Complan Foods Ltd

Danone

Consolidated financial statements and related Notes
Year ended December 31, 2019

Contents

Danone

Consolidated financial statements and Notes to the consolidated financial statements

The 2018 comparatives have not been restated to reflect IFRS 16 and IFRIC 23, which are applicable since January 1, 2019 (see Note 1.3 of the Notes to the consolidated financial statements).

Consolidated financial statements

Consolidated income statement and earnings per share

		Year ended December 31	
(in € millions, except earnings per share in €)	Notes	**2018**	**2019**
Sales	6.1, 6.2	**24,651**	**25,287**
Cost of goods sold		(12,730)	(12,878)
Selling expense		(5,685)	(5,773)
General and administrative expense		(2,342)	(2,385)
Research and Development expense		(337)	(351)
Other income (expense) [(a)]	6.3	5	(53)
Recurring operating income		**3,562**	**3,846**
Other operating income (expense)	7.1	(821)	(609)
Operating income		**2,741**	**3,237**
Interest income on cash equivalents and short-term investments		162	181
Interest expense		(393)	(400)
Cost of net debt	11.7	(231)	(220)
Other financial income	1.6, 12.3	48	37
Other financial expense	12.3	(165)	(188)
Income before tax		**2,393**	**2,867**
Income tax expense	9.1	(716)	(793)
Net income from fully consolidated companies		**1,678**	**2,075**
Share of profit of associates	5.4	762	(46)
Net income		**2,440**	**2,028**
Net income – Group share		**2,349**	**1,929**
Net income – Non-controlling interests		90	99
Net income – Group share, per share	14.4	**3.63**	**2.95**
Net income – Group share, per share after dilution	14.4	**3.63**	**2.95**

(a) The 2018 comparatives have been restated (reclassification of €169 million initially presented in Other income (expense)), see Note 1.7 of the Notes to the consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended December 31	
(in € millions)	**2018**	**2019**
Net income – Group share	**2,349**	**1,929**
Translation adjustments	(198)	389
Cash flow hedge derivatives		
Gross unrealized gains and losses	(47)	–
Tax effects	18	(3)
Financial assets		
Gross unrealized gains and losses	(9)	–
Amount recycled to profit or loss in the current year	–	–
Tax effects	4	–
Other comprehensive income, net of tax	**–**	–
Items that may be subsequently recycled to profit or loss	**(232)**	**386**
Financial assets		
Gross unrealized gains and losses [(a)]	–	(6)
Tax effects	–	(1)
Actuarial gains and losses on retirement commitments		
Gross gains and losses	71	(203)
Tax effects	(15)	49
Items not subsequently recyclable to profit or loss	**56**	**(161)**
Total comprehensive income – Group share	**2,174**	**2,154**
Total comprehensive income – Non-controlling interests	74	82
Total comprehensive income	**2,249**	**2,236**

(a) Includes, in particular, the changes in fair value of Investments in other non-consolidated companies, measured at fair value through other comprehensive income.

Consolidated balance sheet

(in € millions)	Notes	As of December 31 2018	2019
Assets			
Goodwill		17,711	18,125
Brands		6,359	6,329
Other intangible assets		376	348
Intangible assets	10.1 to 10.3	24,445	24,803
Property, plant and equipment	1.3, 1.4, 6.5	6,175	6,844
Investments in associates	5.1 to 5.8	2,104	2,055
Investments in other non-consolidated companies		105	131
Long-term loans and financial assets		173	351
Other financial assets	12.1, 12.2	278	482
Derivatives – assets [(a)]	13.2, 13.3	81	271
Deferred taxes	9.2	761	790
Non-current assets		**33,843**	**35,244**
Inventories	6.4	1,789	1,933
Trade receivables	6.4	2,689	2,906
Other current assets	6.4	778	940
Short-term loans		13	6
Derivatives – assets [(a)]	13.2, 13.3	27	16
Short-term investments	11.1, 11.5	4,199	3,631
Cash and cash equivalents		839	644
Assets held for sale		–	43
Current assets		**10,334**	**10,118**
Total assets		**44,177**	**45,362**

(a) Derivative instruments used to manage net debt.

(in € millions)	Notes	As of December 31 2018	2019
Equity and liabilities			
Share capital		171	172
Additional paid-in capital		5,805	5,859
Retained earnings and others [a]	1.3 to 1.6, 11.3	15,896	16,491
Translation adjustments		(3,332)	(2,941)
Accumulated other comprehensive income		(564)	(729)
Treasury shares	14.2	(1,632)	(1,610)
Equity – Group share		**16,344**	**17,241**
Non-controlling interests	4.5	131	137
Consolidated equity		**16,475**	**17,378**
Financing	1.3, 1.4, 11.1 to 11.4	14,277	12,875
Derivatives – liabilities [b]	13.2, 13.3	21	19
Liabilities related to put options granted to non-controlling interests	4.5	46	13
Non-current financial debt		14,343	12,906
Provisions for retirement obligations and other long-term benefits	8.3	868	1,091
Deferred taxes	9.2	1,537	1,556
Other non-current provisions and liabilities	1.3, 1.4, 1.6, 15.2, 15.3	989	1,178
Non-current liabilities		**17,738**	**16,731**
Financing	1.3, 1.4, 11.1 to 11.4	3,021	3,996
Derivatives – liabilities [b]	13.2, 13.3	63	9
Liabilities related to put options granted to non-controlling interests	4.5	463	469
Current financial debt		3,546	4,474
Trade payables	6.4	3,675	3,959
Other current liabilities	6.4	2,743	2,819
Liabilities directly associated with assets held for sale		–	–
Current liabilities		**9,965**	**11,253**
Total equity and liabilities		**44,177**	**45,362**

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

Consolidated statement of cash flows

(in € millions)	Notes	Year ended December 31 2018	2019
Net income		**2,440**	**2,028**
Share of profit of associates net of dividends received	5.5	(729)	99
Depreciation, amortization and impairment of tangible and intangible assets	6.5, 10.3	1,601	1,386
Net change in provisions and non-current liabilities	15.2, 15.3	13	111
Change in deferred taxes	9.2	(135)	40
(Gains) losses on disposal of property, plant and equipment and financial investments		(12)	14
Expense related to Group performance shares	8.4	24	30
Cost of net financial debt	11.7	231	220
Net interest paid		(218)	(212)
Net change in interest income (expense)		13	8
Other components with no cash impact		(44)	39
Cash flows provided by operating activities, before changes in net working capital		**3,170**	**3,755**
(Increase) decrease in inventories		(167)	(178)
(Increase) decrease in trade receivables		807	(268)
Increase (decrease) in trade payables		(770)	266
Change in other receivables and payables		70	(131)
Change in working capital requirements	6.4	(59)	(311)
Cash flows provided by (used in) operating activities		**3,111**	**3,444**
Capital expenditure [(a)]	6.5	(941)	(951)
Proceeds from the disposal of property, plant and equipment [(a)]	6.5	22	16
Net cash outflows on purchases of subsidiaries and financial investments [(b)]		(52)	(112)
Net cash inflows on disposal of subsidiaries and financial investments [(b)]	5.7	1,305	58
(Increase) decrease in long-term loans and other financial assets		(9)	(19)
Cash flows provided by (used in) investment activities		**326**	**(1,008)**
Increase in share capital and additional paid-in capital		47	55
Purchase of treasury shares (net of disposals)	14.2	–	
Interest on undated subordinated notes	11.4	(14)	(22)
Dividends paid to Danone shareholders [(c)]	14.5	(431)	(1,256)
Buyout of non-controlling interests	4.5	(120)	(153)
Dividends paid to non-controlling interests		(79)	(60)
Contribution from non-controlling interests to capital increases		–	4
Transactions with non-controlling interests		(199)	(209)
Net cash flows on hedging derivatives [(d)]		(8)	(7)
Bonds issued during the period	11.3, 11.4	300	–
Bonds repaid during the period	11.3, 11.4	(2,157)	(1,899)
Net cash flows from other current and non-current financial debt	11.3	27	354
Net cash flows from short-term investments		(815)	584
Cash flows provided by (used in) financing activities		**(3,251)**	**(2,400)**
Effect of exchange rate and other changes [(e)]		14	(231)
Increase (decrease) in cash and cash equivalents		**200**	**(195)**
Cash and cash equivalents as of January 1		**638**	**839**
Cash and cash equivalents as of December 31		**839**	**644**
Additional information			
Income tax payments during the year		(556)	(774)

(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.

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 consolidation scope, and (iv) other non-monetary items.

Consolidated statement of changes in equity

(in € millions)	Notes	As of January 1, 2019 (b)	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 – portion in shares	Dividends paid to Danone shareholders – portion in cash	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	As of December 31, 2019
Share capital		**171**			[redacted]							**172**
Additional paid-in capital		**5,805**		54								**5,859**
Retained earnings and others (a)	11.3	**15,803**	1,929			30		(1,256)	(14)	(98)	97	**16,491**
Translation adjustments		**(3,332)**	389							1		**(2,941)**
Gains and losses related to hedging derivatives, net of tax		**(190)**	(3)									**(192)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax	13	**6**	(7)									**(2)**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	9	**(381)**	(154)									**(535)**
Other comprehensive income		**(564)**	**(165)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(729)**
DANONE treasury shares	14 2	**(1,632)**			21							**(1,610)**
Equity – Group share		**16,251**	**2,154**	**55**	**21**	**30**	**–**	**(1,256)**	**(14)**	**(96)**	**97**	**17,241**
Non-controlling interests		**131**	82	4				(60)		(30)	9	**137**
Consolidated equity		**16,382**	**2,236**	**58**	**21**	**30**	**–**	**(1,315)**	**(14)**	**(126)**	**107**	**17,378**

(a) "Others" corresponds to undated subordinated notes totaling €1 25 billion.

(b) Retained earnings and others at January 1, 2019, see Note 1.3 of the Notes to the consolidated financial statements.

Share capital represents Danone SA's share capital and amounts to €171,530,201.50 as of December 31, 2019 (171,263,800 as of December 31, 2018).

(in € millions)	As of January 1, 2018	Changes during the period									As of December 31, 2018
		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 – portion in shares	Dividends paid to Danone shareholders – portion in cash	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	
Share capital	**168**					3					**171**
Additional paid-in capital	**4,991**		47			767					**5,805**
Retained earnings and others [(a)]	**14,677**	2,349			24	(770)	(431)	(9)	(51)	106	**15,896**
Translation adjustments	**(3,181)**	(198)								47	**(3,332)**
Gains and losses related to hedging derivatives, net of tax	**(160)**	(29)									**(190)**
Gains and losses on assets recognized at fair value through other	**50**	(5)								(39)	**6**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	**(435)**	56								(2)	**(381)**
Other comprehensive income	**(545)**	**22**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41)**	**(564)**
DANONE treasury shares	**(1,653)**			22							**(1,632)**
Equity – Group share	**14,456**	**2,174**	**47**	**22**	**24**	**–**	**(431)**	**(9)**	**(51)**	**111**	**16,344**
Non-controlling interests	**73**	74					(79)		40	23	**131**
Consolidated equity	**14,529**	**2,249**	**47**	**22**	**24**	**–**	**(510)**	**(9)**	**(10)**	**134**	**16,475**

(a) "Others" corresponds to undated subordinated notes totaling €1 25 billion.

Notes to the consolidated financial statements

Note 1. Accounting principles

Note 1.1. Bases for preparation

The consolidated financial statements of Danone (the "Company"), its subsidiaries and associates (together, the "Group") as of and for the year ended December 31, 2019 were approved by Danone's Board of Directors on February 25, 2020 and will be submitted for approval to the Shareholders' Meeting on April 28, 2020.

The consolidated financial statements and the Notes to the consolidated financial statements are presented in euros. Unless indicated otherwise, 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.

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
Measurement of intangible assets	7.2, 10.3
Measurement of investments in associates	5.1, 5.4 to 5.6
Measurement of deferred tax assets	9.3
Determination of the amount of Other non-current provisions and liabilities	15.2, 15.3
Determination of the amount of rebates, trade supports and other deductions relating to agreements with customers	6.1

These assumptions, estimates and appraisals are made on the basis of available information and conditions at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in a climate of economic and financial volatility.

In addition to the use of estimates, Danone's management uses its judgment to define the accounting treatment for certain activities and transactions, when they are not explicitly addressed in IFRS and related interpretations, particularly in the case of the recognition of put options granted to non-controlling interests.

Note 1.2. Accounting framework applied

The Group's consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union, which are available on the website of the European Commission.

Main standards, amendments and interpretations whose application is mandatory as of January 1, 2019

	Notes
IFRS 16 *Leases*	1.3, 1.4
IFRIC 23 *Uncertainty over Income Tax Treatments*	1.3, 1.5

Main standards, amendments and interpretations published by the IASB whose application is not mandatory within the European Union as of January 1, 2019

- Amendments to IFRS 9 – Reform of the IBOR – Phase 1, see Note 1.8 of the Notes to the consolidated financial statements.

Note 1.3. Reconciliation of the consolidated balance sheet as of December 31, 2018 with the consolidated balance sheet as of January 1, 2019

The restatements required by IFRS 16 and by IFRIC 23 on the transition date have been recognized in the opening balance sheet as of January 1, 2019 and the 2018 comparative information has not been restated.

(in € millions)	December 31, 2018	Impacts on the transition date: IFRS 16	Impacts on the transition date: IFRIC 23	January 1, 2019
Assets				
Intangible assets	24,445	–	–	24,445
Land and buildings	2,141	446		2,587
Machinery and equipment	2,846	36		2,882
Other and assets in progress	1,187	185		1,373
Property, plant and equipment	6,175	667	–	6,842
Investments in associates	2,104			2,104
Other financial assets	278	–	–	278
Derivatives – assets [(a)]	81			81
Deferred taxes	761			761
Non-current assets	**33,843**	**667**	**–**	**34,510**
Inventories	1,789			1,789
Trade receivables	2,689			2,689
Other current assets	778	(3)		775
Short-term loans	13			13
Derivatives – assets [(a)]	27			27
Short-term investments	4,199			4,199
Cash and cash equivalents	839			839
Assets held for sale	–			–
Current assets	**10,334**	**(3)**	**–**	**10,331**
Total assets	**44,177**	**664**	**–**	**44,841**

(a) Derivative instruments used to manage net debt.

(in € millions)	December 31, 2018	Impacts on the transition date IFRS 16	IFRIC 23	January 1, 2019
Equity and liabilities				
Share capital	171			171
Additional paid-in capital	5,805			5,805
Retained earnings and others [(a)]	15,896		(93)	15,803
Translation adjustments	(3,332)			(3,332)
Accumulated other comprehensive income	(564)			(564)
Treasury shares	(1,632)			(1,632)
Equity – Group share	**16,344**	**–**	**(93)**	**16,251**
Non-controlling interests	131			131
Consolidated equity	**16,475**	**–**	**(93)**	**16,382**
Financing managed at Company level and other financing	13,973			13,973
Lease debt [(b)]	304	506		810
Financing	14,277	506	–	14,783
Derivatives - liabilities [(c)]	21			21
Liabilities related to put options granted to non-controlling interests	46			46
Non-current financial debt	14,343	506	–	14,849
Provisions for retirement obligations and other long-term	868			868
Deferred taxes	1,537			1,537
Other non-current provisions and liabilities	989	(3)	93	1,079
Non-current liabilities	**17,738**	**503**	**93**	**18,332**
Financing managed at Company level and other financing	2,947			2,947
Lease debt [(b)]	74	165		239
Financing	3,021	165	–	3,186
Derivatives – liabilities [(b)]	63			63
Liabilities related to put options granted to non-controlling interests	463			463
Current financial debt	3,546	165	–	3,711
Trade payables	3,675	(3)		3,672
Other current liabilities	2,743			2,743
Liabilities directly associated with assets held for sale	–			–
Current liabilities	**9,965**	**161**	**–**	**10,126**
Total equity and liabilities	**44,177**	**664**	**–**	**44,841**

(a) Undated subordinated notes.
(b) As of December 31, 2018 corresponded to the liability in respect of finance leases pursuant to IAS 17.
(c) Derivative instruments used to manage net debt.

Note 1.4. First-time application of IFRS 16 *Leases*

On January 13, 2016, the IASB issued a new standard on accounting for leases. As of January 1, 2019, it has been mandatory to apply IFRS 16 in place of IAS 17 and the associated IFRIC and SIC interpretations. IFRS 16 has, for lessees, ended the distinction previously made between "operating leases" and "finance leases". Danone has applied the standard since January 1, 2019, opting for the simplified retrospective transition method and in accordance with the accounting principles set out in Note 6.5 of the Notes to the consolidated financial statements. The application of IFRS 16 resulted, as of January 1, 2019, in a €664 million increase in the balance sheet total, of which €670 million related to the lease debt as set out in Note 1.3 of the Notes to the consolidated financial statements.

Reconciliation of the operating lease commitments presented in accordance with IAS 17 as of December 31, 2018 and the lease debt recognized in the consolidated financial statements as of January 1, 2019

(in € millions)	
Operating lease commitments as of December 31, 2018	**718**
Leases not recognized pursuant to the exemptions provided for by IFRS 16	(26)
Differences in the assessment of contractual obligations	46
Non-discounted lease debt as of January 1, 2019	**738**
Discounting effect	(67)
Lease debt recognized as of January 1, 2019	**670**

Note 1.5. First-time application of IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*, applicable as of January 1, 2019, clarifies the accounting treatment used to recognize the fiscal consequences of uncertainties relating to income taxes. Its application has resulted in the recognition of additional tax liabilities totaling €93 million, recognized as a reduction of equity as of January 1, 2019, as set out in Note 1.3 of the Notes to the consolidated financial statements. Uncertain tax liabilities are presented in Other non-current liabilities within Other non-current provisions and liabilities in accordance with the accounting principles detailed in Note 15.1 of the Notes to the consolidated financial statements.

Note 1.6. Application of IAS 29 to Argentina

In 2018, a consensus view was reached that all the conditions for deeming Argentina to be a hyperinflationary economy under IFRS had been met and that therefore IAS 29 was now applicable to that country. Danone continues to apply IAS 29 to its activities in Argentina.

Accounting principles

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

Danone has used the following indexes to remeasure its income statement items, cash flows and non-monetary assets and liabilities as of December 31, 2019: the Consumer Price Index (CPI). This index was up 54% in 2019. The EURARS exchange rate used to translate the income statement amounted to 67.2 in 2019 (43.09 in 31, 2018).

Main accounting implications

The application of IAS 29 had a €52 million impact on consolidated equity and on non-monetary assets net of non-monetary liabilities as of December 31, 2019 (€66 million as of December 31, 2018) and had the following main impacts on the consolidated income statement for the period:

- a €15 million decrease in consolidated sales and a €36 million decrease in recurring operating income (decrease of €51 million and €30 million respectively in 2018);
- a €7 million loss on the net monetary position recognized in Other financial income (expense), compared with a €3 million positive impact in 2018;
- a €73 million expense in Net income - Group share (€45 million expense in 2018).

Note 1.7. Presentation of costs related to employee benefits

As from January 1, 2019, the Group presents all costs related to employee benefits (bonuses, employee profit-sharing, Group performance shares, defined benefit retirement plans and other employee benefits) under the same headings as those used for salaries and social security charges. As a result, the costs related to employee benefits previously presented under Other income (expense) are now allocated to the other headings under Recurring operating income. The 2018 comparatives have been restated in the consolidated financial statements for the year ended December 31, 2019 (reclassification of €169 million initially presented in Other income (expense)).

Note 1.8. Application of the amendment to IFRS 9 - Phase 1

For Danone, the reform of reference rates (IBOR) concerns instruments used to manage net debt, qualified as hedging and indexed to Euribor as the financings they manage (see Note 13.3 to the consolidated financial statements). The Group expects Euribor to be replaced by hybrid Euribor simultaneously in the contracts of the hedging instruments and hedged items and therefore does not anticipate any significant impact of this reform on its hedging relationships.

The Group is applying the amendment to IFRS 9 relating to the reform of reference rates in advance in the consolidated financial statements for the year ended December 31, 2019. Consequently, the hedging relationships concerned are not affected by the reform.

Note 2. Highlights of the year

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Note 3. Disposal of Earthbound Farm to Taylor Farms (EDP, United States)

Note 3.1. Context of the transaction

On April 11, 2019, Danone signed a definitive agreement for the sale of Earthbound Farm, the US organic salads business, to Taylor Farms. The sale of Earthbound Farm is part of Danone's portfolio management and capital allocation optimization strategy.

Note 3.2. Recognition of the transaction

Following the receipt of an unconditional offer, non-current assets and related liabilities have been classified as held for sale as from March 31, 2019, as required by IFRS 5.

They have been thus measured at the lower of their carrying amount and fair value less costs to sell based on the terms of the transaction. Since their carrying amount exceeded their fair value less costs to sell by €119 million, their carrying amount has been written down by this amount and the corresponding impairment provision has been recognized in Other operating income (expense) for the year.

The transaction was completed on April 11, 2019. The disposal net loss amounted to €(47) million including an income tax credit of €107 million related to the deductibility of a portion of the capital loss on disposal.

Note 4. Fully consolidated companies and non-controlling interests

Note 4.1. Accounting principles

Fully consolidated companies

The Group fully consolidates all subsidiaries over which it has the ability to exercise exclusive control, whether directly or indirectly. Exclusive control over an investee is assessed (i) by the power the Group has over said investee, (ii) whether it is exposed, or has rights, to variable returns from its relationship with the investee, and (iii) whether it uses its power over the investee to affect the amount of the Group's returns.

Full consolidation enables the recognition of all assets, liabilities and income statement items relating to the companies concerned in the Group's consolidated financial statements, after the elimination of intercompany transactions, the portion of the net income and equity attributable to owners of the Company (Group share) being distinguished from the portion relating to other shareholders' interests (Non-controlling interests). Intercompany balances and all material intercompany transactions between consolidated entities (including dividends) are eliminated in the consolidated financial statements.

Business combinations: acquisitions resulting in control being obtained, partial disposals resulting in control being lost

The accounting treatment of acquisitions resulting in control being obtained and partial disposals resulting in control being lost is as follows:

- when control is obtained, the incidental transaction costs are recognized in the income statement under the heading Other operating income (expense) and presented in the cash flow statement within cash flows from operating activities, in the year in which they are incurred. In addition, price adjustments are initially recognized at their fair value in the acquisition price and their subsequent changes in value are recognized in the income statement under the heading Other operating income (expense), all payments relating to these adjustments are presented in the cash flow statement within cash flows from operating activities;
- when control is obtained (or lost), the revaluation at its fair value of the interest previously held (or the residual interest) is recognized in the income statement under the heading (i) Other operating income (expense) when control is lost, (ii) Share of profit of associates when control is obtained of an entity previously accounted for as an associate, and (iii) Other financial income (expense) when control is obtained of an entity previously accounted for as an investment in a non-consolidated company;

- when control is obtained, non-controlling interests are recognized, either at their share of the fair value of the assets and liabilities of the acquired entity, or at their fair value. In the latter case, the goodwill is then increased by the portion relating to these non-controlling interests. The treatment adopted is selected on an individual basis for each acquisition.

Business combinations may be recognized on a provisional basis, as the amounts allocated to the identifiable assets acquired, liabilities assumed and goodwill may be amended during a maximum period of one year from their acquisition date.

Acquisitions or disposals of interests in controlled companies with no impact on control

Purchases or disposals of interests in controlled companies that do not result in control being obtained or lost are recognized directly in equity under the heading Retained earnings, as transfers between the Group share and the non-controlling interests' share in the consolidated equity, with no impact on profit or loss, and the corresponding cash flows are presented within cash flows relating to financing activities. The same accounting treatment is applied to the costs associated with these transactions.

Note 4.2. Main changes during the period

2019 fiscal year

					Ownership as of December 31	
(in percentage)	Notes	**Reporting Entity**	**Country**	**Transaction date** [a]	**2018**	**2019**
Main companies consolidated for the first time during 2019						
Michel et Augustin		EDP	France and United States	April	46.9%	93.9%
Main consolidated companies with change in ownership percentage						
Fan Milk Group's main companies		EDP	West Africa	July	51.0%	100.0%
Main companies no longer fully consolidated as of December 31						
Earthbound Farm	3	EDP	United States	April	100.0%	–

(a) Month in the 2019 fiscal year.

Regarding Michel and Augustin, on April 1, 2019, Danone increased its stake in this French company, which was Danone Manifesto Ventures' first investment in 2016, and thus became the majority shareholder. The company is fully consolidated in Danone's accounts as of April 1, 2019.

2018 fiscal year

There were no material changes during the period.

Note 4.3. Fully consolidated companies

The list of companies included in the consolidation scope, whether they are fully consolidated directly or indirectly or recognized as investments in associates as of December 31, 2019, is available on Danone's website (www.danone.com).

Note 4.4. Accounting for acquisitions resulting in control being obtained in 2019

The business combinations carried out in 2019 were not material.

Note 4.5. Non-controlling interests

Main companies in terms of net income and consolidated net assets, fully consolidated but not wholly owned

As a result of the buyouts carried out in recent years, non-controlling interests in companies that are fully consolidated but not wholly owned were not material as of December 31, 2019.

Liabilities related to put options granted to non controlling interests

Accounting principles

Danone granted put options to third parties with non-controlling interests in certain consolidated subsidiaries, with these options giving the holders the right to sell part or all of their investment in these subsidiaries. These financial liabilities do not bear interest.

In accordance with IAS 32 *Financial Instruments: Presentation*, when non-controlling interests hold put options enabling them to sell their investment to the Group, a financial liability is recognized in an amount corresponding to the present value of the option strike price, and the counterpart of the liability arising from these obligations is:

- on the one hand, a reduction in the carrying amount of the non-controlling interests;

- on the other, a reduction in the equity – Group share for the amount of the liability that exceeds the carrying amount of the corresponding non-controlling interests. This item is adjusted at the end of each reporting period to reflect changes in the strike price of the options and the carrying amount of non-controlling interests. In the absence of specific provisions stipulated in IFRS, the Company has applied the recommendations issued by the AMF (*Autorité des Marchés Financiers*) in November 2009.

Changes during the period

(in € millions)	2018	2019
As of January 1	607	508
New options and options recognized previously in accordance with IFRS 9	–	19
Options exercised [(a)]	(123)	(125)
Changes in the present value of outstanding options	24	79
As of December 31 [(b)]	**508**	**482**

(a) Carrying amount at the closing date of the previous period for options exercised and for which payment has been made.

(b) Several options, none of which individually exceeds €200 million. In most cases, the strike price is an earnings multiple.

Note 5. Associates

Note 5.1. Accounting principles

Accounting treatment

All companies in which the Group exercises a significant influence, directly or indirectly, are accounted for using the equity method. Under this method, the Group recognizes in the carrying amount of the shares held in the associated or jointly-controlled entity the acquisition-related cost of the shares adjusted by its proportionate share of changes in the entity's net assets since its acquisition.

Upon the acquisition of investments accounted for using the equity method, the acquisition price of the shares is allocated on a fair value basis to the identifiable assets acquired and liabilities assumed. The difference between the acquisition price and the Group's share in the fair value of the assets acquired and liabilities assumed represents goodwill, which is added to the carrying amount of the shares.

The main components of Net income of associates are:

- the Group's share of the profits or losses of its associates, calculated on the basis of estimates;
- gains or losses on disposals of shareholdings in associates;
- the revaluation reserve resulting from a loss of influence where there is no disposal of shares;
- impairment of investments in associates.

Impairment review

The Group reviews the measurement of its investments in associates when events or circumstances indicate that impairment is likely to have occurred. Regarding 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.

Note 5.2. Main associates in terms of net income and consolidated net assets

						As of December 31
				2018		2019
(in € millions, except percentage)	Notes	Country	**Listing market** [(a)]	**Ownership**	**Ownership**	**Market capitalization** [(a)(b)]
Mengniu [(c)]	5.6	China	Hong Kong	9.9%	9.9%	14,177
Yashili [(d)]	5.6	China	Hong Kong	25.0%	25.0%	380
Yakult [(e)]	5.7	Japan	Tokyo	6.6%	6.6%	8,466

(a) If the company is listed.

(b) The amount disclosed is 100% of the company's market capitalization.

(c) INNER MONGOLIA MENGNIU DAIRY (GROUP) CO LTD.

(d) YASHILI INTERNATIONAL HOLDINGS LTD.

(e) YAKULT HONSHA CO LTD.

The Group acquired its stake in Mengniu and Yashili on the one hand and Yakult on the other hand under the terms of broader agreements, the main aim of which was operational collaboration and the development of regional categories and markets.

In 2019, these companies accounted for 65% in total of Investments in associates (other investments in associates did not, individually, account for more than 15% of the total). In addition, none of these companies generated net income representing more than 5% of the consolidated net income or had net assets of more than 5% of the consolidated net assets.

Note 5.3. Main changes during the period

2019 fiscal year

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

(a) Month in the 2019 fiscal year.

2018 fiscal year

(in percentage)	Reporting Entity	Country	Transaction date [(a)]	Ownership as of December 31 2017 Restated	2018
Main companies accounted for using the equity method for the first time during 2018					
–	–	–		–	–
Main associates with changes in ownership percentage					
Yakult	EDP	Japan	March	21.3%	6.6%
Main companies no longer accounted for using the equity method as of December 31					
–	–	–		–	–

(a) Month in the 2018 fiscal year.

Note 5.4. Carrying amount and changes during the period

		2018			2019		
(in € millions)	Notes	Net goodwill	Group's share in net assets and net income	Total	Net goodwill	Group's share in net assets and net income	Total
As of January 1		**1,207**	**1,472**	**2,678**	**1,057**	**1,046**	**2,104**
Acquisitions, influence acquired during the year and capital increase	5.3	4	9	13	20	21	**41**
Disposals, losses of influence during the year and decreases in ownership	5.3	(152)	(403)	(555)	(30)	1	**(29)**
Share of profit of associates before impact of disposals, revaluation and other	5.5	–	81	81	–	100	**100**
Dividends paid		–	(33)	(33)	–	(53)	**(53)**
Translation adjustments		17	12	29	21	13	**34**
Impairment	5.6	(19)	–	(19)	(145)	–	**(145)**
Adjustment of the Group's share in net assets		–	(91)	(91)	–	4	**4**
As of December 31		**1,057**	**1,046**	**2,104**	**923**	**1,131**	**2,055**

Note 5.5. Share of profit of associates

(in € millions)	Notes	Year ended December 31 2018	2019
Share of profit of associates before impact of disposals, revaluation and other		81	100
Impairment	5.4, 5.6	(19)	(145)
Gains (losses) on disposal, revaluation and other	5.7	700	(1)
Total		**762**	**(46)**

Note 5.6. Mengniu (EDP International, China) and Yashili (Specialized Nutrition, China)

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 the pooling of the respective assets of the two companies. Danone owns 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 owns a 51% stake. Lastly, in 2016, the Dumex activity in China was merged with Yashili, thereby building a strong local infant milk formula brand platform.

Mengniu (EDP International, China)

Accounting treatment of the investment

This investment, which is a strategic investment for the Group, is recognized under Investments in associates, since the Group has significant influence over the financial and operating policies of the Mengniu group due to (i) its role as a strategic shareholder in the Mengniu group pursuant to the agreements with COFCO, (ii) its participation in Mengniu's governance, and (iii) the Group's operating involvement in Mengniu's fresh dairy products activities.

Main financial information

	2018		2019
(in € millions)	**Interim financial statements as of June 30**	**Financial statements for the year ended December 31**	**Interim financial statements as of June 30**
Non-current assets [(a)]	4,236	4,669	4,148
Current assets [(a)]	3,786	3,782	5,296
Equity [(a)]	3,645	3,874	4,056
Non-current liabilities [(a)]	1,118	1,384	908
Current liabilities [(a)]	3,259	3,193	4,481
Sales [(a)]	4,476	8,838	5,199
Net income [(a)]	215	411	282
Other comprehensive income [(a)]	(29)	(58)	(9)

(a) Published financial statements prepared in accordance with IFRS. Income statement items have been translated into euros at the average exchange rate for the reporting period. Balance sheet items have been translated into euros at the exchange rate in effect at the end of the reporting period.

Impairment review as of December 31, 2019

The Group has not noted any indications of impairment. In particular, the stock price of the Mengniu group is still higher than the average purchase price of its shares.

Impairment review as of December 31, 2018

The Group has not noted any indications of impairment.

Yashili (Specialized Nutrition, China)

Accounting treatment of the investment

This shareholding, acquired under the terms of the Group's strategic agreement with Mengniu, is recognized under Investments in associates. As of December 31, 2019, Danone held 25% of Yashili's share capital, had significant influence over its operating policies and was involved in its governance, in particular through its right to appoint two members of the board of directors and it proposed the candidate for appointment as Chief Executive Officer. Consequently, its shareholding is recognized within Investments in associates.

Impairment review as of December 31, 2019

The Group noted a significant decrease in the Yashili stock price which, as of December 31, 2019, remained below the shares' average purchase price. This decrease constituted an indication of impairment.

As of December 31, 2019, the carrying amount of the investment in Yashili (€329 million) was subjected to an impairment test based on estimated future cash flows of the business plan prepared by its management and covering the 2020 to 2024 period. Meanwhile, the assumptions for the discount rate and long-term growth rate are 8.1% and 3.0%, respectively. The test resulted in a review of the amount of the impairment provision recognized in previous fiscal years and the recognition of an additional impairment provision of €109 million recognized in Share of profit of associates for the year ended December 31, 2019.

Lastly, the sensitivity analyses on the key assumptions used to calculate this value in use, taken individually, gave the following results:

Assumptions	Indicators	Additional impairment
		(in € millions)
-500 bps	Sales growth rate [(a)]	(36)
-500 bps	Recurring operating margin [(a)]	(46)
-100 bps	Long-term growth rate	(24)
+100 bps	Discount rate	(34)

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

Impairment review as of December 31, 2018

The Group noted significant volatility in the Yashili stock price in 2018, in line with the volatility observed on the local stock market index. The stock price remained below the shares' average purchase price. As of December 31, 2018, the carrying amount of the investment in Yashili (€322 million) was subjected to an impairment test based on estimated future cash flows.

The assumptions used reflected the results expected from the strategic changes made by its management, gradually implemented since year-end 2015 and supplemented in 2017 by a new positioning of the brands and changes in the distribution channels, i.e. dynamic sales growth over the period 2019 to 2023 and a significant increase in profitability. Meanwhile, the assumptions for the discount rate and long-term growth rate were 8.2% and 3.0%, respectively. Following the impairment test carried out in late 2018, the impairment provision recognized in 2016 (€99 million) was retained as of December 31, 2018.

Note 5.7. Yakult (EDP International, Japan)

Main characteristics of the investment

Danone has a stake in Yakult and has representatives on the company's board of directors under the terms of its strategic alliance signed in 2004, which aimed at strengthening their global leadership in probiotics and accelerating the growth of both companies in the functional food market, the first phase of which had ended in May 2012. In 2013, Danone and Yakult signed a new cooperation agreement to replace the existing strategic alliance. This new agreement calls for existing collaborations to be continued and envisages extending them into areas that are more operational in nature. In 2018, Danone reached a new phase in its partnership with Yakult with the strengthened scientific and commercial collaboration to promote and develop probiotic activities and the reduction of Danone's stake in Yakult from 21.29% to 6.61%, Danone remaining its main shareholder and having two representatives on the company's board of directors. This transaction resulted in a disposal gain of €701 million, recognized in Share of profit of associates in 2018.

Accounting treatment of the investment

This investment, which is a strategic investment for the Group, is recognized under Investments in associates, since the Group has significant influence over the financial and operating policies of Yakult due to (i) its role as the main shareholder, (ii) its participation in Yakult's governance, and (iii) the scientific and commercial partnership.

It should be noted that, as Yakult's fiscal year closing date is March 31, the amounts prepared for Group consolidation purposes as of December 31 are estimated on the basis of the most recent financial statements published for each fiscal year (interim financial statements for the six months ended September 30, 2018 for 2018 and interim financial statements for the six months ended September 30, 2019 for 2019).

Impairment review as of December 31, 2019

The Group has not noted any indications of impairment. In particular, the stock price of the Yakult group is still higher than the average purchase price of its shares.

Impairment review as of December 31, 2018

The Group had not noted any indications of impairment.

Main financial information

	2018		2019	
(in € millions)	Financial statements for the year ended March 31	Interim financial statements as of September 30	Financial statements for the year ended March 31	Interim financial statements as of September 30
Non-current assets [a]	2,916	2,894	2,981	3,044
Current assets [a]	1,874	1,896	1,990	2,170
Equity [a]	2,954	2,995	3,153	3,377
Non-current liabilities [a]	600	589	890	915
Current liabilities [a]	1,236	1,206	928	922
Sales [a]	3,019	1,556	3,253	1,649
Net income [a]	291	183	321	189
Other comprehensive income [a]	118	(92)	(191)	(115)

(a) Published financial statements prepared in accordance with Japanese GAAP. Income statement items have been translated into euros at the average exchange rate for the reporting period. Balance sheet items have been translated into euros at the exchange rate in effect at the end of the reporting

Note 5.8. Impairment review of other Investments in associates

Impairment review as of December 31, 2019

Following the impairment review of other investments in associates, the Group recognized an impairment charge totaling €36 million in respect of a company in the fresh dairy products business.

Impairment review as of December 31, 2018

Following the impairment review of other investments in associates, the Group recognized an impairment charge totaling €19 million in respect of a company in the fresh dairy products business.

Note 6. Information concerning the Group's operating activities

Note 6.1. Accounting principles

Sales

Danone's sales mainly comprise sales of finished products. They are recognized in the income statement when the control of goods is transferred. They are stated net of trade discounts and customer rebates, as well as net of costs relating to trade support and listing or linked to occasional promotional actions invoiced by customers. These amounts are estimated when net sales are recognized, on the basis of agreements and commitments with the customers concerned.

Cost of goods sold

The cost of goods sold mainly comprises industrial costs (including raw material costs, depreciation of industrial assets and personnel costs relating to production activity) and certain logistics and transportation costs.

Selling expense

Selling expenses mainly comprise marketing expenses and consumer promotions as well as sales force overheads.

General and administrative expense

General and administrative expenses mainly comprise other personnel and administrative costs.

Research and Development expense

Development costs are generally expensed as incurred due to the very short time between the date on which technical feasibility is demonstrated and the date on which the products are launched. Certain development costs are recognized under assets in the consolidated balance sheet (see Note 10 of the Notes to the consolidated financial statements).

Note 6.2. Operating segments

General principles

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

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

Information by Reporting Entity

Among the key indicators reviewed and used internally by the primary operational decision-makers, only Sales, Recurring operating income and Recurring operating margin are monitored by Reporting Entity, while the other indicators are monitored at Group level. Since January 1, 2019, Danone has adapted the reporting of the organization of the EDP Reporting Entity. To reflect its organization under a single business leader, a single strategy and a single management, the EDP Noram (United States and Canada) and EDP International businesses have been integrated into a single EDP Reporting Entity. The main decision-makers monitor the three Reporting Entities which now make up the Danone company organization: EDP, Specialized Nutrition and Waters.

The aggregate figures by operating segment for the comparable period are therefore presented below in a comparable manner.

Information by Reporting Entity

					Year ended December 31	
(in € millions, except percentage)		Sales [a]	Recurring operating income		Recurring operating margin	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
EDP	13,056	13,163	1,317	1,345	10.1%	10.2%
Specialized Nutrition	7,115	7,556	1,762	1,908	24.8%	25.3%
Waters	4,480	4,568	483	593	10.8%	13.0%
Group total	**24,651**	**25,287**	**3,562**	**3,846**	**14.5%**	**15.2%**

(a) Sales to third parties.

Reporting by geographical area

Sales, Recurring operating income and Recurring operating margin

					Year ended December 31	
(in € millions, except percentage)		Sales [a]	Recurring operating income		Recurring operating margin	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Europe and Noram [b]	13,654	13,710	1,928	1,999	14.1%	14.6%
Rest of the World	10,997	11,577	1,634	1,847	14.9%	16.0%
Group total	**24,651**	**25,287**	**3,562**	**3,846**	**14.5%**	**15.2%**

(a) Sales to third parties.
(b) Including net sales of €2,190 million generated in France in 2019 (€2,127 million in 2018).

Top ten countries contributing to sales

		Year ended December 31
(in percentage)	**2018**	**2019**
United States	20%	19%
China	9%	10%
France	9%	9%
Russia	6%	6%
Indonesia	5%	6%
United Kingdom	5%	5%
Mexico	4%	5%
Spain	4%	4%
Germany	3%	3%
Brazil	3%	3%

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

	As of January 1 [a]	As of December 31
(in € millions)	**2019**	**2019**
Europe and Noram [b]	23,454	23,621
Rest of the World	7,833	8,026
Group total	**31,288**	**31,647**

(a) See Note 1.3 of the Notes to the consolidated financial
(a) Including €2,396 million in France as of December 31, 2019 (€2,317 million as of January 1, 2019).

Note 6.3. Other components of recurring operating income

Change in the presentation of costs related to employee benefits

See Note 1.7 of the Notes to the consolidated financial statements.

Other income (expense)

(in € millions)	Year ended December 31 2018	2019
Various taxes [a]	(41)	(43)
Restructuring costs [b]	(23)	(25)
Capital gains on disposals of property, plant and equipment and intangible assets	9	4
Other [c]	60	11
Total	**5**	**(53)**

(a) Comprises notably sales taxes.

(b) Excluding restructuring of the EDP and Waters Reporting Entities in certain countries whose costs are presented in Other operating income (expense).

(c) Comprises currency translation differences, asset impairment, provisions for doubtful receivables and several other components.

Note 6.4. Working capital

Accounting principles

Inventories

Inventories and work-in-progress are recognized at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

Trade receivables

Trade receivables are recognized at amortized cost in the consolidated balance sheet.

Impairment provisions

Impairment provisions mainly concern disputes on which Danone is in discussion with customers. Impairment provisions for expected losses are recognized at the level of expected losses over the life of the receivable.

Transactions in foreign currencies

When they are not hedged, transactions denominated in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. At period-end, trade receivables and trade payables denominated in foreign currencies are translated using the exchange rates applicable on that date. Foreign exchange gains and losses arising from transactions in foreign currencies are recognized under the heading Other income (expense) in the consolidated income statement. When they are hedged, the hedging impact is recognized in the same item as the hedged element. As a result, all such transactions are recognized at the hedged spot rate, swap points being recognized under the heading Other financial income (expense).

Carrying amount

(in € millions, except percentage)	As of January 1 [a] 2019	As of December 31 2019
Goods purchased for resale	98	122
Raw materials and supplies	802	874
Semi-finished goods and work-in-progress	168	184
Finished goods	846	902
Non-refundable containers	36	17
Impairment provisions	(161)	(167)
Inventories, net	1,789	1,933
Trade and other receivables from operations	2,809	3,019
Impairment provisions	(120)	(114)
Trade receivables, net	2,689	2,906
State and local authorities	621	812
Derivatives – assets [b]	37	23
Other	116	105
Total other current assets [a]	775	940
Total current assets	**5,253**	**5,778**
Trade payables	(3,672)	(3,959)
Year-end rebates payable to customers	(1,199)	(1,230)
State and local authorities	(274)	(342)
Personnel costs, including social security charges	(895)	(917)
Derivatives – liabilities [b]	(59)	(80)
Other	(315)	(251)
Total other current liabilities	(2,743)	(2,819)
Total current liabilities	**(6,415)**	**(6,779)**
Working capital	**(1,162)**	**(1,000)**
As a percentage of consolidated sales	4.7%	4.0%

(a) See Note 1.3 of the Notes to the consolidated financial statements.

(b) Fair value of derivatives used to hedge operational currency and raw materials risks, most of which are implemented over a horizon of less than one year.

Credit risk on trade receivables

Credit risk exposure

Credit risk represents the risk of financial loss for the Group if a customer or counterparty should fail to meet its contractual payment obligations. The customer payment term is generally 30 days and the Group's main customers are essentially in the mass retail sector where credit risk is considered low.

Due to the large number of customers located in diverse geographical areas and the fact that its main customers are in the mass retail sector, and despite the current economic situation, the Group believes that it is neither exposed to significant credit risk, nor dependent to a material extent on any single customer.

Sales to the Group's largest customers and overdue receivables not yet fully impaired

(in percentage)	Year ended December 31 2018	2019
Portion of consolidated sales made to the Group's largest customers		
Group's largest customer	5.7%	5.9%
Group's five largest customers	13.0%	13.0%
Group's ten largest customers	19.6%	19.0%
Portion of overdue trade receivables not yet fully impaired [a]	**4.7%**	**6.4%**

(a) More than 30 days overdue.

Trade receivables derecognized in connection with the non-recourse factoring programs

(in € millions)	As of December 31 2018	2019
Total trade receivables derecognized in connection with the non-recourse factoring program [a]	61	23

(a) These relate to several Group subsidiaries that use non-recourse factoring programs (with transfer of risks and benefits).

Reverse factoring programs

The Group uses reverse factoring programs in the normal course of its business. These programs are implemented within a strict framework, notably with respect to:

- use and function as a payment tool;
- exclusively for approved invoices;
- payment by Danone respecting the invoice terms, notably due dates, in accordance with applicable regulations and practices;
- at no cost to Danone.

The amounts to be paid using these payment tools are not reclassified. They remain commitments to suppliers and are carried as operating liabilities under Trade payables until paid by Danone, which has the effect of clearing the commitment.

Several of the Group's subsidiaries in various parts of the world are involved in these programs, none of which is individually material.

Fair value of trade receivables and payables

	As of December 31	
(in € millions)	**2018**	**2019**
Trade receivables	2,809	3,019
Impairment provisions	(120)	(114)
Fair value of trade receivables	**2,689**	**2,906**
Discounts granted to customers [a]	(1,199)	(1,230)
Fair value of trade receivables net of discounts granted	**1,490**	**1,676**

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

Note 6.5. Property, plant and equipment, capital expenditure and leases (right-of-use assets)

Accounting principles

Property, plant and equipment acquired

Property, plant and equipment acquired by the Group are recognized at cost of acquisition or at construction cost.

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives as follows:

- buildings: 15 to 40 years;
- equipment, furniture and fixtures: 5 to 20 years;
- other: 3 to 10 years.

The depreciation charges in respect of property, plant and equipment are allocated to various headings in the income statement on the basis of the nature and utilization of the assets concerned.

Refundable containers

Refundable containers (including, in particular, jugs in the Waters Reporting Entity) are recognized at cost. They are depreciated on a straight-line basis, based on available statistics for each Group entity, over the shorter of the following lengths of time:

- physical useful life, taking into account the internal and external breakage rates and wear and tear;
- commercial useful life, taking into account planned or likely modifications of containers.

When the amount of the refund changes, the liability for deposits received is measured based on the new amount.

Leased assets

IFRS 16 *Leases* requires lessees to use a unique accounting model for leases, which involves the recognition in the balance sheet of a right-of-use asset with a corresponding lease liability in respect of the present value of the lease payments due over the reasonably certain term of the lease. Deferred tax is also recognized on the basis of the difference between the carrying amount of the right-of-use asset and the lease liability.

The depreciation charge in respect of the right-of-use asset is presented in the various headings within consolidated net income and the interest expense relating to the lease liability is presented within Interest expense.

The cash flows relating to the lease payments are presented:

- in cash flows provided by (used in) financing activities, in the case of the portion corresponding to the repayment of the lease liability;

- in cash flows provided by (used in) operating activities, in the case of the portion corresponding to the interest on the lease liability.

Danone uses the incremental borrowing rate to determine the lease liability unless the interest rate implicit in the lease can be easily determined. It is calculated separately for each currency and maturity, on the basis of the internal financing rate, to which is added a credit spread for the Danone SA bond issues, taking into account a linear repayment profile.

The lease term used is the non-cancellable period during which Danone has the right to use the underlying asset, together with both periods covered by options to extend or to terminate the lease if their exercise is assessed as reasonably certain. The right-of-use asset is depreciated over the lease term or over the useful life of the underlying asset if the exercise of a purchase option is deemed reasonably certain.

Danone uses the simplification measures specified by IFRS 16 and consequently:

- does not restate leases of low value assets whose reasonably certain term is less than 12 months. The lease expense is recognized in the income statement as incurred;
- it distinguishes between the lease and non-lease components and accounts for them accordingly;
- for the purposes of its implementation as of January 1, 2019:
    - did not apply IFRS 16 to contracts that the Group had not previously identified as containing a lease component, pursuant to IAS 17 and IFRIC 4: IFRS 16 is not applied on the transition date and will be applied, where relevant, on the renewal of the contract if it is determined that the contract is or contains a lease; the accounting principles in force as of December 31, 2018 for such leases therefore remain applicable;
    - relied, where relevant, on its assessment of whether leases were onerous leases as of December 31, 2018, to adjust the right-of-use asset recognized as of the date of first-time application.

First-time application of IFRS16 *Leases*

See Note 1.4 of the Notes to the consolidated financial statements.

In addition, in the case of finance leases, in 2018, the amounts of the related assets were recognized pursuant to IAS 17 and presented within property plant and equipment (their carrying amount totaled €0.4 billion as of December 31, 2018); in 2019, the amounts of the right-of-use assets are recognized pursuant to IFRS 16 and are presented on the lines relating to right-of-use assets.

Carrying amount and changes during the period

(in € millions)	Land and buildings	Machinery and equipment	Other and assets in progress	Total	Land and buildings	Machinery and equipment	Other and assets in progress	Total
				2018				**2019**
Gross amount								
As of January 1 [(a)]	**3,352**	**7,216**	**1,990**	**12,558**	**3,993**	**7,801**	**2,386**	**14,179**
Capital expenditure [(b)]	108	139	762	1,009	96	228	602	926
Disposals [(b)]	(13)	(46)	(23)	(82)	(9)	(47)	(40)	(96)
Reclassification of assets held for sale [(b)]	–	–	–	–	(67)	–	–	(67)
Changes in consolidation scope [(b)]	–	–	–	–	(33)	(73)	(19)	(125)
Translation adjustments [(b)]	(35)	(226)	(33)	(295)	41	12	24	77
Impairment [(b)]	(11)	(79)	(111)	(201)	(52)	(168)	(58)	(277)
Other [(b)] [(c)]	144	760	(384)	520	178	432	(603)	8
Impacts of the above on the right-of-use assets [(d)]	–	–	–	–	119	32	46	197
As of December 31	**3,544**	**7,765**	**2,201**	**13,510**	**4,266**	**8,217**	**2,339**	**14,822**
Of which right-of-use assets [(d)]					*792*	*272*	*270*	*1,334*
Depreciation and provisions								
As of January 1 [(a)]	**(1,276)**	**(4,323)**	**(954)**	**(6,553)**	**(1,405)**	**(4,918)**	**(1,013)**	**(7,337)**
Depreciation charges and impairment [(b)]	(134)	(496)	(135)	(765)	(138)	(495)	(137)	(770)
Disposals [(b)]	11	42	21	74	6	37	41	84
Reclassification of assets held for sale [(b)]	–	–	–	–	24	–	–	24
Changes in consolidation scope [(b)]	–	–	–	–	26	64	14	103
Translation adjustments [(b)]	27	178	24	230	(9)	20	(4)	8
Impairment [(b)]	7	50	98	154	12	89	48	149
Other [(b)] [(c)]	(37)	(369)	(67)	(474)	(23)	(106)	116	(13)
Impacts of the above on the right-of-use assets [(d)]	–	–	–	–	(115)	(31)	(81)	(227)
As of December 31	**(1,403)**	**(4,918)**	**(1,013)**	**(7,335)**	**(1,622)**	**(5,340)**	**(1,016)**	**(7,978)**
Of which right-of-use assets [(d)]					*(129)*	*(65)*	*(68)*	*(262)*
Carrying amount								
As of December 31	**2,141**	**2,846**	**1,187**	**6,175**	**2,644**	**2,877**	**1,323**	**6,844**
Of which right-of-use assets [(d)]					*663*	*207*	*201*	*1,072*
Including assets in progress			*805*	*805*			*738*	*738*

(a) See Note 1.3 of the Notes to the consolidated financial statements.

(b) Excluding right-of-use assets.

(c) Corresponds mainly to the effects of the application of IAS 29 to Argentina (see Note 1.6 of the Notes to the consolidated financial statements).

(d) Right-of-use assets pursuant to IFRS16 *Leases*.

Impairment review of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or circumstances indicate that the recoverable amount of the asset (or group of assets to which it belongs) may be impaired:

- the recoverable amount corresponds to the higher of the market value and value in use;
- value in use is estimated on the basis of the discounted cash flows that the asset (or group of assets to which it belongs) is expected to generate over its estimated useful life in the conditions of use determined by the Group;

- market value corresponds to the estimated net selling price that could be obtained by the Group in an arm's length transaction.

An impairment provision is recognized when the recoverable amount of the asset proves to be lower than its carrying amount.

Capital expenditure during the period

	Year ended December 31	
(in € millions, except percentage)	**2018**	**2019**
Related cash flows	(941)	(951)
As a percentage of sales	*3.8%*	*3.8%*

Note 6.6. Off-balance sheet commitments relating to operating activities

First-time application of IFRS16 *Leases*

See Note 1.4 of the Notes to the consolidated financial statements.

Commitments given in 2019

		Amount of financial flows for the period				
(in € millions)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024 and after**
Commitments to purchase goods and services [a]	(4,149)	(2,417)	(1,047)	(402)	(171)	(112)
Capital expenditure commitments	(181)	(178)	(3)	–	–	–
Guarantees and pledges given	(17)	(17)	–	–	–	–
Other	(182)	(53)	(21)	(11)	(14)	(83)
Total	**(4,528)**	**(2,665)**	**(1,070)**	**(412)**	**(186)**	**(195)**

(a) Commitments relating mainly to purchases of milk, dairy ingredients and other food raw materials.

Commitments given in 2018

		Amount of financial flows for the period				
(in € millions)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023 and after**
Commitments to purchase goods and services [a]	(3,824)	(2,106)	(899)	(527)	(236)	(56)
Capital expenditure commitments	(166)	(164)	(2)	–	–	–
Operating lease commitments	(718)	(219)	(133)	(92)	(64)	(210)
Guarantees and pledges given	(16)	(14)	–	–	–	(2)
Other	(49)	(39)	(7)	(2)	–	(1)
Total	**(4,773)**	**(2,542)**	**(1,041)**	**(621)**	**(300)**	**(269)**

(a) Commitments relating mainly to purchases of milk, dairy ingredients and other food raw materials.

Other commitments

The Company and its subsidiaries are parties to a variety of legal proceedings arising in the normal course of business, notably as a result of guarantees given on disposals since 1997. In some cases, damages and interest are sought. Provisions are recognized when an outflow of resources is probable and the amount can be reliably estimated.

Note 6.7. Financial risks associated with operating activities

The Group's financial risk policy and its organization are detailed respectively in Note 13.3 and Note 13.1 of the Notes to the consolidated financial statements.

Foreign exchange risk

Risk identification

The Group mainly operates on a local basis and consequently in the currency of the country in which it is operating, thereby incurring no currency risk. However, the location of some of the Group's production units may result in intercompany billings in foreign currencies. This applies particularly to the Specialized Nutrition Reporting Entity and, to a lesser extent, to the EDP Reporting Entity excluding the activities of the WhiteWave companies. Similarly, some raw materials are billed or indexed in foreign currencies, in particular for the Waters and EDP Reporting Entities. Lastly, the Group is also developing some export activities. The sales and operating margin of some subsidiaries are therefore exposed to fluctuations of foreign exchange rates against their functional currency.

Risk monitoring and management

The hedging policy related to operational foreign exchange risk is detailed in Note 13.3 of the Notes to the consolidated financial statements, section *Operational currency risk management*.

Exposure

Pursuant to its financial currency risk hedging policy, the Group's residual exposure (after hedging) is not significant over the hedging period.

As of December 31, 2019, the main hedged currencies in terms of value included the British pound, Chinese yuan, Australian dollar, Mexican peso and Hong Kong dollar.

Commodities risk

Risk identification

Danone's raw material needs consist mainly of:

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

Danone's strategy increasingly focuses on the upstream portion of its activities and in particular its supply of raw materials, not only to manage its costs but also to make it a source of value creation and differentiation relative to the competition. However, the price trends of major raw materials may affect the structure of Danone's results.

Risk monitoring and management

Danone manages cost volatility through operational initiatives such as: continuous productivity gains: Danone strives in particular to optimize its use of raw materials (reductions in production waste, lighter packaging and more effective use of milk sub-components in its products) and take advantage of pooled purchasing, for example through centralized management of purchases other than milk for the EDP and Specialized Nutrition Reporting Entities.

Furthermore Danone has implemented a purchasing policy (Market Risk Management) which is detailed in the section *Management of commodities price volatility risk* of Note 13.3 of the Notes to the consolidated financial statements.

Sensitivity of net income to changes in prices of the two main categories of raw materials purchased by the Group

Impact on the cost of raw materials for the fiscal year concerned of an increase/decrease in their price applied uniformly across all countries, throughout that fiscal year, using constant exchange rates (projected annual rate determined by Danone for the 2019 fiscal year)

	Year ended December 31	
	2018	**2019**
(in € millions)	**Income (expense)**	**Income (expense)**
Increase of 5%		
Liquid milk, milk powder and other milk-based ingredients	(114)	(111)
Plastics, including PET	(74)	(74)
Decrease of 5%		
Liquid milk, milk powder and other milk-based ingredients	114	111
Plastics, including PET	74	74

Note 7. Events and transactions outside the Group's ordinary activities

Note 7.1. Other operating income (expense)

Accounting principles

Other operating income (expense) is defined under Recommendation 2013-03 of the French CNC relating to the format of consolidated financial statements prepared under international accounting standards, and comprises significant items that, because of their exceptional nature, cannot be viewed as inherent to Danone's current activities. These mainly include capital gains and losses on disposals of businesses and fully consolidated companies, impairment charges on goodwill, significant costs related to strategic restructuring and major external growth transactions, and incurred or estimated costs related to major crises and major litigation. Furthermore, in connection with Revised IFRS 3 and Revised IAS 27, Danone also classifies in Other operating income (expense) (i) acquisition costs related to business combinations, (ii) revaluation profit or loss recognized following a loss of control, and (iii) changes in earn-outs related to business combinations and subsequent to the acquisition date.

Other operating income (expense) in 2019

In 2019, the net Other operating expense of €(609) million consisted mainly of the following items:

(in € millions)	Notes	**Related income (expenses)**
Effect of the disposal of Earthbound Farm [(a)]	3	(154)
Costs relating to the strategic restructuring of the EDP and Waters Reporting Entities in certain countries [(b)]		(159)
Expenses related to the transformation of Danone's organization	7.2	(114)
Impairment of two brands in the EDP Reporting Entity and one brand in the Specialized Nutrition Reporting Entity	10.3	(84)
Costs associated with the integration of WhiteWave		(46)

(a) Including impairment charges of €119 million, on the date they were classified as assets held for sale in accordance with IFRS 5, less disposal costs.

(b) Latin America, Africa and China.

Other operating income (expense) in 2018

In 2018, the net Other operating expense of €(821) million consisted mainly of the following items:

(in € millions)	**Related income (expenses)**
Impairment of intangible assets of Centrale Danone	(662)
Other costs relating to the boycott of Centrale Danone [(a)]	(28)
Impairment of the intangible assets of a CGU in the EDP International Reporting Entity	(25)
Costs relating to the restructuring of the EDP International Reporting Entity in certain countries [(b)]	(71)
Costs associated with the integration of WhiteWave [(c)]	(69)
Compensation received [(d)]	60

(a) The main components are the costs of surplus fresh and packaged milk, as well as the impairment provisions in respect of production lines that have been shut down.

(b) Mainly in Latin America and Africa.

(c) Mainly related to IS/IT costs, consulting fees and end-of-contract penalties.

(d) Late payment interest received in respect of the Fonterra case (€30 million) and compensation receivable following settlement of a dispute with Système U (€30 million).

Note 7.2. Transformation of Danone's organization

On February 19, 2019, Danone announced the proposed transformation of its organization on the basis of the following three priorities:

- integration of its Early Life Nutrition and Advanced Medical Nutrition activities;
- organization of its activities around 13 regions;
- evolution of its shared service centers.

The impacts on the consolidated financial statements for the year ended December 31, 2019 relate mainly to the integration of the Early Life Nutrition and Advanced Medical Nutrition activities (regarding impairment testing, see Note 10.3 of the notes to the consolidated financial statements). The related costs recognized during the period are mainly costs related to personnel.

Note 8. Number of employees, personnel costs and employee benefits

Note 8.1. Number of employees at fully consolidated companies

Number of employees as of December 31 and breakdown by Reporting Entity and geographical area

	As of December 31	
	2018	**2019**
Total number of employees	**105,783**	**102,449**
By geographical area		
Europe and North America	31%	31%
North America	7%	6%
Europe	24%	25%
Rest of the World	69%	69%
Asia, Pacific and Middle East	21%	21%
China	8%	8%
CIS	9%	9%
Africa	8%	8%
Latin America	23%	23%
Total	**100%**	**100%**
By Reporting Entity		
EDP	42%	41%
Specialized Nutrition	20%	21%
Waters	35%	35%
Corporate functions	3%	3%
Total	**100%**	**100%**

Note 8.2. Personnel costs of fully consolidated companies

	Year ended December 31	
(in € millions)	**2018**	**2019**
Salaries and social security charges [a]	(3,668)	(3,917)
Retirement obligations – defined benefit plans [b]	(38)	(37)
Expenses relating to Group performance shares	(24)	(28)

(a) Salaries after social security charges. Also comprises the contributions in respect of defined contribution retirement plans.

(b) Service cost.

Note 8.3. Retirement commitments, retirement indemnities and personal protection

General principles

The Group contributes to employee retirement benefit plans in accordance with the laws and usual practices of countries in which its subsidiaries operate. The Group has no actuarial liability in respect of contributions paid under such plans to private or state sponsored pension funds. The Group also has contractual obligations for supplementary retirement plans, severance pay, retirement indemnities and personal protection plans. The related actuarial commitments are taken into account either through the payment of contributions to independently-managed funds responsible for their service and the fund administration, or through provisions.

Accounting principles

Defined contribution retirement plans

Contributions due under defined contribution plans are expensed as incurred. These expenses are allocated to different headings in the consolidated income statement.

Defined benefit retirement plans

The Group's obligations relating to defined benefit retirement plans are calculated using the projected unit credit method and by taking into account several actuarial assumptions, including employee turnover, salary increases and employees' expected active lives.

The carrying amounts of these plans on the consolidated balance sheet correspond to the actuarial value of the obligations, as defined above, less the fair value of the plan assets (retirement funds to which the Group contributes, for example). They are presented under the heading Provisions for retirement obligations and other long-term benefits. In addition, the expected return on plan assets is measured on the basis of the discount rate used to estimate the actuarial value of retirement commitments. Actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions that are used to calculate the obligations net of the assets (including the difference between the expected return and the actual return on plan assets) are fully recognized within Other comprehensive income.

The recognized costs and income of defined benefit plans correspond mainly to:

- the cost of services provided during the year and of prior services (where relevant) allocated according to their function to the various headings in the consolidated income statement;
- the accretion of the present value of the obligations, net of the expected return on plan assets, recognized within Other financial income (expense).

Other long-term benefits

Other long-term benefits may be granted by certain Group companies to their employees, such as personal protection coverage and long-service awards. The Group's obligations in respect of these benefits are determined by applying a similar method to that used to determine the obligations relating to defined benefit retirement plans.

The amounts recognized in the balance sheet in respect of these plans correspond to the present value of the obligations, as detailed above. They are presented under the heading Provisions for retirement obligations and other long-term benefits. The actuarial gains and losses resulting from experience adjustments and changes in the actuarial assumptions used to calculate obligations are recognized in full within Recurring operating income of the fiscal year in which they are incurred.

Defined benefit retirement plans

Provisions for retirement obligations and other long-term benefits

	As of December 31	
(in € millions)	**2018**	**2019**
Defined benefit retirement plans	843	1,063
Other long-term benefits	25	28
Total	**868**	**1,091**

Defined benefit retirement plans and other post-employment benefits

Carrying amount of gross obligations

	As of December 31	
(in percentage)	**2018**	**2019**
Retirement plan for senior managers	*32%*	*32%*
Other	*17%*	*18%*
France	49%	50%
Germany	12%	11%
Indonesia	8%	9%
Belgium	7%	7%
United States	7%	7%
Ireland	6%	6%
Other [(a)]	11%	9%
Total	**100%**	**100%**

(a) Several countries, none of which represent more than 5% of the Group's gross obligations

Group's principal obligation

The Group's principal defined benefit retirement plan obligations involve the Retirement plan for senior managers in France. This retirement plan, which was set up in 1976 to retain key managers, may also include certain senior executives who were "Group Directors" on December 31, 2003, at which date the plan was closed to new beneficiaries. On December 31, 2019, 88 Group Directors were members of this plan (excluding plan beneficiaries who had already claimed their pension benefits), compared to 170 potential beneficiaries in 2003.

General principles

This plan provides for a pension based on years of service and the amount of final salary, under the condition that the beneficiary is still in Danone's employment at the time of retirement. The pension is paid after deducting certain pensions corresponding: (i) with respect to a first category of senior executives, to the full amount of retirement benefits they acquired over the course of their professional career; and (ii) with respect to a second category of senior executives, to the full amount of retirement benefits that they acquired due to the implementation of a Company non-contributory supplementary retirement plan; It may reach a maximum of 65% of final salaries.

In the event of leaving Danone before the age of 55 or in the event of death before retirement, the employee loses all benefits under this plan, it being specified that if the employee is laid off after the age of 55, the plan benefits are preserved, subject to the beneficiary not taking any salaried position in the future.

Other obligations

Most of the other retirement plans put in place by the Group concern only a given subsidiary in a given country. Consequently, the Group is required to manage several different plans in a given country. None is material.

Carrying amount of provisions (gross obligations net of plan assets)

						As of December 31
	2018			2019		
(in € millions)	**Retirement plan for senior managers**	**Other plans**	**Total**	**Retirement plan for senior managers**	**Other plans**	**Total**
Vested rights with projected salaries	449	942	1,391	518	1,079	1,597
Fair value of plan assets	(158)	(390)	(548)	(146)	(388)	(534)
Vested rights net of fair value of plan assets	**291**	**552**	**843**	**372**	**691**	**1,063**
Impact of ceiling on assets			–			–
Obligations for which provisions have been recorded on the balance sheet	291	552	843	372	691	1,063

In addition, the total amount of contributions/benefits to be paid out in 2020 in connection with these plans is estimated at €43 million.

Actuarial assumptions

Methodology

The Group defines the actuarial assumptions by country and/or subsidiary. The discount rates used in 2019 were obtained on the basis of investment grade (AA rating) bond yields of private issuers for durations equivalent to that of the commitment in the corresponding monetary areas. The level of quality used is assessed on the basis of the rating obtained from the leading financial rating agencies. In the case of illiquid markets, the discount rate is determined using government bonds of equivalent maturity to the term of the assessed plans.

Retirement plan for senior managers

Main actuarial assumptions

		Year ended December 31
	Retirement plan for senior managers	
(in percentage, except for ages in number of years)	**2018**	**2019**
Discount rate	2.2%	1.2%
Expected return on plan assets	2.2%	1.2%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Sensitivity analysis to the discount rate

		Year ended December 31
	Retirement plan for senior managers	
	2018	**2019**
(in € millions)	**Increase (decrease)**	**Increase (decrease)**
50 bps increase	(40)	(47)
50 bps decrease	44	54

Changes in carrying amount of provisions

	2018				2019			
(in € millions)	Vested rights	Plan assets	Impact of ceiling on assets	Obligations provisioned	Vested rights	Plan assets	Impact of ceiling on assets	Obligations provisioned
As of January 1	**1,449**	**(551)**	**–**	**898**	**1,391**	**(548)**	**–**	**843**
Service cost	38	–		38	37	–		37
Effect of discounting	35	–		35	39	–		39
Expected return on plan assets	–	(10)		(10)	–	(12)		(12)
Other	(3)	–		(3)	(56)	30		(26)
Expense for the year	71	(10)	–	61	20	17		38
Payments made to retirees	(52)	29		(22)	(53)	32		(22)
Contributions to plan assets	–	(21)		(21)	–	(12)		(12)
Changes in demographic assumptions	5	–		5	9	–		9
Changes in economic assumptions	(81)	–		(81)	219			219
Experience effects	(5)	8		3	(5)	(19)		(23)
Actuarial gains and losses	(81)	8	–	(73)	224	(19)	–	205
Translation adjustments	4	(3)		1	13	(5)		8
Other	–	–		–	2	–		2
As of December 31	**1,391**	**(548)**	–	**843**	**1,597**	**(534)**	–	**1,063**

The increase in the provision between December 31, 2018 and December 31, 2019 was due mainly to the decrease in the discount rates used for the Senior Managers' Plan and the other plans in most countries.

Defined benefit retirement plan assets

The investment policy for plan assets depends, for each company, on the employees' age structure and the expected return on the various asset classes.

Plan assets of retirement plan for senior managers

	As of December 31	
	Retirement plan for senior managers	
(in € millions, except percentage)	**2018**	**2019**
Fair value of plan assets	**(158)**	**(146)**
Main class of plan assets		
Debt securities [a] [b]	90%	90%
Stock equity [b]	4%	4%
Real estate and other asset classes [b]	5%	5%

(a) These assets are diversified and, in particular, exposure to individual sovereign risk is limited.

(b) Do not include any financial instruments issued by the Group.

Defined contribution retirement plans

Contributions paid as part of defined contribution plans are recognized under Recurring operating income.

Note 8.4. Group performance shares

Group policy

The Group has awarded long-term compensation in the form of Group performance shares (GPS) to around 1,600 directors and senior executives, as well as to the corporate officers.

General principles applicable to Group performance shares

The GPS are shares in the Company that are subject to performance conditions, set by the Shareholders' Meeting for each plan. In the case of all outstanding plans, the performance conditions are based on aspects of Danone's performance. The GPS are also subject to the employee continuing to be employed by Danone for four years.

Group Performance Shares outstanding

	Year ended December 31	
(in number of shares)	**2018**	**2019**
As of January 1	**2,314,990**	**2,151,944**
Maximum number [(a)]	2,347,311	2,212,646
Shares granted during the year	624,039	551,159
Maximum number [(a)]	*655,488*	*578,923*
Shares that lapsed or were canceled during the year	(262,412)	(103,989)
Shares delivered during the year	(524,673)	(447,613)
As of December 31	**2,151,944**	**2,151,501**
Maximum number [(a)]	*2,212,646*	*2,236,479*

(a) If the continuous employment and performance conditions are fully met.

Accounting treatment

Accounting principles

The fair value of the GPS is calculated on the basis of assumptions made by the Group's management. The corresponding charge is spread over the vesting period (4 years). Since the performance conditions are based on internal performance, charges recognized in respect of shares that lapse due to the failure to achieve said performance conditions are written back in the income statement for the period in which it is probable they will lapse. The corresponding expense is allocated according to its function to the various headings in the consolidated income statement.

In addition, the GPS are taken into account in the calculation of the diluted number of shares as described in Note 14.4 of the Notes to the consolidated financial statements.

Valuation

	Year ended December 31	
(in € per share, except for number of shares)	**2018**	**2019**
Number of shares granted	624,039	551,159
Fair value of shares granted [(a)]	58.2	66.7
Average DANONE share price	65.7	72.5

(a) Fair value as of the grant date.

Expenses related to GPS including taxes

	Year ended December 31	
(in € millions)	**2018**	**2019**
Group performance shares	(24)	(28)
Total expense	**(24)**	**(28)**

Note 8.5. Company Savings Plan

General and accounting principles

Danone regularly carries out capital increases reserved for Danone employees in France participating in a company savings plan. In addition, since 2019, Danone has also carried out capital increases reserved for employees of the foreign companies, on the basis of the authorization given by the Shareholders' Meeting ("One Person, One Voice, One Share" program). The purchase price of the shares corresponds to 80% of the average DANONE share price over the 20 listing days preceding the meeting of the Board of Directors that approves the plan.

The benefit granted to the employees is calculated based on the fair value of the shares on the grant date. The fair value is calculated after taking into account the five-year holding period on these shares and the market parameters applicable to employees, in particular the borrowing rate. The corresponding expense is allocated according to its function to the various headings in the consolidated income statement.

Capital increases reserved for employees

In 2019, these various capital increases reserved for employees accounted for a total amount of €54,622,803.90.

Note 9. Income tax

Note 9.1. Income tax

Income before tax and tax expense

	Year ended December 31	
(in € millions, except tax rate in percentage)	**2018**	**2019**
Income before tax	**2,393**	**2,867**
Current tax (expense) income	(851)	(753)
Deferred tax (expense) income	135	(40)
Current and deferred tax (expense) income	**(716)**	**(793)**
Effective tax rate	29.9%	27.7%
Amount (paid) received during the year	(556)	(774)

Tax rate and tax systems

French tax system

Danone forms a tax group with most of its French subsidiaries in which it owns, directly or indirectly, more than 95% of the share capital, enabling taxable profits and losses to be offset subject to certain limits and conditions.

Other tax systems

Similar tax grouping arrangements exist in other countries, in particular in the United States, the Netherlands, the United Kingdom, Germany and Spain.

Effective tax rate

In 2019, the Group effective tax rate was 27.7%, lower than the 2018 rate, which included non-recurring items (impairment of Centrale Danone assets (EDP, Morocco)).

As is the case with Danone's business activity (see breakdown of sales by country in Note 6.2 of the Notes to the consolidated financial statements), Danone's current and deferred tax expense is also relatively well distributed across several countries, with no single dominant country.

Difference between effective tax rate and 34.43% country tax rate in France

		Year ended December 31	
(in percentage)	Notes	**2018**	**2019**
Country tax rate in France		34.4%	34.4%
Differences between French and foreign tax rates [(a)]		(14.2)%	(11.9)%
Tax on dividends and royalties		2.5%	2.0%
Permanent differences		2.2%	2.9%
Tax loss carryforwards [(b)]	9.3	0.4%	0.6%
Tax rate adjustments and unallocated taxes [(c)]		(0.1)%	3.2%
Impact of capital gains and losses on disposal and asset impairment [(d)]	3.2, 7.1	6.3%	(2.6)%
Other differences		(1.5)%	(1.1)%
Effective tax rate		**29.9%**	**27.7%**

(a) Various countries, none of which generates a significant difference with the French income tax rate.

(b) In 2019 and 2018, this comprised the impacts of the deferred tax asset impairment in certain Latin American countries.

(c) In 2018, this corresponded mainly to the favorable effects of the change in the rate in the Netherlands on the measurement of the long-term deferred tax balances.

(d) In 2019, this corresponded mainly to the disposal of Earthbound Farm. In 2018, this corresponded mainly to the impairment of the Centrale Danone assets.

Note 9.2. Deferred taxes

Accounting principles

Deferred taxes are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except for the cases specified in IAS 12 *Income taxes*. Deferred taxes are calculated using the liability method, applying the last enacted income tax rates expected to be applicable when the temporary differences will be reversed.

In addition, temporary differences are reflected in the consolidated financial statements as deferred tax assets or liabilities systematically in the case of associates and on the basis of the most likely scenario as regards the reversal of the differences, *i.e.* distribution of reserves or disposal of the entity concerned, in the case of fully consolidated subsidiaries.

Deferred tax assets and liabilities are offset when the tax entity has a legal right to offset.

Lastly, the Company and its subsidiaries may be subject to tax audits. A provision is recognized in the consolidated financial statements whenever it is probable that a tax reassessment will be made.

Carrying amount

		As of December 31	
(in € millions)	Notes	**2018**	**2019**
Breakdown by type of deferred tax			
Property, plant and equipment and intangible assets		(1,624)	(1,710)
Tax loss carryforwards	9.3	289	306
Provisions for retirement obligations and other long-term benefits		198	257
Employee profit-sharing provisions		15	13
Restructuring provisions		6	10
Other		339	360
Net deferred taxes		**(777)**	**(765)**
Deferred tax assets		761	790
Deferred tax liabilities		(1,537)	(1,556)
Net deferred taxes		**(777)**	**(766)**

Changes during the period

(in € millions)	Notes	**2018**	**2019**
As of January 1		**(910)**	**(777)**
Changes recognized in Other comprehensive income		2	70
Changes recognized in profit or loss		138	(40)
Changes in consolidation scope	4.2, 5.3	2	1
Other		(8)	(21)
As of December 31		**(777)**	**(766)**

Note 9.3. Tax loss carryforwards

Accounting principles

Deferred tax assets relating to tax loss carryforwards and temporary differences are recognized in the consolidated balance sheet when it is more likely than not that these taxes will be recovered. At each closing, the Group reviews the unused tax losses and the amount of deferred tax assets recognized on the balance sheet. In some countries in which losses can be carried forward indefinitely, the Group takes into consideration long-term recovery horizons when justified in light of forecast taxable profits.

Carrying amount

	As of December 31	
(in € millions)	**2018**	**2019**
Tax losses – recognized portion		
Recognized tax loss carryforwards [a] [b]	1,085	1,167
Tax savings [c]	289	306
Tax losses – unrecognized portion		
Tax loss carryforwards and tax credits not yet used [a]	593	550
Potential tax savings	169	148

(a) Basis amount.
(b) In 2019, they mainly come from the French consolidated tax group.
(c) Corresponds to deferred tax assets based on tax loss carryforwards

Consumption horizon

Most of the tax losses as of December 31, 2019 can be carried forward indefinitely. The probable consumption horizon for most of these losses is less than ten years.

Note 10. Intangible assets

Note 10.1. Accounting principles

Goodwill

When control of a company is acquired, the fair value of the consideration given to the seller is allocated to the acquired identified assets and the liabilities and contingent liabilities assumed, which are measured at fair value. The difference between the consideration given to the seller and the Group's share of the fair value of the acquired identified assets and the liabilities and contingent liabilities assumed represents goodwill. When the option of recognizing non-controlling interests at fair value is applied, a corresponding premium is allocated to goodwill. Goodwill is recognized in the consolidated balance sheet as an asset under the heading Goodwill.

Goodwill arising from the acquisition of a foreign entity is recognized in the functional currency of the entity acquired and translated at the exchange rates prevailing on the closing date.

Goodwill is not amortized but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to the Cash Generating Units (CGU) or groups of CGUs most likely to benefit from the synergies of the business combination and to the lowest level at which goodwill is monitored by the Group. The CGUs correspond to subsidiaries or groups of subsidiaries that are included in the same Reporting Entity and that generate cash flows largely independent from those generated by other CGUs.

Brands with indefinite useful lives

Acquired brands that are distinguishable, have a significant value, are supported by advertising expense and have indefinite useful lives are recorded under the heading Brands in the consolidated balance sheet. The valuation of these brands is generally determined with the assistance of valuation specialists, taking into account various factors, including brand awareness and their contribution to earnings. These brands, which are legally protected, are not amortized but are tested for impairment annually or more frequently if signs of impairment exist (see hereinafter).

Other brands

Other acquired brands that are deemed to have finite useful lives are presented under the heading Brands in the consolidated balance sheet. They are amortized on a straight-line basis over their estimated useful lives, which do not exceed 60 years. The amortization charges in respect of brands with finite useful lives are allocated to various headings in the income statement on the basis of the nature and utilization of the brands concerned.

Development costs

Development costs are only recognized under assets in the consolidated balance sheet if all the recognition criteria set by IAS 38 *Intangible Assets* are met before the products are launched on the market. They are amortized over the term of their legal protection granted to the Group as from the date the corresponding products are launched on the market. Development costs are generally expensed as incurred (see Note 6.1 of the Notes to the consolidated financial statements).

Technologies, development costs and other intangible assets

The following elements are recognized in the balance sheet under the heading Other intangible assets:

- acquired technologies, which are generally valued with the assistance of specialized consultants and amortized over the average duration of the patents;
- acquired development costs meeting the criteria for the recognition of an intangible asset in accordance with IAS 38 *Intangible Assets* (see hereinbefore);
- other acquired intangible assets are recognized at their acquisition cost. They are amortized on a straight-line basis over their estimated economic lives, which do not exceed 40 years.

The amortization charges in respect of these assets are allocated to various headings in the income statement on the basis of their nature and utilization.

Note 10.2. Carrying amount and changes during the period

(in € millions)	Notes	2018 Goodwill	2018 Brands [a]	2018 Other intangible assets	2018 Total	2019 Goodwill	2019 Brands [a]	2019 Other intangible assets	2019 Total
Gross amount									
As of January 1		**18,132**	**6,432**	**1,103**	**25,666**	**17,711**	**6,379**	**1,198**	**25,288**
Changes in consolidation scope [b]	3.1, 4.2, 5.3	48	(35)	–	13	50	(25)	(15)	10
Capital expenditure		–	–	56	56	10	4	62	75
Disposals		–	–	(4)	(4)	–	–	(1)	(1)
Translation adjustments		119	8	(29)	97	352	120	(6)	467
Impairment	7.1, 10.3	(608)	(79)	(17)	(704)	(3)	(140)	(26)	(169)
Other [c]	1.6	20	54	90	164	5	16	23	45
As of December 31		**17,711**	**6,379**	**1,198**	**25,288**	**18,125**	**6,354**	**1,235**	**25,715**
Amortization									
As of January 1		–	**(20)**	**(701)**	**(722)**	**–**	**(20)**	**(822)**	**(843)**
Changes in consolidation scope [b]		–	–	–	–	–	–	12	12
Charges		–	(2)	(96)	(98)	–	(3)	(98)	(101)
Disposals		–	–	16	16	–	–	1	–
Impairment		–	–	–	–	–	–	8	8
Other [c]		–	2	(41)	(39)	–	(2)	13	12
As of December 31		–	**(20)**	**(822)**	**(843)**	**–**	**(25)**	**(887)**	**(912)**
Carrying amount									
As of December 31		**17,711**	**6,359**	**376**	**24,445**	**18,125**	**6,329**	**348**	**24,803**

(a) Includes brands with indefinite useful lives and the other brands (€102 million as of December 31, 2019).

(b) In 2019, corresponded mainly to the preliminary allocation of the acquisition price following the acquisition of control of Michel et Augustin and the disposal of Earthbound Farm (see Note 3 of the Notes to the consolidated financial statements).

(c) In 2019 corresponded mainly to the effects of the application of IAS 29 to Argentina (see Note 1.6 of the Notes to the consolidated financial statements).

Note 10.3. Impairment review

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. These events or circumstances are linked to significant, unfavorable and lasting changes that have an impact on the economic environment and the assumptions or targets set at the time of acquisition.

Impairment tests are carried out on all property, plant and equipment and intangible assets of the CGUs and groups of CGUs. When the carrying amount of all the property, plant and equipment and intangible assets of the CGUs and groups of CGUs becomes greater than their recoverable amount, an impairment provision is recognized and first charged against goodwill.

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

Annual impairment testing of brands with indefinite useful lives is based on an individual recoverable amount established using the royalties method, with the exception of certain brands for which the Group has a third-party valuation. In the case of the major brands, the Group re-estimates the royalty rate of the brands concerned in accordance with a method applied each year and based on the brand's parameters including awareness of the brand, its profitability, market shares, etc.

The cash flows used to determine value in use of the CGUs or groups of CGUs and the recoverable amount of the brands with indefinite useful lives are derived from the annual budgets and strategic plans of the CGUs or groups of CGUs, which are drawn up by Management and cover a period of two years, and are extended, where appropriate, on the basis of the most recent forecasts, to:

- three to five years for the CGUs and groups of CGUs in the Waters and EDP Reporting Entities (with the exception of the emerging countries for which the forecasts cover eight years);
- nine years for the Specialized Nutrition Reporting Entity, to better reflect the expected development of its activity on the estimation of the value in use. The Group uses projections over nine years to better reflect the Reporting Entity's growth over this period, since the actual growth rate of these CGUs and groups of CGUs exceeds the long-term growth rate that the Group applies to each of these CGUs.

Future cash flows beyond that period are extrapolated using a long-term growth rate that is specific to each CGU or group of CGUs:

- the operational assumptions used to calculate the terminal value are in line with the last year of projections described above in terms of sales and recurring operating margin;
- the long-term growth rate is determined for each CGU or group of CGUs taking into account its average growth rate in recent years and its geographical area (macro-economic fundamentals, demographics, etc.).

Finally, future cash flows are discounted using the weighted average cost of capital method, according to which the cost of debt and the after-tax cost of equity are weighted based on their respective proportions in the business sector concerned. It is calculated for the Group and increased, for certain CGUs or groups of CGUs, by a premium to take into account the risk factors affecting certain countries.

Impairment tests carried out as of December 31, 2019

Integration of the Early Life Nutrition and Specialized Nutrition activities

The impairment tests have been carried out on the basis of historical CGUs for the December 31, 2019 reporting date since the reorganization of the Early Life Nutrition and Advanced Medical Nutrition activities was still in progress (see Note 7.2 of the Notes to the consolidated financial statements).

Carrying amount and assumptions concerning long-term growth rate and discount rate in respect of the CGUs or groups of CGUs and of the assets

As of December 31

	Carrying amount of goodwill and brands with indefinite useful lives		Long-term growth rate [g]		Discount rate after tax [g]	
(in € millions)	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
EDP						
Noram	8,618	8,634	1 to 2.5%	1 to 2.5%	6.5%	6.5%
Centrale Danone	224	229	2.0%	2.0%	8.2%	8.0%
Danone CIS [a]	282	314	3.0%	3.0%	7 to 13%	7 to 13%
Europe	2,601	2,612	0 to 2.5%	0 to 2.5%	7 to 9%	7 to 10%
Other CGUs [b]	233	292	0 to 3%	0 to 3%	7 to 14%	7 to 19%
Total EDP	**11,958**	**12,081**				
• of which, goodwill	8,586	8,811				
of which, brands with indefinite useful lives [c]	3,371	3,269				
Waters						
Danone Waters France	428	428	1%	1%	6.5%	6.5%
Other CGUs [d]	262	277	0 to 3%	0 to 3%	7 to 14%	7 to 19%
Total Waters	**690**	**704**				
• of which, goodwill	502	518				
• of which, brands with indefinite useful lives [e]	188	186				
Specialized Nutrition						
Early Life Nutrition Asia	2,511	2,674	2.5%	2.5%	7.4%	7.1%
Early Life Nutrition Rest of the World	4,631	5,093	2.5%	2.5%	8.4%	8.5%
Advanced Medical Nutrition	4,014	3,621	2.5%	2.5%	7.5%	7.4%
Other CGUs	178	181	2.5%	2.5%	6.7%	6.6%
Total Specialized Nutrition	**11,334**	**11,569**				
• of which, goodwill	8,623	8,796				
• of which, brands with indefinite useful lives [f]	2,711	2,772				
Total	**23,982**	**24,354**				
• of which, goodwill	17,711	18,125				
• of which, brands with indefinite useful lives	6,270	6,227				

(a) Consists mainly of Russia and Ukraine.

(b) More than 10 CGUs.

(c) Consists of several brands, the most material of which are *International Delight*, *Alpro* and *Silk*.

(e) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €150 million as of December 31, 2019 or December 31, 2018

(e) Consists of several brands, the largest of which is *Volvic*.

(f) Consists of several brands, the largest of which are *Nutricia* and *Milupa*.

(g) For the year ended December 31, 2018, applicable to those CGUs whose recoverable amount is determined on the basis of their value in use, *i.e.* the CGUs corresponding to the companies consolidated before 2017.

Goodwill of the groups of CGUs in the Specialized Nutrition and EDP Noram Reporting Entities

As of December 31, 2019, the recoverable amount exceeded the carrying amount by the following amounts:

(in € billions)

Early Life Nutrition Asia	14.6
Early Life Nutrition Rest of the World	4.3
Advanced Medical Nutrition	5.0
EDP Noram	5.1

Sensitivity analysis on the value in use to the key assumptions

	Year ended December 31	
(in € billions, except percentage)	**Impact on recoverable amount**	**Annual decrease to make recoverable amount equal carrying amount**
Sales – 50bps decrease [a]		
Early Life Nutrition Asia	(0.7)	23.0%
Early Life Nutrition Rest of the World	(0.4)	6.5%
Advanced Medical Nutrition	(0.4)	10.4%
EDP Noram	(0.5)	6.5%
Recurring operating margin – 100bps decrease [b]		
Early Life Nutrition Asia	(0.8)	18.8%
Early Life Nutrition Rest of the World	(0.5)	8.0%
Advanced Medical Nutrition	(0.4)	12.7%
EDP Noram	(1.0)	5.2%
Long-term growth rate – 50bps decrease		
Early Life Nutrition Asia	(1.4)	
Early Life Nutrition Rest of the World	(0.7)	
Advanced Medical Nutrition	(0.7)	
EDP Noram	(1.1)	
Discount rate – 50bps increase		
Early Life Nutrition Asia	(1.9)	
Early Life Nutrition Rest of the World	(0.9)	
Advanced Medical Nutrition	(1.0)	
EDP Noram	(1.4)	

(a) Decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2020 projections.

(b) Decrease applied, each year, to the assumed recurring operating margin, including the final year, on the basis of the 2020 projections.

Goodwill of other CGUs

As of December 31, 2019, the CGUs of the Reporting Entities Waters and EDP other than EDP Noram represented in total 16% of the carrying amount of the Group's goodwill and comprised more than 20 CGUs located in diverse geographic regions and in different countries. Following the goodwill impairment test of these CGUs, the Group did not recognize any impairment provision.

As of December 31, 2018, following the goodwill impairment test of these CGUs, the Group recognized an impairment provision of €583 million in the Centrale Danone CGU and of €25 million in one of the EDP Reporting Entity's CGUs.

Brands with indefinite useful lives

The Group's main brands are *Nutricia, International Delight, Silk* and *Alpro*. As of December 31, 2019, they represented more than 50% of the carrying amount of the Group's brands with indefinite useful lives. The other brands are spread over all Reporting Entities and located in diverse geographical areas and different countries and none represented individually more than 8% of the carrying amount of the Group's brands with indefinite useful lives as of December 31, 2019.

Impairment review of the main brands with indefinite useful lives

As of December 31, 2019, the Group tested the value of the *Nutricia, International Delight, Silk* and *Alpro* brands in accordance with the methodology and the valuation model described above and on the basis of assumptions based on those of the groups of CGUs concerned. These tests did not result in the recognition of any impairment provisions.

In addition, analysis of the sensitivity of the value in use to the key assumptions was carried out on each of these main brands. The key assumptions involved in the valuation model used by the Group are (i) the growth in sales, (ii) the royalty rate, (iii) the long-term growth rate used to calculate the terminal value, and (iv) the discount rate. The following changes, deemed reasonably possible, in the key assumptions do not alter the findings of the impairment test, *i.e.* the absence of any impairment:

- 50bps decrease in sales (decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2020 projections);
- 50bps decrease in the royalty rate;
- 50bps decrease in the long-term growth rate;
- 50bps increase in the discount rate.

Other brands with indefinite useful lives

As of December 31, 2019, following the impairment test of the other brands with indefinite useful lives, the Group recognized an impairment provision in respect of two brands in the EDP Reporting Entity and one brand in the Specialized Nutrition Reporting Entity in the aggregate amount of €84 million regarding the new assumptions contained in their strategic plan.

As of December 31, 2018, following the impairment test of the other brands with indefinite useful lives, the Group recognized a €79 million impairment provision in respect of the Centrale Danone brand.

Note 11. Financing and financial security, net debt and cost of net debt

Note 11.1. Accounting principles

Financing

Debt instruments are recognized in the consolidated balance sheet (i) under the amortized cost method, using their effective interest rate, or (ii) at their fair value.

When the fair value risk of a debt is hedged by a derivative, the change in the fair value of the hedged component of said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to the heading Other financial income (expense), which thereby offsets the changes in fair value of the derivative instrument.

When future cash flows of a debt are hedged by a derivative, the change in the fair value of the effective portion of the derivative hedging said debt is recognized in the consolidated balance sheet, with the counterpart to the entry being to consolidated equity, and is recycled to profit or loss when the hedged item (the interest flows relating to the hedged debt) impacts the consolidated net income.

Hybrid financing

Since the contractual terms of the perpetual subordinated debt securities issued by Danone do not stipulate any redemption or coupon payment obligation (payment of a coupon is mandatory mainly in the event of the payment of a dividend to Danone's shareholders):

- they are classified as equity instruments;
- the related coupons are recognized as a deduction from consolidated equity, net of the related tax income. In the consolidated statement of cash flows, they are included in Cash flows provided by (used in) financing activities, with the related tax being included in Cash flows provided by (used in) operating activities.

Short-term investments

Short-term investments comprise marketable securities and other short-term investments:

- Marketable securities comprise highly liquid instruments with short maturities that are easily convertible into a known amount of cash. They are measured as assets held for trading within the meaning of IFRS 9 *Financial Instruments* and are recognized at their fair value in the consolidated balance sheet;
- Other short-term investments are measured at their fair value as securities held for trading within the meaning of IFRS 9.

Changes in the fair value of short-term investments are recognized directly under the heading Interest income in the consolidated income statement.

Translation of transactions denominated in foreign currencies

At period-end, trade receivables and trade payables denominated in foreign currencies are translated using the exchange rates on that date. Foreign exchange gains and losses arising from the translation of borrowings denominated in foreign currencies or other instruments that are used to hedge long-term investments denominated in the same currencies are recognized in consolidated equity under the heading Translation adjustments.

Note 11.2. Liquidity risk and management policy

Risk identification

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

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

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

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

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

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, Danone is exposed to liquidity risk involving limited amounts in those countries.

More generally, it is possible that in the context of a systemic financial crisis, Danone may not be able to access the financing or refinancing it needs on the credit or capital markets, or to access such finance on satisfactory terms, which could have an adverse impact on its financial situation.

In addition, Danone's ability to access financing and the amount of its interest expense could depend in part on its credit rating by financial rating agencies. The Company's short- and long-term debt ratings and any potential deterioration therein could result in higher financing costs and affect its access to financing.

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

Risk monitoring and management

Under its refinancing policy, Danone reduces its exposure by (i) centralizing its financing sources, (ii) borrowing from diversified financing sources, (iii) arranging a significant portion of its financing as medium-term financing, (iv) maintaining financing sources available at all times, (v) spreading maturities on the basis of projected need and cash flow generation, and (vi) ensuring that it is not subject to any covenant relative to maintaining financial ratios.

In those countries where centralized financing is not available, when medium-term financing is unavailable and/or in the case of some existing financing in a company prior to the acquisition by Danone of a controlling interest in it, some Group companies may, for operational reasons, be required to borrow from local sources. From a Group perspective, the amounts borrowed are relatively small, whether considered individually or in total, given that the level of operating cash flow is generally sufficient to finance their operations and organic growth.

Use of its financing sources

The Group's policy consists of keeping its financing sources available and managing them at the Company level. The Group may need to use (i) its commercial paper program and syndicated credit facility to manage its cash cycle, notably when paying out the dividend to Danone shareholders, and (ii) alternatively, its commercial paper and EMTN programs or its syndicated credit facility to optimize its financing cost while still ensuring its financial security, such that the maturity and currency of its financing raised may vary without changing the net debt level or the Group's financial security.

Note 11.3. Financing structure and changes during the period

Financing classified as debt

(in € millions)	As of January 1, 2019 [(a)]	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of accrued interest	Impact of changes in exchange rates and other non-cash impacts [(d)]	Non-current portion becoming current	Changes in consolida-tion scope	As of December 31, 2019
Financing managed at Company level									
Bonds – non-current portion	13,929	–	–			208	(2,050)	–	12,087
Bonds – current portion	1,848	–	(1,899)			51	2,050	–	2,050
Short-term debt instruments [(b)]	716			786		(2)	–	1	1,502
Total	16,493	–	(1,899)	786	–	258	–	1	15,638
Lease debt									
Non-current portion	810			–		167	(212)	(14)	751
Current portion	239			(266)		31	212	(1)	215
Total	1,049	–	–	(266)	–	199	–	(15)	967
Other financing arrangements [(c)]									
Non-current portion	44			1		–	(9)	–	37
Current portion	383			(168)	8	(2)	9	–	229
Total	427	–	–	(167)	8	(2)	–	–	266
Total	**17,968**	**–**	**(1,899)**	**354**	**8**	**454**	**–**	**(15)**	**16,871**

(a) See Note 1.3 of the Notes to the consolidated financial statements.
(b) As of January 1 and December 31, 2019, these were included in Current financial debt.
(c) Subsidiaries' bank financing.
(d) Concerning the lease debt, corresponds mainly to new financing in the period.

Financing classified as equity

In 2017, Danone launched a hybrid perpetual bond issue totaling €1.25 billion. The issue consists of a euro-denominated undated bond, offering a first 1.75% coupon, with a first call date of June 23, 2023. The bonds, fully accounted for as equity in accordance with IFRS, are treated as equity in the amount of 50% by Moody's and Standard & Poor's.

Note 11.4. Group's financing and financial security managed at the Company level

Structure of the Group's financial security

				As of December 31
		2018		2019
(in € millions)	Committed amount	Amount used	Committed amount	Amount used
Bank financing [(a)]				
Syndicated credit facility [(b)]	2,000	–	2,000	–
Committed credit facilities [(c)]	1,037	–	1,045	–
Capital markets financing [(a)]				
EMTN financing [(d)]	NA	10,223	NA	9,630
Hybrid financing	NA	1,250	NA	1,250
Bonds on the US market [(d)]	NA	5,553	NA	4,507
Short-term debt instruments	NA	716	NA	1,502

(a) The Group's financial structure and financial security are managed at the Company level.
(b) Revolving syndicated credit facility maturing in February 2025.
(c) A portfolio of back-up facilities entered into with major credit institutions, with maturities ranging from 2020 to 2023.
(d) Bonds issued by the Company are disclosed on the Danone website.

Main financing transactions in 2019

	Year ended December 31		
	2019		
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
None			
Repayments			
Eurobonds	EUR	150	2019
Eurobonds	EUR	650	2019
Bonds on the US market	USD	1,200	2019

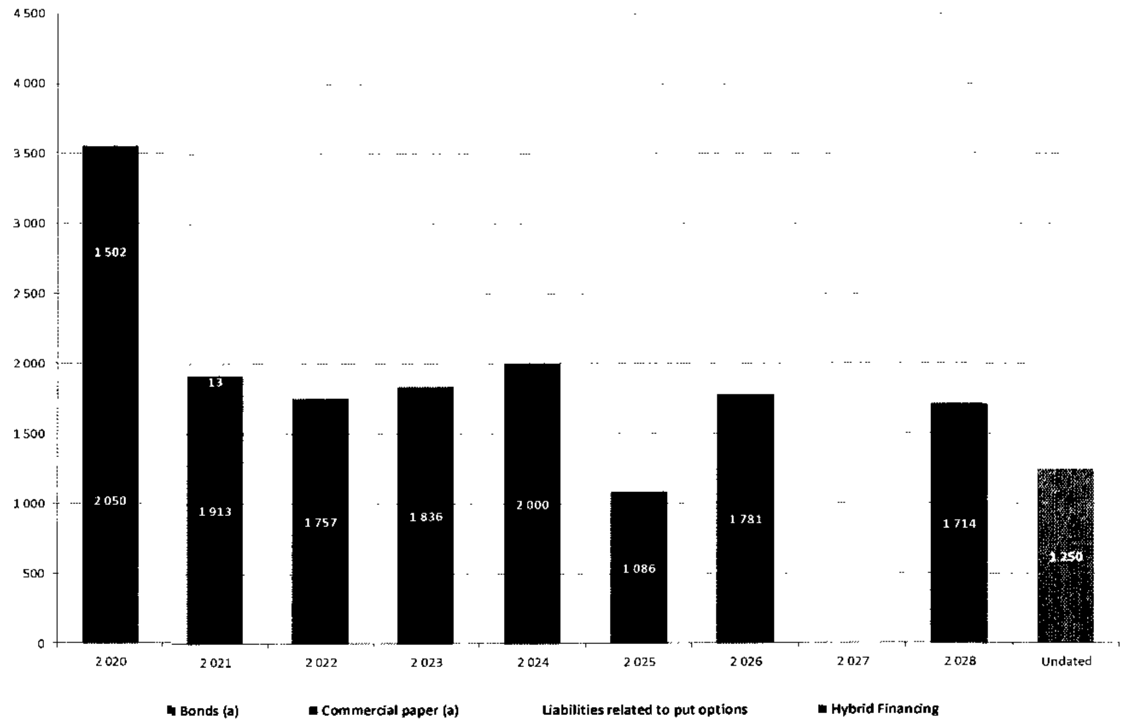
Main financing transactions in 2018

	Year ended December 31		
	2018		
(in millions of currency)	**Currency**	**Nominal**	**Maturity**
New financing			
Social bond	EUR	300	2025
Repayments			
Eurobonds	EUR	750	2018
Private placement	EUR	1,350	2018
Private placement	JPY	7,500	2018

Repayment schedule for financial debt managed at Company level and put options granted to non-controlling interests

Projected cash outflows related to the contractual repayment of the principal amount based on the assumption of non-renewal

(in € millions)



(a) Includes the value of derivatives hedging bonds and commercial paper.

Projected cash outflows related to the contractual payment of interest on the financial assets and liabilities managed at the Company level, including premiums to be paid on derivative financial instruments based on the assumption of non-renewal

(in € millions)	Cash flows 2020	Cash flows 2021	Cash flows 2022	Cash flows 2023	Cash flows 2024 and after
Interest on debt [a]	(235)	(210)	(164)	(138)	(270)
Cash flows on derivatives [a] [b] [c]	69	71	60	50	107

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2019.

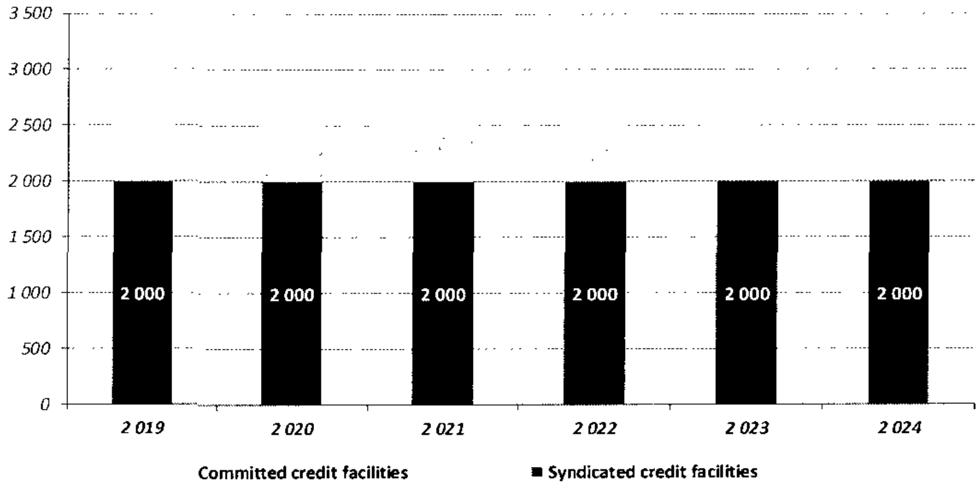
(b) Net contractual flows, including premiums payable, net flows payable or receivable relating to the exercise of options in the money at year-end.

(c) Concerns derivative instruments used to manage net debt, assets and liabilities

Sources of financing available at any time

The sources of financing available at any time established by the Group are composed mainly of available committed credit facilities and a syndicated credit facility carried by the Company.

(in € millions)



Company rating

	As of December 31			
	2018		2019	
	Moody's	Standard and Poor's	Moody's	Standard and Poor's
Short-term rating [a]				
Rating	–	A-2	–	A-2
Long-term rating [b]				
Rating	Baa1	BBB+	Baa1	BBB+
Outlook	Stable	Stable [c]	Stable	Stable [c]

(a) Rating given to the Company's commercial paper program

(b) Rating given to the Company's debt issues with a maturity of more than one year.

(c) Outlook attributed on February 20, 2018.

Note 11.5. Short-term investments

Carrying amount

	As of December 31	
(in € millions)	**2018**	**2019**
Money market funds	3,644	2,749
Bank deposits, negotiable debt instruments and other short-term investments	555	882
Total	**4,199**	**3,631**

Counterparty risk in respect of short-term investments

The Group invests primarily in money market funds (French OPC *monétaires*) or short-term money market funds (French OPC *monétaires court terme*), which are highly liquid, diversified and not rated.

Bank deposits, negotiable debt instruments and other short-term instruments are subscribed from first-tier financial institutions.

Note 11.6. Net debt

	As of January 1 [(a)]	As of December 31
(in € millions)	**2019**	**2019**
Non-current financial debt	14,849	12,906
Current financial debt	3,711	4,474
Short-term investments	(4,199)	(3,631)
Cash and cash equivalents	(839)	(644)
Derivatives – assets – Non-current [(b)]	(81)	(271)
Derivatives – assets – Current [(b)]	(27)	(16)
Net debt	**13,414**	**12,819**

(a) Consists of €670 million of lease debt following the application of IFRS 16, *Leases*, see Note 1.3 of the Notes to the consolidated financial statements.

(a) Used solely to manage net debt.

Changes in net debt in 2019

Danone's net debt totaled €12,819 million as of December 31, 2019, €595 million lower than as of January 1, 2019. It included €482 million of put options granted to non-controlling interests, €26 million lower than as of December 31, 2018.

Changes in net debt in 2018

Danone's net debt totaled €12,744 million as of December 31, 2018, €2,628 million lower than as of December 31, 2017.

Note 11.7. Cost of net debt

Accounting principles

Cost of debt comprises mainly interest charges (calculated at the effective interest rate) on current and non-current financing and the effects of the derivatives relating to said financing.

Interest income comprises mainly interest received and, if applicable, the effects of the measurement at fair value through profit or loss of the short-term investments and cash and cash equivalents.

The related cash flows are presented within Cash flows provided by (used in) operating activities.

Cost of net debt in 2019

During 2019, cost of net debt decreased from €(231) million in 2018 to €(220) million in 2019, reflecting the Group's gradual debt reduction strategy.

Note 11.8. Financial risks associated with the net debt and the financing activity

Interest rate risk

Risk identification

The Group is exposed to interest rate risk on its financial liabilities as well as its cash and cash equivalents. Through its interest-bearing debt, the Group is exposed to the risk of interest rate fluctuations that affect the amount of its financial expense. In addition, pursuant to IFRS 9, interest rate fluctuations may have an impact on the Group's consolidated results and consolidated equity.

Risk management and monitoring

The Group has implemented a policy to monitor and manage this interest rate risk in connection with its net debt management, as detailed in Note 13.3 of the Notes to the consolidated financial statements, in the section related to *Cost of net debt management*.

Exposure

Net debt breakdown between fixed and floating rates

As of December 31, 2019 and December 31, 2018, all of the consolidated net debt was fixed rate debt.

Sensitivity of the cost of net debt to changes in the short-term interest rate

In 2019 as in 2018, the impact of changes in short-term interest rates would not have had a significant impact on the cost of the Group's net debt. This sensitivity analysis to interest rate changes reflects the following factors:

- financial debt net of short-term investments, cash and cash equivalents. It excludes the financial liabilities related to put options granted to non-controlling interests as these are not interest-bearing;
- active interest rate hedges as of December 31.

Financial currency risk

Risk identification

Due to its international presence, the Group could be exposed to foreign exchange rate fluctuations in relation to its financing activities: in application of its risk centralization policy, the Group manages multi-currency financings and liquidities. In application of its financial currency risk hedging policy, the Group's residual exposure (after hedging) is not material.

Risk management and monitoring

The management policy regarding financial currency risk is detailed in Not 13.3 in the notes to the consolidated financial statements, section *Management of currency risk related to financing activities and translation risk on net assets.*

Exposure

In applying its management policy related to financial currency risk, the residual exposure is not significant.

Note 12. Other financial assets, Other financial income (expense)

Note 12.1. Accounting principles

Investments in other non-consolidated companies

Investments in other non-consolidated companies are recognized at fair value in the consolidated balance sheet. Changes in fair value and gains or losses on disposals are recognized according to the intention of the management (i) in profit or loss in Other financial income (expense) or (ii) in consolidated equity in Accumulated other comprehensive income and are not recycled to profit or loss.

Fair value

For listed companies, fair value is assessed according to the stock price as of the end of the period.

For unlisted companies, fair value is assessed based on recent transactions entered into with third parties, put or call options negotiated with third parties or external appraisals.

Other financial assets

Other financial assets mainly comprise bonds and money-market funds and security deposits with uncertain maturity dates pursuant to the applicable regulations of certain countries in which the Group operates.

Bonds and money-market funds are recognized at fair value in the consolidated balance sheet. Changes in fair value are recognized under consolidated equity in Accumulated other comprehensive income. They are not subsequently recycled to profit or loss except for bonds and money-market funds with an equity underlying, for which fair value changes are recognized directly in profit or loss in Other financial income (expense).

Their fair value is calculated on the basis of listed prices on active markets.

Loans

Loans are measured at amortized cost using the effective interest rate method.

Note 12.2. Other financial assets

Main changes during the period

In 2019 as in 2018, the Group did not carry out any material transactions.

Carrying amount

	As of December 31	
(in € millions)	**2018**	**2019**
Investments in other non-consolidated companies	105	131
Bonds and money-market funds [(a)]	99	111
FPS Danone Communities	13	13
Other [(b)]	45	213
Other financial assets	157	337
Long-term loans	16	14
Other financial assets	**278**	**482**

(a) Bonds and money-market funds held as the counterpart to certain "damage and personal protection" risk provisions.

(b) Comprises mainly deposits with uncertain maturity dates pursuant to the applicable regulations of certain countries in which the Group operates.

Note 12.3. Other financial income and other financial expense

Accounting principles

Other financial income and other financial expense correspond to financial income and expense other than income and expense related to net financial debt. They include, in particular, the following:

- the ineffective portion of the hedges, in particular hedges of currency risk related to operations and hedges in respect of the acquisition or disposal of companies or other equity investments in accordance with IFRS 9 *Financial Instruments*;
- the impact of the accretion of the present value of commitments net of the expected return on plan assets of retirement commitments and other long-term benefits;
- bank commissions, including commissions for the non-use of committed credit facilities (recognized in Other financial expense);
- gains or losses on disposals of Investments in other non-consolidated companies and Other financial assets;
- gains or losses on the net monetary position resulting from the application of IAS 29 to Argentina.

Note 13. Organization of financial risks and derivatives management

Note 13.1. Organization of financial risks management

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

Financial risks

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

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

Commodity risks

The Group has implemented a commodity purchasing policy (Market Risk Management). The monitoring of exposures and the implementation of this policy are carried out for each raw materials category by the central purchasing team. This team negotiates forward purchase agreements mainly with suppliers. Forward purchase agreements are reviewed by Treasury and Financing team for each year-end closing

The Group is also exposed to price volatility and to a potential shortage of the commodities that it purchases, mainly to produce its finished products. This policy, as well as the impact of a price change in the two main commodity categories on the Group's annual cost of purchases, is presented in Note 6.7 of the Notes to the consolidated financial statements.

Note 13.2. Accounting principles

Derivatives are recognized in the consolidated balance sheet at their fair value:

- derivatives used to manage net debt and hedges of net investments in foreign operations are recognized in Derivatives assets or liabilities;
- foreign exchange and raw materials derivatives related to operations are recognized in the heading (i) Other accounts receivable in Derivatives - assets or within (ii) Other current liabilities in Derivatives - liabilities.

When derivatives are designated as fair value hedges of assets or liabilities in the consolidated balance sheet, changes in the fair value of both the derivatives and the hedged items are recognized in profit or loss in the same period.

When derivatives are designated as hedges of net investments in foreign operations, changes in the fair value of the derivatives are recognized in equity under Translation adjustments and are recycled as income (expense) when the asset is derecognized.

When derivatives are designated as future cash flow hedges:

- changes in the value of the effective portion are recognized in equity under Accumulated other comprehensive income and are recycled to profit or loss, in the same heading, when the hedged item itself is recognized in profit or loss;
- time value (swap points, currency option premium and basis spread of cross-currency swaps) is recognized in equity in Other comprehensive income and taken to profit or loss on expiry of the underlying instrument, in accordance with the principles adopted by the Group. As a reminder, derivatives designated as future cash flow hedges are recognized in accordance with the transaction-related principle (hedging of transactions included in the forecasts).

Changes in the fair value of the ineffective portions of derivatives that meet the conditions for classification as hedging instruments and changes in the fair value of derivative financial instruments that do not meet the conditions for classification as hedging instruments are recognized directly in profit or loss for the period, in a heading within operating income or financial income depending on their nature.

Note 13.3. Derivatives

Group's policy

Operational currency risk management

The Group's policy is to hedge its highly probable commercial transactions so that, as of December 31, its residual exposure in respect of the whole of the following fiscal year is significantly reduced. However, when the hedging conditions of certain currencies have deteriorated (less availability, high cost, etc.), the Group may be required to limit the hedging of its highly probable commercial transactions in its currencies, by not hedging or only partially hedging the exposure. The Group uses forward currency contracts and currency options to reduce its exposure.

The execution of the hedging policy for currency risk related to operations consists of providing the necessary hedges to subsidiaries through a centralized management system, or, in the case of subsidiaries where such hedges are legally prohibited, through a monitoring and control process.

The Group mainly applies cash flow hedge accounting.

Based on pending transactions as of December 31, 2019, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2020, the main currencies partially hedged being the Russian ruble, the Brazilian real, the Turkish lira and the Uruguayan Peso.

Management of currency risk related to financing activities and translation risk on net assets

The Group has established a policy for monitoring and hedging the net assets of certain subsidiaries, with regular assessments of risks and opportunities to use hedging instruments.

The Group's policy consists of maintaining the debt and/or surplus cash positions of Danone and its subsidiaries in their respective functional currencies. Furthermore, in compliance with its policy of managing risks centrally, the Group may manage multi-currency borrowings and surplus cash.

As part of these policies, the Group therefore uses cross-currency swaps.

Cost of net debt management

In connection with its net debt management, the Group has implemented a policy to monitor and manage interest rate risk in order to limit the volatility of its financial income (expense) through the use of hedging instruments.

These derivatives are mainly interest rate swaps and sometimes collars. All these instruments are plain vanilla. The interest rate derivatives are contracted to manage interest rate risk and are either eligible for hedge accounting or not in accordance with IFRS 9.

Hedging acquisitions and disposals of companies or other equity investments

The Group's policy is, generally, not to hedge amounts payable or receivable in connection with acquisitions or disposals of companies or other equity investments. However, in certain circumstances, the Group may decide to hedge certain transactions.

Management of commodities price volatility risk

The Group has implemented a commodity purchasing policy ("Market Risk Management"), defining rules for securing the physical supply and for setting the prices of raw materials on the financial markets. The Group's central purchasing team negotiate forward purchase contracts, mainly with suppliers, whether based on a specific index on the financial markets or on a proxy Forward purchase agreements are monitored by the corporate teams, with a review of each raw material hedged and the type of hedging (perfect index or proxy) and testing of the correlation between the hedge and the hedged item to monitor its effectiveness and the application of hedge accounting under IFRS.

Portfolio of derivatives

Notional and fair value amounts

						As of December 31
			2018			2019
(in € millions)	Notional	Fair value	Of which, recognized in equity	Notional	Fair value	Of which, recognized in equity
Used to hedge operational currency risk	**(2,281)**	**(2)**	**(2)**	**(2,506)**	**(58)**	**(58)**
Cash flow hedge – currency options [(a)]	(331)	–	–	(314)	(6)	(6)
Cash flow hedge – forward currency contracts [(a)]	(1,949)	(2)	(2)	(2,191)	(52)	(52)
No hedge accounting applied	(1)	–	–	(1)	(1)	–
Used to manage raw materials	**149**	**(22)**	**(22)**	**207**	**(1)**	**(1)**
Used to manage net debt	**6,023**	**7**	**(37)**	**6,641**	**241**	**81**
Fair value hedge	2,591	38	–	2,576	148	–
Cash flow hedge	2,934	(49)	(39)	3,435	98	93
Net investment hedge	77	2	2	183	(13)	(13)
No hedge accounting applied	420	16	–	446	8	–
Total	**3,891**	**(17)**	**(61)**	**4,342**	**181**	**22**

(a) Pursuant to IFRS 9, the intrinsic value and time value of the operational foreign exchange instruments designated as cash flow hedges are recognized in equity.

Additional information

Operational currency risk management

Net notional amount of derivative instruments hedging main currencies

						As of December 31
			2018			2019
(in € millions)	Forward currency contracts, net [(a)]	Currency options, net [(b)]	Total	Forward currency contracts, net [(a)]	Currency options, net [(b)]	Total
(Sales)/Purchases of currencies						
GBP [(c)]	(644)	(228)	(872)	(575)	(238)	(813)
CNY [(c)]	(327)	–	(327)	(384)	–	(384)
AUD [(c)]	(201)	(34)	(235)	(273)	(17)	(291)
MXN [(c)]	(187)	–	(187)	(188)	–	(188)
HKD [(c)]	(153)	(41)	(194)	(143)	(36)	(179)
RUB [(c)]	(110)	–	(110)	(118)	–	(118)
BRL [(c)]	(93)	–	(93)	(90)	–	(90)
USD [(c)]	85	(3)	81	20	(5)	14
Other [(c)]	(321)	(24)	(345)	(441)	(17)	(457)
Total	**(1,949)**	**(331)**	**(2,281)**	**(2,192)**	**(314)**	**(2,506)**

(a) Spot portion of notional amount, based on closing rates.

(b) Spot portion of notional amount, includes in- and out-of-the-money options.

(c) Transactions denominated with the EUR or other currencies as counterpart.

Sensitivity of equity and net income to changes in fair value

A change in the fair value of the derivative financial instruments hedging the operating currency risk, induced by a change in foreign exchange rates, could impact the Group's equity and net income. The impacts recognized in net income relate to:

- swap point variations and currency option premium at the maturity of the underlying;
- transactions to which hedge accounting is not applied.

Sensitivity to a change in the euro against currencies exposed to exchange rate fluctuations

				As of December 31
		2018		2019
(in € millions)	**Equity** [c]	**Gain (loss)**	**Equity** [c]	**Gain (loss)**
10% increase in EUR [a]				
GBP [b]	72	–	61	–
CNY [b]	31	–	35	–
AUD [b]	20	–	26	–
MXN [b]	2	–	(12)	–
HKD [b]	24	–	36	–
RUB [b]	9	–	9	–
BRL [b]	2	–	3	–
USD [b]	19	–	12	–
10% decrease in EUR [a]				
GBP [b]	(77)	–	(65)	–
CNY [b]	(37)	–	(43)	–
AUD [b]	(23)	–	(30)	–
MXN [b]	(3)	–	(3)	–
HKD [b]	(29)	–	(41)	–
RUB [b]	(11)	–	(11)	–
BRL [b]	(2)	–	(3)	–
USD [b]	(22)	–	(14)	–

(a) Increase/decrease in EUR applied to transactions that are outstanding and at constant interest rate volatility.
(b) Transactions denominated with the EUR or other currencies as counterpart. In the case of transactions denominated in currencies other than the EUR, the increase or decrease in the EUR is applied to the base currency and the secondary currency.
(c) Under IFRS 9, the intrinsic value and the time value are recognized in Other comprehensive income.

These instruments and the hedged items typically have maturities of less than one year. Consequently the cash flows related to these instruments will, for the most part, be recognized in the consolidated income statement in 2020.

Gains and losses related to fair value changes recognized in profit or loss

Gains and losses recognized in profit or loss involve the following items:

- the ineffective portion, during the year, of the changes in fair value of instruments qualified as future cash flow hedges: in 2019, as in 2018, the amounts are not material;
- the effective portion deferred in equity the previous year of instruments qualified as future cash flow hedges and recycled to income during the year: in 2019 as in 2018, the amount recycled corresponded to the portion of hedges recorded in equity as of December 31 of the previous year, with these hedges having for the most part a maturity of less than one year.

Management of currency risk related to financing activities and translation risk on net assets

Sensitivity of equity and net income to changes in fair value

A change in the fair value of these derivative financial instruments induced by a change in foreign exchange rates at the reporting date would not have a significant impact on the Group's equity or net income. Changes in the foreign exchange rates of the financial instruments are offset by changes in the foreign exchange rates on loans and borrowings in hedged currencies or on net foreign investments.

Net debt management

Sensitivity of equity and net income to changes in fair value

A change in the fair value of interest rate derivatives induced by a change in the yield curve recognized at the reporting date would have the following impact on the Group's equity and net income:

- impacts recognized in equity relate to the effective portion of the instruments eligible to be used as hedges of future cash flows;
- impacts recognized in profit or loss relate to the ineffective portion of the instruments eligible to be used as hedges of future cash flows, as well as to the impact of the change in fair value of the instruments not qualifying as hedges.

Sensitivity to a change applied to the entire yield curve

In 2019 as in 2018, a rate change applied to the yield curve would not have a material impact on consolidated equity or net income.

Gains and losses related to fair value changes recognized in profit or loss

Gains and losses recognized through profit or loss are related to:

- the ineffective portion, during the year, of the changes in fair value of instruments qualified as future cash flow hedges;
- the effective portion deferred in equity the previous year of instruments qualified as future cash flow hedges and recycled to income during the year.

In 2019 as in 2018, the corresponding amounts are not material.

Management of raw material price volatility risk

As of December 31, 2019, all of the raw material hedging instruments were qualified as future cash flow hedges. The portfolio of raw materials consists of diesel, plastic, milk and sugar derivatives, in accordance with the Group's management policy.

Note 13.4. Counterparty risk

Counterparty risk inherent to financial risk management

Risk identification

The Group is exposed to counterparty risk, especially on banking counterparties, as part of its financial risk management activities.

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

Risk monitoring and management

The Group's overall exposure to counterparty risk has been significantly reduced through the centralization of financial risks and implementation of centralized applications as well as its cash management policy of minimizing and managing surpluses.

The Group's banking policy aims to apply deposit limits per counterparty and emphasizes the importance of their credit rating quality by concentrating its transactions among first-tier counterparties that (i) have credit ratings at least in the BBB+ category; (ii) possess international branch networks and (iii) provide it with financing. Moreover, in order to invest its short-term surpluses, the Group mainly invests in either money-market funds (French OPC *monétaires*) or short-term money-market funds (French OPC *monétaires court terme*), which are not rated. These funds are very liquid and diversified. The other short-term investments are made in accordance with the Group's above-mentioned banking policy.

Finally, in certain countries, the Group may be obliged to conduct transactions with local banks that have lower credit ratings.

Exposure related to short-term investments

See Note 11.4 of the Notes to the consolidated financial statements.

Exposure related to derivative instruments

	As of December 31	
(as a percentage of the total fair value as of December 31) [(a)]	**2018**	**2019**
Counterparty rating (Standard & Poor's)		
AAA, AA and A	89%	86%
BBB, BB and B	11%	13%
Unrated	–	

(a) Total, when positive, of fair values of outstanding derivatives by counterparty as of December 31.

Fair value associated with derivatives counterparty risk

The valuation associated with derivatives counterparty risk is calculated on the basis of historical default probabilities derived from the calculations of a leading rating agency, to which a recovery rate is applied. As of December 31, 2019 and December 31, 2018, the impact associated with the adjustment required by IFRS 13 was not material.

Note 13.5. Equity securities risk

		As of December 31	
(in € millions)	Notes	**2018**	**2019**
Risk on Company shares			
Treasury shares	14.2	1,632	2,055
Risk on other shares			
Investments in associates	5	2,104	2,055
Investments in other non-consolidated companies	12.2	105	131

(a) DANONE call options acquired by the Company.

Note 13.6. Reconciliation of the consolidated balance sheet by class and accounting category

(in € millions)	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	Carrying amount	Fair value	Fair value level [(b)]
As of December 31, 2019						
Financial assets						
Investments in other non-consolidated companies	22	89	–	131	131	1-3
Long-term loans and other financial assets	124	–	227	351	351	1-3
Derivatives - assets [(a)]	175	112	–	287	287	2
Trade receivables [(b)]	2 883	23	–	2 906	2 906	-
Other current assets [(b)]	940	–	–	940	940	-
Short-term loans	–	–	6	6	6	-
Money market funds	2 749	–	–	2 749	2 749	1
Other short-term investments	–	–	882	882	882	2
Cash and cash equivalents	644	–	–	644	644	1
Carrying amount of financial assets by category	**7 537**	**224**	**1 115**	**8 895**	**8 895**	
Financial liabilities						
Financing	4 338	–	12 533	16 871	14 024	2
Derivatives - liabilities [(a)]	16	12	–	28	28	2
Trade payables [(b)]	–	–	3 959	3 959	3 959	-
Other current liabilities [(b)]	–	80	2 739	2 819	2 819	-
Carrying amount of financial liabilities by category	**4 354**	**92**	**19 231**	**23 677**	**20 830**	

(a) The carrying amount approximates to the fair value given the short-term nature of these items.

(b) Valuation hierarchy used to assess fair value.

Valuation hierarchy in accordance with IFRS 7 *Financial instruments – Disclosures*

Level	Fair value is based on:
1	(unadjusted) prices listed on active markets for identical assets and liabilities.
2	Data other than listed prices as per level 1, which are observable for the asset or liability concerned, directly or indirectly. For asset and liability derivative instruments recognized at fair value, the Group uses measurement techniques that include data observable on the market, notably for interest rate swaps, forward currency purchases and sales, or currency options. The model integrates diverse data such as spot and forward exchange rates and the yield curve.
3	Data relating to the asset or liability which are not based on observable data on active markets.

Note 14. DANONE shares, dividend and earnings per share

Note 14.1. Accounting principles

DANONE shares held by the Company and its fully consolidated subsidiaries are recognized as a reduction in consolidated equity, under the heading Treasury shares and DANONE call options, and are measured at effective cost.

Note 14.2. Transactions and changes involving DANONE shares

2019 changes involving treasury shares in terms of transactions and use according to the Company's objective

		Changes during the period			
(in number of shares)	**As of December 31, 2018**	**Buyback**	**Sales/ Transfers**	**Delivery of shares**	**As of December 31, 2019**
Acquisition transactions	**30,769,360**	–	–	–	**30,769,360**
Employee shareholding plans	**1,232,625**	–		(532,451)	**700,174**
Cancellation of shares	–	–	–	–	–
Shares held by the Company	**32,001,985**	–	–	(532,451)	**31,469,534**
Shares held by Danone Spain	**5,780,005**	–	–	–	**5,780,005**
Total shares held by the Group	**37,781,990**	–	–	**(532,451)**	**37,249,539**

Note 14.3 Outstanding DANONE shares

		Year ended December 31					
				2018			**2019**
(in number of shares)	Notes	**Share capital**	**Treasury**	**Outstanding**	**Share capital**	**Treasury**	**Outstanding**
As of January 1		670,710,400	(38,306,997)	632,403,403	685,055,200	(37,781,990)	647,273,210
Dividend in shares		13,475,904	–	13,475,904	–	–	–
Other capital increases	8.5	868,896	–	868,896	1,065,606	–	1,065,606
Changes in treasury shares	14.2	–	525,007	525,007		532,451	532,451
As of December 31		**685,055,200**	**(37,781,990)**	**647,273,210**	**686,120,806**	**(37,249,539)**	**648,871,267**

Note 14.4. Earnings per share – Group share

Accounting principles

Earnings per share correspond to the ratio of Net income - Group share adjusted for hybrid financing (adjustment of the income used to calculate Earnings per share for the coupon accrued for the period presented net of tax, in accordance with IFRS) divided by the Number of shares. The Number of shares corresponds to the average number of outstanding shares during the year, after deducting the treasury shares held by the Company and its fully consolidated subsidiaries.

Earnings per share after dilution (or diluted earnings per share) correspond to the ratio of Net income – Group share adjusted for hybrid financing divided by the Diluted number of shares. The Diluted number of shares corresponds to the Number of shares increased by the net impact, when it is positive, of the following two elements:

- the increase in the weighted average number of shares that would result from the acquisition of Group performance shares, taking into account only those shares whose performance conditions are met as of the closing date;
- the reduction in the number of shares that could theoretically be acquired, in accordance with the treasury stock method specified by IAS 33 *Earnings per share*.

Earnings per share

(in € per share, except for number of shares)	Notes	Year ended December 31 2018	2019
Net income – Group share		2,349	1,929
Coupon relating to hybrid financing, net of tax		(14)	(14)
Adjusted net income – Group share		2,335	1,915
Number of outstanding shares			
As of January 1		632,403,403	647,273,210
Effects of changes during the year	14.3	14,869,807	1,598,057
As of December 31		647,273,210	648,871,267
Average number of outstanding shares			
• Before dilution		642,721,076	648,250,543
Dilutive impact			
Group performance shares		729,370	855,496
• After dilution		643,450,446	649,106,039
Net income – Group share, per share			
• Before dilution		3.63	2.95
• After dilution		3.63	2.95

Note 14.5. Dividend

Distributable reserves of the parent company Danone

The legally distributable reserves of subsidiaries and associated companies may differ from their reported retained earnings as a consequence of (i) consolidation adjustments applied to their separate financial statements, and (ii) the laws applicable in the countries in which the Group operates. In the case of the Group, under French law, dividends can only be paid out of the net income for the year and the distributable reserves of the parent company Danone.

Payment of the 2019 dividend

The Shareholders' Meeting of April 25, 2019 held in Paris approved the proposed dividend relating to the 2018 fiscal year of €1.94 per share in cash.

Note 15. Other non-current provisions and liabilities and legal and arbitration proceedings

Note 15.1. 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 15.2. Other non-current provisions and liabilities

	As of January 1 [(a)]	As of December 31
(in € millions)	**2019**	**2019**
Other non-current provisions	485	557
Other non-current liabilities [(b)]	594	621
Total [(c)]	**1,079**	**1,178**

(a) See Note 1.3 of the Notes to the consolidated financial statements.

(b) These relate to uncertain income tax positions

(c) The current portion totaled €65 million as of December 31, 2019 (€47 million as of January 1, 2019).

Note 15.3. Changes in Other provisions

		Changes during the period						
(in € millions)	**As of January 1, 2019**	**Changes in consolidation scope**	**Increase**	**Reversal of provisions used**	**Reversal of provisions not used**	**Translation adjustments**	**Other**	**As of December 31, 2019**
Tax and territorial risks [(a)]	111	–	22	(1)	(19)	–	–	113
Employee-related and commercial disputes and other provisions	350	–	117	(44)	(36)	(5)	(1)	380
Restructuring provisions	25	–	54	(14)	(3)	–	1	64
Total	**485**	**–**	**193**	**(60)**	**(57)**	**(6)**	**1**	**557**

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

Changes in Other provisions in 2019 were as follows:

- increases result primarily from lawsuits against the Company and its subsidiaries in the normal course of business;
- reversals of provisions used occurred when the corresponding payments were made. Reversals of provisions not used related mainly to reassessments and situations where some risks ceased to exist. They related to several provisions, none of which is material individually.

As of December 31, 2019, provisions for tax risks, territorial (not related to income taxes) and commercial, employee-related, and other disputes included several provisions for legal, financial, tax and territorial risks, as well as provisions for multi-year variable compensation granted to some employees, with these provisions 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 15.4. 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 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.

Note 16. Related party transactions

Note 16.1. Accounting principles

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

Note 16.2. Transactions with associates

Transactions with these companies are generally carried out at arm's length. They mainly involve management fees and royalties paid to Danone, services (mainly logistics) and financing.

As in 2018, the amounts pertaining to 2019 are not material.

Note 16.3. Compensation and benefits granted to members of the Executive Committee and Board of Directors

Compensation paid

	Year ended December 31	
(in € millions)	**2018**	**2019**
Compensation paid to corporate officers and members of the Executive Committee [(a)]	12.2	10.8
Compensation paid to Directors [(b)]	0.7	0.8
Total	**12.9**	**11.6**
Severance pay	–	–
Carrying amount of shares subject to performance conditions granted during the year [(c)]	6.5	6.8

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €5.7 million in 2019 (€6.1 million in 2018).
(b) Amount paid to eligible Directors, in respect of the retirement plan for their benefit for positions they held previously in the Group.
(c) The carrying amount represents the full estimated value as of the grant date in accordance with IFRS 2 on the assumption that the performance conditions have been satisfied.

Danone's commitment to the corporate officers and Executive Committee members with respect to their retirement plans

The amount of provisions for the defined benefit retirement plan represented Danone's commitment as of December 31, 2019, in accordance with IFRS, *i.e.* a total of €26 million for corporate officers and Executive Committee members.

As regards Mr. Emmanuel FABER, through a letter dated January 25, 2019, with effect from April 24, 2019, he terminated his employment contract and waived his severance pay as well as his defined-benefit pension. The termination of his employment contract also put an end to the increase in his rights to the executives' supplementary retirement plan as from April 24, 2019. The contributions paid by Danone in respect of this plan totaled €5 673 in 2019.

Loans and guarantees

In 2019, as in 2018, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

Note 17. Subsequent events

In February 2020, Danone and Harrogate Water Brands announced that they have entered into a final agreement under which Danone will acquire a majority stake in Harrogate Water Brands, the parent company of British water brand, Harrogate Spring Water, and ethical brand Thirsty Planet. With revenues of approximately £20 million, Harrogate Spring Water is one of the fastest growing players in the sector, holding strong positions in Foodservice and On Premise channels. The closing of the transaction is subject to regulatory approval.

In addition, the Covid-19 epidemic is likely to have a negative impact on the Waters and Specialized Nutrition Reporting Entities. At this stage, this event does not call into question the valuation of assets dedicated to activities in China at December 31, 2019.

To the Company's knowledge, no other material events occurred after the approval date of the 2019 consolidated financial statements (approved by the Board of Directors on February 25, 2020).

Note 18. Fees to the Statutory Auditors and members of their networks

	PricewaterhouseCoopers				Ernst & Young Audit			
(in € millions, except percentage)	2018		2019		2018		2019	
Statutory audits: certification of the individual and consolidated financial statements	4.4	79%	4.6	68%	5.2	86%	5.2	77%
Services other than the certification of the financial statements	1.2	21%	2.2	32%	0.8	14%	1.6	23%
Total [(a)]	**5.6**	**100%**	**6.7**	**100%**	**6.1**	**100%**	**6.8**	**100%**

(a) Fees invoiced in foreign currencies have been translated into euros on the basis of the annual average exchange rates used by Danone.

In 2019, the fees of the Statutory auditors of the parent company and its French subsidiaries in respect of the certification or limited review of the individual and consolidated financial statements totaled €2.6 million (€2.5 million in 2018), of which €1.2 million for PricewaterhouseCoopers Audit (€1.1 million in 2018) and €1.4 million for Ernst & Young Audit (€1.4 million in 2018).

The fees of the Statutory auditors of the parent company and its French subsidiaries for services other than the certification of the financial statements for the year ended December 31, 2019 totaled €2.1 million (€1.2 million in 2018), of which €0.7 million for PricewaterhouseCoopers Audit (€0.5 million in 2018) and €1.5 million for Ernst & Young Audit (€0.7 million in 2018) and included in particular fees for due diligence, and tax services related notably to the review of technical documentation or the technical analysis of tax positions.

The fees of the Statutory auditors' networks for services other than the certification of the financial statements to certain foreign subsidiaries of Danone totaled €1.6 million (€0.8 million in 2018), of which €1.5 million for PricewaterhouseCoopers Audit (€0.7 million in 2018) and €0.2 million for Ernst & Young Audit (€0.1 million in 2018) and included in particular assistance for logistic transformation projects and fees for tax services related notably to the review of technical documentation or the technical analysis of tax positions adopted by certain foreign subsidiaries.

Note 19. Exemption option from statutory requirements related to some affiliates

Affiliates included in the consolidated financial statements of Danone SA exercising the exemption option in respect of the year ended 31 December 2019, which shall be mentioned in the consolidated accounts of Danone SA, pursuant to local regulations

Country and exemption	Company (company number)
Germany Exemption option from audit of individual accounts under § 264 (3) HGB	Nutricia GmbH, Milupa GmbH, Milupa Nutricia GmbH, Nutricia Grundstücksverwaltungs GmbH, Nutricia Deutschland GmbH, Danone Waters Deutschland GmbH
United Kingdom Exemption option from audit of individual accounts under section 394A / 479A of the Companies Act 2006	Nutricia (Cow & Gate, Milupa) Holdings Limited (01917542), UK Holdings CAP (Commonwealth, Asia and Pacific) Limited (05616355), Danone Financing UK Limited (08808080), Danone Finance Company Limited (10426518), Scientific Hospital Supplies Holdings Limited (02502240), Complan Foods Limited (04418784)
Ireland Exemption option from publication of individual accounts under section 357 (1) of the Companies Act 2014	Nutricia Infant Nutrition Limited (384474), Danone Europe Limited (407825), Danone Limited (217235), Nutricia Ireland Limited (106997), Nutricia Medical Ireland Limited (552466)

Statutory auditors' report on the consolidated financial statements

This is a free translation into English of the Statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the Group's management report. 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,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Danone for the year ended 31 December 2019.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from 1 January 2019 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

Observation

Without qualifying the opinion expressed above, we draw your attention to Notes 1.3, 1.4 and 1.5 of the Notes to the consolidated financial statements setting out the effects of the first-time application of IFRS 16 relating to leases and IFRIC 23 concerning the uncertainty surrounding the treatment of income taxes.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Recognition of revenue

As indicated in Note 6.1 to the consolidated financial statements, the Danone Group's sales are stated net of trade discounts and customer rebates (including costs relating to trade support and listing agreements or occasional promotional actions invoiced by retailers). Revenue measurement therefore involves making estimates related to such agreements or actions. We deemed the valuation of trade discounts and rebates to be a key audit matter given (i) the Group's broad customer base across different countries and with varying contractual relationships (based on sales volumes, promotional agreements or trade practices), (ii) the materiality of trade discounts and rebates, and (iii) the complexity of estimating these amounts at the year end.	We assessed the consistency of the revenue recognition methods applied by the Danone Group with international financial reporting standards (IFRS). Given the large number of sales transactions carried out by the Group's various entities, we examined the internal control procedures relating to the estimation of trade discounts and rebates as part of the revenue recognition process and tested the controls, which we determined are key, in the main operating entities. We also performed substantive controls to assess: • whether amounts to be refunded to customers were being measured correctly and recognized on the reporting date by (i) reconciling the estimates with the contractual data in the information systems used to manage trade terms and conditions or in the contracts with the relevant customers, and (ii) examining the assumptions used, where applicable, with regard to actions taken or specific situations and customary trade practices; • whether revenue was being recognized in the appropriate period by (i) testing the transactions booked after the reporting date to identify any non-accrued discounts and rebates and (ii) analysing the change in accruals and their breakdown by age.

Goodwill, brands and investments in associates

As at 31 December 2019, goodwill amounted to 18,125 million euros, brands amounted to 6,329 million euros and investments in associates amounted to 2,055 million euros. These assets are subject to impairment tests, at least once a year in the case of goodwill and brands with indefinite useful lives, and whenever there is an indication of impairment in the case of investments in associates. The recoverable amounts of these assets or groups of assets are generally estimated on the basis of the discounted cash flows method or market value in the case of goodwill and investments in associates, and according to the royalties method for brands, as explained in Notes 5 and 10 to the consolidated financial statements. The impairment tests are based on estimates and on management's judgment concerning (i) the allocation of these assets to cash generating units (CGUs) (ii) the estimation of the future performance of the assets or CGUs and (iii) the determination of the discount rates, long-term growth rates, and royalty rates in the case of brands. We therefore deemed as key points in our audit evaluation (i) the measurement of goodwill and brands, in particular those of Central Danone which were subject to an impairment of 662 million euros in 2018 as mentioned in Notes 7.1 and 10 of the Notes to the consolidated financial statements, and (ii) investments in associates, in particular the investment in Yashili, which has been impaired by a further €109 million in 2019 as detailed in Notes 5.6 of the Notes to the consolidated financial statements.	*Goodwill and brands* We examined the processes set up by the management to allocate the goodwill to CGUs or groups of CGUs, in order to identify any indications of loss in value and to determine the cash flow projections underlying the impairment tests. For a sample of CGUs and brands, identified on the basis of quantitative and qualitative factors, and in particular for the Centrale Danone CGU, and brands which have been impaired, we examined the methods and main assumptions used to determine recoverable value, including: • the forecast cash flows: the assumptions relating to the growth of the business and market shares were compared with the available market analyses. We also compared the main assumptions with past performance and assessed the trends between past forecasts and actual figures; • the long-term growth rates, the discount rates and the royalty rates, with the support of our financial valuation experts. We also analyzed the sensitivity of the test results to the main assumptions used by management and examined the disclosures provided in the notes to the consolidated financial statements. *Investments in associates* We assessed the approach adopted and the data used by the Company (market valuation, recent performance and forecast results) to identify any indications of loss in value. For Yashili, we have implemented the procedures as described hereinbefore for goodwill and brands and we have examined the main assumptions used to determine the recoverable amount, notably by comparing with external evaluations. We have also examined the disclosures provided in the notes to the consolidated financial statements.

Tax assets and liabilities

Danone operates in many different tax jurisdictions throughout the world. Consequently, the Company and its subsidiaries may be subject to audits or questioning by local tax authorities. The situations where outflows of resources are considered probable give rise to liabilities measured on the basis of facts known in the jurisdiction concerned. As indicated in Note 1.3 of the Notes to the consolidated financial statements, the first-time application of IFRIC 23, *Uncertainty over Income Tax Treatments,* resulted in the recognition of additional tax liabilities for an amount of €93 million, as a deduction from equity at January 1, 2019. As indicated in Note 15 of the Notes to the consolidated financial statements, liabilities for tax risks, including territorial risks, amounted to €734 million as of December 31, 2019. As of 31 December 2019, the amount of 306 million euros is recognized in the consolidated balance sheet in respect of the deferred tax assets relating to tax loss carryforwards as set out in Note 9.3 of the Notes to the consolidated financial statements. The recoverability of these deferred tax assets resulting from tax loss carryforwards is based primarily on the ability of the entities concerned to meet their targets defined in the business plans drawn up by management. The recognition of tax assets and liabilities and liabilities for tax risks constitutes a key audit matter, given (i) the judgment required to assess the recoverability of deferred taxes and (ii) the probable outflows of resources related to tax disputes.	We examined the procedures implemented within the Group to identify the main tax risks, as well as management's assessments of these risks. We also relied on the opinions of third parties, past and current experience with the tax authorities in the jurisdictions concerned, and the expertise of our tax specialists in order to assess the assumptions used by management to determine the liabilities for tax risks, in particular in connection with the first-time application of IFRIC 23. We examined the deferred tax positions for the most significant entities. Our work consisted primarily in comparing the consistency of the assumptions concerning the use of the tax loss carryforwards against future taxable profits with those derived from management's business projections, used in particular within the scope of the impairment tests on goodwill.

Specific verification

As required by laws and regulations and in accordance with professional standards applicable in France, we have also verified the information presented in the management report of the Board of Directors of the Group.

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

We attest that the consolidated non-financial statement required by Article L.225-102-1 of the French Commercial Code is included in the information presented in the management report of the Group, being specified that, in accordance with the provisions of Article L. 823-10 of the code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent insurance services provide.

Information required by other legal and regulatory obligations

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Danone by the Shareholders' Meetings held on 28 April 2016 for ERNST & YOUNG et Autres and on 21 May 1992 for PricewaterhouseCoopers Audit.

As at 31 December 2019, ERNST & YOUNG et Autres and PricewaterhouseCoopers Audit were in the fourth year and the twenty-eigth year of total uninterrupted engagement, respectively. ERNST & YOUNG Audit previously acted as Statutory Auditor of Danone from 2010 to 2015.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Paris La Défense and Neuilly-sur-Seine, March 2, 2020

The Statutory auditors

Ernst & Young Audit		**PricewaterhouseCoopers Audit**	
Jeanne BOILLET	Pierre-Henri PAGNON	Anik CHAUMARTIN	François JAUMAIN