to EUR 2.0 billion. The company benefits from a diversified access to financial resources and its liquidity is not endangered in the short term. Moreover, the company publishes half-yearly a liquidity statement on its website. Liquidity risks and financing are managed at Company level. The group is generally exposed to financial risks, e.g. foreign currency, interest or commodity risks. Danone has a global insurance coverage policy.

As of December 31, 2015, off-balance commitments (given) amounted to EUR 3.9 billion, including operating leases (EUR 694 million) as well as guarantees and pledges (EUR 46 million).

Overall, we assess the financial risks of Danone as moderate. Despite the debt increase related to the acquisition of WhiteWave, we expect operating performance to improve in the medium term.

## Financial ratios analysis

### Key ratios

<b>Asset Structure</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Fixed asset intensity (%)	65,00	68,91	48,78
Asset turnover	0,83	0,84	0,70
Asset coverage ratio (%)	86,86	43,65	45,93
Liquid funds to total assets (%)	11,88	11,86	36,86
<b>Capital Structure</b>			
Equity ratio (%)	30,47	28,27	21,00
Short-term-debt ratio (%)	42,21	35,50	24,46
Long-term-debt ratio (%)	25,99	1,81	1,41
Capital lock-up period (in days)	57,55	59,02	62,74
Trade-accounts-payable ratio (%)	12,28	13,98	10,20
Short-term capital lock-up (%)	34,45	24,89	24,05
Gearing	1,89	2,12	2,01
<b>Financial Stability</b>			
Cash flow margin (%)	11,56	10,12	12,14
Cash flow ROI (%)	9,00	8,75	7,20
Debt / EBITDA adj.	6,08	5,43	7,88
Net Debt / EBITDA adj.	5,04	4,53	4,20
ROCE (%)	15,80	14,41	18,97
<b>Profitability</b>			
Gross profit margin (%)	47,71	49,97	51,04
EBIT interest coverage	7,85	8,07	5,97
EBITDA interest coverage	11,34	12,51	7,57
Ratio of material costs to total costs (%)	52,29	50,03	48,96
Cost income ratio (%)	89,83	90,14	86,68
Ratio of interest expenses to debt (%)	1,45	1,47	1,68
Return on investment (%)	5,77	6,49	5,73
Return on equity (%)	18,94	17,93	24,21
Net profit margin (%)	5,93	6,24	8,33
Interest burden (%)	86,15	91,58	90,01
Operating margin (%)	10,17	9,86	13,32
<b>Liquidity</b>			
Cash ratio (%)	7,68	5,64	6,15
Quick ratio (%)	70,36	71,28	192,48
Current ratio (%)	82,91	87,57	209,36



## Regulatory requirements

The present rating is an unsolicited corporate rating. Creditreform Rating AG was not commissioned by the company with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the annual report for 2016 and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology. An electronic version of our rating methodology can be found on our website [www.creditreform-rating.de](http://www.creditreform-rating.de).

The rating was prepared by analysts Marie Watelet ([m.watelet@creditreform-rating.de](mailto:m.watelet@creditreform-rating.de)) and Christian Konieczny ([c.konieczny@creditreform-rating.de](mailto:c.konieczny@creditreform-rating.de)).

A Rating Committee of highly qualified analysts of Creditreform Rating AG was called on March 29, 2017. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant risk factors, the Rating Committee arrived at a unanimous rating decision.

The rating result and a draft of the present rating report were communicated to Danone on the same day. The final version of the rating report has been sent to Danone on April 5, 2017.

The rating will be monitored as long as CRA removes the rating and sets it to non-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

## Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

## Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRAG has used following substantially material sources:

1. Annual Report
2. Website
3. Internet research.

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. Furthermore CRAG considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

**Please note:**

**This report exists in an English version only. This is the only binding version.**

### Disclaimer

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