Danone

2022 INTERIM FINANCIAL REPORT

DANONE
A FRENCH CORPORATION (SOCIÉTÉ ANONYME) WITH SHARE CAPITAL OF €168 946 900
REGISTERED OFFICE: 17, BOULEVARD HAUSSMANN, 75009 PARIS
PARIS TRADE AND CORPORATE REGISTER NUMBER: 552 032 534

2022

INTERIM FINANCIAL REPORT

**FOR THE SIX-MONTH PERIOD
ENDED JUNE 30, 2022**

The English version of the 2022 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 “Category” or “Categories” 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” zone refer to the region that includes Europe except CIS (Commonwealth of Independent States);
- all references herein to the “North America” zone refer to the region that includes the United States and Canada;
- all references herein to the “China, North Asia & Oceania” zone refer to the region that includes China, Japan, Australia and New Zealand;
- all references herein to the Rest of World zone refer to the region that includes the Latin America, South-East Asia, Africa, Turkey, 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, 2022;
- 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 rounded amounts may differ slightly from the reported totals. 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 the *Financial indicators not defined in IFRS* section:

- 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 2022 business review and 2022 outlook

Business highlights

2022 first-half results

- **Net sales of €13,325m in H1 2022, up +7.4%** on a like-for-like (LFL) basis and +12.6% on a reported basis
- **Strong sales growth in Q2 at +7.7% LFL**, led by price up +6.8% and volume/mix up +0.9%
- **Continued good momentum across categories and geographies**
    - +8.9% in North America driven by coffee creamers, yogurts and plant-based
    - +5.1% in Europe led by Specialized Nutrition and Waters
    - +3.3% in China, North Asia & Oceania led by Specialized Nutrition, while Mizone was penalized by Covid-related restrictions and lockdowns
    - +12.3% in Rest of the World with all categories contributing
- **Recurring operating margin at 12.1%**: focus on revenue growth management and productivity efforts, reinvestment journey kickstarted
- **Recurring EPS at €1.63**, +7.2% from last year; **€0.7bn free cash flow**
- **2022 guidance updated**: LFL net sales growth now expected between +5 and +6%, recurring operating margin above 12% confirmed

Antoine de Saint-Affrique: CEO statement

"This strong first half, with broad-based progress despite an unprecedented external environment, is a testimony to the resilience, the focus and the engagement of all Danoners. We started deploying our Renew Danone agenda with discipline and consistency, further accelerating our growth in Q2: we show good momentum across many facets of the business from Aptamil to Waters or North America, to name a few. While the quality of our first half delivery is encouraging and leads us to now expect a +5 to +6% like-for-like sales growth for the full year, this is only the start of our Renew journey: we believe there is still much we can do to bring Danone where we want it to be and deliver on both our purpose and our business ambition."

Key figures

	Six-month period ended June 30			
(in € millions except if stated otherwise)	**2021**	**2022**	**Reported changes**	**Like-for-like changes[(a)]**
Sales	**11,835**	**13,325**	**+12.6%**	**+7.4%**
Recurring operating income[(a)]	**1,551**	**1,612**	**+3.9%**	**+0.5%**
Recurring operating margin[(a)]	**13.1%**	**12.1%**	**-101 bps**	**-88 bps**
Non-recurring operating income (expense)	(700)	(233)	467	
Operating income	851	1,380	+62.0%	
Operating margin	7.2%	10.4%	+316 bps	
Recurring net income – Group share[(a)]	**1,000**	**1,051**	**+5.1%**	
Non-recurring net income – Group share	68	(314)	-381	
Net income – Group share	1,068	737	-31.0%	
Recurring EPS *(in €)*[(a)]	**1.53**	**1.63**	**+7.2%**	
EPS *(in €)*	1.63	1.14	-29.8%	
Free cash flow[(a)]	**1,009**	**674**	**-33.2%**	
Cash flows provided by operating activities	1,381	970	-29.8%	

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

Board renewal

At Danone's Annual General Meeting of April 26, 2022, the shareholders approved all resolutions submitted for approval by the Board of Directors, including the distribution of a dividend of €1.94 per share in cash, in line with last year, as well as the appointment of all candidates proposed to join the Board of Directors – Antoine de Saint-Affrique, Patrice Louvet, Géraldine Picaud and Susan Roberts – and the ratification of the co-opting of Valérie Chapoulaud-Floquet as Director.

Key financial transactions and events in H1 2022

(from press releases issued in the past six months of 2022)

- On April 29, 2022, Danone and Compañía Cervecerías Unidas (CCU) announced a strategic alliance as a result of which CCU Argentina acquired a large minority stake in Aguas Danone de Argentina. This partnership will allow both companies to enrich their beverage offerings and strengthen their operations in the country.
- On May 6 2022, Danone announced that it agreed to sell to Mengniu the 25% stake the company holds in Yashili and the 20% stake it holds in the Inner Mongolia Dairy Joint Venture. In parallel, Danone will acquire from Yashili 100% of Dumex Baby Food Co Ltd, a Chinese manufacturer of Infant Milk Formula products. China remains highly strategic for Danone, and the announcement will notably allow the company to further expand its ability to manufacture Infant Milk Formula products locally. In line with Danone's capital allocation priorities, the expected proceeds will be dedicated to further deleveraging the company.

Consolidated net income review

Sales

Consolidated sales

In the first half of 2022, consolidated sales stood at €13.3 billion, up +7.4% on a like-for-like basis, with a +6.1% contribution from price and a +1.3% contribution from volume/mix. On a reported basis, sales increased by +12.6%, benefiting from a positive forex impact of +4.2%, notably reflecting the appreciation of the US dollar, the British pound and various Asian and Latin American currencies against the euro. Reported sales were also impacted by a positive organic contribution of hyperinflationary geographies to growth of +0.9%, as well as a slightly negative scope effect of -0.4%, resulting from the combined impacts of the integration of Follow Your Heart and the disposal of Vega.

Consolidated sales by geographical zone and by category

Six-month period ended June 30

(in € millions except percentage)	**2021**	**2022**	**Reported changes**	**Like-for-like changes**	**Like-for-like volume growth**
By geographical zone					
Europe	4,142	4,382	+5.8%	+5.4%	+1.6%
North America	2,707	3,139	+16.0%	+7.2%	+1.7%
China, North Asia & Oceania	1,430	1,671	+16.9%	+8.3%	+6.1%
Rest of the World	3,556	4,132	+16.2%	+9.7%	-1.5%
By category					
EDP	6,406	7,062	+10.2%	+4.6%	-2.4%
Specialized Nutrition	3,513	4,029	+14.7%	+10.4%	+6.3%
Waters	1,916	2,234	+16.6%	+11.2%	+4.2%
Total	**11,835**	**13,325**	**+12.6%**	**+7.4%**	**+1.3%**

Recurring operating income and recurring operating margin

Consolidated recurring operating income and recurring operating margin

Danone's recurring operating income reached €1.6 billion in H1 2022. Recurring operating margin stood at 12.1%, down -101 basis points (bps) on a reported basis and -88 bps on a like-for-like basis compared to last year. This decrease was mainly driven by the strong negative impact of input-cost inflation net of productivity, estimated at c. -610 bps. This negative effect was partially offset by the positive effect of topline drivers – which include volume, mix and price – for a combined estimated impact of c. +440 bps.

Danone has kickstarted its reinvestment journey, focusing notably on product superiority and capabilities, with reinvestments having a negative effect of -10 bps in H1. Finally, overheads before reinvestments had a positive effect of +111 bps, reflecting the savings achieved as part of Local First.

In addition to like-for-like effects, reported margin also includes the negative impact of forex and other rates, changes in scope and an organic contribution from hyperinflationary countries for a total combined effect of -29 bps.

Recurring operating income, recurring operating margin by geographical zone and by category

	Six-month period ended June 30					
	Recurring operating income		**Recurring operating margin**			
(in € millions except percentage and bps)	**2021**	**2022**	**2021**	**2022**	**Reported changes**	**Like-for-like changes**
By geographical zone						
Europe	625	574	15.1%	13.1%	-199 bps	-183 bps
North America	283	254	10.4%	8.1%	-235 bps	-245 bps
China, North Asia & Oceania	423	534	29.6%	32.0%	+240 bps	+240 bps
Rest of the World	221	250	6.2%	6.1%	-16 bps	+17 bps
By category						
EDP	616	494	9.6%	7.0%	-262 bps	-257 bps
Specialized Nutrition	769	933	21.9%	23.2%	+128 bps	+180 bps
Waters	166	185	8.6%	8.3%	-39 bps	-106 bps
Total	**1,551**	**1,612**	**13.1%**	**12.1%**	**-101 bps**	**-88 bps**

- **Europe** posted **sales** growth of +5.4% in H1 2022 on a like-for-like basis and recurring operating margin stood at 13.1%, down -199 bps compared to last year.
- **North America** posted +7.2% sales growth in H1 2022 on a like-for-like basis and recurring operating margin decreased by -235 bps to 8.1%.
- **China, North Asia & Oceania** posted sales growth of +8.3% in H1 2022 on a like-for-like basis and recurring operating margin was up +240 bps to 32.0%.
- **Rest of the World** registered sales growth of +9.7% in H1 2022 on a like-for-like basis and recurring operating margin was broadly stable at 6.1% (-16 bps).

Other operating income (expense)

Other operating income (expense) represented -€233 million vs -€700 million in the prior year. In 2021, the net other operating expense of -€700 million resulted primarily from one-off implementation costs of the Local First project and from investments related to the transformation of Danone's operations. As a result, reported operating margin was up +316 bps from 7.2% to 10.4%.

Financial income and expense

Net financial expense increased by €12 million to -€141 million, resulting from the appreciation of the US dollar against the euro.

Tax rate

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

Share of profit of associates

Share of profit of associates decreased significantly from €602 million to -€89 million, reflecting the impact of the Mengniu disposal in H1 2021 and impairment related to the disposal of the remaining non-controlling investments in Mengniu partnerships announced in H1 2022.

Non-controlling interests

Non-controlling interests in recurring net income stood at €37 million, broadly in line with the prior year, reflecting a performance across entities held by non-controlling shareholders still under pressure.

Recurring net income – Group share and recurring EPS

EPS decreased by -29.8% to €1.14, while recurring EPS was up +7.2% to €1.63.

Bridge from net income – Group share to recurring net income – Group share

(in € millions except if stated otherwise)	2021 Recurring	2021 Non-recurring	2021 Total	2022 Recurring	2022 Non-recurring	2022 Total
	Six-month period ended June 30					
Recurring operating income	**1,551**		**1,551**	**1,612**		**1,612**
Other operating income (expense)		(700)	(700)		(233)	(233)
Operating income	**1,551**	**(700)**	**851**	**1,612**	**(233)**	**1,380**
Cost of net debt	(87)		(87)	(78)		(78)
Other financial income and expense	(43)	0	(42)	(69)	6	(63)
Income before tax	**1,422**	**(699)**	**722**	**1,466**	**(227)**	**1,239**
Income tax	(391)	173	(218)	(403)	28	(376)
Effective tax rate	27.5%		30.2%	27.5%		30.3%
Net income from fully consolidated companies	**1,031**	**(527)**	**504**	**1,063**	**(199)**	**863**
Share of profit of associates	9	593	602	25	(114)	(89)
Net income	**1,040**	**66**	**1,106**	**1,088**	**(313)**	**774**
• Group share	**1,000**	**68**	**1,068**	**1,051**	**(314)**	**737**
• Non-controlling interests	40	(2)	38	37	0	37
EPS *(in €)*	**1.53**		**1.63**	**1.63**		**1.14**

Bridge from EPS to recurring EPS

	2021 Recurring	2021 Total	2022 Recurring	2022 Total
	Six-month period ended June 30			
Net income – Group share *(in € millions)*	1,000	1,068	1,051	737
Coupon relating to hybrid financing net of tax *(in € millions)*	(8)	(8)	(7)	(7)
Number of shares				
• Before dilution	650,135,856	650,135,856	638,514,268	638,514,268
• After dilution	650,695,040	650,695,040	638,827,268	638,827,268
EPS *(in €)*				
• Before dilution	1.53	1.63	1.64	1.14
• After dilution	1.53	1.63	1.63	1.14

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

(in € millions except percentage)	Six-month period ended June 30, 2021	Impact of changes in scope of consolidation	Impact of changes in exchange rates and other, including IAS 29	Organic contribution from hyperinflationary countries	Like-for-like growth	Six-month period ended June 30, 2022
Sales	**11,835**	-0.4%	+4.7%	+0.9%	+7.4%	**13,325**
Recurring operating margin	**13.1%**	+3 bps	-17 bps	+2 bps	-88 bps	**12.1%**

Free cash flow

Free cash flow reached €674 million in H1 2022, down -33.2% from last year, reflecting the decrease in cash flow from operating activities. Capex stood at €318 million, down from last year (€390 million in H1 2021).

Bridge from operating cash flow to free cash flow

	Six-month period ended June 30	
(in € millions)	**2021**	**2022**
Cash flow from operating activities	**1,381**	**970**
Capital expenditure	(390)	(318)
Disposal of property, plant and equipment and acquisition costs related to acquisitions of companies resulting in control[a]	17	22
Free cash flow	**1,009**	**674**

(a) Represents acquisition costs related to acquisitions of companies resulting in control that were paid during the period.

Balance sheet review

Simplified consolidated balance sheet

	As of December 31	As of June 30
(in € millions)	**2021**	**2022**
Non-current assets	33,364	34,996
Current assets	12,056	11,841
Total assets	**45,420**	**46,836**
Equity – Group share	**17,273**	**18,490**
Non-controlling interests	102	123
Non-current liabilities	16,967	16,362
Current liabilities	11,078	11,862
Total equity and liabilities	**45,420**	**46,836**
Net debt	10,519	11,518
Net financial debt	10,163	11,178

Net debt and net financial debt

As of June 30, 2022, Danone's net debt stood at €11,178 million, up €1,015 million from December 31, 2021.

Bridge from net debt to net financial debt

	As of December 31	As of June 30
(in € millions)	**2021**	**2022**
Non-current financial debt	12,537	12,198
Current financial debt	4,048	3,540
Short term investments	(5,197)	(3,173)
Cash	(659)	(965)
Derivatives – assets – Non-current[a]	(120)	(43)
Derivatives – assets – Current[a]	(91)	(39)
Net debt	**10,519**	**11,518**
Liabilities related to put options granted to non-controlling interests – Non-current	(76)	(90)
Liabilities related to put options granted to non-controlling interests and earn-outs on acquisitions resulting in control – Current	(280)	(250)
Net financial debt	**10,163**	**11,178**

(a) Used solely to manage net debt.

Outlook for 2022

2022 guidance

Price-led like-for-like sales growth now expected between +5 and +6%, versus +3 to +5% previously; recurring operating margin expected above 12%.

Subsequent events

Major events having occurred after the end of the reporting period are detailed in Note 15 to the 2022 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 2021 Universal Registration Document and listed hereafter.

Impact of the Russia/Ukraine conflict on the main risk factors

The war in Ukraine has led Danone to clarify the "Over reliance on principal markets" risk as described below. This war also impacts the "Raw materials price volatility and availability" (including logistics costs) and "Currency volatility" risks, which have already been identified and for which the definition and level remain unchanged.

Over reliance on principal markets

Russia is Danone's fifth-largest market in terms of contribution to sales (approximately 5%, stable compared to 2021), but represents a much smaller percentage of profit. Danone's operations in Russia mainly concern dairy products and milk. A vast majority of the products sold by Danone in Russia are manufactured and sourced locally.

The Russia-Ukraine conflict could further intensify and/or spread and therefore have broader consequences than those known today, notably in terms of sanctions against Russia, counter-sanctions by the Russian authorities (e.g., restrictions on capital flows, import bans on certain materials, limitations on the protection of intellectual property rights, restrictions on the sale of assets), regional instability, geopolitical changes and/or the macroeconomic situation. Several countries, including European countries and the United States, have been introducing progressive sanctions against Russia for several months, which has had a particular impact for Danone in terms of the supply of certain materials and logistics flows. For example, it has forced Danone to adjust some of its packaging. The current situation exposes Danone to various types of risks, such as EUR-RUB forex volatility, the contraction of purchasing power, and changes in consumer behavior, which could amplify and affect the Group's ability to continue or develop its businesses and/or expose it to constraints, costs or additional investments. This situation could have a negative impact on Danone's sales, margins and financial position in Russia in the short and medium term. For more information on Danone's exposure to Russia, see Note 4 to the consolidated financial statements.

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
	strong	Raw materials price volatility & availability
	medium	Legal & Regulatory
	medium	Impact of climate change on value chain
	medium	Currency volatility
Operational risks	medium	Cybersecurity
	medium	Food safety & product quality issues
	medium	Shortage of talent
	medium	Business transformation

Financial indicators not defined in IFRS

The financial indicators used by Danone and not defined in IFRS 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 current-year indicators calculated on the basis of the consolidation scope for the previous year and the current year, excluding entities in countries defined as hyperinflationary under IAS 29 (e.g. Argentinean entities since January 1, 2019, but not Turkish entities as of June 30, 2022 – see Note 1.3 to the consolidated financial statements);
- 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 (expense). Other operating income (expense) comprises items that, because of their significant or unusual nature, cannot be viewed as inherent to Danone's recurring activity and have limited predictive value, thereby distorting the assessment of its recurring operating performance and trends in that performance. These items relate mainly to:

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

Recurring operating margin is defined as recurring operating income divided by sales.

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

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

Recurring effective tax rate measures the effective tax rate of Danone's recurring performance and corresponds to recurring tax income and expenses divided by recurring income before tax.

Non-recurring results of profit of associates includes items that, because of their significant or unusual nature, cannot be viewed as inherent to the companies' recurring activity and thereby distort the assessment of their recurring performance and trends in that performance. These items mainly relate to:

- capital gains and losses on disposals of associates;
- impairment of goodwill;
- non-recurring items, as defined by Danone, included in the share of profit of associates.

Recurring net income corresponds to consolidated recurring net income attributable to the Group. 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, thereby distorting the assessment of its recurring performance and trends in that performance. Non-recurring items are included in other operating income (expense), other non-recurring financial income and expense, non-recurring income tax, and non-recurring share of profit of associates. These items, excluded from recurring net income, represent non-recurring net income.

Recurring EPS is defined as recurring net income – Group share adjusted for hybrid financing divided by the 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), excluding (i) acquisition costs related to acquisitions of companies resulting in control for Danone, and (ii) cash flows related to earn-outs paid subsequent to acquisitions resulting in control.

Net financial debt represents the portion of net debt bearing interest. It corresponds to current and non-current financial debt excluding (i) liabilities related to put options granted to non-controlling interests and earn-outs on acquisitions resulting in control and (ii) cash and cash equivalents, short term investments and derivatives – assets used to manage net debt.

1.2 Related party transactions

Major related party transactions are detailed in Note 14 to the 2022 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 six-month period ended June 30, 2022 ("the consolidated financial statements") were reviewed by Danone's Board of Directors on July 26, 2022.

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 currency unit. Consequently, the rounded amounts may differ slightly from the reported totals. 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	**2021**	**2022**
Sales	7	**11,835**	**13,325**
Cost of goods sold		(6,190)	(7,146)
Selling expense		(2,736)	(3,064)
General and administrative expense		(1,167)	(1,292)
Research and Development expense		(166)	(155)
Other income (expense)		(25)	(55)
Recurring operating income	7	**1,551**	**1,612**
Other operating income (expense)	4, 8	(700)	(233)
Operating income		**851**	**1,380**
Interest income on cash equivalents and short-term investments		77	85
Interest expense		(163)	(163)
Cost of net debt		(87)	(78)
Other financial income		45	18
Other financial expense		(87)	(80)
Income before tax		**722**	**1,239**
Income tax expense	9	(218)	(376)
Net income from fully consolidated companies		**504**	**863**
Share of profit (loss) of associates	6	**602**	**(89)**
Net income		**1,106**	**774**
Net income – Group share		**1,068**	**737**
Net income – Non-controlling interests		38	37
Earnings per share – Group share	12	**1.63**	**1.14**
Diluted earnings per share – Group share	12	**1.63**	**1.14**

Consolidated statement of comprehensive income

	Six-month period ended June 30	
(in € millions)	**2021**	**2022**
Net income – Group share	**1,068**	**737**
Translation adjustments	**485**	**1,318**
Cash flow hedge derivatives		
Gross unrealized gains and losses	(7)	23
Tax effects	3	(6)
Other comprehensive income, net of tax	-	-
Items that may be subsequently recycled to profit or loss	**481**	**1,336**
Investments in other non-consolidated companies		
Gross unrealized gains and losses	(9)	(10)
Tax effects	-	-
Actuarial gains and losses on retirement commitments		
Gross gains and losses	95	378
Tax effects	(17)	(93)
Items not subsequently recyclable to profit or loss	**69**	**275**
Total comprehensive income – Group share	**1,617**	**2,348**
Total comprehensive income – Non-controlling interests	50	42
Total comprehensive income	**1,667**	**2,390**

Consolidated balance sheet

		As of Dec. 31	As of June 30
(in € millions)	Notes	**2021**	**2022**
Assets			
Goodwill		17,871	18,918
Brands		5,805	6,087
Other intangible assets		377	397
Intangible assets	3.2, 4.2, 5, 6, 10	24,053	25,402
Property, plant and equipment		6,843	7,074
Investments in associates	6	771	736
Investments in other non-consolidated companies		290	333
Long-term loans and financial assets		398	445
Other financial assets		688	778
Derivatives – assets[(a)]		120	43
Deferred taxes		890	962
Non-current assets		**33,364**	**34,996**
Inventories		1,982	2,534
Trade receivables	7.3	2,862	3,641
Other current assets		1,006	1,279
Short-term loans		8	4
Derivatives – assets[(a)]		91	39
Short-term investments		5,197	3,173
Cash		659	965
Assets held for sale[(b)]	6.2	251	207
Current assets		**12,056**	**11,841**
Total assets		**45,420**	**46,836**

(a) Derivative instruments used to manage net debt.

(b) As of June 30, 2022, assets held for sale concern the joint venture set up with Mengniu (Fresh dairy, China) and Aqua d'Or (Waters, Denmark).

(in € millions)	Notes	As of Dec. 31 2021	As of June 30 2022
Equity and liabilities			
Share capital		172	169
Additional paid-in capital		5,934	5,186
Retained earnings and other[(a)]		18,038	17,524
Translation adjustments		(3,835)	(2,446)
Accumulated other comprehensive income		(656)	(363)
Treasury shares		(2,380)	(1,579)
Equity – Group share		**17,273**	**18,490**
Non-controlling interests	5.3	102	123
Consolidated equity		**17,375**	**18,613**
Financing	11	12,442	11,881
Derivatives – liabilities[(b)]		19	227
Liabilities related to put options granted to non-controlling interests	5.3	76	90
Non-current financial debt		12,537	12,198
Provisions for retirement obligations and other long-term benefits		1,105	752
Deferred taxes		1,502	1,664
Other provisions and non-current liabilities	13	1,823	1,747
Non-current liabilities		**16,967**	**16,362**
Financing	11	3,767	3,290
Derivatives – liabilities[(b)]		2	
Liabilities related to put options granted to non-controlling interests and earn-outs on acquisitions resulting in control	5.3	280	250
Current financial debt		4,048	3,540
Trade payables		3,998	4,841
Other current liabilities		3,018	3,466
Liabilities directly associated with assets held for sale[(c)]	6.2	13	16
Current liabilities		**11,078**	**11,862**
Total equity and liabilities		**45,420**	**46,836**

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

(b) Derivative instruments used to manage net debt.

(c) As of June 30, 2022, these concern Aqua d'Or (Waters, Denmark).

Consolidated statement of cash flows

(in € millions)	Notes	2021	2022
		Six-month period ended June 30	
Net income		**1,106**	**774**
Share of profit (loss) of associates, net of dividends received		(586)	99
Depreciation, amortization and impairment of property, plant and equipment and intangible assets		561	641
Net change in provisions and non-current liabilities		507	(131)
Change in deferred taxes		(165)	(45)
(Gains) losses on disposal of property, plant and equipment and financial investments		6	(16)
Expense related to Group performance shares		14	17
Cost of net financial debt		86	79
Net interest paid		(82)	(79)
Net change in interest income (expense)		4	(1)
Other components with no cash impact		1	11
Cash flows provided by operating activities, before changes in net working capital		**1,449**	**1,350**
(Increase) decrease in inventories		(73)	(433)
(Increase) decrease in trade receivables		(463)	(610)
Increase (decrease) in trade payables		403	570
Change in other receivables and payables		65	93
Change in working capital requirements		(68)	(380)
Cash flows provided by operating activities		**1,381**	**970**
Capital expenditure[a]		(390)	(318)
Proceeds from the disposal of property, plant and equipment[a]		13	22
Net cash outflows on purchases of subsidiaries and financial investments[b]		(251)	(81)
Net cash inflows on disposal of subsidiaries and financial investments[b]		1,617	2
(Increase) decrease in loans and other financial assets		9	(2)
Cash flows provided by (used in) investment activities		**997**	**(378)**
Increase in share capital and additional paid-in capital		44	49
Purchase of treasury shares (net of disposals)		-	-
Interest on undated subordinated notes and redemption premiums		(22)	(13)
Dividends paid to Danone shareholders[c]		(1,261)	(1,238)
Buyout of non-controlling interests	5.1	0	(69)
Dividends paid to non-controlling interests		(37)	(44)
Contribution from non-controlling interests to capital increases	5.1	1	17
Transactions with non-controlling interests		(37)	(96)
Net cash flows on hedging derivatives[d]		(13)	(2)
Bonds issued during the period		1,000	-
Bonds repaid during the period	11.1	(61)	(682)
Net cash flows from other current and non-current financial debt	11.1	(59)	(535)
Net cash flows from short-term investments		(1,986)	2,077
Cash flows used in financing activities		**(2,395)**	**(440)**
Effect of exchange rate and other changes[e]		28	154
Increase (decrease) in cash and cash equivalents		**11**	**306**
Cash at start of period		**593**	**659**
Cash at end of period		**604**	**965**

(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.

(d) Derivative instruments used to manage net debt.

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

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

Consolidated statement of changes in equity

		Changes during the period								
(in € millions)	As of January 1, 2022	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Offsetting entry for 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, 2022
Share capital	**172**		0	(3)						**169**
Additional paid-in capital	**5,934**		49	(797)						**5,186**
Retained earnings and other[(a)]	**18,038**	737			17	(1,238)	(10)	(117)	96	**17,524**
Translation adjustments	**(3,835)**	1,318						70		**(2,446)**
Gains and losses related to hedging derivatives, net of tax	**(188)**	17								**(171)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax	**41**	(9)								**32**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	**(509)**	285								**(224)**
Other comprehensive income	**(656)**	**293**								**(363)**
Danone treasury shares	**(2,380)**			801						**(1,579)**
Equity – Group share	**17,273**	**2,348**	**49**	**0**	**17**	**(1,238)**	**(10)**	**(47)**	**96**	**18,490**
Non-controlling interests	**102**	42	17			(44)		(13)	18	**123**
Consolidated equity	**17,375**	**2,390**	**66**		**17**	**(1,282)**	**(10)**	**(60)**	**114**	**18,613**

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

		Changes during the period								
(in € millions)	As of January 1, 2021	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Offsetting entry for 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 other[(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) "Other" corresponds to undated subordinated notes totaling €1.25 billion.

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 ended June 30, 2022 were prepared in accordance with the provisions of IAS 34, Interim Financial Reporting. Danone's consolidated financial statements were prepared in accordance with the 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 affect the reported amounts in the consolidated balance sheet, consolidated income statement and notes to the consolidated financial statements. The main such estimates and assumptions relate to:

	Notes
Consideration of climate change risks[a]	
Measurement of the recoverable amount of investments in associates	6
Determination of the amount of rebates, discounts and other deductions relating to agreements with customers	7
Determination of the projected effective income tax rate for the period	9
Measurement of the recoverable amount of intangible assets	10
Determination of the amount of other provisions and non-current liabilities	13

[a] See Note 1.4 to the consolidated financial statements for the year ended December 31, 2021.

These assumptions, estimates and appraisals are made on the basis of the information available and the conditions in force at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in the wider macroeconomic context of the Russia/Ukraine conflict (see Note 4 to the consolidated financial statements).

Note 1.2. Accounting framework applied

The accounting principles used to prepare these condensed interim consolidated financial statements are identical to those used to prepare the consolidated financial statements for the year ended December 31, 2021 (see Note 1 to the 2021 consolidated financial statements, as well as the accounting principles detailed in these notes), except for the standards, amendments and interpretations applicable for the first time as of January 1, 2022.

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2022

The amendments to IAS 16, IAS 17 and IFRS 3 are applicable for accounting periods beginning on or after January 1, 2022. The potential impacts of these new amendments are currently being assessed.

Main standards, amendments and interpretations published by the IASB whose application is not mandatory in the European Union as of January 1, 2022

Danone did not choose to early adopt such standards, amendments and interpretations in its consolidated financial statements for the six-month period ended June 30, 2022, and does not expect them to have a material impact on its results of operations or financial position.

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 accordance with IAS 21, the financial statements of the subsidiaries in these countries are translated at the closing exchange rate for the reporting period concerned.

Application and main accounting implications

Danone has applied IAS 29 to Argentina and Iran since its 2018 and 2020 full-year consolidated financial statements, respectively.

In applying IAS 29 to Argentina and for the 2022 interim consolidated financial statements, Danone used (i) the consumer price index (CPI) to remeasure its income statement items, cash flows and non-monetary assets and liabilities, the amounts of which increased by 36% during the first half versus December 31, 2021, and (ii) a EURARS exchange rate of 129.85 to convert its income statement (113.47 in first-half 2021 and 116.2 in full-year 2021).

The application of IAS 29 resulted in a €53 million impact on consolidated equity and non-monetary assets net of non-monetary liabilities as of June 30, 2022 (€51 million as of June 30, 2021), and had the following main impacts on the consolidated income statement for the first half:

- a €26 million increase in consolidated sales and a €26 million decrease in recurring operating income (a €12 million increase and a €16 million decrease, respectively, in first-half 2021);
- a €4 million negative impact on the net monetary position recognized in "Other financial income" and "Other financial expense" (positive impact of €1 million in first-half 2021);
- a €53 million expense in "Net income – Group share" (€16 million expense in first-half 2021).

The application of IAS 29 to Iran did not have a material impact on the 2022 interim consolidated financial statements.

In accordance with the criteria set out in IAS 29, Turkey has been classified as a hyperinflationary economy since March 2022. However, in view of the percentage contribution of Danone's activities in Turkey as of June 30, 2022, the estimated impact of applying IAS 29 is not material and the 2022 interim financial statements have therefore not been restated.

Note 1.4. Application of the IFRS IC agenda decision, Configuration or Customization Costs in a Cloud Computing Arrangement (Software as a Service – SaaS)

After completing its analysis in first-half 2022, the Group concluded that the IFRS IC agenda decision on the treatment of SaaS contract implementation costs does not have a material impact on Danone's consolidated balance sheet or income statement.

Note 2. Significant events of the period

	Notes
New geography-led organization	3
Impact of the Russia/Ukraine conflict on Danone	4
Strategic partnership with CCU (Waters, Argentina)	5.1
Agreement to sell Danone's non-controlling interests in partnerships with Mengniu and to acquire Dumex	6.2
Impairment of intangible assets	10.4

Note 3. New geography-led organization

Note 3.1. Background

On March 8, 2022, the new management team in place since January 6, 2022 unveiled the new "Renew Danone" strategy. This new strategy aims to restore Danone's competitiveness in its core categories and geographies. The Group's operating performance is now monitored by geographical zone following the implementation of the "Local First" plan as announced in November 2020.

As from 2022, the primary operating decision-makers (Chief Executive Officer, Antoine de Saint-Affrique, and Chief Financial Officer, Technology & Data, Jürgen Esser) have monitored and assessed Danone's performance by geographical zone, as explained in Note 7 to the consolidated financial statements.

Note 3.2. Impacts on the consolidated financial statements for the six-month period ended June 30, 2022

Operating segments

In order to reflect the new geography-led organization, the Group changed its operating segments as defined by IFRS 8 as of June 30, 2022. Its four new operating segments after aggregation are now:

- Europe (excluding CIS);
- North America (comprising the United States and Canada);
- China, North Asia and Oceania (comprising China, Japan, Australia and New Zealand);
- Rest of the World (comprising South-East Asia, Latin America, CIS, Africa, Turkey and the Middle East).

The Company will maintain its category-based reporting for sales, recurring net income and recurring operating margin for EDP, Specialized Nutrition and Waters. The reorganization by geographical zone has led to the reclassification of certain overheads to different categories.

These changes were taken into account retrospectively as of January 1, 2022 and all segment information for the comparative period was restated to reflect the new presentation (see Note 7.2 to the consolidated financial statements).

Cash-generating units (CGUs)

In accordance with IAS 36, the Group's reorganization and the redefinition of its operating segments have led Danone to reassess the definition of its groups of cash-generating units (CGUs) to which goodwill must be allocated (see Note 10.3 to the consolidated financial statements).

Note 4. Impact of the Ukraine/Russia conflict on Danone

Note 4.1. Background

Danone's position

The Group decided to significantly adapt its operations in Russia, by:

- refocusing its portfolio on Essential Dairy products, and Infant and Medical Nutrition, and ceasing all imports of *evian* and *Alpro* products;
- suspending all new investments in Russia.

No cash flow has been returned to the Group and Danone does not receive any dividends or profits from its activities in Russia. It will donate any profits made in the country to humanitarian relief organizations.

Danone's exposure to Russia and Ukraine as of June 30, 2022

Russia remains Danone's fifth-largest market in terms of its contribution to sales in the first half of 2022 (around 5%, stable compared to 2021), with almost 90% of earnings derived from sales of Essential Dairy and Plant-based Products (EDP). Danone employs nearly 7,200 people and operates 13 production sites, 12 for EDP and one for Specialized Nutrition.

The value of intangible assets and property, plant and equipment held by Danone's subsidiaries in Russia amounts to €588 million and €410 million, respectively, i.e., 2% and 6%, respectively of total consolidated intangible assets and property, plant and equipment as of June 30, 2022.

The share of Danone's Russian subsidiaries in cumulative translation adjustments carried within consolidated equity amounted to a negative €428 million as of June 30, 2022, down €286 million compared to December 31, 2021 owing the to the volatility of the Russian ruble over the first half of 2022. These translation adjustments have been accumulated since Danone acquired its Russian operations.

As regards Ukraine, the country did not account for a material percentage of sales in either first-half 2022 or 2021 (less than 1%). Danone employs nearly 1,100 people and operates two EDP production sites. The aggregate value of intangible assets and property, plant and equipment held by Danone's subsidiaries in Ukraine is likewise not material.

Note 4.2. Impacts on the interim consolidated financial statements for the six-month period ended June 30, 2022

As the adaptation of the Group's operations in Russia and the macroeconomic climate generated by this conflict could impact the value of the assets of the Danone CIS group of CGUs, an impairment test was performed.

The Group made medium-term projections up to 2025. However, as the CGU's indefinite-lived intangible assets do not result from any recent transactions, the recoverable amount of the CGU was significantly higher than its carrying amount. The impairment takes into account a discount rate of 11.2% and factors in assumptions of a significant and prolonged decline in Danone's business and profitability in Russia to reflect an increased level of risk in connection with the uncertain macroeconomic environment.

This resulted in a more-than-90% decrease in the difference between the assets' recoverable and carrying amounts, without, however, resulting in impairment of these intangible assets at this stage. Sensitivity tests were also carried out on the main financial assumptions (discount rate and long-term growth rate). The results of the sensitivity test on the key assumptions used to calculate recoverable amounts, taken individually, are shown below:

Assumptions	Indicators	Impairment *(in € millions)*
200-bp decrease	Sales growth[a]	-
100-bp decrease	Recurring operating margin[a]	(132)
100-bp decrease	Long-term growth rate based on a rate of 3%	(13)
300-bp increase	Discount rate based on a rate of 11.2%	(137)

(a) Decrease applied to each year of the long-term (four-year) plan.

Danone has also, €208 million (RUB 11 908 million) of cash and cash equivalents as of June 30, 2022, in Russia. These elements can be immediately mobilized and are required for financing the current operations in Russia.

With regard to intangible assets and property, plant and equipment in Ukraine, the Group has lost control of one of its production sites which has been occupied by the Russian army and this facility has therefore been written down. In the case of perishable goods, the Company also had to deal with losses and the spoilage of its current assets (finished goods and raw materials).

The resulting inability to operate under normal conditions in Ukraine and the medium-term uncertainty reflected in the impairment tests led the Group to write down the full amount of goodwill in Ukraine.

Total impairment recognized against these non-current (intangibles and property, plant and equipment) and current assets amounts to approximately €22 million and has been classified under "Other operating income (expense)" (see Note 8.1 to the consolidated financial statements).

Note 5. Fully consolidated companies

Note 5.1. Strategic alliance with CCU (Waters, Argentina)

On April 29, 2022, Danone and Compañía Cervecerías Unidas (CCU) announced a strategic alliance as a result of which CCU Argentina acquired a large minority stake in Aguas Danone de Argentina. This alliance will allow both companies to enrich their beverage portfolio and strengthen their operations in the country.

The resulting change in Danone's percentage ownership has no impact on the control exercised over its Argentinean subsidiary, which remains fully consolidated as of June 30, 2022.

Note 5.2. Main changes

Main changes in first-half 2022

(%)	Category	Country	Transaction date(a)	Ownership interest as of Dec. 31, 2021	Ownership interest as of June 30, 2022
Main companies consolidated for the first time during the period					
Hunan Eurbest Nutritional Food	Specialized Nutrition	China	March	-	95%
Yooji	Specialized Nutrition	France	May	49%	57.3%
Main consolidated companies in which the Group's ownership interest has changed					
Aguas Danone de Argentina	Waters	-	April	100%	51%
Main companies no longer fully consolidated during the period					
-	-	-	-	-	-

(a) Month in the 2022 fiscal year.

Main changes in first-half 2021

(%)	Reporting entity	Country	Transaction date(a)	Ownership interest as of Dec. 31, 2020	Ownership interest as of 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 in which the Group's ownership interest has changed					
-	-	-	-	-	-
Main companies no longer fully consolidated during the period					
-	-	-	-	-	-

(a) Month in the 2021 fiscal year.

Finalization of the accounting for the acquisition resulting in control of Follow Your Heart

During the first half of 2022, the Group finalized the accounting for the acquisition resulting in control of Follow Your Heart, which did not give rise to any material adjustment to the purchase price allocation in the 2022 interim consolidated financial statements compared to the consolidated financial statements for the year ended December 31, 2021.

Note 5.3. Liabilities related to put options granted to non-controlling interests

Change during the period

(in € millions)	2021	2022
As of January 1	**363**	**354**
New options and options recognized previously in accordance with IFRS 9	46	-
Options exercised(a)	(24)	(75)
Changes in the present value of outstanding options	(31)	56
As of December 31/June 30(b)	**354**	**335**

(a) Carrying amount at the end 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 6. Investments in associates

Note 6.1. Main changes

Main changes in first-half 2022

On May 6, 2022, Danone announced that it had reached an agreement with Mengniu to sell its stake in the Inner Mongolia Dairy joint venture and in Yashili, and to acquire 100% of Dumex Baby Food Co Ltd, a Chinese manufacturer of infant milk formula owned by Yashili (see Note 6.2 to the consolidated financial statements).

No other material transactions affecting investments in associates were carried out in the first half of 2022.

Main changes in first-half 2021

					Ownership interest as of (%)	
	Notes	**Reporting entity**	**Country**	**Transaction date[(a)]**	**Dec. 31, 2020**	**June 30, 2021**
Main companies accounted for using the equity method for the first time during the period						
-		-	-	-	-	-
Main companies accounted for using the equity method in which the Group's ownership interest has changed						
-		-	-	-	-	-
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%	-

Note 6.2. Agreement with Mengniu to sell its minority stake in the Inner Mongolia Dairy (Fresh dairy, China) and Yashili (Specialty Nutrition, China) joint ventures, and to acquire Dumex

Background to the acquisition of these equity interests

In 2013, Danone, COFCO and Mengniu announced the signing of agreements to accelerate the development of fresh dairy products in China. Under the terms of these agreements, Danone became a strategic shareholder in Mengniu and a joint venture for the production and sale of fresh dairy products in China was established by pooling the respective assets of the two companies. Danone owned 20% and Mengniu 80% of the new joint venture.

In 2014, Danone, Mengniu and Yashili decided to extend their strategic alliance into infant milk formula in China. This enabled Danone to hold a 25% stake in Yashili and become its second-largest shareholder behind Mengniu, which owned a 51% stake. In 2016, the Dumex business in China was merged with Yashili to build a local infant milk formula brand platform.

Gradual exit from the partnership with Mengniu

Background

As part of the strategic review of its assets initiated in 2021 and its capital allocation priorities, Danone decided to end its partnership with Mengniu.

This decision is in line with the sale of its 9.8% minority stake in Mengniu finalized on May 13, 2021. This sale had generated a disposal gain of €586 million, recorded under "Share of profit of associates" in the 2021 interim consolidated financial statements.

On May 6, 2022, Danone announced that it had reached an agreement with Mengniu to sell it its 20% stake in the Inner Mongolia Dairy joint venture and its 25% stake in Yashili. At the same time, Danone announced the acquisition of 100% of Dumex Baby Food Co Ltd, a Chinese manufacturer of infant milk formula products owned by Yashili.

As the completion of each of these transactions is subject to specific conditions precedent, the transactions will not necessarily be completed simultaneously.

Impacts on the 2022 interim consolidated financial statements

Planned disposal of the Fresh dairy joint venture in China set up jointly with Mengniu

The equity-accounted shares relating to Danone's 20% stake in the Inner Mongolia Dairy joint venture, which were already classified as assets held for sale within the meaning of IFRS 5 as of December 31, 2021 in light of the shareholders' agreement, were revalued as of June 30, 2022 based on the price agreed with Mengniu. This revaluation resulted in a loss of €48 million, recognized in "Share of profit of associates" in the 2022 interim consolidated financial statements.

Planned disposal of the stake in Yashili

The disposal of the stake in Yashili is subject to various conditions, including the approval of Yashili's Shareholders' Meeting. As of June 30, 2022, the related assets did not meet the conditions for classification as assets held for sale set out in IFRS 5.

The equity-accounted shares in Yashili were remeasured at June 30, 2022 on the basis of the expected sale price. This revaluation resulted in a loss of €73 million, recognized in "Share of profit of associates" in the 2022 interim consolidated financial statements.

Planned acquisition of 100% of Dumex Baby Food Co Ltd owned by Yashili

Since the specified conditions had not yet been met at the reporting date, the commitment made by Danone in this respect had no impact on the 2022 interim consolidated financial statements.

Note 6.3. Measurement review of investments in associates

Methodology

Danone reviews the measurement of its investments in associates when events or circumstances indicate that they may be impaired. With regard to listed shares, a significant or prolonged fall in their stock price below their historical stock price represents evidence 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, 2022

In first-half 2022, no impairment was recognized against investments in associates other than that relating to the Inner Mongolia Dairy joint venture and Yashili (see Note 6.2 above).

Note 7. Information concerning recurring operating activities

Note 7.1. General principles

Following the implementation of the new geography-led organization (see Note 3 to the consolidated financial statements) and starting in 2022, the primary operating decision-makers (Chief Executive Officer Antoine de Saint-Affrique and Chief Financial Officer, Technology & Data, Jürgen Esser) monitor and evaluate Danone's performance according to the following four geographical zones (corresponding to the new operating segments under IFRS 8):

- Europe;
- North America, comprising the United States and Canada;
- China, North Asia & Oceania;
- Rest of the World.

The key indicators reviewed and used internally by the primary operating decision-makers to assess these new operating segments are:

- sales;
- recurring operating income;
- recurring operating margin, which corresponds to the ratio of recurring operating income to sales.

Only these indicators are monitored by geographical zone and by category; the other key indicators reviewed and used internally by the primary operating decision-makers are monitored at Group level.

Note 7.2. Operating segments

Reporting by geographical zone

Sales, recurring operating income and recurring operating margin

Six-month period ended June 30

	Sales[a]		Recurring operating income		Recurring operating margin	
(in € millions except %)	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Europe[b]	4,142	4,382	625	574	15.1%	13.1%
North America	2,707	3,139	283	254	10.4%	8.1%
China, North Asia & Oceania	1,430	1,671	423	534	29.6%	32.0%
Rest of the World	3,556	4,132	221	250	6.2%	6.1%
Group total	**11,835**	**13,325**	**1,551**	**1,612**	**13.1%**	**12.1%**

(a) Sales to third parties.

(b) Including sales of €1,008 million generated in France in the first half of 2022 (€1,007 million in the first half of 2021).

Information by category

Six-month period ended June 30

	Sales[a]		Recurring operating income		Recurring operating margin	
(in € millions except %)	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
EDP	6,406	7,062	616	494	9.6%	7.0%
Specialized Nutrition	3,513	4,029	769	933	21.9%	23.2%
Waters	1,916	2,234	166	185	8.6%	8.3%
Group total	**11,835**	**13,325**	**1,551**	**1,612**	**13.1%**	**12.1%**

(a) Sales to third parties.

Note 7.3. Fair value of trade receivables and payables

	As of Dec. 31	As of June 30
(in € millions)	**2021**	**2022**
Trade receivables	2,956	3,744
Impairment provisions	(94)	(103)
Fair value of trade receivables	**2,862**	**3,641**
Discounts granted to customers[a]	(1,304)	(1,632)
Fair value of trade receivables net of discounts granted	**1,558**	**2,009**

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

Note 8. Information and events concerning non-recurring operating activities

Note 8.1. Other operating income (expense)

Accounting principles

Other operating income (expense) comprises items that, because of their significant or unusual nature, cannot be viewed as inherent to Danone's recurring activity and have limited predictive value, thereby distorting the assessment of its recurring operating performance and trends in that performance.

These items relate mainly to:

- capital gains and losses on disposals of fully consolidated companies;
- impairment charges on intangible assets with indefinite useful lives;
- costs related to strategic restructuring operations or transformation plans;
- costs related to major external growth transactions;
- costs related to crises and major disputes;
- in connection with IFRS 3 (Revised) and IAS 27 (Revised), (i) acquisition costs related to acquisitions

of companies resulting in control, (ii) revaluation gains or losses accounted for following a loss of control, and (iii) changes in earn-outs subsequent to acquisitions resulting in control.

Other operating income (expense) in first-half 2022

In first-half 2022, "Other operating income (expense)" represented an expense of €233 million, corresponding mainly to the following items:

		Six-month period ended June 30, 2022
(in € millions)	Notes	**Related income (expense)**
Local First plan	8.2	(62)
Transformation of Danone's operations	8.3	(59)
Impairment of intangible assets	10.4	(95)

Other operating income (expense) in first-half 2021

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

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

Note 8.2. Local First plan

Danone continued to implement the Local First plan launched in 2021 in the first half of 2022. Other operating expenses in respect of the plan amounted to €62 million and mainly concerned costs for adapting processes and harmonizing information systems. The Group also recognized a reversal of provisions for a total amount of €135 million, of which €75 million corresponds to payments made during the period and €60 million to a reassessment of the assumptions underlying the provision for employee-related measures.

Note 8.3. Transformation of Danone's operations

In first-half 2022, Danone continued to transform its operations across its entire value chain and to adapt its production facilities. Other operating expenses in respect of the plan amounted to €59 million and relate mainly to the cost of employee-related measures.

Note 9. Income tax

The effective income tax rate used as of June 30 is based on the projected effective income tax rate for the fiscal year.

Accordingly, the effective tax rate for the first half of 2022 came out at 30.3%, i.e., stable compared to the 30.2% rate reported for the first half of 2021.

Note 10. Intangible assets: measurement review

Note 10.1. 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 proves to be lower than its carrying amount.

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

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

Note 10.2. Carrying amount and changes during the period

(in € millions)	2021 Goodwill	2021 Brands	2021 Other intangible assets	2021 Total	2022 Goodwill	2022 Brands	2022 Other intangible assets	2022 Total
Carrying amount								
As of January 1	**17,016**	**5,669**	**351**	**23,037**	**17,871**	**5,805**	**377**	**24,053**
Changes in consolidation	23	(35)	–	**(13)**	83	–	0	84
Capital expenditure	–	–	71	**71**	–	–	36	36
Disposals	–	–	(2)	**(2)**	–	–	0	0
Translation adjustments	838	204	9	**1,050**	1,040	280	10	1,331
Impairment	(7)	(45)	(5)	**(57)**	(82)	(13)	(3)	(98)
Amortization charges	–	(2)	(101)	**(103)**	–	(1)	(47)	(48)
Other	2	14	53	**69**	4	17	25	46
As of December 31/	**17,871**	**5,805**	**377**	**24,053**	**18,918**	**6,087**	**397**	**25,402**
Of which amortization	–	*(26)*	*(1,084)*			*(31)*	*(1,161)*	

Note 10.3. Redefinition of CGUs following the Group's reorganization and reallocation of goodwill

In accordance with IAS 36, Danone's reorganization and the redefinition of its operating segments presented in Note 3 to the interim consolidated financial statements led the Group to reassess the definition of its groups of cash-generating units (CGUs) to which goodwill should be allocated.

In accordance with IAS 36.80, each unit or group of units to which goodwill is so allocated shall:

a) represent the lowest level within the entity at which goodwill is monitored for internal management purposes; and
b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8, Operating Segments before aggregation.

Following the Group's reorganization, goodwill will now be allocated to CGUs at the level of geographical zones and no longer categories. Analyses have been carried out to identify any CGUs that would require existing items of goodwill to be reallocated to prevent them being allocated at a level greater than an operating segment. The Group determined that this mainly concerned the Global Specialized Nutrition CGU covering its worldwide Specialized Nutrition business.

The reallocation of goodwill for this CGU is based on its recoverable amount and is still in progress at the date of preparation of the condensed interim consolidated financial statements. However, the Group has ensured no evidence of impairment exists for the CGU, whose recoverable amount has historically been significantly higher than their carrying amount.

Within each geographical zone, Danone also considers possible groupings of CGUs based on cross-category synergies observed following the reorganization of the Company's businesses.

Note 10.4. Measurement review

As of June 30, 2022, the Group identified evidence of impairment for certain AMEA and Europe CGUs. Following the impairment tests performed, the Group recognized a €95 million total impairment loss in respect of one CGU in Africa and one brand in Europe, including the write-down of Ukraine goodwill. Note 4 to the interim consolidated financial statements sets out the details of the measurement review of intangible assets relating to the Danone CIS CGU.

The Group also ensured that no other evidence of impairment would have been identified if the measurement review of its intangible assets had been performed on the basis of its historical CGUs by category.

Note 11. Financing and net debt

Note 11.1. Financing

(in € millions)	As of Dec. 31, 2021	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]	Reclassification of non-current portion to current items	Changes in consolidation scope	As of June 30, 2022
Financing managed at Company level									
Bonds – non-current portion	11,640					(47)	(519)		11,074
Bonds – current portion	1,751		(682)			(68)	500		1,500
Commercial paper[a]	757			326		(1)			1,082
Total	14,148	-	(682)	326	-	(116)	(19)	-	13,656
Lease liabilities									
Non-current	767					88	(87)		769
Current portion	215			(117)		34	88		220
Total	982	-	-	(117)	-	122	1	-	988
Other financing arrangements[b]									
Non-current	35						(13)	16	38
Current portion	1,044			(741)	(1)	(2)	160	29	489
Total	1,079	-	-	(741)	(1)	(2)	146	45	527
Total	**16,209**	**-**	**(682)**	**(532)**	**(1)**	**4**	**129**	**45**	**15,171**

(a) As of December 31, 2021 and June 30, 2022, these were included in current financial debt.
(b) Subsidiaries' bank financings.
(c) In terms of lease liabilities, this corresponds mainly to new financing in the period.

Note 11.2. Net debt

	As of Dec. 31	As of June 30
(in € millions)	**2021**	**2022**
Non-current financial debt	12,537	12,198
Current financial debt	4,048	3,540
Short-term investments	(5,197)	(3,173)
Cash	(659)	(965)
Derivatives – assets – Non-current[a]	(120)	(43)
Derivatives – assets – Current[a]	(91)	(39)
Net debt	**10,519**	**11,518**

(a) Used solely to manage net debt.

Note 12. Earnings per share – Group share

	Six-month period ended June 30	
(in € per share, except number of shares)	**2021**	**2022**
Net income – Group share	1,068	737
Coupon relating to hybrid financing, net of tax	(8)	(7)
Adjusted net income – Group share	1,060	731
Number of outstanding shares		
As of January 1	649,795,910	638,090,890
Effect of changes during the period	1,019,838	1,270,134
As of June 30	650,815,748	639,361,024
Average number of outstanding shares		
• Before dilution	650,135,856	638,514,268
Dilutive impact		
Group performance shares	559,184	313,000
• After dilution	650,695,040	638,827,268
Net income – Group share, per share		
• Before dilution	1.63	1.14
• After dilution	1.63	1.14

Note 13. Other provisions and non-current liabilities; legal and arbitration proceedings

Note 13.1. 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 the "current" portion in "Other provisions" since it is not material; it 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 the use/non-use of the provision, respectively.

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 the likelihood that they will materialize, 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 materialize. The liabilities must be recognized on the basis of their most probable value or a weighted average of the values under various scenarios.

Note 13.2. Other provisions and non-current liabilities

	As of Dec. 31	As of June 30
(in € millions)	**2021**	**2022**
Other provisions	1,243	1,147
Other non-current liabilities[(a)]	580	600
Total[(b)]	**1,823**	**1,747**

(a) These relate to uncertain income tax positions.
(b) The current portion totaled €343 million as of June 30, 2022 (€496 million as of December 31, 2021).

Changes in "Other provisions"

(in € millions)	As of Dec. 31, 2021	Changes during the period: Changes in consolidation scope	Increase	Reversal of provisions	Reversal of provisions not used	Translation adjustments	Other	As of June 30, 2022
Tax and territorial risks[a]	95	-	5	(2)	-	4	4	106
Employee-related and commercial disputes and other provisions	540	-	40	(30)	(14)	9	2	547
Restructuring provisions[b]	608	-	29	(102)	(60)	5	14	495
Total	**1,243**	**-**	**74**	**(135)**	**(74)**	**18**	**21**	**1,147**

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

(b) Of which reversals of around €135 million related to the Local First plan.

Changes in "Other provisions" during the first half of 2022 can be explained as follows:

- implementation of the Local First plan (see Note 8.2);
- reversals of used provisions occur when corresponding payments are made;
- reversals of unused provisions relate mainly to the reassessment of assumptions and situations where some risks are extinguished.

As of June 30, 2022, provisions for tax risks (other than income taxes), territorial, employee-related, commercial and other disputes included several provisions for legal, financial and tax risks, as well as provisions for multi-year variable compensation granted to certain employees, and were accrued in the ordinary course of business.

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

Note 13.3. Legal and arbitration proceedings

In 2021, a number of putative class action lawsuits were filed in the United States against the US subsidiary Nurture Inc. in which plaintiffs allege false advertising regarding the presence of certain heavy metals in its foods. In several additional actions, individual plaintiffs claim personal harm arising from consuming the foods. Nurture Inc. denies the allegations in these actions and maintains its products are safe. Nurture Inc. is vigorously defending its interests in each of the suits.

In addition, on October 7, 2021, Danone received a Statement of Objections (*notification de griefs*) from the French Competition Authority. This Statement of Objections, which was sent to more than 100 companies and 14 professional organizations, concerns in particular issues related to the application of competition rules, and communication initiatives concerning the absence of bisphenol A from food contact materials before 2015.

Danone vigorously contests the French Competition Authority's allegations and intends to answer all of its questions in the context of the adversarial procedure, within the required time frame.

No provision has been recognized in the consolidated financial statements for the six-month period ended June 30, 2022, as the Group is not currently in a position to make a reliable assessment of the potential impact of the outcome of these ongoing proceedings on its results and financial position.

In general, the Company and its subsidiaries are parties to legal proceedings arising in the ordinary 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 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 14. 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 26, 2022 authorized the Board of Directors to grant Group performance shares in 2022 to certain Group employees and executive directors (including the Executive Committee).

The shares under the 2022 authorization will be awarded in the second half of 2022, subject to approval by the Board of Directors at its meeting of July 26, 2022.

Note 15. Subsequent events

To the Company’s knowledge, no material events occurred between June 30, 2022 and July 26, 2022, the date on which the Board of Directors reviewed the 2022 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 Annual General Meetings 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 half-yearly consolidated financial statements of Danone, for the period from January 1 to June 30, 2022,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are 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 half-yearly 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 half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

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

Paris-La Défense, July 26, 2022

The Statutory Auditors

French original signed by

MAZARS & ASSOCIES		ERNST & YOUNG Audit	
Gonzague Senlis	Achour Messas	Gilles Cohen	Alexandre Chrétien

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 26, 2022

Chief Executive Officer,

Antoine de Saint-Affrique

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