Danone

ONE PLANET. ONE HEALTH

2021 INTERIM FINANCIAL REPORT

DANONE
ONE PLANET. ONE HEALTH

DANONE
A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €171,910,000
REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS
PARIS TRADE AND CORPORATE REGISTER NUMBER: 552 032 534

2021

INTERIM FINANCIAL REPORT

**FOR THE SIX-MONTH PERIOD
ENDED JUNE 30, 2021**

The English version of the 2021 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

Contents

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”, “Reporting Entities” refer to one or more of Danone’s Essential Dairy and Plant-Based or “EDP”, Specialized Nutrition and Waters activities;
- all references herein to the “Europe and 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 Latin America, Asia Pacific, Africa, Middle East 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, 2021;
- 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 2021 business review and 2021 outlook

Business highlights

2021 first-half results

- Net sales of €11,835 million in H1, up +1.6% on a like-for-like basis
- Return to growth driven by focus on execution and delivery: core portfolio renovation and innovation, acceleration in strategic channels and selected investments in key battles
- Recurring operating margin at 13.1%: selective pricing initiatives, coupled with efficient product mix management and stepped-up productivity partially offsetting adverse category mix and higher inflation
- Reported EPS up +5.1% at €1.63 and recurring EPS down -9.3% at €1.53
- Continued disciplined cash management, with free cash flow reaching €1.0 billion in H1, and further progress on portfolio management with the disposal of Mengniu stake and of Vega
- Launch of a share buyback program of up to €800 million in the second half of the year
- 2021 guidance reiterated: return to profitable growth in H2, and FY recurring operating margin broadly in line with 2020

Véronique PENCHIENATI-BOSETTA and Shane GRANT: interim co-CEOs statement

"We are pleased to report a return to growth across all our categories this quarter, thanks to the teams' commitment and focus on execution and delivery. On a two-year basis, our like-for-like sales growth is also positive, on both Q2 and H1. We maintained strong momentum in our EDP business, led by growth in Dairy and Plant-based reporting its 6th consecutive quarter of double-digit growth, and a solid performance in Europe and Noram. Specialized Nutrition returned to growth in Q2, with notably a consistent high single-digit performance in Adult Nutrition and a positive growth in Infant Nutrition. Waters was also back to growth in Q2 as restrictions in some parts of Europe lifted and thanks to market share gains in the region, yet emerging geographies are still more impacted by the negative effect of covid-related restrictions on out-of-home trends. Our continued focus on core portfolio renovation and innovation, supported by selective reinvestments and channel execution focus, has helped our leading brands such as *Alpro*, *Actimel*, *Neocate*, *evian* and *Oikos* grow market share, playing into global trends towards health and immunity.

Margin held up well despite an adverse category mix and accelerated inflation. Strong productivity delivery coupled with selective pricing and mix management allowed us to partially offset headwinds.

Looking ahead, we reiterate our guidance for the full year. Although the macro context is still uncertain, we have strong foundations across our categories, geographies and brands. Local First project is progressing according to plan. We will continue to adopt a disciplined approach to capital management and remain focused on delivering on our growth priorities and plans in the second half."

Key figures

	Six-month period ended June 30			
(in € millions except if stated otherwise)	**2020**	**2021**	**Reported changes**	**Like-for-like changes [(a)]**
Sales	**12,189**	**11,835**	**-2.9%**	**+1.6%**
Recurring operating income [(a)]	**1,702**	**1,551**	**-8.9%**	**-4.2%**
Recurring operating margin [(a)]	**14.0%**	**13.1%**	**-86 bps**	**-83 bps**
Non-recurring operating income and expenses	(123)	(700)	-577	
Operating income	1,580	851	-46.1%	
Operating margin	13.0%	7.2%	-576 bps	
Recurring net income – Group share [(a)]	**1,100**	**1,000**	**-9.1%**	
Non-recurring net income – Group share	(86)	68	+153	
Net income – Group share	1,015	1,068	+5.2%	
Recurring EPS *(in €)* **[(a)]**	**1.68**	**1.53**	**-9.3%**	
EPS *(in €)*	1.55	1.63	+5.1%	
Free cash flow [(a)]	**929**	**1,009**	**+8.6%**	
Cash flow from operating activities	1,305	1,381	+5.8%	

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

Changes in governance

In recent months, Danone's management and Board of Directors have conducted an open dialogue with shareholders and social partners, as well as many other internal and external stakeholders, and a reflection on Danone's governance has been undertaken. Further to a decision to initiate the process of separating the functions of Chairman of the Board and Chief Executive Officer on March 1, 2021, the Board of Directors, at its meeting on March 14, 2021, reviewed the company's corporate governance and decided that Emmanuel FABER would step down as Chairman and Chief Executive Officer with immediate effect.

The Board appointed Gilles SCHNEPP as the independent non-executive Chairman of the Board of Directors, and appointed Véronique PENCHIENATI-BOSETTA and Shane GRANT to jointly lead the business as interim co-CEOs, until the appointment of a new Chief Executive Officer. Furthermore, and in order to be in a position to take into account the company's future needs, the Board also decided to pause and reconsider any immediate member refreshments. As a result, the proposed nominations of Ariane GORIN and Susan ROBERTS as Directors has not been presented to the Annual General Meeting held on April 29, 2021.

Confirmation of Local First project

The Board reaffirmed its support to the Local First project, as it will make Danone stronger, enable the Company to accelerate growth and value creation and better meet consumer and customer needs in each country where it operates, as well as unlock significant resources to be reinvested into brands and commercial plans.

The specific needs of the Specialized Nutrition category will be supported by dedicated resources, both globally and locally. Danone will pay careful attention to ensuring a proper transition and securing the execution of the plan without disruption to the business.

Change in management

On May 17, 2021, Danone announced the appointment of Antoine DE SAINT-AFFRIQUE as Chief Executive Officer, effective September 15, 2021, following a rigorous selection process led by the Governance Committee.

He will succeed the joint interim leadership of Véronique PENCHIENATI-BOSETTA and Shane GRANT. His appointment as a new member of the Board of Danone will be proposed at the next annual Shareholders' Meeting in April 2022.

Key financial transactions and events in H1 2021

(from press releases issued in the past six months of 2021)

- On February 18, 2021, Danone announced it acquired 100% of the shares of Earth Island, maker of *Follow Your Heart* brands and a U.S. pioneer in plant-based foods. The transaction was closed on April 14, 2021.
- On February 28, 2021, Danone announced that it had reached an agreement with COFCO Dairy Investments Limited to convert Danone's stake of approximately 9.8% in China Mengniu Dairy Company Limited, previously held indirectly, into a direct holding. On May 13, 2021, Danone announced that it had finalized the strategic sale of its stake. The transaction resulted in total gross proceeds of HKD 15.4 billion, representing c. €1.6 billion, for a book value of €850 million (as of December 31, 2020). The settlement of the transaction took place on May 17, 2021.
- On April 29, 2021, Danone announced that at its 2021 Annual General Meeting, Shareholders approved all resolutions submitted to a vote, including the proposed dividend of €1.94 per share in cash, as well as the proposed renewals of terms of office as members of the Board of Directors of Guido BARILLA, Cécile CABANIS, Michel LANDEL and Serpil TIMURAY, and the ratification of the co-opting of Gilles SCHNEPP as Director.
- On May 25, 2021, Danone issued a €1 billion bond with a 4.5-year maturity and a 0% coupon. In line with the company's active liquidity management, this issue enables Danone to further take advantage of market windows to enhance its funding flexibility, extend the maturity of its debt and optimize its cost.
- On June 17, 2021, Danone signed an agreement to sell Vega, the Canada and U.S. plant-based nutritional products business, to funds managed by WM Partners, a US-based private equity investment firm focused on the health and wellness industry. The sale of Vega is part of Danone's continuous capital allocation optimization and of the strategic review of Danone's portfolio of brands, SKUs and assets announced in October 2020. The deal was closed on July 28.
- On June 30, 2021, Danone Manifesto Ventures announced that it acquired an additional majority stake in Harmless Harvest, becoming its majority shareholder. Harmless Harvest is a leader in organic coconut-based products including coconut water and dairy-free coconut yogurt alternatives.

The full press releases are available on the website www.danone.com.

Consolidated net income review

Sales

Consolidated Sales

In the first half of 2021, consolidated sales stood at €11,835 million, up +1.6% on a like-for-like basis, led by +2.6% in value and -1.0% in volume.

On a reported basis, sales were down -2.9%, mainly driven by the negative impact of exchange rates (-5.5%) that resulted from currencies devaluation against the euro in the United States, Latin America, Indonesia, Turkey and Russia.

On the other hand, reported sales benefited from a slightly positive scope effect (+0.5%), as well as the +0.4% organic contribution of hyperinflation geographies to growth.

Consolidated sales by Reporting Entity and by geographical area

Six-month period ended June 30

(in € millions except percentage)	2020	2021	Reported changes	Like-for-like changes	Like-for-like volume growth
By Reporting Entity					
EDP	6,599	6,406	-2.9%	+3.2%	+1.3%
Specialized Nutrition	3,739	3,513	-6.0%	-2.6%	-4.3%
Waters	1,851	1,916	+3.5%	+4.5%	-2.3%
By geographical area					
Europe & Noram	6,822	6,784	-0.6%	+1.7%	+0.7%
Rest of the World	5,368	5,051	-5.9%	+1.4%	-2.2%
Total	**12,189**	**11,835**	**-2.9%**	**+1.6%**	**-1.0%**

Recurring operating income and recurring operating margin

Consolidated recurring operating income and recurring operating margin

Danone's recurring operating income reached €1,551 million in the first half of 2021. Recurring operating margin stood at 13.1%, down -86 basis points (bps) on a reported basis and -83 bps on a like-for-like basis. This change was mainly driven by the negative impact of input costs inflation as well as a negative category mix, for a combined impact of -490 bps.

These headwinds were partially offset by the effects of valorization and productivity that added +430 bps to the margin in the first half, as Danone reinvested selectively in its brands. Reported margin also reflects the negative impact of its change in scope (-16 bps), the positive effect of currencies (+15 bps), and +3 bps reflecting organic contribution from hyperinflation geographies impact.

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

Six-month period ended June 30

(in € millions except percentage and bps)	Recurring operating income		Recurring operating margin		Reported changes	Like-for-like changes
	2020	2021	2020	2021		
By Reporting Entity						
EDP	598	584	9.1%	9.1%	+5 bps	-4 bps
Specialized Nutrition	987	804	26.4%	22.9%	-351 bps	-293 bps
Waters	117	163	6.3%	8.5%	+219 bps	+185 bps
By geographical area						
Europe & Noram	880	898	12.9%	13.2%	+34 bps	+34 bps
Rest of the World	822	653	15.3%	12.9%	-239 bps	-245 bps
Total	**1,702**	**1,551**	**14.0%**	**13.1%**	**-86 bps**	**-83 bps**

- **EDP:** sales growth reached +3.2% in H1 2021 on a like-for-like basis and recurring operating margin remained broadly stable at 9.1%, with strong productivity mitigating the heightened milk inflation.
- **Specialized Nutrition:** sales declined -2.6% in H1 2021 on a like-for-like basis. Recurring operating margin decreased by -351 bps to 22.9%, strongly impacted by a negative country mix.
- **Waters:** sales increased by +4.5% in H1 2021 on a like-for-like basis, driven by the gradual recovery in volumes and a positive country and product mix. Recurring operating margin was up +219 bps to 8.5%, despite strong inflationary environment, thanks to the volume recovery, a positive product mix, as well as strong efforts on productivity, including plastic hedging.

Other operating income and expense

Other operating income and expense reached -€700 million vs -€123 million in the prior year, resulting mostly from the Local First project and the transformation of Danone's operations. As a result, reported operating margin was down -576 bps from 13.0% to 7.2%.

Net financial result

Net financial costs were down by €42 million to -€129 million, resulting notably from a decrease in the cost of net debt due to two bond reimbursements in 2020 issued at higher interest rates, as well as a new bond issuance at 0% coupon in June 2021.

Tax rate

Recurring effective tax rate stood at 27.5%, broadly in line with the prior year.

Share of profit of associates

The Recurring net income from associates significantly decreased from €21 million to €9 million, reflecting mainly the disposal of Danone's stakes in Mengniu and Yakult. Besides, Danone is engaged in a disposal process of its 20% stake in the fresh dairy JV with Mengniu, thus classified as an asset held for sale under IFRS 5 as from June 30, 2021.

Share of minority interests

Recurring minority interests stood at €40 million, broadly in line with the prior year, reflecting a performance across entities with minorities still under pressure.

Recurring net income – Group Share and recurring EPS

Recurring EPS was €1.53, down -9.3% vs. last year, but Reported EPS increased by 5.1% to €1.63.

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

			Six-month period ended June 30			
			2020			2021
(in € millions except if stated otherwise)	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Recurring operating income	**1,702**		**1,702**	**1,551**		**1,551**
Other operating income and expense		(123)	(123)		(700)	(700)
Operating income	**1,702**	**(123)**	**1,580**	**1,551**	**(700)**	**851**
Cost of net debt	(110)		(110)	(87)		(87)
Other financial income and expense	(60)	0	(60)	(43)	0	(42)
Income before taxes	**1,532**	**(123)**	**1,410**	**1,422**	**(699)**	**722**
Income tax	(414)	36	(378)	(391)	173	(218)
Effective tax rate	27.0%		26.8%	27.5%		30.2%
Net income from fully consolidated companies	**1,118**	**(86)**	**1,032**	**1,031**	**(527)**	**504**
Net income from associates	21	0	22	9	593	602
Net income	**1,139**	**(86)**	**1,053**	**1,040**	**66**	**1,106**
• Group share	**1,100**	**(86)**	**1,015**	**1,000**	**68**	**1,068**
• Non-controlling interests	39	(0)	39	40	(2)	38
EPS *(in €)*	**1.68**		**1.55**	**1.53**		**1.63**

Bridge from EPS to Recurring EPS

		Six-month period ended June 30		
		2020		2021
	Recurring	Total	Recurring	Total
Net Income - Group share *(in € millions)*	1,100	1,015	1,000	1,068
Coupon relating to hybrid financing net of tax *(in € millions)*	(7)	(7)	(8)	(8)
Number of shares				
• Before dilution	648,871,267	648,871,267	650,135,856	650,135,856
• After dilution	649,710,104	649,710,104	650,695,040	650,695,040
EPS *(in €)*				
• Before dilution	1.68	1.55	1.53	1.63
• After dilution	1.68	1.55	1.53	1.63

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

(in € millions except percentage)	Six-month period ended June 30, 2020	Impact of changes in scope of consolidation	Impact of changes in exchange rates and others, including IAS 29	Organic contribution from hyperinflation countries	Like-for-like growth	Six-month period ended June 30, 2021
Sales	**12,189**	+0.5%	-5.5%	+0.4%	+1.6%	**11,835**
Recurring operating margin	**14.0%**	-16 bps	+ 9 bps	+3 bps	-83 bps	**13.1%**

Free cash flow

Free cash flow reached €1,009 million in the first half of 2021, up +8.6% from the prior year, reflecting persistent pressure on operating performance. This implies a cash conversion rate of 8.5%, up +90 bps from the first half of 2020. Capex stood at €390 million, broadly stable compared to last year (€381 million).

Bridge from operating cash flow to free cash flow

	Six-month period ended June 30	
(in € millions)	**2020**	**2021**
Cash flow from operating activities	**1,305**	**1,381**
Capital expenditure	(381)	(390)
Disposal of tangible assets & transaction fees related to business combinations [(a)]	5	17
Free cash flow	**929**	**1,009**

(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)	**2020**	**2021**
Non-current assets	32,139	32,645
Current assets	10,638	12,997
Total assets	**42,776**	**45,642**
Equity – Group share	**16,205**	**16,597**
Non-controlling interests	93	99
Non-current liabilities	16,141	17,123
Current liabilities	10,338	11,824
Total equity and liabilities	**42,776**	**45,642**
Net debt	11,941	11,114
Net financial debt	11,579	10,687

Net debt and financial net debt

As of June 30, 2021, Danone's net debt stood at €11,114 million, down €827 million from December 31, 2020.

Bridge from Net debt to Net financial debt

	As of December 31	As of June 30
(in € millions)	**2020**	**2021**
Non-current financial debt	12,343	12,733
Current financial debt	4,157	4,922
Short term investments	(3,680)	(5,686)
Cash and cash equivalents	(593)	(604)
Derivatives - assets - Non-current [(a)]	(259)	(179)
Derivatives - assets - Current [(a)]	(27)	(72)
Net debt	**11,941**	**11,114**
Liabilities related to put options granted to non-controlling interests - Non-current	(7)	(47)
Liabilities related to put options granted to non-controlling interests and earn-outs on acquisitions resulting in control - Current	(355)	(380)
Net financial debt	**11,579**	**10,687**

(a) Used solely to manage net debt.

Outlook for 2021

Outlook

Macro-economic outlook

Despite short-term uncertainties, a gradual reopening of economies is assumed to continue in the second half as vaccination programs are rolled out. Meanwhile, a broad-based acceleration of inflation in milk, ingredients, packaging and logistics is expected.

2021 guidance reiterated

Danone expects to return to profitable growth in the second half, and full year recurring operating margin is expected to be broadly in line with 2020.

Share buyback

As announced in February in the press release on the conversion and disposal of Danone's stake in Mengniu, and in line with its disciplined capital allocation, Danone expects to buy back up to €800m worth of shares, in one or more tranches, in the second half of 2021.

Subsequent events

Major events having occurred after the end of the reporting period are detailed in Note 14 of the Notes to the 2021 condensed interim consolidated financial statements, the disposal of Vega being finalized after the Board of Directors examined the condensed interim consolidated financial statements on July 28.

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 2020 Universal Registration Document and listed hereafter.

Main risk factors

Strategic risks	strong	Over reliance on principal markets
	strong	Packaging
	strong	Fast changes in consumer preferences
	medium	Retail shift
	low	External growth & integration
External environment risks	strong	Unpredictability of duration and effects of the Covid-19 pandemic
	medium	Regulatory changes
	medium	Raw materials price volatility & availability
	medium	Impact of climate change on value chain
	medium	Currency volatility
Operational risks	medium	Cybersecurity
	medium	Food safety & product quality issues
	low	Shortage of talent

Financial indicators not defined in IFRS

The financial indicators not defined in IFRS used by Danone 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, both previous-year and current-year scopes excluding entities in countries under hyperinflation according to IAS 29 during the previous year (as for Argentinian entities since January 1st, 2019);
- 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).

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 restructurings or 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 earn-outs on acquisitions resulting in control 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 the 2021 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, 2021 (the "consolidated financial statements") were examined by the Danone's Board of Directors on July 28, 2021.

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	**2020**	**2021**
Sales	6	**12,189**	**11,835**
Cost of goods sold		(6,301)	(6,190)
Selling expense		(2,811)	(2,736)
General and administrative expense		(1,170)	(1,167)
Research and Development expense		(157)	(166)
Other income (expense)		(47)	(25)
Recurring operating income	6	**1,702**	**1,551**
Other operating income (expense)	3.2, 7	(123)	(700)
Operating income		**1,580**	**851**
Interest income on cash equivalents and short-term investments		75	77
Interest expense		(184)	(163)
Cost of net debt		(110)	(87)
Other financial income		24	45
Other financial expense		(84)	(87)
Income before tax		**1,410**	**722**
Income tax expense	8	(378)	(218)
Net income from fully consolidated companies		**1,032**	**504**
Share of profit of associates	5	22	**602**
Net income		**1,053**	**1,106**
Net income – Group share		**1,015**	**1,068**
Net income – Non-controlling interests		39	38
Net income – Group share, per share	11	**1.55**	**1.63**
Net income – Group share, per share after dilution	11	**1.55**	**1.63**

Consolidated statement of comprehensive income

	Six-month period ended June 30	
(in € millions)	**2020**	**2021**
Net income – Group share	**1,015**	**1,068**
Translation adjustments	**(707)**	**485**
Cash flow hedge derivatives		
Gross unrealized gains and losses	125	(7)
Tax effects	(35)	3
Other comprehensive income, net of tax	-	-
Items that may be subsequently recycled to profit or loss	**(617)**	**481**
Investments in other non-consolidated companies		
Gross unrealized gains and losses	(1)	(9)
Tax effects	-	-
Actuarial gains and losses on retirement commitments		
Gross gains and losses	(21)	95
Tax effects	4	(17)
Items not subsequently recyclable to profit or loss	**(17)**	**69**
Total comprehensive income – Group share	**380**	**1,617**
Total comprehensive income – Non-controlling interests	44	50
Total comprehensive income	**424**	**1,667**

Consolidated balance sheet

(in € millions)	Notes	As of December 31 2020	As of June 30 2021
Assets			
Goodwill		17,016	17,486
Brands		5,669	5,620
Other intangible assets		351	355
Intangible assets	4.3, 6, 9	23,037	23,461
Property, plant and equipment	6	6,572	6,717
Investments in associates	5	915	696
Investments in other non-consolidated companies		225	243
Long-term loans and financial assets		344	387
Other financial assets		569	630
Derivatives – assets [(a)]		259	179
Deferred taxes		785	961
Non-current assets		**32,139**	**32,645**
Inventories		1,840	1,949
Trade receivables	6.3	2,608	3,080
Other current assets		1,000	1,094
Short-term loans		40	30
Derivatives – assets [(a)]		27	72
Short-term investments		3,680	5,686
Cash and cash equivalents		593	604
Assets held for sale [(b)]	4.1, 5.2	851	482
Current assets		**10,638**	**12,997**
Total assets		**42,776**	**45,642**

(a) Derivative instruments used to manage net debt.

(b) As of June 30, 2021, concerns Vega (EDP, Noram) and the joint venture established jointly with Mengniu (Fresh dairy, China).

(in € millions)	Notes	As of December 31 2020	As of June 30 2021
Equity and liabilities			
Share capital		172	172
Additional paid-in capital		5,889	5,932
Retained earnings and others [(a)]		17,374	17,173
Translation adjustments		(4,867)	(4,383)
Accumulated other comprehensive income		(768)	(703)
Treasury shares		(1,595)	(1,594)
Equity – Group share		**16,205**	**16,597**
Non-controlling interests	4.4	93	99
Consolidated equity		**16,298**	**16,696**
Financing	10	12,272	12,649
Derivatives – liabilities [(b)]		63	38
Liabilities related to put options granted to non-controlling interests	4.4	7	47
Non-current financial debt		12,343	12,733
Provisions for retirement obligations and other long-term benefits	3.2	1,220	1,118
Deferred taxes		1,474	1,469
Other provisions and non-current liabilities	3.2, 12	1,104	1,803
Non-current liabilities		**16,141**	**17,123**
Financing	10	3,762	4,508
Derivatives – liabilities [(b)]		40	34
Liabilities related to put options granted to non-controlling interests and earn-outs on acquisitions resulting in control	4.4	355	380
Current financial debt		4,157	4,922
Trade payables		3,467	3,958
Other current liabilities		2,714	2,891
Liabilities directly associated with assets held for sale [(c)]	4.1	–	53
Current liabilities		**10,338**	**11,824**
Total equity and liabilities		**42,776**	**45,642**

(a) "Others" corresponds to undated subordinated notes totaling €1.25 billion.
(b) Derivative instruments used to manage net debt.
(c) As of June 30, 2021, concerns Vega (EDP, Noram).

Consolidated statement of cash flows

		Six-month period ended June 30	
(in € millions)	Notes	**2020**	**2021**
Net income		**1,053**	**1,106**
Share of profit of associates net of dividends received		(9)	(586)
Depreciation, amortization and impairment of tangible and intangible assets		574	561
Net change in provisions and non-current liabilities		60	507
Change in deferred taxes		(76)	(165)
(Gains) losses on disposal of property, plant and equipment and financial investments		-	6
Expense related to Group performance shares		14	14
Cost of net financial debt		110	86
Net interest paid		(77)	(82)
Net change in interest income (expense)		33	4
Other components with no cash impact		8	1
Cash flows provided by operating activities, before changes in net working capital		**1,656**	**1,449**
(Increase) decrease in inventories		(313)	(73)
Increase) decrease in trade receivables		54	(463)
Increase (decrease) in trade payables		120	403
Change in other receivables and payables		(212)	65
Change in working capital requirements		(352)	(68)
Cash flows provided by (used in) operating activities		**1,305**	**1,381**
Capital expenditure [(a)]		(381)	(390)
Proceeds from the disposal of property, plant and equipment [(a)]		4	13
Net cash outflows on purchases of subsidiaries and financial investments [(b)]	4.3	(68)	(251)
Net cash inflows on disposal of subsidiaries and financial investments [(b)]	5.2	-	1,617
(Increase) decrease in long-term loans and other financial assets		(38)	9
Cash flows provided by (used in) investment activities		**(483)**	**997**
Increase in share capital and additional paid-in capital		-	44
Purchase of treasury shares (net of disposals)		-	-
Interest on undated subordinated notes		(22)	(22)
Dividends paid to Danone shareholders [(c)]		-	(1,261)
Buyout of non-controlling interests		(58)	(0)
Dividends paid to non-controlling interests		(45)	(37)
Contribution from non-controlling interests to capital increases		-	1
Transactions with non-controlling interests		(103)	(37)
Net cash flows on hedging derivatives [(d)]		4	(13)
Bonds issued during the period	10.1	1,600	1,000
Bonds repaid during the period	10.1	(550)	(61)
Net cash flows from other current and non-current financial debt	10.1	(84)	(59)
Net cash flows from short-term investments		(1,500)	(1,986)
Cash flows provided by (used in) financing activities		**(655)**	**(2,395)**
Effect of exchange rate and other changes [(e)]		(42)	28
Increase (decrease) in cash and cash equivalents		**125**	**11**
Cash and cash equivalents as of January 1		**644**	**593**
Cash and cash equivalents as of June 30		**769**	**604**

(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) Portion paid in cash. In 2020, the dividend for the 2019 fiscal year had been paid on July 16.

(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

(in € millions)	As of January 1, 2021	Changes during the period: 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	As of June 30, 2021
Share capital	**172**		0							**172**
Additional paid-in capital	**5,889**		44							**5,932**
Retained earnings and others [(a)]	**17,374**	1,068			14	(1,261)	(14)	(43)	35	**17,173**
Translation adjustments	**(4,867)**	485						(1)		**(4,383)**
Gains and losses related to hedging derivatives, net of tax	**(178)**	(4)								**(182)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax	**35**	(9)								**26**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	**(624)**	78								**(547)**
Other comprehensive income	**(768)**	**65**	-	-	-	-	-	-	-	**(703)**
DANONE treasury shares	**(1,595)**			1						**(1,594)**
Equity – Group share	**16,205**	**1,617**	**44**	**1**	**14**	**(1,261)**	**(14)**	**(44)**	**35**	**16,597**
Non-controlling interests	**93**	50	1			(37)		(10)	3	**99**
Consolidated equity	**16,298**	**1,667**	**45**	**1**	**14**	**(1,298)**	**(14)**	**(54)**	**38**	**16,696**

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

(in € millions)	As of January 1, 2020	Changes during the period: 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) See Notes 11.2 and 14.1 of the Notes to the condensed interim consolidated financial statements for the period ended June 30, 2020.

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 for the six-month period ending June 30, 2021, 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 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 the Covid-19 pandemic and as part of Local First plan (see Note 3 of the Notes to the consolidated financial statements).

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, 2020 (see Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2020, as well as the accounting principles detailed in these Notes), except for standards, amendments and interpretations applicable for the first time as of January 1, 2021.

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2021

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in connection with Interest Rate Benchmark Reform – Phase 2: see Note 1.4 of the Notes to the consolidated financial statements.

Main standards, amendments and interpretations published by the IASB whose application is not mandatory as of January 1, 2021 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, 2021 and considers that they should not have a material impact on its results and financial situation.

Note 1.3. Application of IAS 29

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.

Application and main accounting implications

Danone applies IAS 29 to Argentina and Iran, since respectively 2018 and 2020 annual consolidated financial statements.

As regards the application to Argentina and for 2021 interim consolidated financial statements, Danone has used (i) the Consumer Price Index (CPI) to remeasure its income statement items, cash flows and non-monetary assets and liabilities, up 21% during the first half of 2021, and (ii) the EURARS rate for the conversion of the income statement amounts of 113.47 (78.65 as of June 30, 2020 and 103.0 as of December 31, 2020). The application of IAS 29 resulted in a €51 million impact in consolidated equity and in non-monetary assets net of non-monetary liabilities as of June 30, 2021 (€46 million as of June 30, 2020) and had the following main impacts on consolidated income statement of 2021 first semester:

- a €12 million increase in consolidated Sales and a €16 million decrease in Recurring operating income (respectively a €10 million decrease and a €11 million decrease in 2020 first semester);
- a €1 million positive impact on the net monetary position recognized in Other financial expense (negative impact of €2 million in 2020 first semester);
- a €16 million expense in consolidated Net income – Group share (a €19 million expense in 2020 first semester).

As regards Iran, application of IAS 29 did not have a material impact on the 2021 interim consolidated financial statements.

Note 1.4. Amendment to IFRS 9

For Danone, after identifying contracts, interest rate benchmark reform concerns its framework agreements related to its financial instruments, its documentation of syndicated and bilateral credit facilities and various local credit facilities indexed on Libor.

The Group does not anticipate a material impact from this reform. It did not modify any benchmarks specified in its framework agreements in the first half of 2021. The Group will perform it and amend such agreements accordingly as from the second half of 2021.

Note 2. Highlights of the period

Note 2.1. Changes in governance

Further to a decision to initiate the process of separating the functions of Chairman of the Board and Chief Executive Officer on March 1, 2021, the Board of Directors, at its meeting on March 14, 2021, reviewed the company's corporate governance and decided that Emmanuel FABER would step down as Chairman and Chief Executive Officer with immediate effect. The Board appointed Gilles SCHNEPP as the independent non-executive Chairman of the Board of Directors, and appointed Véronique PENCHIENATI-BOSETTA and Shane GRANT to jointly lead the business as interim co-CEOs, until the appointment of a new Chief Executive Officer.

On May 17, 2021, Danone announced the appointment of Antoine DE SAINT-AFFRIQUE as Chief Executive Officer, effective September 15, 2021. He will succeed the joint interim leadership of Véronique PENCHIENATI-BOSETTA and Shane GRANT. The Board of Directors also decided to propose Antoine DE SAINT-AFFRIQUE as a new member to the Board of Danone for appointment at the next annual Shareholders' Meeting in April 2022.

Emmanuel FABER's departure had no significant impact on the 2021 interim consolidated financial statements in view of the compensation perceived upon his departure:

- fixed and variable compensations granted for the 2021 fiscal year until the termination date of his functions as Chair and Chief Executive Officer;
- no severance nor non-compete indemnity;
- retention of benefit of the GPS granted to him in 2017, 2018, 2019 and 2020, *prorata temporis* based on the acquisition period of the plans concerned until his departure from the Company, and subject to the achievement level of the performance conditions attached thereto. The corresponding expense has been written back for the share related to the residual acquisition period from his departure date, in accordance with IFRS 2, *Share-based Payment*, the related impact being not significant.

Note 2.2. Other highlights

	Notes
Local First plan for Danone's new organization	3
Signature of an agreement to sell Vega (EDP, Noram)	4.1
Acquisition of Follow Your Heart (EDP, Noram)	4.2
Disposal of the stake in Mengniu (Fresh dairy, China)	5.2

Note 3. Local First plan for Danone's new organization

Note 3.1. Context

In light of the global spread of the Covid-19 health crisis and the emergence of a radically changed environment, Danone announced, on October 19, 2020, to implement a new organization to (i) best serve its strategy and (ii) optimize the execution of its transformation and adaptation plans, (iii) by being better adapted and more agile at the local level:

- move from a category-led global organization to a local geography-led organization: Local First plan;
- integration of the value chain, End-to-End Design to Delivery: creation of a new strategic function, integrating global and local capabilities from Research & Innovation, Cycles & Procurement, Operations (manufacturing and supply chain) and Quality.

Note 3.2. Impacts on the consolidated financial statements in the first half of 2021

Operating segments and CGUs

The implementation of the new geography-led organization is ongoing, and, during the first half of 2021, Danone continues to organize and animate its businesses and performance around the three categories EDP, Waters and Specialized Nutrition. Thus, the Group did not modify its operating segments nor its CGUs as of June 30, 2021.

Accounting principles

Being a strategic restructuring, its effects are accounted for as Other operating income and expense (see Note 7.1 of the Notes to the consolidated financial statements).

Employee-related measures

Employee-related measures consist mainly of severance packages and supporting measures. Provisions for their related costs are recognized when the main features of the plan are announced to the affected employees or their representatives when applicable. As of June 30, 2021, provisions are measured based on the Group's best estimate at that date. Such estimate relies on the changes in the organization as announced as well as assumptions for rate of internal reclassification and supporting measures, based on age, seniority and wages by level of qualification of the positions concerned. The second half will mark the execution of the announced plans and could therefore lead to significant changes in these assumptions, notably in main countries (Europe and in particular France).

As of June 30, 2021, the provisions for retirement obligations and other long-term benefits have been revalued to reflect the effects of the announced plans. They are fully recognized in the income statement of the period, in accordance with IAS 19, *Employee Benefits*.

Other operating income (expense) in the first half of 2021

		Six-month period ended June 30, 2021
(in € millions)	Notes	**Related income/(expense)**
Employee-related measures [(a)]	12.2	(564)
Effects on the provisions for retirement obligations and other long-term benefits		23
Other [(b)]		(37)
Total	7.1	(578)

(a) Of which around €530 million correspond to provisions. Concern mainly European countries and notably France, given the agenda of the consultation process with social partners.

(b) Related mainly to consulting and other external supports.

Note 4. Fully consolidated companies

Note 4.1. Signature of an agreement to sell Vega (EDP, Noram)

On June 17, 21, Danone announced the signature of an agreement to sell Vega to funds managed by WM Partners. The sale of Vega is part of Danone's continuous capital allocation optimization and of the strategic review of Danone's portfolio of brands, SKUs and assets announced in October 2020.

The expected selling price does not question the accounting value of the associated assets and liabilities. They have been reclassified as held for sale as of June 30, 2021, in accordance with IFRS 5. Indeed, the closing of the transaction being subject to customary conditions, it should take place in the next 12 months following closing date.

Note 4.2. Main changes

				Ownership as of	
(in percentage)	**Reporting Entity**	**Country**	**Transaction date [(a)]**	**December 31, 2020**	**June 30, 2021**
Main companies consolidated for the first time during the period					
Harmless Harvest	Waters	United States	January	39.2%	51.0%
Follow Your Heart	EDP	United States	April	-	100%
Main consolidated companies with changes in ownership percentage					
-	-	-	-	-	-
Main companies no longer fully consolidated during the period					
- -	-	-	-	-	-

(a) Month in the 2021 fiscal year.

Main changes during the first half of 2020

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

Note 4.3. Accounting for acquisitions resulting in control being obtained in the first half of 2021

The business combinations carried out in the first half of 2021 have been accounted for on a provisional basis since the amounts allocated to the acquired identifiable assets and liabilities and to goodwill may be adjusted during a period of one year from the respective date of each of these combinations.

Since these transactions are not material on an individual basis, they have been grouped for the purposes of the preparation of the information provided hereafter.

These acquisitions had no significant impact on the 2021 interim consolidated financial statements:

- they did not have a significant impact on the consolidated income statement, in particular regarding their acquisition-related expenses, and would not have had a material impact if they had been realized on January 1, 2021;
- they are not subject to contingent payments (earn-outs) or put options granted to non-controlling interests that are significant;
- they are paid (or to be paid) in cash.

Purchase prices allocation

	As of acquisition date
(in € millions)	**2021**
Net assets at 100%	72
Net assets attributable to non-controlling interests [(a)]	(7)
Partial goodwill [(b)]	205
Fair value, at the date control is acquired, of the consideration paid or to be paid to the sellers	**270**

(a) For each of the subsidiaries not fully acquired, the non-controlling interests are recognized at their share of the fair value of the entity's assets and liabilities.

(b) Provisional goodwill.

Note 4.4. Liabilities related to put options granted to non-controlling interests

Change during the period

(in € millions)	2020	2021
As of January 1	**482**	**363**
New options and options recognized previously in accordance with IFRS 9	7	39
Options exercised [(a)]	(90)	(0)
Changes in the present value of outstanding options	(37)	15
As of December 31 / June 30 [(b)]	**363**	**416**

(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 2021

					Ownership as of	
	Notes	**Reporting Entity**	**Country**	**Transaction date [(a)]**	**December 31, 2020**	**June 30, 2021**
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						
Harmless Harvest		Waters	United States	January	39.2%	51.0%
Mengniu	5.2	Fresh dairy	China	May	9.8%	-

(a) Month in the 2021 fiscal year.

Main changes in the first half of 2020

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

Note 5.2. Disposal of the stake in Mengniu (Fresh dairy, China)

Background to this equity interest

Danone had an interest in Mengniu (9.8%), while becoming a strategic shareholder in 2013 after the signing of agreements with COFCO, the majority shareholder of that company, to accelerate the development of fresh dairy products in China.

Disposal of the investment

As a result of its assets review, Danone has decided to sell its stake in Mengniu, which shares were classified as assets held for sale in accordance with IFRS 5 as of December 31, 2020.

The sale was finalized on May 13, 2021, after completion of the regulatory process. It generated sales proceeds of €1.6 billon and a gain, after selling expenses, of €590 million, presented within Share of profit of associates of the first half of 2021.

Besides, in accordance with the terms of the shareholders' agreement, Danone is engaged in a selling process of its 20% stake in the joint venture established jointly with Mengniu in 2014 for the production and sale of fresh dairy products in China. The related investment in associates is therefore qualified as assets held for sale under IFRS 5 as of June 30, 2021. Danone has not identified any element that would lead to consider as inappropriate its net book value, based on the information available at that date.

Note 5.3. 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, 2021

Yashili (Specialized Nutrition, China)

As of December 31, 2020, as for June 30, 2021, Yashili's stock price relative to the average purchase price of the shares represented an indication of impairment.

As of June 30, 2021, the carrying amount of the investment in Yashili (€233 million) was tested for impairment based on estimated future cash flows of the updated business plan prepared by Yashili's management in respect of the 2021 to 2025 period.

The discount rate and long-term growth rate assumptions were maintained at 8.6% and 3.0% respectively. The test carried out at end of June 2021 did not result in the amount of the impairment provisions recognized in previous fiscal years being revised.

The sensitivity analysis on the key assumptions used in the calculation of this value-in-use, taken individually, does not indicate any additional impairment:

Assumptions	Indicators	Impairment *(in € millions)*
(500) bps	Sales growth [(a)]	-
(500) bps	Recurring operating margin [(a)]	-
(100) bps	Long-term growth rate	-
+100 bps	Discount rate	-

(a) Decrease applied each year as per the long-term (five-year) plan.

Other investments in associates

Danone did not record any impairment on other investments in associates during the first half of 2021.

Note 6. Information concerning recurring operating activities

Note 6.1. General principles

In the first half of 2021, the primary operational decision-makers (the interim Chief Executive Officer, Véronique PENCHIENATI-BOSETTA, and the Chief Financial, Technology & Data Officer, Jürgen ESSER) continued to monitor Danone's businesses by category (see Note 3 of the Notes to the consolidated financial statements). The operating segments correspond to the EDP, Specialized Nutrition and Waters Reporting Entities.

The key indicators reviewed and used internally by the primary operational decision-makers to assess operational performance are:

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

Only these indicators are monitored by Reporting Entity: the other key indicators reviewed and used internally by the primary operational decision-makers are monitored at Group level.

Note 6.2. Operating segments

Information by Reporting Entity

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
Six-month period ended June 30	2020	2021	2020	2021	2020	2021
EDP	6,599	6,406	598	584	9.1%	9.1%
Specialized Nutrition	3,739	3,513	987	804	26.4%	22.9%
Waters	1,851	1,916	117	163	6.3%	8.5%
Group total	**12,189**	**11,835**	**1,702**	**1,551**	**14.0%**	**13.1%**

(a) Sales to third parties.

Reporting by geographical area

Sales, Recurring operating income and Recurring operating margin

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
Six-month period ended June 30	2020	2021	2020	2021	2020	2021
Europe and Noram [b]	6,822	6,784	880	898	12.9%	13.2%
Rest of the World	5,368	5,051	822	653	15.3%	12.9%
Group total	**12,189**	**11,835**	**1,702**	**1,551**	**14.0%**	**13.1%**

(a) Sales to third parties.
(b) Including sales of €1,007 million generated in France in the first half of 2021 (€1,020 million in the first half of 2020).

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

	As of December 31	As of June 30
(in € millions)	**2020**	**2021**
Europe and Noram [a]	22,576	23,014
Rest of the World	7,032	7,165
Group total	**29,609**	**30,179**

(a) Including €2,580 million in France as of June 30, 2021 (€2,528 million as of December 31, 2020).

Note 6.3 Fair value of trade receivables and payables

	As of December 31	As of June 30
(in € millions)	**2020**	**2021**
Trade receivables	2,714	3,183
Impairment provisions	(106)	(103)
Fair value of trade receivables	**2,608**	**3,080**
Rebates payable to customers [a]	(1,228)	(1,399)
Fair value of trade receivables net of discounts granted	**1,381**	**1,682**

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

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

Note 7.1. Other operating income (expense)

Accounting principles

Other operating income and expense 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 or 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 2021

In the first half of 2021, the Other operating income (expense) totaled €(700) million corresponding mainly to the following items:

		Six-month period ended June 30, 2021
(in € millions)	Notes	**Related income/(expense)**
Local First plan	3	(578)
Transformation of Danone's operations	7.2	(84)
Impairment of intangible assets	9.3	(26)

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)	**Related income/(expense)**
Transformation of Danone's operations	(64)
Impairment of two brands of the EDP Reporting Entity	(38)
Integration of Early Life Nutrition and Advanced Medical Nutrition businesses	(18)

Note 7.2. Transformation of Danone's operations

Danone has continued over the first half of 2021 the transformation and adaptation of its operations across its entire value chain. Other operating expenses recognized for the first half of 2021 concern the transformation of the operations, mostly those of EDP activities, and mainly relate to costs for employee-related measures, impairment of tangible assets as well as consulting and other external supports.

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.

On this basis, the effective tax rate stood at 30.2% for the first half of 2021, increasing compared to 26.8% for the first half of 2020, mainly due to non-recurring elements recognized over the period and that are excluded from the projection of the effective income tax rate for the fiscal year.

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 changes during the period

	2020				2021			
(in € millions)	**Goodwill**	**Brands [a]**	**Other intangible assets**	**Total**	**Goodwill**	**Brands [a]**	**Other intangible assets**	**Total**
Gross value								
As of January 1	**18,125**	**6,329**	**348**	**24,803**	**17,016**	**5,669**	**351**	**23,037**
Changes in consolidation scope	66	–	48	**114**	205	–	0	205
Capital expenditure	–	–	80	**80**	–	–	29	29
Disposals	–	–	(2)	**(2)**	–	–	(0)	(0)
Classification as assets held for sale	–	–	–	**–**	(107)	(122)	(2)	(230)
Translation adjustments	(1,273)	(379)	(21)	**(1,673)**	380	85	5	470
Impairment [b]	(32)	(288)	(43)	**(363)**	(7)	(19)	(1)	(27)
Amortization charges	–	(2)	(94)	**(97)**	–	(1)	(50)	(51)
Other	130	9	36	**175**	(2)	8	23	29
As of December 31 / June 30	**17,016**	**5,669**	**351**	**23,037**	**17,486**	**5,620**	**355**	**23,461**
Of which amortization		*(25)*	*(1,003)*			*(29)*	*(1,060)*	

(a) Includes brands with indefinite useful lives and the other brands (€78 million as of June 30, 2021).

(b) In 2020, the impairment losses relating to Other intangible assets with finite useful lives included a €33 million impairment provision in respect of customer relationships of the away-from-home segment resulting from the purchase price allocation process of the WhiteWave group companies acquired in 2017. This impairment reflected the effects of the pandemic crisis of Covid-19 on this segment.

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)	**2020**	**2021**
EDP		
Noram	7,805	8,000
Centrale Danone	189	174
Danone CIS [(a)]	240	253
Europe	2,593	2,604
Other CGUs [(b)]	238	236
Total EDP	**11,064**	**11,267**
• of which, goodwill	8,129	8,407
• of which, brands with indefinite useful lives [(c)]	2,935	2,860
Waters		
Danone Waters France	428	428
Other CGUs [(d)]	288	322
Total Waters	**716**	**750**
• of which, goodwill	536	571
• of which, brands with indefinite useful lives [(e)]	180	179
Specialized Nutrition		
Global Specialized Nutrition	10,664	10,840
Happy Family	166	171
Total Specialized Nutrition	**10,830**	**11,011**
• of which, goodwill	8,351	8,508
• of which, brands with indefinite useful lives [(f)]	2,478	2,502
Total	**22,610**	**23,028**
• of which, goodwill	17,016	17,486
• of which, brands with indefinite useful lives	5,594	5,542

(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*.
(d) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €150 million as of June 30, 2021 or December 31, 2020.
(e) Consists of several brands, the largest of which is *Volvic*.
(f) Consists of several brands, the largest of which are *Nutricia* and *Milupa*.

Note 9.3. Measurement review

As of June 30, 2021, the Group has performed the measurement review of its non-current assets on the basis of historical CGUs (see Note 3 of the Notes to the consolidated financial statements).

Goodwill and brands with indefinite useful lives of the CGUs in the Waters Reporting Entity

Over the first half of 2021, the pandemic continued to have an impact on the Waters Reporting Entity's activities, due to their significant exposure to away-from-home consumption.

However, their indefinite-life intangible assets accounted for less than 4% of total consolidated intangible assets and did not result from any recent transactions. Consequently, their recoverable amount significantly exceeds their carrying amount, including after taking into account assumptions of a major and prolonged downturn in activity due to the health crisis.

As of June 30, 2021, similar to December 31, 2020, this Reporting Entity's recoverable amounts have therefore been measured on the basis of scenarios in which a return to pre-Covid activity levels only happens in the final year. These scenarios did not indicate any impairment.

Goodwill and brands with indefinite useful lives of the CGUs in the EDP and Specialized Nutrition Reporting Entities

As of June 30, 2021, the Group identified indicators of impairment for certain CGUs of EDP in Africa. Following the impairment tests performed, the Group recognized a €26 million total impairment provision in respect of one CGU and one brand.

As regards the Specialized Nutrition Reporting Entity, no indicator of impairment was identified as of June 30, 2021.

Note 10. Financing and net debt

Note 10.1. Financing situation

(in € millions)	As of December 31, 2020	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, 2021
Financing managed at Company level									
Bonds – non-current portion	11,493	1,000				37	(693)		11,837
Bonds – current portion	1,846		(61)			35	693		2,513
Commercial papers [a]	1,492			4		6			1,502
Total	14,831	1,000	(61)	4	-	78	-	-	15,852
Lease debt									
Non-current portion	744			(2)		118	(88)	2	774
Current portion	222			(118)		23	88	0	215
Total	966	-	-	(120)	-	141	-	3	990
Other financing arrangements [b]									
Non-current portion	36			(1)		(2)	(3)	8	38
Current portion	202			57	4	3	6	5	277
Total	237	-	-	56	4	1	4	13	315
Total	**16,034**	**1,000**	**(61)**	**(59)**	**4**	**220**	**4**	**15**	**17,156**

(a) As of December 31, 2020 and June 30, 2021, these were included in current financial debt.
(b) Subsidiaries' bank financings.
(c) Concerning the lease debt, corresponds mainly to new financing in the period.

Note 10.2. Net debt

	As of December 31	As of June 30
(in € millions)	**2020**	**2021**
Non-current financial debt	12,343	12,733
Current financial debt	4,157	4,922
Short-term investments	(3,680)	(5,686)
Cash and cash equivalents	(593)	(604)
Derivatives - assets - Non-current [a]	(259)	(179)
Derivatives - assets - Current [a]	(27)	(72)
Net debt	**11,941**	**11,114**

(a) Used to manage net debt.

Note 11. Earnings per share – Group share

	Six-month period ended June 30	
(in € per share, except number of shares)	**2020**	**2021**
Net income - Group share	1,015	1,068
Coupon relating to hybrid financing, net of tax	(7)	(8)
Adjusted net income - Group share	1,007	1,060
Number of outstanding shares		
As of January 1	648,871,267	649,795,910
Effect of changes during the period	-	1,019,838
As of June 30	648,871,267	650,815,748
Average number of outstanding shares		
• Before dilution	648,871,267	650,135,856
Dilutive impacts		
Group performance shares	838,837	559,184
• After dilution	649,710,104	650,695,040
Net income – Group share, per share		
• Before dilution	1.55	1.63
• After dilution	1.55	1.63

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

	As of December 31	As of June 30
(in € millions)	**2020**	**2021**
Other non-current provisions	513	1,214
Other non-current liabilities [(a)]	591	589
Total [(b)]	**1,104**	**1,803**

(a) These relate to uncertain income tax positions.
(b) The current portion totaled €299 million as of June 30, 2021 (€71 million as of December 31, 2020).

Changes in Other provisions

		Movements during the period						
(in € millions)	As of December 31, 2020	Changes in consolidation scope	Increase	Reversal of provisions used	Reversal of provisions not used	Translation adjustments	Other	As of June 30, 2021
Tax and territorial risks [(a)]	92	-	2	(3)	(0)	6	1	96
Employee-related and commercial disputes and other provisions	354	-	196	(14)	(10)	2	(2)	527
Restructuring provisions [(b)]	67	-	535	(10)	(2)	0	1	592
Total	**513**	**-**	**732**	**(27)**	**(12)**	**8**	**(0)**	**1,214**

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

(b) Of which around €530 million increase related to Local First plan (see Note 3 of the Notes to the consolidated financial statements).

Changes in Other provisions during the first half of 2021 were as follows:

- increases resulting primarily from Local First plan (see Note 3 of the Notes to the consolidated financial statements) and from lawsuits and commitments concerning 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.

As of June 30, 2021, 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 certain 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 its profitability.

Note 12.3. Legal and arbitration proceedings

In general, the Company and its subsidiaries are parties to legal proceedings arising in the normal course of business, in particular by customs and 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 its 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 April 29, 2021 authorized the Board of Directors to grant Group performance shares in 2021 to certain Group employees and executive directors (including the Executive Committee).

The grant under the 2021 authorization will be performed in the second half of 2021, subject to its approval by the Board of Directors on July 28, 2021.

Note 14. Subsequent events

To the Company's knowledge, no material events occurred between the end of the reporting period and July 28, 2021, the date on which the Board of Directors examined 2021 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 general 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 review of the accompanying condensed interim consolidated financial statements of Danone, for the period from January 1st to June 30, 2021;
- the verification of the information presented in the interim management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed interim consolidated financial statements of this period have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our procedures.

These condensed interim consolidated financial statements are under the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our 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 applicable to interim financial information.

2. Specific verification

We have also verified the information presented in the interim management report on the condensed interim consolidated financial statements subject to our 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 28, 2021

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit		ERNST & YOUNG Audit
Marjory GODEC	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 28, 2021

Chief Executive Officer,

Véronique PENCHIENATI-BOSETTA

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