Danone

ONE PLANET. ONE HEALTH

2020

INTERIM FINANCIAL REPORT

Contents

DANONE

A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €171,530,201.50

REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS

PARIS CORPORATE REGISTER NUMBER: 552 032 534

2020

INTERIM FINANCIAL REPORT

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

The English version of the 2020 Interim financial report is a free translation from the original which was prepared in French. The original French version of the document prevails over this translation.

This Interim financial report is available on Danone's website: www.danone.com

1. Interim management report

Unless otherwise noted:

- all references herein to the “Company” refer to Danone as issuer;
- all references herein to the “Group”, the “Company” or “Danone” refer to the Company and its consolidated subsidiaries;
- all references herein to “Reporting Entity” or “Reporting Entities” refer to one or more of Danone’s Essential Dairy and Plant-Based or “EDP”, Specialized Nutrition and Waters Reporting Entities;
- all references herein to the “Europe & Noram” zone refer to the region that includes Europe except CIS (Commonwealth of Independent States), the United States and Canada;
- all references herein to the Rest of World zone refer to the region that includes the ALMA (Asia-Pacific, Latin America, Middle East and Africa) and CIS regions;
- all references herein to “consolidated financial statements, Notes to consolidated financial statements” refer to condensed interim consolidated financial statements for the six-month period ended June 30, 2020;
- amounts are expressed in millions of euros and rounded to the nearest million. Generally speaking, the values presented are rounded to the nearest unit. Consequently, the sum of the rounded amounts may differ, albeit to an insignificant extent, from the reported total. In addition, ratios and variances are calculated on the basis of the underlying amounts and not on the basis of the rounded amounts.

Danone reports on financial indicators not defined by IFRS, internally (among indicators used by the chief operating decision makers) and externally. These indicators are defined in section *Financial indicators not defined in IFRS*:

- like-for-like changes in sales, recurring operating income, recurring operating margin;
- recurring operating income;
- recurring operating margin;
- recurring effective tax rate;
- recurring net income;
- recurring EPS;
- free cash flow;
- net financial debt.

1.1 H1 2020 business review and 2020 outlook

Business highlights

2020 first-half results

- Net sales of €12,189 million in the first semester, down by -1.1% on a like-for-like (LFL) basis and -3.6% on a reported basis
- Solid momentum in first quarter; second quarter hit by global lockdown
- Polarized performance across categories and channels: resilience in Essential Dairy and Plant-based and Specialized Nutrition growing at +3% LFL in first semester; Waters down -19% LFL in line with previous update
- Recurring operating margin at 14.0% vs. 14.7% in the prior year
- Continued focus on efficiency allowing to partly offset effect from Covid-19 while sustaining brand investment
- Reported EPS broadly stable at €1.55 (-2% vs. prior year) and recurring EPS down -10% at €1.68
- Tight focus on cash management enabling free cash flow delivery at €929 million

Emmanuel FABER, Chairman and CEO comments

"Our second quarter began as the scale of the Covid-19 pandemic started to take hold globally, with roughly half of the world's population living under lockdown. I want to thank everyone at Danone for their intense dedication over these last few months. Their continued focus on execution excellence and the culture of greater efficiency, agility and local proximity that had been infused in the past four years enabled us to navigate the enormous challenges and disruptions that were happening in our environment in a responsible manner while driving our brands' preference and protecting our cash in what has been one of the toughest quarters in Danone's history. While it remains difficult to predict exactly how consumer habits and macroeconomic conditions will evolve for the balance of this year, in particular given the uncertainty around the easing of lockdown measures, we're confident that Q2 was the most challenging quarter of the year and the back half of the year will show a sequential improvement in growth. As we adapt to the new Covid world, our compass remains to deliver superior sustainable profitable growth and to lead the way in creating and sharing sustainable value in a world where concerns about society, health and the planet are core to our business."

Key figures

	Six-month period ended June 30			
(in € millions except if stated otherwise)	**2019**	**2020**	**Reported changes**	**Like-for-like changes**
Sales	**12,648**	**12,189**	**-3.6%**	**-1.1%**
Recurring operating income [(a)]	**1,858**	**1,702**	**-8.4%**	**-8.7%**
Recurring operating margin [(a)]	**14.7%**	**14.0%**	**-72 bps**	**-120 bps**
Non-recurring operating income and expenses	(314)	(123)	+192	
Operating income	1,543	1,580	+2.3%	
Operating margin	12.2%	13.0%	+76 bps	
Recurring net income – Group share [(a)]	**1,221**	**1,100**	**-9.9%**	
Non-recurring net income – Group share	(186)	(86)	+101	
Net income – Group share	1,035	1,015	-1.9%	
Recurring EPS *(in €)* [(a)]	**1.87**	**1.68**	**-10.1%**	
EPS *(in €)*	1.58	1.55	-2.2%	
Free cash flow [(a)]	**1,083**	**929**	**-14.3%**	
Cash flow from operating activities	1,435	1,305	-9.1%	

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

Key financial transactions and events in H1 2020

(from press releases issued in the past six months of 2020)

- On March 5, 2020, Danone's water brands launched "WeActForWater" to pioneer a new way to do business. Aimed at bringing healthy hydration and safe drinking water to people around the world in the most responsible way, "WeActForWater" is a set of urgent actions, ambitious objectives, and new investments. Deployed by Danone's iconic water brands, including *evian*, *Volvic*, *AQUA* and *Bonafont*, it focuses on responsible packaging, climate neutrality, watershed preservation and access to safe drinking water.
- On March 11, 2020, Danone launched a successful €800 million bond issue. It enables Danone to extend the maturity of its debt and to optimize its cost, taking advantage of current market window favoring quality bond issues. The issue, realized under Danone's Euro Medium Term Note (EMTN) program, consists in a 7-year euro-denominated bond, at a fixed rate priced at mid-swap +0.93%, offering a coupon of 0.571%.
- On April 3, 2020, given the exceptional circumstances created by the Covid-19 outbreak that led French government to take strict lockdown measures, the Board of Directors of Danone has decided to postpone the Annual General Meeting initially convened for Tuesday April 28, 2020 to a later date. The payment date of the dividend for the 2019 financial year has therefore also been postponed.
- On May 5, 2020, Danone announced that Shane GRANT will join Danone as Executive Vice President and CEO Danone North America, with effect from May 11, 2020, to lead the EDP business in that market.
- On June 3, 2020, Danone launched a new €800 million bond issue. Following a previous €800 million successful issuance on March 11, it enables Danone to further take advantage of market windows to enhance its funding flexibility, extend the maturity of its debt and optimize its cost. The issue, realized under Danone's Euro Medium Term Note (EMTN) program, consists in a 9-year euro denominated bond offering a coupon of 0.395%.
- On June 26, 2020, following its 2020 Annual General Meeting, Danone became the first listed company to adopt the "Entreprise à Mission" model, with the support of more than 99% of its shareholders. The shareholders' meeting has approved all other resolutions submitted to a vote, including the dividend for the 2019 fiscal year set at €2.10 per share in line with original Board's recommendation.
- Danone announced a series of investments to strengthen the local market capabilities, support and commitment of its Specialized Nutrition business in China. Totaling around 100 million euros (RMB 790 million), these investments include the opening of an open-science research center based in Shanghai, the acquisition of local infant milk formula capabilities, and the expansion of capacity to further develop offerings in FSMP (Food for Special Medical Purposes). Danone also announced that its Early Life Nutrition business unit in the country has achieved B Corp™ certification, meaning that Danone becomes the biggest B Corp™ in Asia. This brings the number of subsidiaries being B Corp Certified to date to 24, representing around 45% of Danone's global sales.

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

Consolidated net income review

Sales

Consolidated Sales

In the first semester of 2020, consolidated sales stood at €12,1892 million, down -1.1% on a like-for-like basis, with stable volumes (+0.1%) and -1.3% value reflecting the effect of change in channel and format mix in Waters.

Reported sales were down -3.6%, including a negative scope effect (-0.8%), mainly resulting from the deconsolidation from April 1st, 2019 of Earthbound Farm, a negative impact from exchange rates (-2.1%) mainly driven by currency devaluation in Latin America and Russia as well as a +0.4% organic contribution of Argentina to growth.

After a strong momentum in the first quarter with sales up +3.7%, sales decreased by -5.7% in the second quarter on a like-for-like basis, hit by the expansion of the Covid-19 pandemic into new regions most notably Latin America, the reversal of pantry loading behaviors observed in the first quarter and the full impact of out-of-home closure in the quarter.

Consolidated sales by Reporting Entity and by geographical area

(in € millions except percentage)	2019	2020	Reported changes	Like-for-like changes	Like-for-like volume growth
					Six-month period ended June 30
By Reporting entity					
EDP	6,600	6,599	-0.0%	+3.1%	+2.3%
Specialized Nutrition	3,696	3,739	+1.2%	+2.7%	+0.8%
Waters	2,352	1,851	-21.3%	-19.1%	-6.8%
By geographical area					
Europe & Noram	6,851	6,822	-0.4%	+0.5%	+2.1%
Rest of the World	5,797	5,368	-7.4%	-3.1%	-1.7%
Total	**12,648**	**12,189**	**-3.6%**	**-1.1%**	**+0.1%**

The portfolio showed marked variations across categories and channels in the first semester. Essential Dairy and Plant-based and Specialized Nutrition, representing about 80% of Danone's revenues, posted a solid growth, while sales in Waters were down -19%. Excluding Waters, Danone's like-for-like sales growth was +3.0% in the first half and +0.2% in the second quarter. Performance by channel was also very contrasted, with e-commerce growing at +30% in the first semester while sales in out-of-home channels, representing 11% of 2019 sales globally, declined -30% on a like-for-like basis. In terms of regional dynamics, Europe and North America posted stable sales (+0.5%) in the first semester, down by -3.5% in the second quarter after a strong start of the year. North America, the region where Danone has the largest footprint, continued to see solid momentum in the second quarter while sales in Europe declined, mirroring the reversal of pantry loading that occurred in the month of March and lower sales normally consumed away from home in Waters. In Rest of the World, while trends in CIS and China were broadly in line with the previous quarter, revenues declined severely in other key regions as the impact of the Covid-19 pandemic become felt notably in Latin America, Indonesia and Africa.

Recurring operating income and recurring operating margin

Recurring operating margin

Danone's recurring operating income stood at €1,702 million in the first semester. Recurring operating margin stood at 14.0%, down 72 basis points. The change includes a negative 93 bps effect from incremental costs directly related to Covid-19 incurred in the semester to keep Danone's employees safe and ensure business continuity. These costs amount to €114 million and include around €40 million of sanitary costs (acquisition of masks, gloves, sanitizer and tests), around €35 million of donations and specific bonuses paid to the 60,000 employees that continued working on frontline during the pandemic lockdowns, and around €40 million of extra-logistic costs related to warehousing adaptation, and higher freight and transportation costs. Excluding these costs, recurring operating margin would have increased to 14.9% despite a reduced operating leverage and a mix effect of -80bps incurred in the period mostly from Waters.

To mitigate these headwinds, Danone increased its efforts on efficiency and cost discipline. Brand investments were reduced only marginally (-23 bps in the semester) to sustain the competitiveness of brands. Reported margin also reflects a positive effect from change in scope (+20bps) and currencies (+33 bps), and a slightly negative effect of -6 bps reflecting Argentina's impact on margin.

Recurring operating margin is expected to remain impacted in the second half by Covid-19-related extra-costs, negative mix, as well as increased investments in the competitiveness of the business, as Danone is leveraging the crisis as a catalyst to accelerate the business transformation that was already underway to emerge stronger.

Recurring operating income, recurring operating margin by Reporting Entity and geographical area

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Reported changes	Like-for-like changes
	2019	2020	2019	2020		Six-month period ended June 30
By Reporting Entity						
EDP	621	598	9.41%	9.06%	-35 bps	-83 bps
Specialized Nutrition	934	987	25.28%	26.40%	+113 bps	+54 bps
Waters	303	117	12.87%	6.32%	-655 bps	-638 bps
By geographical area						
Europe & Noram	942	880	13.75%	12.91%	-85 bps	-110 bps
Rest of the World	915	822	15.79%	15.31%	-48 bps	-126 bps
Total	**1,858**	**1,702**	**14.69%**	**13.97%**	**-72 bps**	**-120 bps**

Other operating income and expense

Other operating income and expense decreased to -€123 million from -€314 million in the prior year, which embedded an exceptional loss from the sale of Earthbound Farm. They mostly include expenses related to some reorganization costs in Essential Dairy and Plant-Based and Specialized Nutrition businesses. As a result, the reported operating margin was up +76 bps from 12.2% to 13.0%.

Net financial result

Net financial costs were down by €12 million to €170 million, given the successful bond issues realized in the semester at attractive rates and favorable currency effects.

Tax rate

Recurring income tax rate remained at 27.0%, in line with the prior year.

Share of profit of associates

Recurring net income from associates decreased from €51 million to €21 million, reflecting the deteriorated performance of Mengniu and Yashili in China.

Share of minority interests

Recurring minority interests were down by €13 million versus the first half of 2019, reflecting a deterioration of performance across minorities, notably Aqua in Indonesia.

Recurring net income – Group Share and recurring EPS

Recurring EPS stood at €1.68, down -10% vs. last year but reported EPS decreased more slightly (-2% to €1.55) as non-recurring items decreased by around €100 million in total, from -€186 million to -€86 million.

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

Six-month period ended June 30

	2019			2020		
(in € millions except if stated otherwise)	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Recurring operating income	**1,858**		**1,858**	**1,702**		**1,702**
Other operating income and expense		(314)	(314)		(123)	(107)
Operating income	**1,858**	**(314)**	**1,543**	**1,702**	**(123)**	**1,580**
Cost of net debt	(118)		(118)	(110)		(110)
Other financial income and expense	(65)	-	(65)	(60)	-	(60)
Income before taxes	**1,675**	**(314)**	**1,361**	**1,532**	**(123)**	**1,410**
Income tax expense	(453)	126	(327)	(414)	36	(378)
Effective tax rate	27.0%		24.0%	27.0%		26.8%
Net income from fully-consolidated companies	**1,222**	**(188)**	**1,034**	**1,118**	**(86)**	**1,032**
Net income from associates	51	1	51	21		22
Net income	**1,273**	**(187)**	**1,085**	**1,139**	**(86)**	**1,053**
• **Group share**	**1,221**	**(186)**	**1,035**	**1,100**	**(86)**	**1,015**
• Non-controlling interests	52	(1)	51	39		39
EPS *(in €)*	**1.87**		**1.58**	**1.68**		**1.55**

Bridge from EPS to Recurring EPS

Six-month period ended June 30

	2019		2020	
	Recurring	Total	Recurring	Total
Net Income - Group share *(in € millions)*	1,221	1,035	1,100	1,015
Coupon relating to hybrid financing net of tax *(in € millions)*	(7)	(7)	(7)	(7)
Number of shares				
• Before dilution	647,640,873	647,640,873	648,871,267	648,871,267
• After dilution	648,454,100	648,454,100	649,710,104	649,710,104
EPS *(in €)*				
• Before dilution	1.87	1.59	1.68	1.55
• After dilution	1.87	1.58	1.68	1.55

Additional information on consolidated income statement: bridge from reported to like-for-like figures

(in € millions except percentage)	Six-month period ended June 30, 2019	Impact of changes in scope of consolidation	Impact of changes in exchange rates and others, including IAS 29	Argentina organic contribution	Like-for-like growth	Six-month period ended June 30, 2020
Sales	**12,648**	-0.8%	-2.1%	+0.4%	**-1.1%**	12,189
Recurring operating margin	**14.69%**	+20 bps	+33 bps	-6 bps	**-120 bps**	13.97%

Free cash flow

Free cash flow stood at €929 million in the first semester, down -14.3% year-on-year, reflecting contracting operating performance, deteriorating working capital due to inventory increase and financing assistance to partners, as well as higher capex level at 3.1% of net sales vs 2.8% last year.

Bridge from operating cash flow to free cash flow

	Six-month period ended June 30	
(in € millions)	**2019**	**2020**
Cash flow from operating activities	**1,435**	**1,305**
Capital expenditure	(359)	(381)
Disposal of tangible assets & transaction fees related to business combinations [(a)]	8	5
Free cash flow	**1,083**	**929**

(a) Represents acquisition costs related to business combinations paid during the period.

Balance sheet review

Simplified consolidated balance sheet

	As of December 31	As of June 30
(in € millions)	**2019**	**2020**
Non-current assets	35,244	34,638
Current assets	10,118	12,046
Total assets	**45,362**	**46,683**
Equity - Group share	**17,241**	**16,333**
Non-controlling interests	137	113
Non-current liabilities	16,731	18,268
Current liabilities	11,253	11,969
Total equity and liabilities	**45,362**	**46,683**
Net debt	12,819	13,493
Net financial debt	12,337	13,088

Net debt and financial net debt

As of June 30, 2020, Danone's net debt stood at €13,493 million, up €674 million from December 31, 2019, integrating the liability related to the payment of 2019 dividend to Danone's shareholders amounting to €1.4 billion.

Bridge from Net debt to Net financial debt

	As of December 31	As of June 30
(in € millions)	**2019**	**2020**
Non-current financial debt	12,906	14,441
Current financial debt [(a)]	4,474	5,357
Short term investments	(3,631)	(5,102)
Cash and cash equivalents	(644)	(769)
Derivatives - assets - Non-current [(b)]	(271)	(375)
Derivatives - assets - Current [(b)]	(16)	(58)
Net debt	**12,819**	**13,493**
Liabilities related to put options granted to non-controlling interests - Non-current	(13)	(13)
Liabilities related to put options granted to non-controlling interests - Current	(469)	(392)
Net financial debt	**12,337**	**13,088**

(a) As of June 30, 2020, includes the €1.4 billion liability related to payment of the dividend for the 2019 fiscal year to Danone's shareholders.

(b) Used solely to manage net debt.

Outlook for 2020

Outlook

Looking into the second-half, business remains difficult to predict as the environment is still volatile and much uncertainty remains about the severity, the duration and the implications of the pandemic as to how exactly macroeconomic conditions, lockdown easing, and consumer habits will evolve for the rest of this year. Danone is therefore not in a position to provide an updated financial guidance for fiscal year 2020 at this time.

Subsequent events

Major events having occurred after the end of the reporting period are detailed in Note 14 of the Notes to the 2020 condensed interim consolidated financial statements.

Main risks and uncertainties

The main risks and uncertainties to which Danone believes it is exposed as of the date of this Interim Financial Report are specified in section 2.6 *Risk factors* of the 2019 Universal Registration Document and listed hereafter.

Impacts of Covid-19 on Danone's main risk factors

The Covid-19 epidemic, which began in Wuhan, China in December 2019, has an impact on the employees of Danone and its commercial partners, its operations, its principal markets, and therefore its financial situation.

In the first half of 2020, Danone's recurring EPS was down -10% compared to 2019. The impacts of Covid-19 on Danone and its activity are difficult to quantify accurately for the rest of 2020 and beyond, in view of the remaining uncertainty on the magnitude and the duration of the sanitary crisis and its consequences.

The principal risk factors include increased volatility in commodity prices and currencies, disruption in the conduct of Danone's operations that may result in direct extra-costs incurred to ensure business continuity (notably sanitary measures and logistics extra-costs) as well as its major projects, and more generally, negative impacts on the economy and changes in consumer preferences in some of its principal markets. These may continue to result in a decline in sales and/or margin in some of Danone's principal markets, notably those more prone to out-of-home channels as Waters (see Note 3 of the Notes to the consolidated financial statements for more details on the impacts over the first half of the year).

Main risk factors

Strategic risks	Packaging Over reliance on principal markets Fast changes in consumer preferences Retail shift External growth & integration
External environment risks	Impact of climate change on value chain Regulatory changes Raw materials price volatility & availability Currency volatility
Operational risks	Food safety & product quality issues Cybersecurity Shortage of talent

Financial indicators not defined in IFRS

These indicators are calculated as follows:

Like-for-like changes in sales, recurring operating income and recurring operating margin reflect Danone's organic performance and essentially exclude the impact of:

- changes in consolidation scope, with indicators related to a given fiscal year calculated on the basis of previous-year scope and, since January 1st, 2019, previous-year and current-year scope excluding Argentinian entities;
- changes in applicable accounting principles;
- changes in exchange rates with both previous-year and current-year indicators calculated using the same exchange rates (the exchange rate used is a projected annual rate determined by Danone for the current year and applied to both previous and current years).

Danone clarified the definition of its recurring performance indicators, without modifying neither their content nor their calculation which are detailed hereafter.

Recurring operating income is defined as Danone's operating income excluding Other operating income and expenses. Other operating income and expenses comprise items that, because of their significant or unusual nature, cannot be viewed as inherent to Danone's recurring activity and have limited predictive value, thus distorting the assessment of its recurring operating performance and its evolution. These mainly include:

- capital gains and losses on disposals of fully consolidated companies;
- impairment charges on intangible assets with indefinite useful lives;
- costs related to strategic restructuring and transformation plans;
- costs related to major external growth transactions;
- costs related to major crisis and major litigations;
- in connection with of IFRS 3 (Revised) and IAS 27 (Revised) relating to business combinations, (i) acquisition costs related to business combinations, (ii) revaluation profit or loss accounted for following a loss of control, and (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

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

Other non-recurring financial income and expense corresponds to financial income and expense items that, in view of their significant or unusual nature, cannot be considered as inherent to Danone's recurring financial management. These mainly include changes in value of non-consolidated interests.

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

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

Non-recurring results from associates include items that, because of their significant or unusual nature, cannot be viewed as inherent to the recurring activity of those companies and thus distort the assessment of their recurring performance and its evolution. These mainly include (i) capital gains and losses on disposal and impairment of Investments in associates, and (ii) non-recurring items, as defined by Danone, included in the net income from associates.

Recurring net income (or Recurring net income – Group Share) corresponds to the Group share of the consolidated Recurring net income. The Recurring net income excludes items that, because of their significant or unusual nature, cannot be viewed as inherent to Danone's recurring activity and have limited predictive value, thus distorting the assessment of its recurring performance and its evolution. Such non-recurring income and expenses correspond to Other operating income and expenses, Other non-recurring financial income and expenses, non-recurring income tax, and non-recurring income from associates. Such income and expenses, excluded from Net income, represent Non-recurring net income.

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

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

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

1.2 Related party transactions

Major related party transactions are detailed in Note 13 of the Notes to 2020 condensed interim consolidated financial statements.

2. Condensed interim consolidated financial statements

The condensed interim consolidated financial statements of Danone and its subsidiaries ("the Group" or "Danone") for the period ended June 30, 2020 (the "consolidated financial statements") were examined by the Danone's Board of Directors on July 29, 2020.

Unless otherwise mentioned, amounts are stated in millions of euros and rounded to the closest million. In general, amounts presented in the consolidated financial statements and notes to the consolidated financial statements are rounded to the nearest unit. As a result, the sum of rounded amounts may present immaterial discrepancies relative to the reported total. Also, ratios and differences are calculated on the basis of the underlying amounts as opposed to the rounded amounts.

2.1 Consolidated financial statements

Consolidated income statement and earnings per share

		Six-month period ended June 30	
(in € millions, except earnings per share in €)	Notes	2019	2020
Sales	3.1, 6	**12,648**	**12,189**
Cost of goods sold		(6,467)	(6,301)
Selling expense		(2,942)	(2,811)
General and administrative expense		(1,178)	(1,170)
Research and Development expense		(169)	(157)
Other income (expense)		(35)	(47)
Recurring operating income	3.1, 6	**1,858**	**1,702**
Other operating income (expense)	7	(314)	(123)
Operating income		**1,543**	**1,580**
Interest income on cash equivalents and short-term investments		89	75
Interest expense		(207)	(184)
Cost of net debt		(118)	(110)
Other financial income		22	24
Other financial expense		(86)	(84)
Income before tax		**1,361**	**1,410**
Income tax expense	8	(327)	(378)
Net income from fully consolidated companies		**1,034**	**1,032**
Share of profit of associates	5	51	22
Net income		**1,085**	**1,053**
Net income – Group share		**1,035**	**1,015**
Net income – Non-controlling interests		51	39
Net income – Group share, per share	11.1	**1.59**	**1.55**
Net income – Group share, per share after dilution	11.1	**1.58**	**1.55**

Consolidated statement of comprehensive income

(in € millions)	Six-month period ended June 30 2019	2020
Net income – Group share	**1,035**	**1,015**
Translation adjustments	189	**(707)**
Cash flow hedge derivatives		
Gross unrealized gains and losses	(4)	125
Tax effects	(1)	(35)
Other comprehensive income, net of tax	–	-
Items that may be subsequently recycled to profit or loss	**184**	**(617)**
Investments in other non-consolidated companies		
Gross unrealized gains and losses	(1)	(1)
Tax effects	(1)	-
Actuarial gains and losses on retirement commitments		
Gross gains and losses	(132)	(21)
Tax effects	34	4
Items not subsequently recyclable to profit or loss	**(101)**	**(17)**
Total comprehensive income – Group share	**1,118**	**380**
Total comprehensive income – Non-controlling interests	37	44
Total comprehensive income	**1,155**	**424**

Consolidated balance sheet

		As of December 31	As of June 30
(in € millions)	Notes	**2019**	**2020**
Assets			
Goodwill		18,125	17,766
Brands		6,329	6,174
Other intangible assets		348	331
Intangible assets	6, 9	24,803	24,270
Property, plant and equipment	3.2, 6	6,844	6,604
Investments in associates	5	2,055	2,055
Investments in other non-consolidated companies		131	174
Long-term loans and financial assets		351	353
Other financial assets		482	526
Derivatives – assets [(a)]	10.2	271	375
Deferred taxes		790	808
Non-current assets		**35,244**	**34,638**
Inventories	3.2	1,933	2,150
Trade receivables	6.3	2,906	2,702
Other current assets		940	1,165
Short-term loans		6	39
Derivatives – assets [(a)]	10.2	16	58
Short-term investments	10.2	3,631	5,102
Cash and cash equivalents	10.2	644	769
Assets held for sale		43	60
Current assets		**10,118**	**12,046**
Total assets		**45,362**	**46,683**

(a) Derivative instruments used to manage net debt.

(in € millions)	Notes	As of December 31 **2019**	As of June 30 **2020**
Equity and liabilities			
Share capital		172	172
Additional paid-in capital		5,859	5,859
Retained earnings and others [(a)]		16,491	16,340
Translation adjustments		(2,941)	(3,771)
Accumulated other comprehensive income		(729)	(657)
Treasury shares		(1,610)	(1,610)
Equity – Group share		**17,241**	**16,333**
Non-controlling interests	4.2	137	113
Consolidated equity		**17,378**	**16,445**
Financing	10	12,875	14,416
Derivatives – liabilities [(b)]		19	12
Liabilities related to put options granted to non-controlling interests	4.2	13	13
Non-current financial debt		12,906	14,441
Provisions for retirement obligations and other long-term benefits		1,091	1,121
Deferred taxes		1,556	1,522
Other provisions and non-current liabilities	12	1,178	1,184
Non-current liabilities		**16,731**	**18,268**
Financing	10	3,996	3,599
Derivatives – liabilities [(b)]		9	3
Liability related to payment of the dividend for the 2019 fiscal year to Danone’s shareholders	11.2, 14.1	-	1,363
Liabilities related to put options granted to non-controlling interests	4.2	469	392
Current financial debt		4,474	5,357
Trade payables		3,959	3,901
Other current liabilities		2,819	2,709
Liabilities directly associated with assets held for sale		–	3
Current liabilities		**11,253**	**11,969**
Total equity and liabilities		**45,362**	**46,683**

(a) “Others” corresponds to undated subordinated notes totaling €1.25 billion.
(b) Derivative instruments used to manage net debt.

Consolidated statement of cash flows

		Six-month period ended June 30	
(in € millions)	Notes	**2019**	**2020**
Net income		**1,085**	**1,053**
Share of profit of associates net of dividends received		(30)	(9)
Depreciation, amortization and impairment of tangible and intangible assets		668	574
Net change in provisions and non-current liabilities		41	60
Change in deferred taxes		(10)	(76)
(Gains) losses on disposal of property, plant and equipment and financial investments		21	-
Expense related to Group performance shares		18	14
Cost of net financial debt		118	110
Net interest paid		(97)	(77)
Net change in interest income (expense)		20	33
Other components with no cash impact		19	8
Cash flows provided by operating activities, before changes in net working capital		**1,833**	**1,656**
(Increase) decrease in inventories		(194)	(313)
Increase) decrease in trade receivables		(433)	54
Increase (decrease) in trade payables		466	120
Change in other receivables and payables		(236)	(212)
Change in working capital requirements		(398)	(352)
Cash flows provided by (used in) operating activities	3.1	**1,435**	**1,305**
Capital expenditure [(a)]		(359)	(381)
Proceeds from the disposal of property, plant and equipment [(a)]		8	4
Net cash outflows on purchases of subsidiaries and financial investments [(b)]		(67)	(68)
Net cash inflows on disposal of subsidiaries and financial investments [(b)]		57	-
(Increase) decrease in long-term loans and other financial assets		(17)	(38)
Cash flows provided by (used in) investment activities		**(379)**	**(483)**
Increase in share capital and additional paid-in capital		52	-
Purchase of treasury shares (net of disposals)		–	-
Interest on undated subordinated notes		(22)	(22)
Dividends paid to Danone shareholders [(c)]	11.2, 14.1	(1,256)	-
Buyout of non-controlling interests	4.2	(33)	(58)
Dividends paid to non-controlling interests		(2)	(45)
Contribution from non-controlling interests to capital increases		1	-
Transactions with non-controlling interests		(34)	(103)
Net cash flows on hedging derivatives [(d)]		(4)	4
Bonds issued during the period	3, 10.1	–	1,600
Bonds repaid during the period	10.1	(800)	(550)
Net cash flows from other current and non-current financial debt	10.1	1,221	(84)
Net cash flows from short-term investments		(118)	(1,500)
Cash flows provided by (used in) financing activities		**(962)**	**(655)**
Effect of exchange rate and other changes [(e)]		(178)	(42)
Increase (decrease) in cash and cash equivalents		**(84)**	**125**
Cash and cash equivalents as of January 1		**839**	**644**
Cash and cash equivalents as of June 30		**755**	**769**

(a) Relates to property, plant and equipment and intangible assets used in operating activities.

(b) Acquisition/disposal of companies' shares. In the case of fully consolidated companies, this comprises cash and cash equivalents as of the acquisition/disposal date.

(c) For the 2019 fiscal year, the dividend will be paid on July 16, 2020 (see Notes 11.2 and 14.1 of the Notes to the consolidated financial statements).

(d) Derivative instruments used to manage net debt.

(e) Effect of reclassification with no impact on net debt.

The cash flows correspond to items presented in the consolidated balance sheet. However, these flows may differ from changes in assets and liabilities, mainly as a result of the rules for (i) translating transactions in currencies other than the functional currency, (ii) translating the financial statements of companies with a functional currency other than the euro, (iii) changes in the consolidated scope, and (iv) other non-monetary items.

Consolidated statement of changes in equity

		Changes during the period								
(in € millions)	As of January 1, 2020	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to expense relating to performance shares after social security charges	Dividends to be paid to Danone shareholders [(b)]	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	As of June 30, 2020
Share capital	**172**									**172**
Additional paid-in capital	**5,859**									**5,859**
Retained earnings and others [(a)]	**16,491**	1,015			14	(1,363)	(15)	168	30	**16,340**
Translation adjustments	**(2,941)**	(707)						(122)		**(3,771)**
Gains and losses related to hedging derivatives, net of tax	**(192)**	90								**(103)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax	**(2)**	(1)								**(3)**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	**(535)**	(17)								**(552)**
Other comprehensive income	**(729)**	72	–	–	–	–	–	–	–	**(657)**
DANONE treasury shares	**(1,610)**									**(1,610)**
Equity – Group share	**17,241**	**380**			**14**	**(1,363)**	**(15)**	**45**	**30**	**16,333**
Non-controlling interests	**137**	44				(45)		(26)	3	**113**
Consolidated equity	**17,378**	**424**			**14**	**(1,408)**	**(15)**	**19**	**33**	**16,445**

(a) "Others" corresponds to undated subordinated notes totaling €1.25 billion.

(b) The Shareholders' Meeting on June 26, 2020 in Paris approved the dividend proposed with respect to the 2019 fiscal year, i.e. €2.10 per share in cash. This dividend, accounted for in current financial debt as of June 30, 2020 with counterparty entry in retained earnings, will be paid on July 16, 2020 (see Notes 11.2 and 14.1 of the Notes to the consolidated financial statements).

		Changes during the period								
(in € millions)	As of January 1, 2019 [(b)]	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to expense relating to performance shares after social security charges	Dividends paid to Danone shareholders	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes [(c)]	As of June 30, 2019
Share capital	**171**									**172**
Additional paid-in capital	**5,805**		52							**5,857**
Retained earnings and others [(a)]	**15,803**	1,035			18	(1,256)	(14)	(56)	82	**15 611**
Translation adjustments	**(3,332)**	189								**(3,142)**
Gains and losses related to hedging derivatives, net of tax	**(189)**	(5)								**(194)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax	**6**	(2)								**4**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	**(381)**	(99)								**(480)**
Other comprehensive income	**(564)**	**(106)**	–	–	–	–	–	–	–	**(670)**
DANONE treasury shares	**(1,632)**			3						**(1 629)**
Equity – Group share	**16,251**	**1,118**	**52**	**3**	**18**	**(1,256)**	**(14)**	**(56)**	**82**	**16,198**
Non-controlling interests	**131**	37	1			(2)		(17)	5	**155**
Consolidated equity	**16,382**	**1,155**	**52**	**3**	**18**	**(1,258)**	**(14)**	**(73)**	**88**	**16,353**

(a) "Others" corresponds to undated subordinated notes totaling €1.25 billion.

(b) See Note 1.3 of the Notes to the condensed interim consolidated financial statements for the period ended June 30, 2019.

(c) See Note 1.6 of the Notes to the condensed interim consolidated financial statements for the period ended June 30, 2019.

2.2 Notes to the condensed interim consolidated financial statements

Note 1. Accounting principles

Note 1.1. Basis for preparation

Danone's consolidated financial statements, established for the six-month period ending June 30, 2020, were prepared in accordance with the provisions of IAS 34, *Interim financial reporting*. Danone's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which are available on the European Commission website (http://ec.europa.eu/finance/company-reporting/ifrs-financial-statements/index_en.htm).

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

	Notes
Measurement of the impacts of Covid-19 on Danone	3
Measurement of the recoverable value of investments in associates	5
Determination of the amount of rebates, trade supports and other deductions related to agreements with customers	6
Determination of the projection of the effective income tax rate for the fiscal year	8
Measurement of the recoverable value of intangible assets	9
Determination of the amount of Other provisions and non-current liabilities	12

These assumptions, estimates and appraisals are made on the basis of information and conditions available at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in the context of Covid-19 (see Note 3 of the Notes to the consolidated financial statements) and namely in view of the uncertainty on the magnitude and the duration of its impacts.

Note 1.2. Accounting framework applied

The accounting principles used to prepare these consolidated financial statements are identical to those used to prepare the consolidated financial statements for the year ended December 31, 2019 (see Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2019, as well as the accounting principles detailed in each Note to the consolidated financial statements for the year ended December 31, 2019), except for standards, amendments and interpretations applicable for the first time as January 1, 2020.

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2020

Amendment to IFRS 3, *Business Combinations*: this amendment has no significant impact on the consolidated financial statements as of June 30, 2020.

Main standards, amendments and interpretations published by the IASB whose application is not mandatory as of January 1, 2020 in the European Union

Danone did not choose the early adoption of those standards, amendments and interpretations in the consolidated financial statements as of June 30, 2020 and considers that it should not have a material impact on its results and financial situation.

Note 1.3. Application of IAS 29 to Argentina

Accounting principles

IAS 29 requires the non-monetary assets and liabilities and income statements of countries with hyperinflationary economies to be restated to reflect the changes in the general purchasing power of their functional currency, thereby generating a profit or loss on the net monetary position which is recognized in net income within Other financial income or Other financial expense. In addition, the financial statements of the subsidiaries in these countries are translated at the closing exchange rate of the reporting period concerned, in accordance with IAS 21.

Danone applies IAS 29 to Argentina as from July 1, 2018, with an effective date of January 1, 2018.
Danone has used the following index to remeasure its income statement items, cash flows and non-monetary assets and liabilities as of June 30, 2020: the Consumer Price Index (CPI). This index was up 11% during the first half of 2020. The EURARS rate used for the conversion of the income statement amounts to 78.65 as of June 30, 2020 (48.57 as of June 30, 2019 and 67.2 as of December 31, 2018).

Main accounting implications

The application of IAS 29 resulted in a €46 million impact in consolidated equity and in non-monetary assets net of non-monetary liabilities as of June 30, 2020 and had the following main impacts on the 2020 interim consolidated income statement:

- a €10 million decrease in consolidated Sales and a €11 million decrease in Recurring operating income (respectively a €12 million increase and a €18 million decrease in 2019 first semester);
- a €2 million loss on the net monetary position recognized in Other financial income (expense of less than €1 million in 2019 first semester);
- a €19 million expense in consolidated Net income – Group share (a €29 million expense in 2019 first semester).

Note 2. Highlights of the year

	Notes
Implications of Covid-19 for Danone	3
Confirmed dividend payment for the 2019 fiscal year	11.2 and 14.1

Note 3. Implications of Covid-19 for Danone

The management has assessed the impacts of Covid-19 on the basis of reasonably available information and conditions at the end of the financial period presented, considering estimates, assumptions or appraisals whose principals are described in Note 1.1 of the Notes to the consolidated financial statements). The Group remains nevertheless vigilant in the face of the uncertainty on the magnitude and the duration of the impacts of Covid-19 and its assessment will be reviewed for the 2020 annual consolidated financial statements.

Note 3.1. Impacts of Covid-19 on the Group's activities and performance on the first semester

In the first semester of 2020, consolidated sales stood at €12,189 million, down (3.6)%, hit in the second quarter by the expansion of Covid-19 pandemic into new regions most notably Latin America, Indonesia and Africa, the reversal of pantry loading behaviors observed in the first quarter and the full impact of out-of-home closure in the second quarter. For Danone, the crisis only implied limited and temporary closures of certain of its production sites, mainly Mizone's plant in Wuhan.

Portfolio showed marked variation across categories and channels in the first semester. Essential Dairy and Plant-based and Specialized Nutrition, representing about 80% of the consolidated revenues, recorded growth, while sales in Waters were down (21)%. Performance by channel was also very contrasted, with e-commerce grew while sales in out-of-home channels dropped.

Danone's recurring operating income stood at €1,702 million in the first semester. Recurring operating margin stood at 14.0%, down 72 basis points. The change includes a negative 93 bps effect from incremental costs (sanitary, industrial, and logistic extra-costs) directly related to Covid-19 incurred in the semester to keep Danone's employees safe and ensure business continuity.

These costs amount to €114 million and include (i) around €40 million of sanitary costs (acquisitions of masks, gloves, sanitizer and tests), (ii) around €35 million of specific bonuses paid to the 60,000 employees that continued working on frontline during the pandemic lockdowns and donations, and (iii) around €40 million of extra-logistic costs related to warehousing adaptation, and higher freight and transportation costs. To mitigate these headwinds, Danone increased its efforts on efficiency and cost discipline. Advertising and marketing investments were reduced only marginally (positive impact of 23 basis points on the recurring operating margin in the semester) to sustain the competitiveness of brands.

Cash flows provided by operating activities stood at €1,305 million in the first semester, down (9.1)% compared to the first half 2019, notably reflecting contracting operating performance. Danone provided financial support, including extended payment terms and credit to farmers, suppliers and smaller customers in its global ecosystem, financed by Danone's cash flow, a relief fund, dedicated to supporting the entrepreneurs of Danone Manifesto Ventures' portfolio, and support to the communities of Danone's ecosystem.

Besides, actions to preserve cash have continued and the two €800 million bonds issued in the semester have allowed to strengthen the balance sheet and the liquidity position of Danone.

Looking into the second-half, business remains difficult to predict as the environment is still volatile and much uncertainty remains about the severity, the duration and the implications of the pandemic as to how exactly macroeconomic conditions, lockdown easing, and consumer habits will evolve for the rest of this year. Danone is therefore not in a position to provide an updated financial guidance for fiscal year 2020 at this time, which has been withdrawn on April 21, 2020.

Note 3.2. Other impacts of Covid-19 on the Group's consolidated financial statements and liquidity situation

Covid-19 did not have significant impacts on the consolidated financial statements as of June 30, 2020, other than those detailed in Note 3.1 of the Notes to the consolidated financial statements.

In particular, the Group has not encountered any obstacles to implement its process related to the preparation and processing of financial and accounting information as of June 30, 2020, as described in section 2.7 *Internal control and risk management* of the 2019 Universal Registration Document.

Besides, Covid-19 did not have any impact on the recurring operating activity, other than those described in Note 3.1 of the Notes to the consolidated financial statements. In particular:

- the Group has not identified any risk of major defect among its customers and thus, did not account for significant additional impairment for expected credit loss on its trade receivables;
- its inventories' valuation is not called into question as of June 30, 2020;
- Covid-19 did not lead to any substantial change or renegotiation of contracts concluded by Danone that could have had significant impacts on the consolidated financial statements.

The Group has reviewed its non-current assets in the context of Covid-19, notably in view of its impacts on the Waters' activity:

- the Group has not identified any conditions that could call into question the valuation of its tangible assets or the recovery of its deferred tax assets;
- regarding Investments in associates and intangible assets, the Group has reviewed impairment indicators and has adapted its methodology of testing for impairment to consider the impacts of Covid-19 and the uncertainty on their magnitude and their duration (see Notes 5.2 and 9.3 of the Notes to the consolidated financial statements).

Finally, the Group considers that Covid-19 did not impact neither its exposure to financial risks associated with operating and financing activities nor the monitoring of those risks. In particular:

- the Group has continued applying its management policies during the first semester of 2020, as described in Notes 6.7 and 10.2 of the Notes the Notes to the consolidated financial statements as of December 31, 2019;
- more specifically with regard to liquidity risk, as described in Note 3.1 of the Notes to the consolidated financial statements, Danone launched two €800 million bond issues in the first semester of 2020 and holds as of June 30, 2020 a portfolio of €3 billion of available committed credit facilities and €6 billion of cash and short-term investments. In addition, as a reminder, Danone is not subject to any financial covenant;
- finally, the Group did not make use of guaranteed financing and support measures granted by some States.

Note 4. Fully consolidated companies

Note 4.1. Main changes

Main changes during the first half of 2020

Danone did not make any material transactions in the first half of 2020.

Main changes during the first half of 2019

(in percentage)	Reporting Entity	Country	Transaction date [(a)]	Ownership as of December 31, 2018	Ownership as of June 30, 2019
Main companies consolidated for the first time during the period					
Michel et Augustin	EDP	France and United States	April	46.9%	93.9%
Main consolidated companies with changes in ownership percentage					
-	-	-	-	–	–
Main companies no longer fully consolidated during the period					
Earthbound Farm	EDP	United States	April	100%	–

(a) Month in the 2019 fiscal year.

Note 4.2. Liabilities related to put options granted to non-controlling interests

Change during the period

(in € millions)	2019	2020
As of January 1	**508**	**482**
New options and options recognized previously in accordance with IFRS 9	19	-
Options exercised [(a)]	(125)	(57)
Changes in the present value of outstanding options	79	(19)
As of December 31 / June 30 [(b)]	**482**	**405**

(a) Carrying amount at the closing date of the previous period for options exercised and for which payment has been made.
(b) In most cases, the strike price is an earnings multiple.

Note 5. Investments in associates

Note 5.1. Main changes

Main changes in the first half of 2020

Danone did not make any material transactions in the first half of 2020.

Main changes in the first half of 2019

	Notes	Reporting Entity	Country	Transaction date [(a)]	Ownership as of December 31, 2018	Ownership as of June 30, 2019
Main companies accounted for using the equity method for the first time during the period						
-		-	-	-	–	–
Main associates with changes in ownership percentage						
-		-	-	-	-	-
Main companies no longer accounted for using the equity method during the period						
Michel et Augustin	4.1	EDP	France and United States	April	46.9%	93.9%

(a) Month in the 2019 fiscal year.

Note 5.2. Measurement review of investments in associates

Methodology

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

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

Measurement review as of June 30, 2020

Yashili (Specialized Nutrition, China)

As of December 31, 2019, as for June 30, 2020, Yashili's stock price relative to the average purchase price of the shares represented an indication of impairment.

As of June 30, 2020, the carrying amount of the investment in Yashili (€222 million, after impairment of €109 million as of December 31, 2019) was tested for impairment based on estimated future cash flows of the updated business plan prepared by Yashili's management, considering the impacts of Covid-19 for the 2020 fiscal year.

The discount rate and long-term growth rate assumptions were maintained at 8.2% and 3.0% respectively, with the Group having simulated the impacts of more degraded scenarios on all the years of the business plan through the sensitivity analysis.

On the basis of these analyses, no additional impairment was recorded as of June 30, 2020. The sensitivity analysis on the key assumptions used in the calculation of this value-in-use, taken individually, gives the following results hereafter:

Assumptions	Indicators	Impairment *(in € millions)*
(500) bps	Sales growth (applied each year for 5 years)	(30)
(500) bps	Recurring operating margin (applied each year for 5 years)	(42)
(100) bps	Long-term growth rate	(19)
+100 bps	Discount rate	(29)

Other investments in associates

Danone did not record any impairment on other investments in associates during the first half of 2020.

Note 6. Information concerning recurring operating activities

Note 6.1. General principles

The key indicators reviewed and used internally by the primary operational decision-makers (the Chairman and Chief Executive Officer, Emmanuel FABER, and the Chief Financial Officer, Technology & Data, Cycles and Procurement, Cécile CABANIS) to assess operational performance are:

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

On May 5, 2020, Danone announced changes in the global EDP organization to accelerate growth and value creation generated by its activities in North America. These changes have no impact on the presentation of the operating segments, as the main decision-makers continue to monitor the activities of Danone under the three following Reporting Entities:

- EDP;
- Specialized Nutrition;
- Waters.

Information by Reporting Entity

Among the key indicators reviewed and used internally by the Group's primary operational decision-makers, only Sales, Operating income and Operating margin are monitored by Reporting Entity, the other indicators being monitored at the Group level.

Note 6.2. Operating segments

Information by Reporting Entity

(in € millions, except percentage)	Six-month period ended June 30					
	Sales [a]		Recurring operating income		Recurring operating margin	
	2019	**2020**	**2019**	**2020**	**2019**	**2020**
EDP	6,600	6,599	621	598	9.41%	9.06%
Specialized Nutrition	3,696	3,739	934	987	25.28%	26.40%
Waters	2,352	1,851	303	117	12.87%	6.32%
Group total	**12,648**	**12,189**	**1,858**	**1,702**	**14.69%**	**13.97%**

(a) Sales to third parties.

Reporting by geographical area

Sales, Recurring operating income and Recurring operating margin

(in € millions, except percentage)	Six-month period ended June 30					
	Sales [a]		Recurring operating income		Recurring operating margin	
	2019	**2020**	**2019**	**2020**	**2019**	**2020**
Europe and Noram [b]	6,851	6,822	942	880	13.75%	12.91%
Rest of the World	5,797	5,368	915	822	15.79%	15.31%
Group total	**12,648**	**12,189**	**1,858**	**1,702**	**14.69%**	**13.97%**

(a) Sales to third parties.
(b) Including sales of €1,020 million generated in France in the first half of 2020 (€1,066 million in the first half of 2019).

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

	As of December 31	As of June 30
(in € millions)	**2019**	**2020**
Europe and Noram [a]	23,621	23,438
Rest of the World	8,026	7,436
Group total	**31,647**	**30,874**

(a) Including €2,408 million in France in the first half of 2020 (€2,396 million as of December 31, 2019).

Note 6.3 Fair value of trade receivables and payables

	As of December 31	As of June 30
(in € millions)	**2019**	**2020**
Trade receivables	3,019	2,814
Impairment provisions	(114)	(113)
Fair value of trade receivables	**2,906**	**2,702**
Rebates payable to customers [a]	(1,230)	(1,271)
Fair value of trade receivables net of discounts granted	**1,676**	**1,430**

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

Regarding the impacts of Covid-19, see also Note 3.2 of the Notes to the consolidated financial statements.

Note 7. Information and events concerning non-recurring operating activities

Note 7.1. Other operating income (expense)

Accounting principles

Other operating income and expenses comprise items that, because of their significant or unusual nature, cannot be viewed as inherent to Danone's recurring activity and have limited predictive value, thus distorting the assessment of its recurring operating performance and its evolution. These mainly include:

- capital gains and losses on disposals of fully consolidated companies;
- impairment charges on intangible assets with indefinite useful lives;
- costs related to strategic restructuring and transformation plans;
- costs related to major external growth transactions;
- costs related to major crisis and major litigations;
- in connection with of IFRS 3 (Revised) and IAS 27 (Revised) relating to business combinations, (i) acquisition costs related to business combinations, (ii) revaluation profit or loss accounted for following a loss of control, and (iii) changes in earn-outs relating to business combinations and subsequent to acquisition date.

Other operating income (expense) in the first half of 2020

In the first half of 2020, the Other operating income (expense) totaled €(123) million corresponding mainly to the following items:

		Six-month period ended June 30, 2020
(in € millions)	Notes	**Income/(expense)**
Costs related to the transformation of Danone's organization and operations	7.2	(64)
Impairment of two brands of the EDP Reporting Entity	9.3	(38)
Costs related to the integration of Early Life Nutrition and Advanced Medical Nutrition businesses		(18)

Other operating income (expense) in the first half of 2019

In the first half of 2019, the Other operating income (expense) totaled €(314) million corresponding mainly to the following items:

		Six-month period ended June 30, 2019
(in € millions)	Notes	**Income/(expense)**
Effect of Earthbound Farm disposal		(155)
Costs related to the strategic restructurings of EDP and Waters Reporting Entities in certain countries		(68)
Costs related to the integration of Early Life Nutrition and Advanced Medical Nutrition businesses		(53)
Costs associated with the integration of WhiteWave		(20)

Note 7.2. Transformation of Danone's organization and operations

Danone announced on February 26, 2020 the transformation of its organization and its operations on its entire value chain, to capture growth opportunities and to meet its stakeholders' expectations in an efficient way in terms of costs and climate preservation.

Regarding the Other operating expenses recognized over the period, they mostly concern the beginning of the execution of the operations' transformation of the EDP Reporting Entity and mainly relate to personnel costs.

Note 8. Income tax

The effective income tax rate used as of June 30 is the projection of the effective income tax rate for the fiscal year, considering the best estimate of the management of the impacts of Covid-19 on the 2020 taxable profits of consolidated entities.

On this basis, the effective tax rate stood at 26.8% for the first half of 2020 compared to 24.0% for the first half of 2019. This increase is mainly attributable to the effects of the disposal of Earthbound Farm recorded in the first half of 2019.

Note 9. Intangible assets: measurement review

Note 9.1. Accounting principles and methodology

The carrying amounts of goodwill and brands with indefinite useful lives are reviewed for impairment at least annually and whenever events or circumstances indicate that they may be impaired. An impairment charge is recognized when the recoverable value of an intangible asset becomes durably lower than its carrying amount.

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

As of June 30, the Group reviews impairment indicators that could result in a reduction in the carrying value of goodwill and brands with indefinite useful lives.

Note 9.2. Carrying amount and change during the period

	2019				2020			
(in € millions)	**Goodwill**	**Brands** [(a)]	**Other intangible assets**	**Total**	**Goodwill**	**Brands** [(a)]	**Other intangible assets**	**Total**
Gross value								
As of January 1	**17,711**	**6,379**	**1,198**	**25,288**	**18,125**	**6,354**	**1,235**	**25,715**
Changes in consolidation scope [(b)]	50	(25)	(15)	10	19	-	-	19
Capital expenditure	10	4	62	75	-	-	24	24
Disposals	-	-	(1)	(1)	-	-	(2)	(2)
Translation adjustments	352	120	(6)	467	(380)	(124)	(32)	(533)
Impairment [(b)]	(3)	(140)	(26)	(169)	-	(38)	(5)	(43)
Other [(c)]	5	16	23	45	1	5	19	22
As of December 31 / June 30	**18,125**	**6,354**	**1,235**	**25,715**	**17,766**	**6,197**	**1,240**	**25,203**
Amortization								
As of January 1	**-**	**(20)**	**(822)**	**(843)**	**-**	**(25)**	**(887)**	**(912)**
Changes in consolidation scope [(b)]	-	-	12	12	-	-	-	-
Charges	-	(3)	(98)	(101)	-	(1)	(50)	(51)
Disposals	-	-	1	-	-	-	1	1
Impairment [(b)]	-	-	8	8	-	-	5	5
Other [(c)]	-	(2)	13	12	-	3	22	24
As of December 31 / June 30	**-**	**(25)**	**(887)**	**(912)**	**-**	**(24)**	**(909)**	**(933)**
Carrying amount								
As of December 31 / June 30	**18,125**	**6,329**	**348**	**24,803**	**17,766**	**6,174**	**331**	**24,270**

(a) Includes brands with indefinite useful lives and the other brands (€89 million as of June 30, 2020).

(b) See Note 9.3 of the Notes to the consolidated financial statements.

(c) Correspond mainly to the effects of the application of IAS 29 to Argentina (see Note 1.3 of the Notes to the consolidated financial statements).

Carrying amount of intangible assets with indefinite useful lives

	As of December 31 / as of June 30	
	Carrying amount of goodwill and brands with indefinite useful lives	
(in € millions)	**2019**	**2020**
EDP		
Noram	8,634	8,649
Europe	2,612	2,594
Danone CIS [(a)]	314	276
Centrale Danone	229	188
Other CGUs [(b)]	292	273
Total EDP	**12,081**	**11,981**
• of which, goodwill	8,811	8,759
• of which, brands with indefinite useful lives [(c)]	3,269	3,221
Waters		
Danone Waters France	428	428
Other CGUs [(d)]	277	259
Total Waters	**704**	**687**
• of which, goodwill	518	503
• of which, brands with indefinite useful lives [(e)]	186	183
Specialized Nutrition		
Early Life Nutrition Rest of the World	5,093	5,399
Advanced Medical Nutrition	3,621	2,972
Early Life Nutrition Asia	2,674	2,632
Other CGUs	181	182
Total Specialized Nutrition	**11,569**	**11,185**
• of which, goodwill	8,796	8,503
• of which, brands with indefinite useful lives [(f)]	2,772	2,682
Total	**24,354**	**23,852**
• of which, goodwill	18,125	17,766
• of which, brands with indefinite useful lives	6,227	6,086

(a) Consists mainly of Russia and Ukraine.
(b) More than 10 CGUs.
(c) Consists of several brands, the most material of which are *International Delight*, *Alpro* and *Silk*.
(e) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €150 million as of June 30, 2020 or December 31, 2019.
(e) Consists of several brands, the largest of which is *Volvic*.
(f) Consists of several brands, the largest of which are *Nutricia* and *Milupa*.

The main group of CGUs correspond to the three main CGUs in the Specialized Nutrition Reporting Entity and to the EDP Noram CGU, resulting from recent acquisitions. Intangible assets with indefinite useful lives in the Waters Reporting Entity represent less than 3% of the consolidated intangible assets and do not result from any recent transaction. Therefore, their recoverable value significantly exceeds their carrying amount.

Note 9.3. Measurement review

The sanitary and economic crisis and its impacts on Danone's activities in the first half of the year are external factors that can constitute indicators of impairment as of June 30, 2020 (see Note 3 of the Notes to the consolidated financial statements). The Group has analyzed internal factors such as the performance to date, including the realized impacts of this crisis, compared with the annual forecast set in the business plan established before the crisis. When this analysis has shown an impairment indicator, the Group has realized tests on the CGUs concerned, while adapting its methodology to consider the uncertainty on the magnitude and the duration of the impacts of this crisis on their activities and their performance including:

- the forecast of cash flows under degraded scenarios of the activity over the 2020-2021 period;
- no change in the discount rate and long-term growth rate assumptions, uncertainties already being reflected in the cash flows.

The scenarios did not show any situation requiring reassessing the value of the tested CGUs, including in the Waters Reporting Entity.

In view of the uncertainty on the magnitude and the duration of the impacts of the sanitary crisis, the Group has performed stress-tests under various scenarios considering the impacts of a degraded situation beyond 2021 on all the key assumptions. The results of these stress-tests do not call into question the above conclusion for the financial statements closed as of June 30, 2020.

CGUs and groups of CGUs

As of June 30, 2020, the Group identified indicators of impairment for certain CGUs of EDP and Waters Reporting Entities of Latin America and Africa. The impairment tests performed accordingly did not result in any impairment. As regards the Specialized Nutrition Reporting Entity, no indicator of impairment was identified.

Brands with indefinite useful lives

As of June 30, 2020, following the impairment tests performed, the Group recognized a €38 million impairment provision in respect of two brands of the EDP Reporting Entity in Africa.

Note 10. Financing and net debt

Note 10.1. Financing situation

(in € millions)	As of December 31, 2019	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of accrued interest	Impacts of changes in exchange rates and other non-cash impacts [c]	Non-current portion becoming current	Change in consolida-tion scope	As of June 30, 2020
Financing managed at Company level									
Bonds – non-current portion	12,087	1,600				65	(66)		13,686
Bonds – current portion	2,050		(550)			1	66		1,566
Short-term debt instruments [a]	1,502			(37)		3			1,467
Total	15,638	1,600	(550)	(37)		68			16,719
Lease debt									
Non-current portion	751					93	(147)		698
Current portion	215			(131)		10	147		242
Total	967			(131)		104			939
Other financing arrangements [b]									
Non-current portion	37			1			(6)		32
Current portion	229			84	33	1,335	6		1,687
Total	266			85	33	1,335			1,719
Total	**16,871**	**1,600**	**(550)**	**(84)**	**33**	**1,507**			**19,377**

(a) As of December 31, 2019 and June 30, 2020, these were included in current financial debt.

(b) Subsidiaries' bank financings.

(c) Concerning the lease debt, corresponds mainly to new financing in the period. Concerning the other financing arrangements, the current portion corresponds to the liability related to the payment of the 2019 dividend to Danone's shareholders (see Notes 11.2 et 14.1 of the Notes to the consolidated financial statements).

Regarding the impacts of Covid-19, see also Note 3.2 of the Notes to the consolidated financial statements.

Note 10.2. Net debt

	As of December 31	As of June 30
(in € millions)	**2019**	**2020**
Non-current financial debt	12,906	14,441
Current financial debt	4,474	5,357
Short-term investments	(3,631)	(5,102)
Cash and cash equivalents	(644)	(769)
Derivatives - assets - Non-current [a]	(271)	(375)
Derivatives - assets - Current [a]	(16)	(58)
Net debt	**12,819**	**13,493**

(a) Used to manage net debt.

Note 11. Earnings per share – Group share and 2019 dividend to be paid to Danone's shareholders

Note 11.1. Earnings per share – Group share

	Six-month period ended June 30	
(in € per share, except number of shares)	**2019**	**2020**
Net income - Group share	1,035	1,015
Coupon relating to hybrid financing, net of tax	(7)	(7)
Adjusted net income - Group share	1,027	1,007
Number of outstanding shares		
As of January 1	647,273,210	648,871,267
Effect of changes during the period	1,102,988	-
As of June 30	648,376,198	648,871,267
Average number of outstanding shares		
• Before dilution	647,640,873	648,871,267
Dilutive impacts		
Group performance shares	813,227	838,837
• After dilution	648,454,100	649,710,104
Net income – Group share, per share		
• Before dilution	1.59	1.55
• After dilution	1.58	1.55

Note 11.2. 2019 dividend to be paid to Danone's shareholders

The Shareholders' Meeting on June 26, 2020 in Paris approved the dividend proposed with respect to the 2019 fiscal year, i.e. €2.10 per share in cash. This dividend, accounted for in current financial debt as of June 30, 2020 with counterparty entry in retained earnings, will be paid on July 16, 2020 (see Notes 14.1 of the Notes to the consolidated financial statements).

Note 12. Other provisions and non-current liabilities; legal and arbitration proceedings

Note 12.1. Accounting principles

Other provisions

Other provisions consist of provisions and investment subsidies.

Provisions are recognized when the Group has a present obligation resulting from a past event, it is probable that this obligation will result in a net outflow of resources to settle the obligation and the amount of the obligation can be reliably estimated. Danone also presents in Other provisions the "current" portion since it is not material and does not disclose information on provisions recognized if it deems such disclosure would seriously prejudice its position as regards the resolution of the matter that is the subject of the provision.

For each obligation, the amount of the provision recognized as of the reporting date reflects management's best estimate, as of that date, of the probable outflow of resources required to settle said obligation. If payment is made to settle the obligation or an outflow of resources is no longer probable, the provision is reversed (to reflect, respectively, the use or non-use of the provision).

Other non-current liabilities

Other non-current liabilities correspond to liabilities for uncertain income tax positions pursuant to IFRIC 23. They are recognized depending on whether it is probable that they will crystallize, without taking into account the probability that they will not be detected by the tax authorities. Their measurement must reflect management's best estimate as to their actual amount when they ultimately crystallize. They must be recognized on the basis of their most probable value or a weighted average of the values under various scenarios.

Note 12.2. Other provisions and non-current liabilities

(in € millions)	As of December 31 2019	As of June 30 2020
Other non-current provisions	557	591
Other non-current liabilities [(a)]	621	593
Total [(b)]	**1,178**	**1,184**

(a) These relate to uncertain income tax positions.
(b) The current portion totaled €46 million as of June 30, 2020 (€65 million as of December 31, 2019).

Changes in Other provisions

		Movements during the period						
(in € millions)	As of December 31, 2019	Changes in consolidation scope	Increase	Reversal of provisions used	Reversal of provisions not used	Translation adjustments	Other	As of June 30, 2020
Tax and territorial risks [(a)]	113	-	17	-	-	(6)	-	125
Employee-related and commercial disputes and other provisions	380	-	70	(30)	(18)	(12)	(2)	388
Restructuring provisions	64	-	40	(22)	(3)	-	-	78
Total	**557**	**-**	**128**	**(53)**	**(21)**	**(18)**	**(1)**	**591**

(a) These concern those risks not relating to income tax, which are presented in Other non-current liabilities.

Changes in Other provisions during the first half of 2020 were as follows:

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

As of June 30, 2020, provisions for tax risks (not related to income taxes), territorial and commercial, employee-related, and other disputes included several provisions for legal, financial, tax and territorial risks, as well as provisions for multi-year variable compensation granted to some employees, with these provisions being established in the context of the normal course of business.

Also, as of this date, Danone believes that it is not subject to known risks that could, individually, have a material impact on its financial situation or profitability.

Note 12.3. Legal and arbitration proceedings

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

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

Note 13. Main related party transactions

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

The Shareholders' Meeting of June 26, 2020 authorized the Board of Directors to grant Group performance shares in 2020 to certain Group employees and executive directors (including the Executive Committee). In the first six months of 2020, no Group performance shares were granted. The grant under the 2020 authorization is subject to the approval of the Board of Directors on July 29, 2020.

Note 14. Subsequent events

Note 14.1. Payment of 2019 dividend to Danone's shareholders

The dividend for the 2019 fiscal year was paid on July 16, 2020 (ex-dividend date on July 14, 2020).

Note 14.2. Other subsequent events

To the best of the Company's knowledge, no other material events occurred between the end of the reporting period and July 29, 2020, the date on which the Board of Directors examined 2020 condensed interim consolidated financial statements.

Statutory Auditor’s review report on interim financial information

This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders’ Meeting and in accordance with the requirements of Article L.451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the limited review of the accompanying condensed interim consolidated financial statements of Danone, for the period from January 1 to June 30, 2020;
- the verification of the information presented in the interim management report.

These condensed interim consolidated financial statements were prepared under your Board of Directors’ responsibility on July 29, 2020, on the basis of the information available at that date, within the evolving context of Covid-19 crisis, and the difficulties assessing its effects and perspectives for the future. Our role is to express a conclusion on these financial statements based on our limited review.

1. Conclusion on the financial statements

We conducted our limited review in accordance with professional standards applicable in France. A limited review of interim financial information consists primarily of making inquiries of persons responsible for financial and accounting matters, and applying analytical review procedures. A limited review is substantially lesser in scope than an audit conducted in accordance with the professional standards applicable in France and consequently does not enable us to obtain assurance that the financial statements, taken as a whole, are free from material misstatements, as we may not become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union relating to interim financial information.

2. Specific verification

We have also verified the information presented in the interim management report prepared on July 29, 2020 relating to the condensed interim consolidated financial statements subject to our limited review.

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

Neuilly-sur-Seine and Paris La Défense, July 29, 2020

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit	Ernst & Young Audit
François JAUMAIN	Gilles COHEN

Statement of the person responsible for the interim financial report

"I certify that, to my knowledge, the condensed interim financial statements have been prepared in accordance with applicable accounting standards and provide a faithful representation of the assets, liabilities, financial position and results of Danone and of all companies within its scope of consolidation, and that the attached interim management report presents a faithful representation of the significant events that occurred in the first six months of the fiscal year, their impact on the interim financial statements, and the main related party transactions, and it describes the major risks and uncertainties for the remaining six months of the year."

Paris, July 29, 2020

Chairman and Chief Executive Officer,

Emmanuel FABER

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