

Brent Co.

# Danone ONE PLANET. ONE HEALTH

Consolidated financial  
statements and  
related notes

Year ended December 31, 2020

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The English version of the 2020 consolidated financial statements and related notes is a free translation from the original which was prepared in French. The original French version of the document prevails over this translation.

# Consolidated financial statements

## Consolidated income statement and earnings per share

(in € millions, except earnings per share in €)	Notes	Year ended December 31	
		2019	2020
<b>Sales</b>	6.1, 6.2	<b>25,287</b>	<b>23,620</b>
Cost of goods sold		(12,878)	(12,267)
Selling expense		(5,773)	(5,366)
General and administrative expense		(2,385)	(2,285)
Research and Development expense		(351)	(323)
Other income (expense)	6.3	(53)	(61)
<b>Recurring operating income</b>		<b>3,846</b>	<b>3,317</b>
Other operating income (expense)	7.1	(609)	(519)
<b>Operating income</b>		<b>3,237</b>	<b>2,798</b>
Interest income on cash equivalents and short-term investments		181	151
Interest expense		(400)	(358)
Cost of net debt	11.7	(220)	(207)
Other financial income	12.3	37	53
Other financial expense	1.3, 12.3	(188)	(156)
<b>Income before tax</b>		<b>2,867</b>	<b>2,488</b>
Income tax expense	9.1	(793)	(762)
<b>Net income from fully consolidated companies</b>		<b>2,075</b>	<b>1,726</b>
Share of profit of associates	5.5, 5.6	(46)	304
<b>Net income</b>		<b>2,028</b>	<b>2,030</b>
<b>Net income – Group share</b>		<b>1,929</b>	<b>1,956</b>
Net income – Non-controlling interests		99	74
<b>Net income – Group share, per share</b>	14.4	<b>2.95</b>	<b>2.99</b>
<b>Net income – Group share, per share after dilution</b>	14.4	<b>2.95</b>	<b>2.99</b>

## Consolidated statement of comprehensive income

	Year ended December 31	
(in € millions)	2019	2020
<b>Net income - Group share</b>	<b>1,929</b>	<b>1,956</b>
<b>Translation adjustments</b>	<b>389</b>	<b>(1,809)</b>
<b>Cash flow hedge derivatives</b>		
Gross unrealized gains and losses	–	17
Tax effects	(3)	(3)
<b>Other comprehensive income, net of tax</b>		
<b>Items that may be subsequently recycled to profit or loss</b>	<b>386</b>	<b>(1,795)</b>
<b>Investments in other non-consolidated companies</b>		
Gross unrealized gains and losses	(6)	35
Tax effects	(1)	2
<b>Actuarial gains and losses on retirement commitments</b>		
Gross gains and losses	(203)	(114)
Tax effects	49	25
<b>Items not subsequently recyclable to profit or loss</b>	<b>(161)</b>	<b>(52)</b>
<b>Total comprehensive income – Group share</b>	<b>2,154</b>	<b>108</b>
<b>Total comprehensive income – Non-controlling interests</b>	<b>82</b>	<b>36</b>
<b>Total comprehensive income</b>	<b>2,236</b>	<b>144</b>

## Consolidated balance sheet

		As of December 31	
(in € millions)	Notes	2019	2020
<b>Assets</b>			
Goodwill		18,125	17,016
Brands		6,329	5,669
Other intangible assets		348	351
Intangible assets	10.1 to 10.3	24,803	23,037
Property, plant and equipment	6.5	6,844	6,572
Investments in associates	5.1 to 5.8	2,055	915
Investments in other non-consolidated companies		131	225
Long-term loans and financial assets		351	344
Other financial assets	12.1, 12.2	482	569
Derivatives - assets <sup>(a)</sup>	13.2, 13.3	271	259
Deferred taxes	9.2	790	785
<b>Non-current assets</b>		<b>35,244</b>	<b>32,139</b>
Inventories	6.4	1,933	1,840
Trade receivables	6.4	2,906	2,608
Other current assets	6.4	940	1,000
Short-term loans		6	40
Derivatives - assets <sup>(a)</sup>	13.2, 13.3	16	27
Short-term investments	11.1, 11.5	3,631	3,680
Cash and cash equivalents		644	593
Assets held for sale	5.7	43	851
<b>Current assets</b>		<b>10,118</b>	<b>10,638</b>
<b>Total assets</b>		<b>45,362</b>	<b>42,776</b>

(a) Derivative instruments used to manage net debt.

		As of December 31	
(in € millions)	Notes	2019	2020
<b>Equity and liabilities</b>			
Share capital		172	172
Additional paid-in capital		5,859	5,889
Retained earnings and others <sup>(a)</sup>	1.3, 11.3	16,491	17,374
Translation adjustments		(2,941)	(4,867)
Accumulated other comprehensive income		(729)	(768)
Treasury shares	14.2	(1,610)	(1,595)
<b>Equity - Group share</b>		<b>17,241</b>	<b>16,205</b>
Non-controlling interests	4.5	137	93
<b>Consolidated equity</b>		<b>17,378</b>	<b>16,298</b>
Financing	11.1 to 11.4	12,875	12,272
Derivatives – liabilities <sup>(b)</sup>	13.2, 13.3	19	63
Liabilities related to put options granted to non-controlling interests	4.5	13	7
Non-current financial debt		12,906	12,343
Provisions for retirement obligations and other long-term benefits	8.3	1,091	1,220
Deferred taxes	9.2	1,556	1,474
Other non-current provisions and liabilities	15.2, 15.3	1,178	1,104
<b>Non-current liabilities</b>		<b>16,731</b>	<b>16,141</b>
Financing	11.1 to 11.4	3,996	3,762
Derivatives – liabilities <sup>(b)</sup>	13.2, 13.3	9	40
Liabilities related to put options granted to non-controlling interests	4.5	469	355
Current financial debt		4,474	4,157
Trade payables	6.4	3,959	3,467
Other current liabilities	6.4	2,819	2,714
Liabilities directly associated with assets held for sale		–	–
<b>Current liabilities</b>		<b>11,253</b>	<b>10,338</b>
<b>Total equity and liabilities</b>		<b>45,362</b>	<b>42,776</b>

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

(b) Derivative instruments used to manage net debt.

## Consolidated statement of cash flows

		Year ended December 31	
(in € millions)	Notes	2019	2020
<b>Net income</b>		<b>2,028</b>	<b>2,030</b>
Share of profit of associates net of dividends received	5.5, 5.6	99	(272)
Depreciation, amortization and impairment of tangible and intangible assets	6.5, 10.3	1,386	1,452
Net change in provisions and non-current liabilities	15.2, 15.3	111	32
Change in deferred taxes	9.2	40	(37)
(Gains) losses on disposal of property, plant and equipment and financial investments		14	(54)
Expense related to Group performance shares	8.4	30	16
Cost of net financial debt	11.7	220	209
Net interest paid		(212)	(197)
Net change in interest income (expense)		8	12
Other components with no cash impact		39	20
<b>Cash flows provided by operating activities, before changes in net working capital</b>		<b>3,755</b>	<b>3,199</b>
(Increase) decrease in inventories		(178)	(86)
(Increase) decrease in trade receivables		(268)	59
Increase (decrease) in trade payables		266	(204)
Change in other receivables and payables		(131)	-
Change in working capital requirements	6.4	(311)	(232)
<b>Cash flows provided by (used in) operating activities</b>		<b>3,444</b>	<b>2,967</b>
Capital expenditure <sup>(a)</sup>	6.5	(951)	(962)
Proceeds from the disposal of property, plant and equipment <sup>(a)</sup>	6.5	16	43
Net cash outflows on purchases of subsidiaries and financial investments <sup>(b)</sup>	4.2	(112)	(183)
Net cash inflows on disposal of subsidiaries and financial investments <sup>(b)</sup>	5.6	58	547
(Increase) decrease in long-term loans and other long-term financial assets		(19)	(54)
<b>Cash flows provided by (used in) investment activities</b>		<b>(1,008)</b>	<b>(610)</b>
Increase in share capital and additional paid-in capital		55	30
Purchase of treasury shares (net of disposals)	14.2	-	-
Interest on undated subordinated notes	11.4	(22)	(22)
Dividends paid to Danone shareholders <sup>(c)</sup>	14.5	(1,256)	(1,363)
Buyout of non-controlling interests	4.5	(153)	(99)
Dividends paid to non-controlling interests		(60)	(55)
Contribution from non-controlling interests to capital increases		4	6
Transactions with non-controlling interests		(209)	(147)
Net cash flows on hedging derivatives <sup>(d)</sup>		(7)	(1)
Bonds issued during the period	11.3, 11.4	-	1,600
Bonds repaid during the period	11.3, 11.4	(1,899)	(2,050)
Net cash flows from other current and non-current financial debt	11.3	354	(306)
Net cash flows from short-term investments		584	(102)
<b>Cash flows provided by (used in) financing activities</b>		<b>(2,400)</b>	<b>(2,360)</b>
Effect of exchange rate and other changes <sup>(e)</sup>		(231)	(48)
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(195)</b>	<b>(51)</b>
<b>Cash and cash equivalents as of January 1</b>		<b>839</b>	<b>644</b>
<b>Cash and cash equivalents as of December 31</b>		<b>644</b>	<b>593</b>
<b>Additional information</b>			
Income tax payments during the year		(774)	(753)

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

## Consolidated statement of changes in equity

(in € millions)	Notes	Changes during the period									As of December 31, 2020
		As of January 1, 2020	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to expense relating to performance shares after social security charges	Dividends paid to Danone shareholders	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	
Share capital <sup>1</sup>		172		-							172
Additional paid-in capital		5,859		29							5,889
Retained earnings and others <sup>(a)</sup>	14	16,491	1,956			16	(1,363)	(15)	169	120	17,374
Translation adjustments		(2,941)	(1,809)						(116)	-	(4,867)
Gains and losses related to hedging derivatives, net of tax		(192)	14								(178)
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax		(2)	37								35
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	8	(535)	(89)								(624)
<b>Other comprehensive income</b>		(729)	(39)	-	-	-	-	-	-	-	(768)
DANONE treasury shares	14.2	(1,610)			16						(1,595)
<b>Equity - Group share</b>		<b>17,241</b>	<b>108</b>	<b>30</b>	<b>16</b>	<b>16</b>	<b>(1,363)</b>	<b>(15)</b>	<b>53</b>	<b>120</b>	<b>16,205</b>
Non-controlling interests		137	36	6			(55)		(21)	(11)	93
<b>Consolidated equity</b>		<b>17,378</b>	<b>144</b>	<b>36</b>	<b>16</b>	<b>16</b>	<b>(1,417)</b>	<b>(15)</b>	<b>31</b>	<b>109</b>	<b>16,298</b>

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



	Changes during the period									As of December 31, 2019
	As of January 1, 2019	Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to expense relating to performance shares after social security charges	Dividends paid to Danone shareholders	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	
<i>(in € millions)</i>										
Share capital	171		–							172
Additional paid-in capital	5,805		54							5,859
Retained earnings and others <sup>(a)</sup>	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	6	(7)								(2)
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	(381)	(154)								(535)
<b>Other comprehensive income</b>	<b>(564)</b>	<b>(164)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(729)</b>
DANONE treasury shares	(1,632)			21						(1,610)
<b>Equity - Group share</b>	<b>16,251</b>	<b>2,154</b>	<b>55</b>	<b>21</b>	<b>30</b>	<b>(1,256)</b>	<b>(14)</b>	<b>(96)</b>	<b>97</b>	<b>17,241</b>
Non-controlling interests	131	82	4			(60)		(30)	9	137
<b>Consolidated equity</b>	<b>16,382</b>	<b>2,237</b>	<b>58</b>	<b>21</b>	<b>30</b>	<b>(1,315)</b>	<b>(14)</b>	<b>(126)</b>	<b>107</b>	<b>17,378</b>

(a) "Others" corresponds to undated subordinated notes totalling €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, 2020 were approved by its Board of Directors on February 18, 2021 and will be submitted for approval to the Shareholders' Meeting on April 29, 2021.

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 the impacts of Covid-19 on Danone	3
Measurement of intangible assets	10.3
Measurement of investments in associates	5.1, 5.4 to 5.7
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 information and conditions available at the end of the financial period presented. Actual amounts may differ from those estimates, particularly in the context of Covid-19 (see Note 3 of the Notes to the consolidated financial statements) and namely in view of the uncertainty on the magnitude and the duration of its impacts.

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, 2020**

Amendment to IFRS 3 *Business Combinations*: this amendment has no significant impact on the consolidated financial statements for the year ended December 31, 2020.

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

Danone did not choose the early adoption of those standards, amendments and interpretations in the consolidated financial statements for the year ended December 31, 2020 and considers that they should not have a material impact on its results and financial situation.

## Note 1.3. Application of IAS 29

### Accounting principles

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

### Application and main accounting implications

Danone has applied IAS 29 to Argentina in its financial statements as from the year ended December 31, 2018 and to Iran in its financial statements as from the year ended December 31, 2020.

As regards the standard's application to Argentina, in 2020 Danone used the Consumer Price Index (CPI) to remeasure its income statement items, cash flows and non-monetary assets and liabilities. This index was up 36% compared with 2019. The EURARS exchange rate used to translate the income statement was 103.0 (67.2 in 2019). The application of IAS 29 had a €38 million impact on consolidated equity and on non-monetary assets net of non-monetary liabilities as of December 31, 2020 (€52 million as of December 31, 2019) and had the following main impacts on the consolidated income statement for the period:

- a €36 million decrease in consolidated Sales and a €23 million decrease in Recurring operating income (decrease of €15 million and €36 million respectively in 2019);
- a loss of less than €1 million on the net monetary position recognized in Other financial income (expense), compared with a loss of €7 million in 2019;
- a €51 million expense in Net income - Group share (a €73 million expense in 2019).

As regards Iran, application of IAS 29 resulted in a negative impact of €104 million on consolidated equity as of January 1, 2020. It did not have a material impact on the year ended December 31, 2020.

## Note 1.4. Application of the amendment to IFRS 9

For Danone, interest rate benchmark reform concerns its financial instruments (interest rate derivatives, syndicated credit facility and committed credit facilities) indexed to Euribor or Libor. The Group does not anticipate a material impact from this reform. It did not change any of its benchmarks in 2020 and will make any such changes and the resulting contractual amendments required as from 2021. The Group has not applied the phase 2 amendment to IFRS 9 before their mandatory application date.

## Note 2. Highlights of the year

	Notes
Implications of Covid-19 for Danone	3
Transformation of Danone's organization and operations	7.2
Disposal of the Group's residual interest in Yakult (EDP, Japan)	5.6
Impairment of intangible assets	10.3
Subsequent events	17

## Note 3. Implications of Covid-19 for Danone

The management has assessed the impacts of Covid-19 on the basis of reasonably available information and conditions at the end of the financial period presented and considering estimates, assumptions or appraisals (the main ones of which are described in Note 1.1 of the Notes to the consolidated financial statements). In view of the uncertainty as to the magnitude and duration of the impacts of Covid-19, the Group has been particularly vigilant in determining these assumptions.

### Note 3.1. Impacts of Covid-19 on the Group's activities and performance in 2020

In 2020, consolidated sales stood at €23,620 million, down by 6.6% mainly driven by the negative impact of exchange rates and reflecting negative category and country mix, especially in Waters and Specialized Nutrition. Regarding more specifically impacts of Covid-19, out-of-home channels have been penalized by waves of restrictions, especially in Europe, Latin America and Africa. Infant formula sales done in China through cross-border channels have been also penalized by the ongoing border closure with Hong-Kong and travel limitations with mainland China. On the other hand, e-commerce accelerated significantly in 2020.

Danone's recurring operating income reached €3,317 million in 2020. Recurring operating margin stood at 14.0%, down by 117 basis points. It includes a negative effect from €150 million incremental costs (sanitary, industrial, and logistic extra-costs) directly related to Covid-19 incurred during the year to keep employees safe and ensure business continuity. To mitigate these headwinds, Danone stepped-up its efforts on efficiency and cost discipline, especially in the second half of the year.

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

Covid-19 did not have significant impacts on the consolidated financial statements for the year ended December 31, 2020, other than those detailed in Note 3.1 of the Notes to the consolidated financial statements. In particular, the Group did not encounter any obstacles in implementing its processes related to the preparation and processing of financial and accounting information as of December 31, 2020.

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

- the Group has not identified any risk of major defect among its customers and thus did not account for significant additional impairment for expected credit loss on its trade receivables;
- its inventories' valuation is not called into question as of December 31, 2020;
- Covid-19 did not lead to any substantial change or renegotiation of contracts concluded by Danone that could have had significant impacts on the consolidated financial statements.

The Group has reviewed its non-current assets in the context of Covid-19, notably in view of its impacts on the out-of-home channels:

- the Group has not identified any conditions that significantly call into question the valuation of its tangible assets or the recovery of its deferred tax assets (see Note 9.2 of the Notes to the consolidated financial statements);
- regarding Investments in associates and intangible assets, the Group has taken into account the impacts of Covid-19 and the uncertainty as to their magnitude and duration when carrying out impairment testing (see Notes 5.7, 5.8 and 10.3 of the Notes to the consolidated financial statements).

Finally, the Group considers that Covid-19 did not impact either its exposure to financial risks associated with operating and financing activities or the monitoring of those risks. In particular:

- the Group has continued, in 2020, to apply its management policies, as described in Notes 6.7, 11.2 and 13 of the Notes to the consolidated financial statements;
- more specifically with regard to liquidity risk, Danone launched two €800 million bond issues in the first half of 2020 and, as of December 31, 2020, held a portfolio of more than €3 billion of available committed credit facilities and more than €4 billion of cash and short-term investments. In addition, as a reminder, Danone is not subject to any financial covenant;
- finally, the Group did not make use of guaranteed financing and support measures granted by some states.

## Note 4. Fully consolidated companies and non-controlling interests

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### 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), and 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

#### 2020 fiscal year

The Group acquired control of several companies, notably in the specialized nutrition activity in China and in the waters activity in the UK. None of these interests is material.

## 2019 fiscal year

Ownership as of December 31					
(in percentage)	Reporting entity	Country	Transaction date <sup>(a)</sup>	2018	2019
<b>Main companies consolidated for the first time during 2019</b>					
Michel et Augustin	EDP	France and United States	April	46.9%	93.9%
<b>Main consolidated companies with change in ownership percentage</b>					
Fan Milk Group's main companies	EDP	West Africa	July	51.0%	100.0%
<b>Main companies no longer fully consolidated as of December 31</b>					
Earthbound Farm	EDP	United States	April	100.0%	—

### 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, 2020, is available on Danone's website ([www.danone.com](http://www.danone.com)).

### Note 4.4. Accounting for acquisitions resulting in control being obtained in 2020

The business combinations carried out in 2020 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

The minority shareholders in companies that are consolidated but not wholly owned by the Group were not material as of December 31, 2020.

#### 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)	2019	2020
<b>As of January 1</b>	508	482
New options and options recognized previously in accordance with IFRS 9	19	7
Options exercised <sup>(a)</sup>	(125)	(90)
Changes in the present value of outstanding options	79	(37)
<b>As of December 31 <sup>(b)</sup></b>	<b>482</b>	<b>363</b>

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

(b) In most cases, the strike price is an earnings multiple.

# Note 5. 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						
				2019	2020	
(in € millions, except percentage)	Notes	Country	Listing market <sup>(a)</sup>	Ownership	Ownership	Market capitalization <sup>(a) (b)</sup>
Mengniu <sup>(c)</sup>	5.7	China	Hong Kong	9.8%	9.8% <sup>(d)</sup>	19,447
Yashili <sup>(e)</sup>	5.7	China	Hong Kong	25.0%	25.0%	456
Yakult <sup>(f)</sup>	5.6	Japan	Tokyo	6.6%	—	—

(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) Investment reclassified as assets held for sale as of December 31, 2020.

(e) YASHILI INTERNATIONAL HOLDINGS LTD.

(f) 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.

### Note 5.3. Main changes during the period

#### 2020 fiscal year

Ownership as of December 31						
(in percentage)	Notes	Reporting entity	Country	Transaction date <sup>(a)</sup>	2019	2020
<b>Main companies accounted for using the equity method for the first time during 2020</b>						
-		-	-		-	-
<b>Main associates with changes in ownership percentage</b>						
-		-	-		-	-
<b>Main companies no longer accounted for using the equity method as of December 31</b>						
Yakult	5.6	EDP	Japan	October	6.6%	-
(a) Month in the 2020 fiscal year.						

#### 2019 fiscal year

Ownership as of December 31						
(in percentage)		Reporting entity	Country	Transaction date <sup>(a)</sup>	2018	2019
<b>Main companies accounted for using the equity method for the first time during 2019</b>						
-		-	-		-	-
<b>Main associates with changes in ownership percentage</b>						
-		-	-		-	-
<b>Main companies no longer accounted for using the equity method as of December 31</b>						
Michel et Augustin		EDP	France and United States	April	46.9%	93.9%
(a) Month in the 2019 fiscal year.						

### Note 5.4. Carrying amount and changes during the period

(in € millions)	Notes	2019			2020		
		Net goodwill	Group's share in net assets and net income	Total	Net goodwill	Group's share in net assets and net income	Total
<b>As of January 1</b>		1,057	1,046	2,104	923	1,131	2,055
Acquisitions, influence acquired during the year and capital increase	5.3	20	21	41	3	20	22
Disposals, losses of influence during the year and decreases in ownership percentage	5.3, 5.6	(30)	1	(29)	(81)	(198)	(279)
Reclassification within assets held for sale	5.7	-	-	-	(457)	(393)	(851)
Share of profit of associates before impact of disposals, revaluation and other	5.5	-	100	100	-	87	87
Dividends paid		-	(53)	(53)	-	(32)	(32)
Translation adjustments		21	13	34	(38)	(37)	(75)
Impairment		(145)	-	(145)	-	-	-
Adjustment of the Group's share in net assets		-	4	4	-	(11)	(11)
<b>As of December 31</b>		923	1,131	2,055	350	566	915



## Note 5.5. Share of profit of associates

(in € millions)	Notes	Year ended December 31	
		2019	2020
Share of profit of associates before impact of disposals, revaluation and other		100	87
Impairment		(145)	–
Gains (losses) on disposal, revaluation and other	5.6	(1)	217
<b>Total</b>		<b>(46)</b>	<b>304</b>

## Note 5.6. Disposal of the Group's residual interest in Yakult (EDP, Japan)

### Background to this equity interest

Danone had an interest in the Yakult group (6.61% after the disposal, in 2018, of 14.7%), was its main shareholder with two representatives on its board of directors. The collaboration between the two companies began in 2004 through their strategic alliance, which aim was to strengthen their global leadership in probiotics and accelerate their growth in the functional food market.

### Disposal of the Group's residual interest

In accordance with its continued focus on capital allocation and balance sheet strength, on October 6, Danone sold its remaining 6.61% stake in Yakult via an accelerated book building process. The sale generated sales proceeds of JPY 58 billion (around €470 million) and a gain, after selling expenses, of €220 million, presented within Share of profit of associates in 2020.

Following the announcement of this sale, the companies reconfirmed their commitment to their long-term strategic collaboration to promote probiotics. Existing commercial partnerships, including joint-ventures in India and Vietnam, remain in place.

## Note 5.7. Mengniu (EDP, 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 local infant milk formula brand platform.

### Mengniu (EDP, China)

#### Accounting treatment of the investment

This investment 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.

#### Project of disposal of the investment

As a result of its assets review, Danone has decided to sell its 9.8% stake in Mengniu. In order for its interest to be sold, it will have to be converted from an indirect shareholding to a direct shareholding in Mengniu shares, which can then be sold.

As of December 31, 2020, the Mengniu shares were classified as assets held for sale in accordance with the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations*. This resulted in the reclassification in the balance sheet of the carrying amount (€851 million) from Investments in associates to Assets held for sale. This had no impact on the 2020 income statement.

The sale is expected to take place in 2021, once the regulatory process has been completed, in particular approval by the Chinese authorities.

## Main financial information

	2019		2020
(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 <sup>(a)</sup>	4,148	5,248	5,506
Current assets <sup>(a)</sup>	5,296	4,792	5,233
Equity <sup>(a)</sup>	4,056	4,263	4,264
Non-current liabilities <sup>(a)</sup>	908	1,720	2,357
Current liabilities <sup>(a)</sup>	4,481	4,057	4,118
Sales <sup>(a)</sup>	5,199	10,217	4,841
Net income <sup>(a)</sup>	282	555	146
Other comprehensive income <sup>(a)</sup>	(9)	22	(23)

(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, 2020

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, 2019

The Group had not noted any indications of impairment.

## Yashili (Specialized Nutrition, China)

### Accounting treatment of the investment

As of December 31, 2020, 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. Consequently, its shareholding is recognized within Investments in associates.

### Impairment review as of December 31, 2020

The Group noted significant volatility in the Yashili stock price which, as of December 31, 2020, remained below the shares' average purchase price, which constituted an indication of impairment.

As of December 31, 2020, the carrying amount of the investment in Yashili (€219 million) was subjected to an impairment test based on estimated future cash flows of the business plan prepared by its management in respect of the 2021 to 2025 period and taking into account the effects of Covid-19 on the 2020 fiscal year. Meanwhile, the assumptions for the discount rate and long-term growth rate are 8.6% and 3.0%, respectively. The test carried out at end-2020 did not result in the amount of the impairment provisions recognized in previous fiscal years being revised.

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

Assumptions	Indicators	Impairment (in € millions)
-500 bps	Sales growth rate <sup>(a)</sup>	(3)
-500 bps	Recurring operating margin <sup>(a)</sup>	-
-100 bps	Long-term growth rate	-
+100 bps	Discount rate	-

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

### 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.

## Note 5.8. Impairment review of other Investments in associates

### Impairment review as of December 31, 2020

Following the impairment review of other investments in associates, the Group did not recognize any impairment.

### 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.

## Note 6. Information concerning the Group's operating activities

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### 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

In 2020, 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) continued to monitor Danone's businesses by category (see Note 7.2 of the Notes to the consolidated financial statements). The operating segments correspond to the EDP, Specialized Nutrition and Waters Reporting Entities. The key indicators reviewed and used internally by the primary operational decision-makers to assess operational performance are:

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

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

## Information by Reporting Entity

(in € millions, except percentage)	Year ended December 31					
	Sales <sup>(a)</sup>		Recurring operating income		Recurring operating margin	
	2019	2020	2019	2020	2019	2020
EDP	13,163	12,823	1,345	1,303	10.2%	10.2%
Specialized Nutrition	7,556	7,192	1,908	1,763	25.3%	24.5%
Waters	4,568	3,605	593	251	13.0%	7.0%
<b>Group total</b>	<b>25,287</b>	<b>23,620</b>	<b>3,846</b>	<b>3,317</b>	<b>15.2%</b>	<b>14.0%</b>

(a) Net sales to third parties.

## Reporting by geographical area

### Sales, Recurring operating income and Recurring operating margin

(in € millions, except percentage)	Year ended December 31					
	Sales <sup>(a)</sup>		Recurring operating income		Recurring operating margin	
	2019	2020	2019	2020	2019	2020
Europe and Noram <sup>(b)</sup>	13,710	13,408	1,999	1,823	14.6%	13.6%
Rest of the World	11,577	10,212	1,847	1,494	16.0%	14.6%
<b>Group total</b>	<b>25,287</b>	<b>23,620</b>	<b>3,846</b>	<b>3,317</b>	<b>15.2%</b>	<b>14.0%</b>

(a) Net sales to third parties.

(b) Including net sales of €2,011 million generated in France in 2020 (€2,190 million in 2019).

### Top ten countries contributing to sales

(in percentage)	Year ended December 31	
	2019	2020
United States	19%	21%
China	10%	9%
France	9%	9%
Russia	6%	6%
Indonesia	6%	6%
United Kingdom	5%	5%
Spain	4%	4%
Mexico	5%	4%
Germany	3%	3%
Poland	2%	2%

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

(in € millions)	As of December 31	
	2019	2020
Europe and Noram <sup>(a)</sup>	23,621	22,576
Rest of the World	8,026	7,032
<b>Group total</b>	<b>31,647</b>	<b>29,609</b>

(a) Including €2,528 million in France as of December 31, 2020 (€2,396 million as of December 31, 2019).

## Note 6.3. Other components of recurring operating income

### Other income (expense)

(in € millions)	Year ended December 31	
	2019	2020
Various taxes <sup>(a)</sup>	(43)	(36)
Restructuring costs <sup>(b)</sup>	(25)	(7)
Capital gains on disposals of property, plant and equipment and intangible assets	4	(4)
Other <sup>(c)</sup>	11	(15)
<b>Total</b>	<b>(53)</b>	<b>(61)</b>

(a) Comprises notably sales taxes.

(b) Excluding transformation of the Group's operations and the integration of the Early Life Nutrition and Advanced Medical Nutrition businesses.

(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

	As of December	
<i>(in € millions, except percentage)</i>	<b>2019</b>	<b>2020</b>
Goods purchased for resale	122	105
Raw materials and supplies	874	773
Semi-finished goods and work-in-progress	184	218
Finished goods	902	830
Non-refundable containers	17	90
Impairment provisions	(167)	(175)
<b>Inventories, net</b>	<b>1,933</b>	<b>1,840</b>
Trade and other receivables from operations	3,019	2,714
Impairment provisions	(114)	(106)
<b>Trade receivables, net</b>	<b>2,906</b>	<b>2,608</b>
State and local authorities	812	714
Derivatives - assets <sup>(a)</sup>	23	61
Other	105	225
<b>Total other current assets</b>	<b>940</b>	<b>1,000</b>
<b>Total current assets</b>	<b>5,778</b>	<b>5,448</b>
Trade payables	(3,959)	(3,467)
Year-end rebates payable to customers	(1,230)	(1,228)
State and local authorities	(342)	(254)
Personnel costs, including social security charges	(917)	(835)
Derivatives - liabilities <sup>(a)</sup>	(80)	(67)
Other	(251)	(331)
<b>Total other current liabilities</b>	<b>(2,819)</b>	<b>(2,714)</b>
<b>Total current liabilities</b>	<b>(6,779)</b>	<b>(6,181)</b>
<b>Working capital</b>	<b>(1,000)</b>	<b>(733)</b>
<b>As a percentage of consolidated sales</b>	<b>4.0%</b>	<b>3.1%</b>

(a) 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	
	2019	2020
<b>Portion of consolidated sales made to the Group's largest customers</b>		
Group's largest customer	5.9%	6.8%
Group's five largest customers	13.0%	14.3%
Group's ten largest customers	19.0%	21.2%
<b>Portion of overdue trade receivables not yet fully impaired <sup>(a)</sup></b>	<b>6.4%</b>	<b>6.2%</b>

(a) More than 30 days overdue.

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

As of both December 31, 2020 and December 31, 2019, the amounts are not material.

#### 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

(in € millions)	As of December 31	
	2019	2020
Trade receivables	3,019	2,714
Impairment provisions	(114)	(106)
<b>Fair value of trade receivables</b>	<b>2,906</b>	<b>2,608</b>
Discounts granted to customers <sup>(a)</sup>	(1,230)	(1,228)
<b>Fair value of trade receivables net of discounts granted</b>	<b>1,676</b>	<b>1,381</b>

(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;
- 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 decision of the IFRS IC of November 26, 2019 concerning lease term and the useful life of leasehold improvements did not have a material impact on the Group's consolidated financial statements. 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.

## Carrying amount and changes during the period

(in € millions)	2019				2020			
	Land and buildings	Machinery and equipment	Other and assets in progress	Total	Land and buildings	Machinery and equipment	Other and assets in progress	Total
<b>Carrying amount</b>								
<b>As of January 1</b>	<b>2,587</b>	<b>2,882</b>	<b>1,373</b>	<b>6,842</b>	<b>2,644</b>	<b>2,877</b>	<b>1,323</b>	<b>6,844</b>
Capital expenditure <sup>(a)</sup>	96	228	602	926	56	109	725	890
Disposals	(3)	(10)	1	(12)	(6)	(19)	(8)	(34)
Reclassification of assets held for sale	(43)	–	–	(43)	–	–	–	–
Changes in consolidation scope	(8)	(9)	(5)	(21)	13	4	1	17
Translation adjustments	32	32	21	85	(154)	(200)	(108)	(461)
Impairment <sup>(a)</sup>	(40)	(79)	(10)	(128)	(8)	(45)	(1)	(54)
Depreciation charges <sup>(a)</sup>	(138)	(495)	(137)	(770)	(142)	(431)	(133)	(706)
Impacts of the above on the right-of-use assets (gross) <sup>(b)</sup>	119	32	46	197	191	29	78	298
Impacts of the above on the right-of-use assets (depreciation and impairment) <sup>(b)</sup>	(115)	(31)	(81)	(227)	(120)	(29)	(81)	(230)
Other <sup>(c)</sup>	155	326	(486)	(5)	125	313	(431)	7
<b>As of December 31</b>	<b>2,644</b>	<b>2,877</b>	<b>1,323</b>	<b>6,844</b>	<b>2,600</b>	<b>2,608</b>	<b>1,365</b>	<b>6,572</b>
<i>Of which right-of-use assets <sup>(b)</sup></i>	<i>663</i>	<i>207</i>	<i>201</i>	<i>1,072</i>	<i>709</i>	<i>196</i>	<i>189</i>	<i>1,095</i>
<i>Of which gross amount</i>	<i>4,266</i>	<i>8,217</i>	<i>2,339</i>	<i>14,822</i>	<i>4,371</i>	<i>8,067</i>	<i>2,366</i>	<i>14,804</i>
<i>Of which depreciation and impairment</i>	<i>(1,622)</i>	<i>(5,340)</i>	<i>(1,016)</i>	<i>(7,978)</i>	<i>(1,771)</i>	<i>(5,459)</i>	<i>(1,001)</i>	<i>(8,232)</i>

(a) Excluding right-of-use assets.

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

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

## 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)	2019	2020
Related cash flows	(951)	(962)
As a percentage of sales	3.8%	4.1%

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

### Commitments given in 2020

(in € millions)	Amount of financial flows for the period					
	Total	2021	2022	2023	2024	2025 and after
Commitments to purchase goods and services <sup>(a)</sup>	(3,690)	(2,410)	(764)	(279)	(89)	(150)
Capital expenditure commitments	(336)	(316)	(20)	–	–	–
Guarantees and pledges given	(21)	(21)	–	–	–	–
Other	(75)	(39)	(17)	(10)	(4)	(5)
<b>Total</b>	<b>(4,122)</b>	<b>(2,786)</b>	<b>(801)</b>	<b>(288)</b>	<b>(93)</b>	<b>(154)</b>

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

### Commitments given in 2019

(in € millions)	Amount of financial flows for the period					
	Total	2020	2021	2022	2023	2024 and after
Commitments to purchase goods and services <sup>(a)</sup>	(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)
<b>Total</b>	<b>(4,528)</b>	<b>(2,665)</b>	<b>(1,070)</b>	<b>(412)</b>	<b>(186)</b>	<b>(195)</b>

(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, 2020, the main hedged currencies in terms of value included the British pound, Chinese yuan, Australian dollar, Mexican peso, US dollar and Russian ruble.

## Commodities risk

### Risk identification

Danone's principal raw material needs consist primarily of:

- materials needed to produce food and beverage products, mainly milk, sugar and fruit. 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 2020 fiscal year)*

(in € millions)	Year ended December 31	
	2019	2020
	Income (expense)	Income (expense)
<b>Increase of 5%</b>		
Liquid milk, milk powder and other milk-based ingredients	(111)	(145)
Plastics, including PET	(74)	(56)
<b>Decrease of 5%</b>		
Liquid milk, milk powder and other milk-based ingredients	111	145
Plastics, including PET	74	56

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

## Note 7.1. Other operating income (expense)

### Accounting principles

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

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

### Other operating income (expense) in 2020

In 2020, the net Other operating expense of €(519) million consisted mainly of the following items:

<i>(in € millions)</i>	Notes	Related income (expenses)
Impairment of intangible assets	10.2, 10.3	(353)
Costs related to the transformation of Danone's organizations and operations	7.2	(163)
Costs related to the integration of the Early Life Nutrition and Advanced Medical Nutrition businesses <sup>(a)</sup>		(46)
Proceeds from disposals of businesses and assets		51

(a) Related mainly to the costs associated with staff and information systems.

### Other operating income (expense) in 2019

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

<i>(in € millions)</i>	Related income (expenses)
Effect of the disposal of Earthbound Farm <sup>(a)</sup>	(154)
Costs relating to the strategic restructuring of the EDP and Waters Reporting Entities in certain countries <sup>(b)</sup>	(159)
Expenses related to the transformation of Danone's organization	(114)
Impairment of two brands in the EDP Reporting Entity and one brand in the Specialized Nutrition Reporting Entity	(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.

## Note 7.2. Transformation of Danone's organization and operations

In February 2020, Danone announced the transformation and adaptation of its operations across its entire value chain: digital, end-to-end connected value chain through data, technology and agile ways of working to strengthen execution and to meet new consumer needs in terms of products, consumption premises and times, and effects on the environment. Regarding the Other operating expenses recognized in 2020, they mostly concern the beginning of the execution of the operations' transformation of the EDP Reporting Entity and mainly relate to employee-related costs.

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

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

To reflect this new organization, on November 23, 2020, Danone announced the expansion of its Executive Committee:

- creation of two macro-regions:
  - Danone International which, to ensure decisions are pushed down to a local level, will be organized around five zones in 2021: Europe, Asia/Africa & Middle East, Greater China & Oceania, CIS & Turkey and Latin America;
  - Danone North America;
- representation of the new End-to-End Design to Delivery function.

Since the new geography-led organization is due to be implemented in 2021, it had no impact on the operating segments in 2020 as the primary operational decision-makers continued to monitor Danone's businesses on a category basis (EDP, Waters and Specialized Nutrition).

## 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	
	2019	2020
<b>Total number of employees</b>	<b>102,449</b>	<b>101,911</b>
<b>By geographical area</b>		
Europe and North America	31%	32%
North America	6%	6%
Europe	25%	26%
Rest of the World	69%	68%
Asia, Pacific and Middle East	21%	21%
China	8%	8%
CIS	9%	9%
Africa	8%	8%
Latin America	23%	23%
<b>Total</b>	<b>100%</b>	<b>100%</b>
<b>By Reporting entity</b>		
EDP	41%	41%
Specialized Nutrition	21%	21%
Waters	35%	35%
Corporate functions	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Note 8.2. Personnel costs of fully consolidated companies

(in € millions)	Year ended December 31	
	2019	2020
Salaries and social security charges <sup>(a)</sup>	(3,917)	(3,990)
Retirement obligations – defined benefit plans <sup>(b)</sup>	(37)	(43)
Expenses relating to Group performance shares (GPS)	(28)	(16)

(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 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)	2019	2020
Defined benefit retirement plans	1,063	1,189
Other long-term benefits	28	31
<b>Total</b>	<b>1,091</b>	<b>1,220</b>

### Defined benefit retirement plans and other post-employment benefits

#### Carrying amount of gross obligations

	As of December 31	
(in percentage)	2019	2020
Retirement plan for senior managers	32%	34%
Other	18%	17%
France	50%	51%
Germany	11%	10%
Indonesia	9%	9%
Belgium	7%	8%
United States	7%	7%
Ireland	6%	7%
Other <sup>(a)</sup>	9%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(a) Several countries, none of which represents 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, 2020, 81 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					
	2019			2020		
(in € millions)	Retirement plan for senior managers	Other plans	Total	Retirement plan for senior managers	Other plans	Total
Vested rights with projected salaries	518	1,079	1,597	573	1,141	1,714
Fair value of plan assets	(146)	(388)	(534)	(134)	(391)	(525)
<b>Vested rights net of fair value of plan assets</b>	<b>372</b>	<b>691</b>	<b>1,063</b>	<b>439</b>	<b>750</b>	<b>1,189</b>
Impact of ceiling on assets			-			-
<b>Obligations for which provisions have been recorded on the balance sheet</b>	<b>372</b>	<b>691</b>	<b>1,063</b>	<b>439</b>	<b>750</b>	<b>1,189</b>

In addition, the total amount of contributions/benefits to be paid out in 2021 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 2020 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)	2019	2020
Discount rate	1.2%	0.8%
Expected return on plan assets	1.2%	0.8%
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	
	2019	2020
(in € millions)	Increase (decrease)	Increase (decrease)
50 bps increase	(47)	(52)
50 bps decrease	54	57

### Changes in carrying amount of provisions

	2019				2020			
	Vested rights	Plan assets	Impact of ceiling on assets	Obligations provisioned	Vested rights	Plan assets	Impact of ceiling on assets	Obligations provisioned
(in € millions)								
As of January 1	1,391	(548)	–	843	1,597	(534)	–	1,063
Service cost	37	–		37	43	–		43
Effect of discounting	39	–		39	30	–		30
Expected return on plan assets	–	(12)		(12)	–	(7)		(7)
Other	(56)	30		(26)	(17)	14		(2)
Expense for the year	20	17		38	56	7		64
Payments made to retirees	(53)	32		(22)	(56)	31		(26)
Contributions to plan assets	–	(12)		(12)	–	(18)		(18)
Changes in demographic assumptions	9	–		9	(10)	–		(10)
Changes in economic assumptions	219			219	138	–		138
Experience effects	(5)	(19)		(23)	16	(23)		(8)
Actuarial gains and losses	224	(19)	–	205	144	(23)	–	121
Translation adjustments	13	(5)		8	(34)	11		(22)
Other	2	–		2	7	–		7
As of December 31	1,597	(534)	–	1,063	1,714	(525)	–	1,189

The increase in the provision between December 31, 2019 and December 31, 2020 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)	2019	2020
<b>Fair value of plan assets</b>	<b>(146)</b>	<b>(134)</b>
<b>Main class of plan assets</b>		
Debt securities <sup>(a) (b)</sup>	90%	90%
Stock equity <sup>(b)</sup>	4%	4%
Real estate and other asset classes <sup>(b)</sup>	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 according to their function under various headings in the consolidated income statement.

## 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)	2019	2020
<b>As of January 1</b>	<b>2,151,944</b>	<b>2,151,501</b>
<i>Maximum number <sup>(a)</sup></i>	2,212,646	2,236,479
Shares granted during the year	551,159	714,710
<i>Maximum number <sup>(a)</sup></i>	578,923	750,484
Shares that lapsed or were canceled during the year <sup>(b)</sup>	(103,989)	(514,198)
Shares delivered during the year	(447,613)	(407,864)
<b>As of December 31</b>	<b>2,151,501</b>	<b>1,944,149</b>
<i>Maximum number <sup>(a)</sup></i>	2,236,479	2,006,027

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

(b) For the GPS granted in 2018, the Board of Directors must examine the level of achievement of the performance condition relating to sales growth in the second quarter of 2021. For the purposes of the 2020 consolidated financial statements, Danone has included, in the number of GPS that have lapsed during the year, those GPS likely to lapse due to the non-achievement of this performance condition, on the basis of information known as of the approval date by the Board of Directors (even if such shares' cancellation has not yet been acknowledged by the Board).

### 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 as of the grant date

	Year ended December 31	
<i>(in € per share, except for number of shares)</i>	<b>2019</b>	<b>2020</b>
Number of shares granted	551,159	714,710
Fair value of shares granted <sup>(a)</sup>	66.7	53.2
Average DANONE share price	72.5	59.9

(a) Fair value as of the grant date.

## Expenses related to GPS including taxes

	Year ended December 31	
<i>(in € millions)</i>	<b>2019</b>	<b>2020</b>
Group performance shares	(28)	(16)
<b>Total expense</b>	<b>(28)</b>	<b>(16)</b>

## 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 2020, these various capital increases reserved for employees accounted for a total amount of €29,525,315.82.

## Note 9. Income tax

### Note 9.1. Income tax expense

#### Income before tax and tax expense

	Year ended December 31	
<i>(in € millions, except tax rate in percentage)</i>	<b>2019</b>	<b>2020</b>
<b>Income before tax</b>	<b>2,867</b>	<b>2,488</b>
Current tax (expense) income	(753)	(799)
Deferred tax (expense) income	(40)	37
<b>Current and deferred tax (expense) income</b>	<b>(793)</b>	<b>(762)</b>
Effective tax rate	27.7%	30.6%
Amount (paid) received during the year	(774)	(753)

### 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 2020, the Group effective tax rate was 30.6%, higher than in 2019. The increase in the rate in 2020 corresponded mainly to the adverse effects in 2020 of the change in the rate in the Netherlands on the measurement of the long-term deferred tax balances. The 2019 rate included the favorable impact of the sale of Earthbound Farm (EDP, United States).

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 32.02% country tax rate in France

(in percentage)	Notes	Year ended December 31	
		2019	2020
Country tax rate in France		34.4%	32.0%
Differences between French and foreign tax rates <sup>(a)</sup>		(11.9)%	(10.8)%
Tax on dividends and royalties		2.0%	2.7%
Permanent differences		2.9%	1.6%
Tax loss carryforwards <sup>(b)</sup>	9.3	0.6%	1.8%
Tax rate adjustments and unallocated taxes <sup>(c)</sup>		3.2%	4.5%
Impact of capital gains and losses on disposal and asset impairment <sup>(d)</sup>	7.1, 10.3	(2.6)%	(0.5)%
Other differences		(1.1)%	(0.7)%
<b>Effective tax rate</b>		<b>27.7%</b>	<b>30.6%</b>

(a) Various countries, none of which generates a significant difference with the country tax rate in France.

(b) In 2020 and 2019, this comprised the impacts of the non-recognition and impairment of the deferred tax assets in certain Latin American countries.

(c) In 2020, this corresponded mainly to the adverse 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 (EDP, United States).

## Note 9.2. Deferred taxes

### Accounting principles

Deferred taxes are recognized for 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 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	2019	2020
<b>Breakdown by type of deferred tax</b>			
Property, plant and equipment and intangible assets		(1,710)	(1,629)
Tax loss carryforwards	9.3	306	302
Provisions for retirement obligations and other long-term benefits		257	281
Employee profit-sharing provisions		13	17
Restructuring provisions		10	4
Other		360	336
<b>Net deferred taxes</b>		<b>(765)</b>	<b>(689)</b>
Deferred tax assets		790	785
Deferred tax liabilities		(1,556)	(1,474)
<b>Net deferred taxes</b>		<b>(766)</b>	<b>(689)</b>

## Changes during the period

<i>(in € millions)</i>	Notes	2019	2020
<b>As of January 1</b>		<b>(777)</b>	<b>(766)</b>
Changes recognized in Other comprehensive income		70	(31)
Changes recognized in profit or loss		(40)	37
Changes in consolidation scope	4.2, 5.3	1	(10)
Other		(21)	81
<b>As of December 31</b>		<b>(766)</b>	<b>(689)</b>

## Note 9.3. Tax loss carryforwards

### Accounting principles

Deferred tax assets relating to tax loss carryforwards and temporary differences are recognized 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

<i>(in € millions)</i>	As of December 31	
	2019	2020
<b>Tax losses – recognized portion</b>		
Recognized tax loss carryforwards <sup>(a) (b)</sup>	1,167	1,157
Tax savings <sup>(c)</sup>	306	302
<b>Tax losses – unrecognized portion</b>		
Tax loss carryforwards and tax credits not yet used <sup>(a)</sup>	550	563
Potential tax savings	148	154

(a) Basis amount.

(b) In 2020, as 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, 2020 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 above);
- 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

		2019					2020		
(in € millions)	Notes	Goodwill	Brands <sup>(a)</sup>	Other intangible assets	Total	Goodwill	Brands <sup>(a)</sup>	Other intangible assets	Total
<b>Carrying amount</b>									
<b>As of January 1</b>		17,711	6,359	376	24,445	18,125	6,329	348	24,803
Changes in consolidation scope	4.2	50	(25)	(3)	22	66	–	48	114
Capital expenditure		10	4	62	75	–	–	80	80
Disposals		–	–	(1)	(1)	–	–	(2)	(2)
Translation adjustments	1.3	352	118	1	472	(1,273)	(379)	(21)	(1,673)
Impairment <sup>(b)</sup>	7.1, 10.3	(3)	(140)	(18)	(161)	(32)	(288)	(43)	(363)
Amortization charges		–	(3)	(98)	(101)	–	(2)	(94)	(97)
Other		5	16	29	51	130	9	36	175
<b>As of December 31</b>		18,125	6,329	348	24,803	17,016	5,669	351	23,037
<i>Of which gross amount</i>			6,492	1,261			6,123	1,415	
<i>Of which amortization</i>			(23)	(895)			(25)	(1,003)	

(a) Includes brands with indefinite useful lives and the other brands (€75 million as of December 31, 2020).

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

## Note 10.3. Impairment review of goodwill and brands with indefinite useful lives

### 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, 2020

#### Combination of the Early Life Nutrition Asia, Early Life Nutrition Rest of the World and Advanced Medical Nutrition CGUs

Following the integration of the early life nutrition and advanced medical nutrition activities, which was finalized in 2020, the Specialized Nutrition Reporting Entity was reorganized with management of the Early Life Nutrition Asia, Early Life Nutrition Rest of the World and Advanced Medical Nutrition CGUs now carried out on a centralized and global basis. Consequently, Danone combined these CGUs within a single Global Specialized Nutrition CGU, the Group having previously ensured that no impairment provision should have been recognized in respect of the CGUs before they were combined.

#### Assumptions used

In its business plans, the Group has projected the effects of the Covid-19 pandemic crisis on its various businesses over the entire duration of the plans to reflect the uncertainty as to its magnitude and duration (see below).

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

As of December 31

(in € millions)	Carrying amount of goodwill and brands with indefinite useful lives		Long-term growth rate <sup>(g)</sup>		Discount rate <sup>(g)</sup>	
	2019	2020	2019	2020	2019	2020
<b>EDP</b>						
Noram	8,634	7,805	1 to 2.5%	1 to 2.5%	6.5%	6.6%
Centrale Danone	229	189	2.0%	2.0%	8.0%	8.8%
Danone CIS <sup>(a)</sup>	314	240	3.0%	3.0%	7 to 13%	7 to 13%
Europe	2,612	2,593	0 to 2.5%	0 to 2.5%	7 to 10%	7 to 9%
Other CGUs <sup>(b)</sup>	292	238	0 to 3%	0 to 3%	7 to 19%	7 to 19%
<b>Total EDP</b>	<b>12,081</b>	<b>11,064</b>				
• Of which goodwill	8,811	8,129				
• Of which brands with indefinite useful lives <sup>(c)</sup>	3,269	2,935				
<b>Waters</b>						
Danone Waters France	428	428	1%	1%	6.5%	6.6%
Other CGUs <sup>(d)</sup>	277	288	0 to 3%	0 to 3%	7 to 19%	7 to 24%
<b>Total Waters</b>	<b>704</b>	<b>716</b>				
• Of which goodwill	518	536				
• Of which brands with indefinite useful lives <sup>(e)</sup>	186	180				
<b>Specialized Nutrition</b>						
Global Specialized Nutrition	11,388	10,664	2.5%	2.5%	7 to 9%	6.8%
Happy Family	181	166	2.5%	2.5%	6.6%	6.8%
<b>Total Specialized Nutrition</b>	<b>11,569</b>	<b>10,830</b>				
• Of which goodwill	8,796	8,351				
• Of which brands with indefinite useful lives <sup>(f)</sup>	2,772	2,478				
<b>Total</b>	<b>24,354</b>	<b>22,610</b>				
• Of which goodwill	18,125	17,016				
• Of which brands with indefinite useful lives	6,227	5,594				

(a) Consists mainly of Russia and Ukraine.

(b) More than 10 CGUs.

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

(d) Consists mainly of the Waters Asia CGU and other CGUs, none of which exceeded €150 million as of December 31, 2020 or December 31, 2019.

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

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

(g) Rates applied to goodwill.

## Goodwill of the CGUs in the Waters Reporting Entity

In 2020, the pandemic had a major impact on the Waters Reporting Entity's activities, due to their significant exposure to away-from-home consumption (see Note 3.1 of the Notes to the consolidated financial statements). However, their indefinite-life intangible assets accounted for less than 4% of total consolidated intangible assets and did not result from any recent transactions. Consequently, their recoverable amount significantly exceeds their carrying amount, including after taking into account assumptions of a major and prolonged downturn in activity due to the health crisis. This Reporting Entity's recoverable amounts have therefore been measured on the basis of scenarios in which a return to pre-Covid activity levels only happens in the final year.

These assumptions have resulted in a significant reduction in the difference between the carrying amounts and the recoverable amounts thus estimated for the CGUs in the Waters Reporting Entity without an impairment provision being required. However, for the CGUs for which these differences were lower than the value of their invested capital, Danone then carried out additional stress tests. Likewise, these even more unfavorable scenarios did not indicate any impairment.

## Goodwill of the Global Specialized Nutrition CGU and the EDP Noram CGU

As of December 31, 2020, the recoverable amount exceeded the carrying amount by the following amounts:

(in € billions)

Global Specialized Nutrition	22.5
EDP Noram	3.8

## Sensitivity analysis for the key value in use assumptions

(in € billions, except percentage)	Impact on recoverable amount	Year ended December 31
		Annual decrease to make recoverable amount equal carrying amount
<b>Sales – 50bps decrease <sup>(a)</sup></b>		
Global Specialized Nutrition	(1.9)	7.8%
EDP Noram	(0.6)	3.7%
<b>Recurring operating margin – 100bps decrease <sup>(b)</sup></b>		
Global Specialized Nutrition	(1.9)	11.5%
EDP Noram	(0.9)	4.3%
<b>Long-term growth rate – 50bps decrease</b>		
Global Specialized Nutrition	(2.5)	
EDP Noram	(0.9)	
<b>Discount rate – 50bps increase</b>		
Global Specialized Nutrition	(3.6)	
EDP Noram	(1.2)	

(a) Decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2021 projections.

(b) Decrease applied, each year, to the assumed recurring operating margin, including the final year, on the basis of the 2021 projections.

## Goodwill of the other CGUs in the Specialized Nutrition and EDP Reporting Entities

As of December 31, 2020, (i) the CGUs in the EDP Reporting Entity other than EDP Noram and (ii) the Happy Family CGU in the Specialized Nutrition Reporting Entity represented in total 17% of the carrying amount of the Group's goodwill and comprised more than 20 CGUs located in diverse geographical areas and in different countries. Following the goodwill impairment test of these CGUs, the Group recognized an impairment provision in respect of two CGUs in the EDP Reporting Entity totaling €32 million.

As of December 31, 2019, following the goodwill impairment test of these CGUs, the Group did not recognize any impairment provision.

## Brands with indefinite useful lives

The Group's main brands are *Nutricia*, *International Delight*, *Silk* and *Alpro*. As of December 31, 2020, 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, 2020.

## Impairment review of the main brands with indefinite useful lives

As of December 31, 2020, 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 2021 projections);
- 50bps decrease in the royalty rate;
- 50bps decrease in the long-term growth rate;
- 50bps increase in the discount rate.

#### Impairment review of the other brands with indefinite useful lives

As of December 31, 2020, the tests carried out on brands with indefinite useful lives other than *Nutricia*, *International Delight*, *Silk* and *Alpro* required partial impairment (totaling €288 million) of four brands in the EDP Reporting Entity and one brand in the Specialized Nutrition Reporting entity, in light of the new assumptions made in their strategic plan. In addition, Danone assessed the sensitivity of the impairment amount to changes in the key assumptions in respect of the main brands concerned. Taken individually, none of the following assumptions would require additional impairment totaling more than €25 million in respect of these brands:

- 50bps decrease in sales (decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2021 projections);
- 50bps decrease in the royalty rate;
- 50bps decrease in the long-term growth rate;
- 50bps increase in the discount rate.

As of December 31, 2019, following the impairment tests 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.

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

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### 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.

They may be hedged by a derivative instrument as follows:

- fair value hedging: 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;
- cash flow hedging: 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: highly liquid instruments with short maturities that are easily convertible into a known amount of cash;
- Other short-term investments

Other short-term investments are measured at their fair value, changes in their fair values being recognized under the heading Interest income on cash equivalents and short-term investments 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 instruments that are used to hedge long-term investments (borrowings or other instruments) 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 relating 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 December 31, 2019 <sup>(a)</sup>	Bonds issued	Bonds repaid	Net flows from other financing arrangements	Impact of accrued interest	Impact of changes in ex- change rates and other non- cash impacts <sup>(c)</sup>	Non- current portion be- coming current	Change in consolidati- on scope	As of December 31, 2020
<b>Financing managed at Company level</b>									
Bonds – non-current portion	12,087	1,600	-			(281)	(1,914)	-	11,493
Bonds – current portion	2,050	-	(2,050)			(68)	1,914	-	1,846
Commercial paper <sup>(a)</sup>	1,502			(7)		(3)	-	-	1,492
<b>Total</b>	<b>15,639</b>	<b>1,600</b>	<b>(2,050)</b>	<b>(7)</b>	<b>-</b>	<b>(351)</b>	<b>-</b>	<b>-</b>	<b>14,831</b>
<b>Lease debt</b>									
Non-current portion	751			(53)		232	(201)	14	744
Current portion	215			(217)		22	201	1	222
<b>Total</b>	<b>967</b>	<b>-</b>	<b>-</b>	<b>(270)</b>	<b>-</b>	<b>254</b>	<b>-</b>	<b>15</b>	<b>966</b>
<b>Other financing arrangements <sup>(b)</sup></b>									
Non-current portion	37			28		-	(30)	1	36
Current portion	229			(56)	12	(19)	34	1	202
<b>Total</b>	<b>266</b>	<b>-</b>	<b>-</b>	<b>(28)</b>	<b>12</b>	<b>(19)</b>	<b>4</b>	<b>2</b>	<b>237</b>
<b>Total</b>	<b>16,871</b>	<b>1,600</b>	<b>(2,050)</b>	<b>(305)</b>	<b>12</b>	<b>(116)</b>	<b>4</b>	<b>17</b>	<b>16,034</b>

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

(b) Subsidiaries' bank financings.

(c) Concerning the lease debt, corresponds mainly to new financing in the period.

#### 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				
	2019		2020	
<i>(in € millions)</i>	Committed amount	Amount used	Committed amount	Amount used
<b>Bank financing <sup>(a)</sup></b>				
Syndicated credit facility <sup>(b)</sup>	2,000	–	2,000	–
Committed credit facilities <sup>(c)</sup>	1,045	–	1,008	–
<b>Capital markets financing <sup>(a)</sup></b>				
EMTN financing <sup>(d)</sup>	NA	9,630	NA	9,058
Hybrid financing	NA	1,250	NA	1,250
Bonds on the US market <sup>(d)</sup>	NA	4,507	NA	4,281
Short-term debt instruments	NA	1,502	NA	1,492

(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 2021 to 2025.

(d) Bonds issued by the Company are disclosed on the Danone website.

### Main financing transactions in 2020

Year ended December 31			
		2020	
<i>(in millions of currency)</i>	Currency	Nominal	Maturity
<b>New financing</b>			
Eurobonds	EUR	800	2027
Eurobonds	EUR	800	2029
<b>Repayments</b>			
Eurobonds	EUR	550	2020
Eurobonds	EUR	500	2020
Eurobonds	EUR	1,000	2020

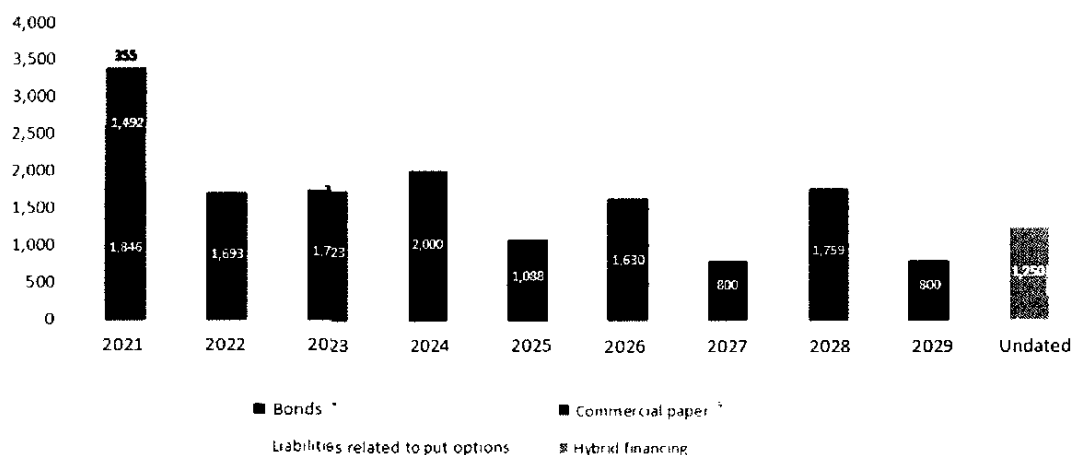
### Main financing transactions in 2019

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

## 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

Year ended December 31 (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 2021	Cash flows 2022	Cash flows 2023	Cash flows 2024	Cash flows 2025 and after
Interest on debt <sup>(a)</sup>	(212)	(166)	(141)	(99)	(190)
Cash flows on derivatives <sup>(a) (b) (c)</sup>	66	60	52	33	88

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2020.

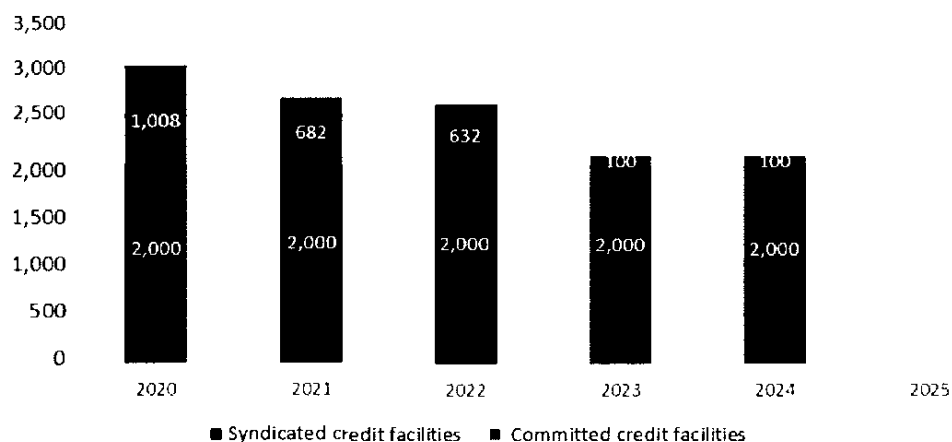
(b) Net contractual flows, including premiums payable, and net flows payable or receivable relating to the exercise of options in the money at year-end.

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

## Sources of financing available at any time

The financings available at any time are carried by the Company and are composed of available committed credit facilities and a syndicated credit facility.

As of December 31 (in € millions)



## Company rating

As of December 31				
	2019		2020	
	Moody's	Standard and Poor's	Moody's	Standard and Poor's
<b>Short-term rating <sup>(a)</sup></b>				
Rating	-	A-2	-	A-2
<b>Long-term rating <sup>(b)</sup></b>				
Rating	Baa1	BBB+	Baa1	BBB+
Outlook	Stable	Stable	Stable	Stable

(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.

## Note 11.5. Short-term investments

### Carrying amount

As of December 31		
(in € millions)	2019	2020
Money market funds	2,749	2,739
Bank deposits, negotiable debt instruments and other short-term investments	882	942
<b>Total</b>	<b>3,631</b>	<b>3,680</b>

### 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 December 31		
(in € millions)	2019	2020
Non-current financial debt <sup>(a)</sup>	12,906	12,343
Current financial debt <sup>(a)</sup>	4,474	4,157
Short-term investments	(3,631)	(3,680)
Cash and cash equivalents	(644)	(593)
Derivatives - assets - Non-current <sup>(b)</sup>	(271)	(259)
Derivatives - assets - Current <sup>(b)</sup>	(16)	(27)
<b>Net debt</b>	<b>12,819</b>	<b>11,941</b>

(a) Consists of €966 million of lease debt following the application of IFRS16 *Leases*.

(b) Used solely to manage net debt.

### Changes in net debt in 2020

Danone's net debt totaled €11,941 million as of December 31, 2020, €878 million lower than as of December 31, 2019. It included €363 million of put options granted to non-controlling interests, €119 million lower than as of December 31, 2019.

### 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.

## 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 2020

During 2020, cost of net debt decreased from €(220) million in 2019 to €(207) million in 2020, 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 monitoring and management

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, 2020 and December 31, 2019, 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 2020 as in 2019, 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.

#### Risk monitoring and management

The management policy regarding financial currency risk is detailed in Note 13.3 of 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)

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### 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 or Other financial 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 2020 as in 2019, the Group did not carry out any material transactions.

### Carrying amount

	As of December 31	
(in € millions)	2019	2020
Investments in other non-consolidated companies	131	225
Bonds and money-market funds <sup>(a)</sup>	111	112
FPS Danone Communities	13	13
Other <sup>(b)</sup>	213	207
Other financial assets	337	332
Long-term loans	14	12
<b>Other financial assets</b>	<b>482</b>	<b>569</b>

(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 ineffective portion of hedges, in particular hedges of currency risk related to operations and hedges in respect of the acquisition/disposal of companies and 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;
- changes in the fair value of Investments in other non-consolidated companies classified as at fair value through profit or loss;
- gains or losses on the net monetary position resulting from the application of IAS 29.

## 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 the Market Risk Management Committee for each year-end closing.

## 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.
- 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.
- 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 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, 2020, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2021, the currencies partially hedged being mainly the Turkish lira, the Russian ruble and the Brazilian real.

#### 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 mainly negotiates forward purchase contracts with suppliers which are based on a financial markets index or on a proxy, since instruments that would fully hedge the price volatility of Danone's main raw materials do not always exist in the financial markets.

The impact of a price change in the two main commodity categories on the cost of the Group's annual purchases is presented in Note 6.7 of the Notes to the consolidated financial statements.

### Portfolio of derivatives

#### Notional and fair value amounts

(in € millions)	As of December 31					
	2019			2020		
	Notional	Fair value	Of which recognized in equity	Notional	Fair value	Of which recognized in equity
<b>Used to hedge operational currency risk</b>	<b>(2,506)</b>	<b>(58)</b>	<b>(58)</b>	<b>(1,930)</b>	<b>(4)</b>	<b>(3)</b>
Cash flow hedge – currency options <sup>(a)</sup>	(314)	(6)	(6)	(318)	(2)	(2)
Cash flow hedge – forward currency contracts <sup>(a)</sup>	(2,191)	(52)	(52)	(1,612)	(2)	(2)
No hedge accounting applied	(1)	(1)	–	–	–	–
<b>Used to manage raw materials</b>	<b>207</b>	<b>(1)</b>	<b>(1)</b>	<b>132</b>	<b>9</b>	<b>9</b>
<b>Used to manage net debt</b>	<b>6,641</b>	<b>241</b>	<b>81</b>	<b>6,535</b>	<b>166</b>	<b>62</b>
Fair value hedge	2,576	148	–	2,517	192	–
Cash flow hedge	3,435	98	93	3,622	(26)	60
Net investment hedge	183	(13)	(13)	217	1	1
No hedge accounting applied	446	8	–	179	(1)	–
<b>Total</b>	<b>4,342</b>	<b>181</b>	<b>22</b>	<b>4,737</b>	<b>172</b>	<b>68</b>

(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						
			2019			
				2020		
(in € millions)	Forward currency contracts, net <sup>(a)</sup>	Currency options, net <sup>(b)</sup>	Total	Forward currency contracts, net <sup>(a)</sup>	Currency options, net <sup>(b)</sup>	Total
<b>(Sales)/Purchases of currencies</b>						
GBP <sup>(c)</sup>	(575)	(238)	(813)	(446)	(177)	(623)
CNY <sup>(c)</sup>	(384)	–	(384)	(251)	–	(251)
AUD <sup>(c)</sup>	(273)	(17)	(291)	(183)	(26)	(209)
MXN <sup>(c)</sup>	(188)	–	(188)	(137)	–	(137)
USD <sup>(c)</sup>	20	(5)	14	(78)	(20)	(98)
RUB <sup>(c)</sup>	(118)	–	(118)	(94)	–	(94)
BRL <sup>(c)</sup>	(90)	–	(90)	(83)	–	(83)
HKD <sup>(c)</sup>	(143)	(36)	(179)	24	(82)	(58)
Other <sup>(c)</sup>	(441)	(17)	(457)	(364)	(13)	(377)
<b>Total</b>	<b>(2,192)</b>	<b>(314)</b>	<b>(2,506)</b>	<b>(1,612)</b>	<b>(318)</b>	<b>(1,930)</b>

(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 instruments hedging the operational foreign exchange risk, caused by a change in exchange rates, could impact the Group's net income:

- 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				
		2019		
			2020	
(in € millions)	Equity <sup>(c)</sup>	Gain (loss)	Equity <sup>(c)</sup>	Gain (loss)
<b>10% increase in EUR <sup>(a)</sup></b>				
GBP <sup>(b)</sup>	61	–	52	–
CNY <sup>(b)</sup>	35	–	26	–
AUD <sup>(b)</sup>	26	–	18	–
MXN <sup>(b)</sup>	(12)	–	3	–
RUB <sup>(b)</sup>	9	–	9	–
USD <sup>(b)</sup>	12	–	11	–
BRL <sup>(b)</sup>	3	–	2	–
HKD <sup>(b)</sup>	36	–	28	–
<b>10% decrease in EUR <sup>(a)</sup></b>				
GBP <sup>(b)</sup>	(65)	–	(54)	–
CNY <sup>(b)</sup>	(43)	–	(32)	–
AUD <sup>(b)</sup>	(30)	–	(22)	–
MXN <sup>(b)</sup>	(3)	–	(3)	–
RUB <sup>(b)</sup>	(11)	–	(10)	–
USD <sup>(b)</sup>	(14)	–	(11)	–
BRL <sup>(b)</sup>	(3)	–	(3)	–
HKD <sup>(b)</sup>	(41)	–	(29)	–

(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 2021.

#### **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 cash flow hedges: in 2020, as in 2019, the amounts are not material;
- the effective portion deferred in equity the previous year of instruments qualified as cash flow hedges and recycled to income during the year: in 2020 as in 2019, 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:

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

In 2020 as in 2019, a rate change applied to the entire 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 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 2020 as in 2019, the corresponding amounts are not material.

#### **Management of raw material price volatility risk**

As of December 31, 2020, the commodity portfolio consisted of diesel, plastic, dairy, sugar and natural gas derivatives, in accordance with the Group's management policy, and all of the hedging instruments were qualified as future cash flow hedges.

## **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 manage 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 liquid and diversified. The other short-term investments are made in accordance with the Group's banking policy as described above.

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**

**Exposure related to derivative instruments**

	As of December 31	
(as a percentage of the total fair value as of December 31) <sup>(a)</sup>	2019	2020
<b>Counterparty rating (Standard &amp; Poor's)</b>		
AAA, AA and A	86%	98%
BBB, BB and B	13%	2%
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 fair value 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, 2020 and December 31, 2019, 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	2019	2020
<b>Risk on Company shares</b>			
Treasury shares	14.2	1,610	1,595
<b>Risk on other shares</b>			
Investments in associates	5	2,055	915
Assets held for sale	5.6	-	851
Investments in other non-consolidated companies	12.2	131	225

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

	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	Carrying amount	Fair value	Fair value level <sup>(c)</sup>
(in € millions)						
<b>As of December 31, 2020</b>						
<b>Financial assets</b>						
Investments in other non-consolidated companies	25	200	-	225	225	1-3
Long-term loans and long-term financial assets	125	-	219	344	344	1-3
Derivatives - assets <sup>(a)</sup>	221	65	-	286	286	2
Trade receivables <sup>(b)</sup>	2,608	-	-	2,608	2,608	-
Other current assets <sup>(b)</sup>	939	61	-	1,000	1,000	-
Short-term loans	-	-	40	40	40	-
Money market funds	2,739	-	-	2,739	2,739	1
Other short-term investments	-	-	942	942	942	2
Cash and cash equivalents	593	-	-	593	593	1
<b>Carrying amount of financial assets</b>	<b>7,249</b>	<b>327</b>	<b>1,201</b>	<b>8,777</b>	<b>8,777</b>	
<b>Financial liabilities</b>						
Financing	4,438	-	11,596	16,034	14,024	2
Derivatives - liabilities <sup>(a)</sup>	100	3	-	103	103	2
Trade payables <sup>(b)</sup>	-	-	3,467	3,467	3,467	-
Other current liabilities <sup>(b)</sup>	-	67	2,647	2,714	2,714	-
<b>Carrying amount of financial liabilities by category</b>	<b>4,538</b>	<b>70</b>	<b>17,710</b>	<b>22,318</b>	<b>20,308</b>	

(a) Derivative instruments used to manage net debt.

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

(c) Valuation hierarchy used to assess fair value.

## Valuation levels 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 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 are measured at effective cost.

### Note 14.2. Transactions and changes involving DANONE shares

#### Changes in terms of transactions and use according to the Company's objective

(in number of shares)	As of December 31, 2019	Changes during the period			As of December 31, 2020
		Buybacks	Sales/ Transfers	Delivery of shares	
Acquisition transactions	30,769,360	-	-	-	30,769,360
Employee shareholding plans	700,174	-	-	(415,849)	284,325
Cancellation of shares	-	-	-	-	-
Shares held by the Company	31,469,534	-	-	(415,849)	31,053,685
Shares held by Danone Spain	5,780,005	-	-	-	5,780,005
<b>Total shares held by the Group</b>	<b>37,249,539</b>	<b>-</b>	<b>-</b>	<b>(415,849)</b>	<b>36,833,690</b>

### Note 14.3 Outstanding DANONE shares

		Year ended December 31					
		2019			2020		
(in number of shares)	Notes	Share capital	Treasury	Outstanding	Share capital	Treasury	Outstanding
<b>As of January 1</b>		685,055,200	(37,781,990)	647,273,210	686,120,806	(37,249,539)	648,871,267
Capital increase	8.5	1,065,606	-	1,065,606	508,794	-	508,794
Changes in treasury shares	14.2	-	532,451	532,451	-	415,849	415,849
<b>As of December 31</b>		<b>686,120,806</b>	<b>(37,249,539)</b>	<b>648,871,267</b>	<b>686,629,600</b>	<b>(36,833,690)</b>	<b>649,795,910</b>

### 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

		Year ended December 31	
(in € per share, except for number of shares)	Notes	2019	2020
<b>Net income - Group share</b>		1,929	1,956
Coupon relating to hybrid financing, net of tax		(14)	(15)
<b>Adjusted net income - Group share</b>		1,915	1,941
<b>Number of outstanding shares</b>			
<b>As of January 1</b>		647,273,210	648,871,267
Effects of changes during the year	14.3	1,598,057	924,643
<b>As of December 31</b>		648,871,267	649,795,910
<b>Average number of outstanding shares</b>			
• Before dilution		648,250,543	649,331,592
<b>Dilutive impact</b>			
Group performance shares		855,496	637,251
• After dilution		649,106,039	649,968,844
<b>Net income – Group share, per share</b>			
• Before dilution		2.95	2.99
• After dilution		2.95	2.99

## Note 14.5. Dividend

### Distributable reserves of the parent company Danone

For each subsidiary or associated company, their legally distributable reserves 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 2020 dividend

The Shareholders' Meeting on June 26, 2020 in Paris approved the dividend proposed relating to the 2019 fiscal year of €2.10 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 December 31	
(in € millions)	2019	2020
Other non-current provisions	557	513
Other non-current liabilities <sup>(a)</sup>	621	591
<b>Total <sup>(b)</sup></b>	<b>1,178</b>	<b>1,104</b>

(a) These relate to uncertain income tax positions.

(b) The current portion totaled €71 million as of December 31, 2020 (€65 million as of December 31, 2019).

## Note 15.3. Changes in Other provisions

(in € millions)	As of January 1, 2020	Changes during the period						As of December 31, 2020
		Changes in consolidation scope	Increase	Reversal of provisions used	Reversal of provisions not used	Translations adjustments	Other	
Tax and territorial risks <sup>(a)</sup>	113	–	19	(2)	(11)	(30)	2	92
Employee-related and commercial disputes and other provisions	380	–	101	(40)	(68)	(20)	1	354
Restructuring provisions	64	–	58	(50)	(5)	–	–	67
<b>Total</b>	<b>557</b>	<b>–</b>	<b>178</b>	<b>(92)</b>	<b>(84)</b>	<b>(51)</b>	<b>4</b>	<b>513</b>

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

Changes in Other provisions in 2020 were as follows:

- increases resulted 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, 2020, 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 the Danone's knowledge, no governmental, court or arbitration proceedings are currently ongoing that are likely to have, or have had in the past 12 months, a material impact on Danone's financial position or profitability.

# Note 16. Related party transactions

## Note 16.1. Accounting principles

The main related parties are the associated companies, the members of the Executive Committee and the 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 2019, the amounts pertaining to 2020 are not material.

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

### Compensation paid

(in € millions)	Year ended December 31	
	2019	2020
Compensation paid to corporate officers and members of the Executive Committee <sup>(a)</sup>	10.8	14.7
Attendance fees paid to Directors	0.8	0.9
<b>Total</b>	<b>11.6</b>	<b>15.6</b>

Carrying amount of shares subject to performance conditions granted during the year <sup>(b)</sup> 6.8 6.6

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €8.1 million in 2020 (€5.7 million in 2019).

(b) 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, 2020, in accordance with IFRS, i.e. a total of €34 million for Executive Committee members. Indeed, as regards Mr. Emmanuel FABER, he does not benefit from this defined-benefit retirement plan since he waived it in 2019.

### Loans and guarantees

In 2020, as in 2019, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

## Note 17. Subsequent events

On February 19, 2021 Danone announced it has entered into an agreement to acquire 100% of the shares of Follow Your Heart, a pioneering leader in plant-based foods in the USA.

On February 28, 2021, Danone announced, it has reached an agreement with COFCO Dairy Investments Limited, to convert, as a first step to disposal, Danone's stake in China Mengniu Dairy Company Limited, currently held indirectly, into a direct holding.

To the Company's knowledge, no material events occurred after the approval date of the 2020 consolidated financial statements (approved by the Board of Directors on February 18, 2021).

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

(in € millions, except percentage)	PricewaterhouseCoopers				Ernst & Young Audit			
	2019		2020		2019		2020	
Statutory audit: certification of the individual and consolidated financial statements	4.6	68%	4.2	76%	5.2	77%	5.2	90%
Services other than the certification of the financial statements	2.2	32%	1.3	24%	1.6	23%	0.6	10%
<b>Total <sup>(a)</sup></b>	<b>6.7</b>	<b>100%</b>	<b>5.6</b>	<b>100%</b>	<b>6.8</b>	<b>100%</b>	<b>5.8</b>	<b>100%</b>

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

In 2020, 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 (€2.6 million in 2019), of which €1.1 million for PricewaterhouseCoopers Audit (€1.2 million in 2019) and €1.4 million for Ernst & Young Audit (€1.4 million in 2019). The fees for services other than the certification of the financial statements for the year ended December 31, 2020 totaled €0.6 million (€2.1 million in 2019), of which €0.4 million for PricewaterhouseCoopers Audit (€0.7 million in 2019) and €0.2 million for Ernst & Young Audit (€1.5 million in 2019) and included in particular fees for due diligence, and for the independent third party report on the extra-financial performance statement.

The fees of the Statutory auditors' networks for services other than the certification of the financial statements to certain foreign subsidiaries of Danone totaled €1.4 million (€1.6 million in 2019), of which €1.0 million for PricewaterhouseCoopers Audit (€1.5 million in 2019) and €0.3 million for Ernst & Young Audit (€0.2 million in 2019) 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

Companies included in the consolidated financial statements of Danone SA, exercising exemption options in respect of the year ended December 31, 2020, which shall be mentioned in the consolidated financial statements pursuant to local regulations

Country and exemption	Company (company number)
<b>Germany</b> 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, Alpro GmbH
<b>United Kingdom</b> 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)
<b>Ireland</b> 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 translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.*

*This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report and other documents provided to shareholders.*

*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' Meeting, we have audited the accompanying consolidated financial statements of Danone ("the Group") for the year ended 31 December 2020.

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 2020 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 those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

### Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (code de commerce) and the French Code of Ethics (*code de déontologie*) for statutory auditors, for the period from January 1st, 2020 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (*code de déontologie*) for statutory auditors.

## Justification of assessments – Key audit matters

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

It is in this complex and evolving context that, 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 of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

## Revenue recognition

Description of risk	How our audit addressed this risk
<p>As of December 31, 2020, the total net sales were recorded for an amount of €23,620 million in the consolidated financial statements.</p> <p>As indicated in Note 6.1 to the consolidated financial statements, your group's sales are stated net of trade discounts and rebates granted to customers (including costs relating to trade support and listing agreements or occasional promotional actions invoiced by retailers). Revenue recognition therefore involves estimates related to such agreements or actions.</p> <p>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 significance of trade discounts and rebates, and (iii) the complexity of valuating these amounts at the year end.</p>	<p>We assessed the compliance of the revenue recognition rules applied by the Group with international financial reporting standards (IFRS). Given the large number of sales transactions carried out by the Group's various entities, we gained an understanding of 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.</p> <p>We also performed substantive procedures to assess:</p> <ul style="list-style-type: none"> <li>the amounts to be refunded to customers being measured 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) analyzing for selected amounts, the assumptions used, where applicable, with regard to actions taken or specific situations and customary trade practices;</li> <li>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 as of closing date and (ii) analyzing the change in accruals and their ageing.</li> </ul>

## Goodwill, brands and investments in associates

Description of risk	How our audit addressed this risk
<p>As at 31 December 2020, goodwill amounted to 17,016 million euros, brands amounted to 5,669 million euros and investments in associates amounted to 915 million euros.</p> <p>In the course of 2020, the Group recognized a €320 million impairment charge on goodwill and brands.</p> <p>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.</p> <p>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 royalty relief methodology, as explained in Notes 5.1 and 10.1 of the Notes to the consolidated financial statements.</p> <p>The impairment tests are based on estimates and on management's judgment concerning (i) the definition of the cash generating units (CGUs) and the allocation of assets to these 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 royalties' rates as regards to brands.</p> <p>In 2020, as indicated in Note 10.3, management notably :</p> <ul style="list-style-type: none"> <li>performed the combination of the Early Life Nutrition Asia, Early Life Nutrition Rest of the World and Advanced Medical Nutrition CGUs into a single Global Specialized Nutrition CGU, following the integration of the early life nutrition and advanced medical nutrition activities, which was finalized in 2020;</li> <li>projected the effect of the Covid-19 pandemic crisis on its business plans over the entire durations of the plan to reflect the uncertainty as to its magnitude and duration.</li> </ul> <p>In addition, as indicated in Note 5.7 to the consolidated financial statements, the Group noted an indication of impairment on the Yashili's investments in associates as of December 31, 2020. The impairment test performed, based on estimated future cash flows of the business plan prepared by its management and covering the 2020 to 2025 and taking into account of the Covid-19 crisis on the 2020 fiscal year, did not result in an additional impairment charge.</p> <p>Taking into account the sensitivity of these estimates, especially in the context of uncertainty due to the Covid-19 pandemic, we therefore deemed the measurement of (i) goodwill, brands and (ii) the investments in associates to be a key audit matter.</p>	<p><i>Goodwill and brands</i></p> <p>We gained an understanding of 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.</p> <p>We examined the combination of the Early Life Nutrition Asia, Early Life Nutrition Rest of the World and Advanced Medical Nutrition CGUs into a single Global Specialized Nutrition CGU.</p> <p>For a sample of CGUs and brands, identified on the basis of quantitative and qualitative factors, notably intangible assets which have been impaired, we examined the methods and main assumptions, including the effects of covid-19 as assumed by management, used to determine recoverable value, including:</p> <ul style="list-style-type: none"> <li>forecasted 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;</li> <li>the long-term growth rates, the discount rates and the royalties' rates, with the support of financial valuation experts, as part of the audit team.</li> </ul> <p>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.</p> <p><i>Investments in associates</i></p> <p>We gained an understanding the approach adopted and the data used by the group (market valuation, recent performance and forecast results), including the effects of covid-19 as projected by management, to identify any indications of loss in value.</p> <p>For Yashili, we have performed 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 valuations. We have also examined the disclosures provided in the notes to the consolidated financial statements, with respect to the sensitivity analysis.</p>

## Tax assets and liabilities

Description of risk	How our audit addressed this risk
<p>Your group 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 involved.</p> <p>As indicated in Note 15 of the Notes to the consolidated financial statements, liabilities for tax risks, including territorial risks, amounted to €683 million as of December 31, 2020.</p> <p>As of 31 December 2020, the amount of 302 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. It is to be noted, as mentioned in the note 3.2 in the Notes to the consolidated financial statements, that the Group proceeded to a deferred tax assets review in the context of the pandemic crisis due to Covid-19.</p> <p>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 notably in the context of the pandemic crisis due to Covid-19 and (ii) the probable outflows of resources related to tax disputes.</p>	<p>We gained an understanding the procedures implemented within the Group to identify the main tax risks, as well as management's assessments of these risks.</p> <p>We also gained an understanding of the opinions of third parties, and analyzed past and current experience with the tax authorities in the jurisdictions concerned. Furthermore, we involved in the audit team, tax specialists in order to assess the assumptions used by management to determine the liabilities for tax risks.</p> <p>We examined the deferred tax positions for the most significant entities. Our work consisted primarily in examining (i) the awareness of the Covid-19 consequences in the business projections prepared by the management, (ii) the consistency with these 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 and on brands.</p>

## Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verification required by laws and regulations of the Group's information given in the management report of the Board of Directors.

We have no matters to report as to their fair presentation and their 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 relating to the Group presented in the management report, being specified that, in accordance with the provisions of Article L. 823-10 of the Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

## Report on Other Legal and Regulatory Requirements

### Format of the presentation of the consolidated financial statements intended to be included in the annual financial report

In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the consolidated financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No 2019/815 of 17 December 2018 to years beginning on or after January 1st, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, I of the French Monetary and Financial Code (code monétaire et financier).

### Appointment of the Statutory Auditors

We were appointed as statutory auditors of Danone by the Annual General Meeting held on May 21, 1992 for PricewaterhouseCoopers Audit and April 28, 2016 for ERNST & YOUNG Audit. PricewaterhouseCoopers Audit and ERNST & YOUNG Audit were in the 29th year and 5th year of total uninterrupted engagement, respectively.

Previously, ERNST & YOUNG Audit have been appointed as a statutory auditor from 2010 to 2015.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from 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 is expected 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 risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

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

## **Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements Objectives 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 (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

- As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore: 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 on these consolidated financial statements.

### **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 program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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 of the current period and which are therefore 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) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense and Neuilly-sur-Seine, March 3, 2021

### **The Statutory auditors**

**Ernst & Young Audit**

Gilles COHEN

**PricewaterhouseCoopers Audit**

François JAUMAIN