Danone

Consolidated financial statements and related notes

Year ended December 31, 2022

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Consolidated financial statements

Consolidated income statement and earnings per share

(in € millions, except earnings per share in €)	Notes	Year ended December 31 2021	2022
Sales	6.1, 6.2	**24,281**	**27,661**
Cost of goods sold		(12,760)	(14,922)
Selling expense		(5,516)	(6,294)
General and administrative expense		(2,327)	(2,637)
Research and Development expense		(338)	(339)
Other income (expense)	6.3	(3)	(92)
Recurring Operating Income		**3,337**	**3,377**
Other operating income (expense)	7.1	(1,080)	(1,234)
Operating income		**2,257**	**2,143**
Interest income on cash equivalents and short-term investments		156	155
Interest expense		(323)	(308)
Cost of net debt	11.7	(167)	(153)
Other financial income	12.3	31	51
Other financial expense	12.3	(126)	(208)
Income before tax		**1,995**	**1,832**
Income tax	9.1	(589)	(778)
Net income from fully consolidated companies		**1,406**	**1,054**
Share of profit of associates	5.5, 5.6	585	(32)
Net income		**1,992**	**1,023**
Net income – Group share		**1,924**	**959**
Net income – Non-controlling interests		67	64
Net income – Group share, per share	14.4	**2.94**	**1.48**
Net income – Group share, per share after dilution	14.4	**2.94**	**1.48**

Consolidated statement of comprehensive income

(in € millions)	Year ended December 31 2021	2022
Net income - Group share	**1,924**	**959**
Translation adjustments	1,031	368
Cash flow hedge derivatives		
Gross unrealized gains and losses	(14)	31
Tax effects	4	(8)
Other comprehensive income, net of tax	**–**	**–**
Items that may be subsequently recycled to profit or loss	**1,021**	**391**
Investments in other non-consolidated companies		
Gross unrealized gains and losses	8	(20)
Tax effects	(2)	5
Actuarial gains and losses on retirement commitments		
Gross gains and losses	139	347
Tax effects	(24)	(81)
Items not subsequently recyclable to profit or loss	**121**	**251**
Total comprehensive income – Group share	**3,067**	**1,601**
Total comprehensive income – Non-controlling interests	77	35
Total comprehensive income	**3,144**	**1,636**

Consolidated balance sheet

			As of December 31
(in € millions)	Notes	**2021**	**2022**
Assets			
Goodwill		17,871	17,938
Brands		5,805	5,843
Other intangible assets		377	458
Intangible assets	10.1 to 10.3	24,053	24,239
Property, plant and equipment	6.5	6,843	6,752
Investments in associates	5.1 to 5.7	771	576
Investments in other non-consolidated companies		290	341
Long-term loans and financial assets		398	468
Other financial assets	12.1, 12.2	688	808
Derivatives - assets [(a)]	13.2, 13.3	120	18
Deferred taxes	9.2	890	735
Non-current assets		**33,364**	**33,128**
Inventories	6.4	1,982	2,619
Trade receivables	6.4	2,862	3,272
Other current assets	6.4	1,006	1,315
Short-term loans		8	3
Derivatives - assets [(a)]	13.2, 13.3	91	60
Short-term investments	11.1, 11.5	5,197	3,631
Cash		659	1,051
Assets held for sale [(b)]	4.2, 5.6	251	202
Current assets		**12,056**	**12,153**
Total assets		**45,420**	**45,281**

(a) Derivative instruments used to manage net debt.

(b) As of December 31, 2022, concerns the Yashili (China, Fresh dairy products) and Aqua d'Or (Waters, Denmark) securities.

		As of December 31	
(in € millions)	Notes	**2021**	**2022**
Equity and liabilities			
Share capital		172	169
Additional paid-in capital		5,934	5,188
Retained earnings and others [(a)]	11.3	18,038	17,916
Translation adjustments		(3,835)	(3,398)
Accumulated other comprehensive income		(656)	(382)
Treasury shares	14.2	(2,380)	(1,569)
Equity – Group share		**17,273**	**17,923**
Non-controlling interests	4.6	102	69
Consolidated equity		**17,375**	**17,992**
Financing	11.1 to 11.4	12,442	10,806
Derivatives – liabilities [(b)]	13.2, 13.3	19	373
Liabilities related to put options granted to non-controlling interests	4.6	76	59
Non-current financial debt		12,537	11,238
Provisions for retirement obligations and other long-term benefits	1.6, 8.3	1,105	772
Deferred taxes	9.2	1,502	1,583
Other non-current provisions and liabilities	15.2, 15.3	1,823	1,565
Non-current liabilities		**16,967**	**15,160**
Financing	11.1 to 11.4	3,767	3,357
Derivatives – liabilities [(b)]	13.2, 13.3	2	8
Liabilities related to put options granted to non-controlling interests and earn-outs on acquisitions resulting in control	4.6	280	263
Current financial debt		4,048	3,628
Trade payables	6.4	3,998	4,899
Other current liabilities	6.4	3,018	3,591
Liabilities directly associated with assets held for sale [(c)]	4.2	13	11
Current liabilities		**11,078**	**12,130**
Total equity and liabilities		**45,420**	**45,281**

(a) “Others” corresponds to undated subordinated notes totaling €1.25 billion.
(b) Derivative instruments used to manage net debt.
(c) As of December 31, 2022, this related to Aqua d'Or (Waters, Denmark).

Consolidated statement of cash flows

(in € millions)	Notes	Year ended December 31 2021	2022
Net income		**1,992**	**1,023**
Share of profit of associates net of dividends received	5.5, 5.6	(564)	53
Depreciation, amortization and impairment of tangible and intangible assets	6.5, 10.4	1,265	1,863
Net change in provisions and non-current liabilities	15.2, 15.3	493	(241)
Change in deferred taxes	9.2	(73)	40
(Gains) losses on disposal of property, plant and equipment and financial investments		(31)	78
Expense related to Group performance shares and fidelity shares	8.4	12	25
Cost of net financial debt	11.7	166	154
Net interest paid		(166)	(152)
Net change in interest income (expense)		(1)	2
Other components with no cash impact		31	44
Cash flows provided by operating activities, before changes in net working capital		**3,123**	**2,886**
(Increase) decrease in inventories		(81)	(667)
(Increase) decrease in trade receivables		(231)	(424)
Increase (decrease) in trade payables		425	879
Change in other receivables and payables		239	289
Change in working capital requirements	6.4	351	77
Cash flows provided by (used in) operating activities		**3,474**	**2,964**
Capital expenditure [(a)]	6.5	(1,043)	(873)
Proceeds from the disposal of property, plant and equipment [(a)]	6.5	46	30
Net cash outflows on purchases of subsidiaries and financial investments [(b)]	4.2, 4.4	(300)	(100)
Net cash inflows on disposal of subsidiaries and financial investments [(b)]	4.2, 5.6	1,834	206
(Increase) decrease in long-term loans and other long-term financial assets		24	(12)
Cash flows provided by (used in) investment activities		**561**	**(749)**
Increase in share capital and additional paid-in capital		46	51
Purchase of treasury shares (net of disposals)	14.2	(801)	–
Undated subordinated notes issued during the period	11.4	498	–
Undated subordinated notes repurchased during the period	11.4	(500)	–
Interest expense and repurchase premium on undated subordinated notes	11.4	(41)	(18)
Dividends paid to Danone shareholders [(c)]	14.5	(1,261)	(1,238)
Buyout of non-controlling interests	*4.6*	*(22)*	(91)
Dividends paid to non-controlling interests		*(115)*	(80)
Contribution from non-controlling interests to capital increases		*1*	17
Transactions with non-controlling interests		(136)	(153)
Net cash flows on hedging derivatives [(d)]		2	4
Bonds issued during the period	11.3, 11.4	1,700	600
Bonds repaid during the period	11.3, 11.4	(1,919)	(1,682)
Net cash flows from other current and non-current financial debt	11.3	(124)	(1,032)
Net cash flows from short-term investments	11.5	(1,492)	1,535
Cash flows provided by (used in) financing activities		**(4,027)**	**(1,934)**
Effect of exchange rate and other changes [(e)]		58	112
Increase (decrease) in cash		**66**	**392**
Cash as of January 1		**593**	**659**
Cash as of December 31		**659**	**1,051**
Additional information			
Income tax payments during the year		(569)	(716)

(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
(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	As of January 1, 2022	Changes during the period: Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to expense relating to performance shares and fidelity shares [(b)]	Dividends paid to Danone shareholders	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	As of December 31, 2022
Share capital		**172**		0	(3)						**169**
Additional paid-in capital		**5,934**		51	(797)						**5,188**
Retained earnings and others [(a)]	14	**18,038**	959			25	(1,238)	(13)	(127)	272	**17,916**
Translation adjustments		**(3,834)**	368						68		**(3,398)**
Gains and losses related to hedging derivatives, net of tax		**(188)**	23								**(165)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax		**41**	(15)								**26**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	8	**(509)**	266								**(243)**
Other comprehensive income		**(656)**	**274**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(382)**
DANONE treasury shares	14.2	**(2,380)**			811						**(1,569)**
Equity – Group share		**17,273**	**1,601**	**51**	**10**	**25**	**(1,238)**	**(13)**	**(59)**	**272**	**17,923**
Non-controlling interests		**102**	35	17			(80)		(29)	24	**69**
Consolidated equity		**17,375**	**1,636**	**68**	**10**	**25**	**(1,318)**	**(13)**	**(88)**	**296**	**17,992**

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

(b) See Note 8.4 of the Notes to the consolidated financial statements.

(in € millions)	Notes	As of January 1, 2021	Changes during the period: Other comprehensive income	Capital increase	Other transactions involving treasury shares	Counterpart entry to expense relating to performance shares	Dividends paid to Danone shareholders	Interest on undated subordinated notes net of tax	Other transactions with non-controlling interests	Other changes	As of December 31, 2021
Share capital		**172**		–							**172**
Additional paid-in capital		**5,889**		46							**5,934**
Retained earnings and others [(a)]	14	**17,352**	1,924			12	(1,261)	(29)	(37)	77	**18,038**
Translation adjustments		**(4,867)**	1,031						1	–	**(3,834)**
Gains and losses related to hedging derivatives, net of tax		**(178)**	(10)								**(188)**
Gains and losses on assets recognized at fair value through other comprehensive income, net of tax		**35**	6								**41**
Actuarial gains and losses on retirement commitments not recyclable to profit or loss, net of tax	8	**(624)**	115								**(509)**
Other comprehensive income		**(768)**	**112**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(656)**
DANONE treasury shares	14.2	**(1,595)**			(786)						**(2,380)**
Equity – Group share		**16,183**	**3,067**	**46**	**(786)**	**12**	**(1,261)**	**(29)**	**(36)**	**77**	**17,273**
Non-controlling interests		**93**	77	1			(115)		41	6	**102**
Consolidated equity		**16,275**	**3,144**	**47**	**(786)**	**12**	**(1,375)**	**(29)**	**5**	**83**	**17,375**

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

Notes to the consolidated financial statements

Note 1. Accounting principles

Note 1.1. Bases for preparation

The consolidated financial statements of Danone (the "Company"), its subsidiaries and associates (together, the "Group") as of and for the year ended December 31, 2022 were approved by its Board of Directors on February 21, 2023 and will be submitted for approval to the Shareholders' Meeting on April 27, 2023.

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
Assessment of the effects of climate change	1.4
Measurement and classification of investments in the process of being sold	4.2
Measurement of the recoverable amount of investments in associates	5.1, 5.4 to 5.6
Determination of the amount of rebates, trade supports and other deductions relating to agreements with customers	6.1
Measurement of deferred tax assets	9.3
Measurement of the recoverable amount of intangible assets	10.3
Determination of the amount of Other non-current provisions and liabilities	15.2, 15.3

These assumptions, estimates or appraisals are made on the basis of information and conditions available at the end of the financial period presented, which may differ from the reality, particularly in the context of the Covid-19 pandemic.

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, 2022

The following amendments apply to fiscal years beginning on or after January 1, 2022:

- Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use,
- Amendments to IAS 37, Onerous Contracts — Cost of Fulfilling a Contract,
- Amendments to IFRS 3, Reference to the Conceptual Framework.

In the Group's opinion, these amendments do not have a material impact on the consolidated financial statements for the year ended December 31, 2022.

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

The Group did not choose the early adoption of those standards, amendments and interpretations in the consolidated financial statements for the year ended December 31, 2022 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 *Financial Reporting in Hyperinflationary Economies* 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, to Iran in its financial statements as from the year ended December 31, 2020 and to Turkey in its financial statements as from the year ended December 31, 2022.

As regards the standard's application to Argentina, in 2022 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 95% compared with 2021. The EUR/ARS exchange rate used to translate the income statement was 188.8 (116.2 in 2021). The application of IAS 29 had a €(18) million impact on consolidated equity and on non-monetary assets net of non-monetary liabilities as of December 31, 2022 (€51 million as of December 31, 2021) and had the following main impacts on the consolidated income statement for the period:

- a €16 million decrease in consolidated Sales and a €61 million decrease in Recurring operating income (increase of €62 million and decrease of €33 million respectively in 2021);
- a loss of €5 million on the net monetary position recognized in Other financial income (expense), compared with a gain of €1 million in 2021;
- a €113 million expense in Net income - Group share (a €53 million expense in 2021).

In accordance with the criteria of IAS 29, Turkey has been considered a hyperinflationary economy since March 2022. Danone has therefore applied IAS 29 to Turkey with effect from January 1, 2022. Information in respect of previous periods has not been restated.

Danone has used the Consumer Price Index (CPI) to remeasure its income statement items, cash flows and non-monetary assets and liabilities. This index was up 64% compared with 2021. The EUR/TRY exchange rate used to translate the income statement in accordance with IAS 29 was 20.0. The cumulative remeasurement of non-monetary assets and liabilities as of January 1, 2022 resulted in a €69 million increase in consolidated equity and in non-monetary assets and liabilities.

As regards the 2022 fiscal year, the application of IAS 29 resulted in a €121 million increase in consolidated equity and in non-monetary assets net of non-monetary liabilities as of December 31, 2022 and had the following impacts on the income statement for the 2022 fiscal year:

- a €19 million increase in consolidated Sales and a €4 million increase in Recurring operating income;
- a loss of €32 million on the net monetary position recognized in Other financial income (expense);
- a €31 million expense in Net income - Group share.

Lastly, as regards Iran, the application of IAS 29 did not have a material impact on the 2022 financial statements.

Note 1.4. Assessment of the effects of climate change

In view of:

- the nature of Danone's business and its geographical location;
- the nature and extent of the current and potential impacts of the climate change risks and opportunities as identified and assessed in its Risk Factors and its non-financial information statement.

Danone has not identified any significant effects for 2022 other than those described in Note 10.4 of the Notes to the consolidated financial statements relating to the impairment review of its intangible assets.

In particular:

- its carbon credit commitments and positions were not material as of December 31, 2022, and no material liability was recognized in the consolidated balance sheet in this respect;
- no material provision for environmental liabilities and risks was recognized on the consolidated balance sheet as of December 31, 2022;
- in 2022, the Group did not identify any significant effects of the commitments made in this area on the value of its property, plant and equipment. In particular, the implementation of the action plans necessary to adapt production tools does not adversely affect their useful lives.

On February 22, 2023, Danone also announced its new roadmap (Danone Impact Journey), detailing its objectives and commitments regarding the fight against climate change, such as its ambition to reduce its methane emissions by 2030, as announced in its press release of January 17, 2023.

The procedures for implementing these new objectives were being drawn up as of the date the consolidated financial statements for the year ended December 31, 2022 were prepared. To date, the Group does not anticipate any significant changes in the assumptions underlying the business plans as drawn up as of December 31, 2022.

Note 1.5. Application of the IFRS 9 amendment relating to interest rate benchmark reform

In the Group's opinion, interest rate benchmark reform does not have a material impact on the financial statements for the year ended December 31, 2022. Those financial documentations that refer to the LIBOR rate, and that will no longer be published as of January 1, 2022, have been amended.

Note 1.6. Application of the IFRS Interpretations Committee's decisions

IFRS Interpretations Committee's decision *Configuration or customization costs in Software as a Service (SaaS) cloud computing arrangements*

Following the completion of the analysis carried out in 2022, the Group has concluded that the IFRS Interpretations Committee's decision on the treatment of the costs of implementing a SaaS arrangement does not have a material impact on Danone's balance sheet or income statement.

Note 2. Highlights of the year

Note 2.1. Danone's new geography-led organization

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

Therefore, in 2022, the primary operating decision-makers (Chief Executive Officer Antoine de SAINT-AFFRIQUE and Chief Financial Officer, Technology & Data, Jürgen ESSER) monitored and assessed Danone's performance by geographical zone, as explained below.

On January 18, 2023, Danone announced the strengthening of its leadership team to sharpen the delivery of its Renew Danone strategy. These changes are effective as of February 1, 2023. The Group has not therefore reflected the new organization in its consolidated financial statements for the year ended December 31, 2022.

Impacts on the consolidated financial statements

Operating segments

In order to reflect the new geography-led organization, the Group has changed its operating segments as defined by IFRS 8. Its new operating segments after aggregation are therefore the following four zones:

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

The Company will maintain its category-based reporting for sales, recurring net income and recurring operating margin for EDP, Specialized Nutrition and Waters.

The Group has been monitoring its business on the basis of these new operating segments since January 1, 2022. For comparability purposes, all segment information for the preceding period has been restated (see Note 6.2 of the Notes to the consolidated financial statements).

Cash-generating units (CGUs)

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

Note 2.2. Other highlights

	Notes
Danone's new geography-led organization	2.1
Impact of the Ukraine/Russia conflict on Danone	3
Agreement to sell Danone's non-controlling interests in partnerships with Mengniu and to acquire Dumex	5.6

Note 3. Impact of the Ukraine/Russia conflict on Danone

Note 3.1. Background

In 2022, Russia was Danone's fourth-largest market in terms of its contribution to sales (around 6%, stable as compared with 2021), with almost 90% of earnings derived from sales of Essential Dairy and Plant-Based Products (EDP).

Danone's position in Russia

On April 20, 2022, Danone announced its decision to significantly adapt its operations in Russia by:

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

On October 14, Danone announced its decision to initiate a process to transfer the effective control of its Essential Dairy and Plant-Based (EDP) business in Russia. Danone considers that this is the best option to ensure long-term local business continuity for its employees, consumers and partners.

Note 3.2. Impacts on the 2022 consolidated financial statements

The process of the divestiture of the EDP assets in Russia, which was announced in October, is now underway. As of December 31, 2022, the Group believes that the conditions for classification as assets held for sale as defined by IFRS 5 have not been met since transfer of control within a 12-month timeframe is unlikely due to, in particular, administrative constraints. Consequently, their classification in the financial statements has remained unchanged.

Impairment test of the assets in the Danone CIS CGU

The Group carried out an impairment test of its assets based on cash flow projections taking into consideration its intention to divest its EDP activities in Russia and the political and macro-economic environment caused by this conflict. This impairment test was based on a fair disposal value (including the disposal costs identified to date) determined using medium-term projections to 2026 taking into account:

- Business continuity and operational assumptions in line with the performance achieved in 2022;
- a discount rate of 23.5% that reflects the increased level of country risk in this volatile and uncertain environment.

As a result, Danone recognized, in Other operating expense for the year, a €487 million impairment provision representing the total net assets excluding net debt of the Group's EDP business in Russia.

Danone's residual exposure in Russia

The Group's residual exposure corresponds mainly to the portion relating to Danone's subsidiaries in Russia of the currency translation adjustments accumulated within consolidated equity and totaling €(1,033) million as of December 31, 2022, including €(400) million for the EDP business and €(633) million for the Specialized Nutrition business. As of December 31, 2021, the currency translation adjustments accumulated within consolidated equity amounted at €(1,103) million, including €(463) million for the EDP business and €(640) million for the Specialized Nutrition business. These translations adjustments have been accumulated since Danone acquired its businesses in Russia.

Danone also had €204 million (RUB 15.7 billion) of cash and cash equivalents in Russia as of December 31, 2022. These amounts can be immediately mobilized and are required to finance the Group's current operations in Russia. Some cross-border transactions are subject to administrative authorizations.

Note 4.Fully consolidated companies and non-controlling interests

Note 4.1. Accounting principles

Fully consolidated companies

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

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

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

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

- when control is obtained, the incidental transaction costs are recognized in the income statement under the heading Other operating income (expense), and presented in the cash flow statement within cash flows from operating activities, in the year in which they are incurred. In addition, price adjustments are initially recognized at their fair value in the acquisition price and their subsequent changes in value are recognized in the income statement under the heading Other operating income (expense), 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

2022 fiscal year

(in percentage)	Zone (country)	Category	Transaction date [a]	Ownership as of December 31 2021	2022
Main companies consolidated for the first time during 2022					
Hunan Eurbest Nutritional Food	China, North Asia and Oceania (China)	Specialized Nutrition	March	–	96.5%
Main consolidated companies with change in ownership percentage					
Aguas Danone de Argentina	Rest of the World (Argentina)	Waters	April	100.0%	51.0%
Main companies no longer fully consolidated as of December 31					
–	–	–	–	–	–

(a) Month in the 2022 fiscal year.

2021 fiscal year

(in percentage)	Zone (country)	Category	Transaction date [a]	Ownership as of December 31 2020	2021
Main companies consolidated for the first time during 2021					
Harmless Harvest	Noram (United	Waters	January	39.2%	51.0%
Follow Your Heart	Noram (United	EDP	April	–	100.0%
Main consolidated companies with change in ownership percentage					
Vega	Noram (United States)	EDP	July	100.0%	0.0%
Main companies no longer fully consolidated as of December 31					
–	–	–	–	–	–

(a) Month in the 2021 fiscal year.

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, 2022, is available on Danone's website (www.danone.com).

Note 4.4. Accounting for acquisitions resulting in control being obtained in 2022

The business combinations carried out in 2022 were not material.

Note 4.5. Finalization of the accounting for acquisitions resulting in control being obtained in 2021

The finalization of the accounting for the business combinations carried out in 2021 did not give rise to material adjustments.

Note 4.6. 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, 2022.

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 Group has applied the recommendations issued by the AMF (*Autorité des Marchés Financiers*) in November 2009.

Changes during the period

(in € millions)	**2021**	**2022**
As of January 1	363	354
New options and options recognized previously in accordance with IFRS 9	46	0
Options exercised [(a)]	(24)	(81)
Changes in the present value of outstanding options	(31)	50
As of December 31 [(b)]	**354**	**323**

(a) Carrying amount at the closing date of the previous period for options exercised.
(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 Share of profit 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

Danone acquired its stake in Mengniu and Yashili under the terms of broader agreements, the main aim of which was operational collaboration and the development of regional categories and markets. As a result of the agreement with Mengniu to sell Danone's non-controlling interests in the Inner Mongolia Dairy and Yashili joint ventures (see Note 5.6 of the Notes to the consolidated financial statements), the Group is no longer a member of any strategic partnerships.

Note 5.3. Main changes during the period

2022 fiscal year

(in percentage)	Notes	Zone (country)	Category	Transaction date [a]	Ownership as of December 31 2021	2022
Main companies accounted for using the equity method for the first time during 2022						
Aguas de Origen		Rest of the World (Argentina)	Waters	December	–	50%
Main associates with changes in ownership percentage						
–		–	–		–	–
Main companies no longer accounted for using the equity method as of December 31						
Yashili [b]	5.6	China, North Asia and Oceania (China)	EDP	August	25%	25%

(a) Month in the 2022 fiscal year.

(b) As of 31 december, Yashili equity method has been reclassified as Assets held for sale

2021 fiscal year

(in percentage)	Notes	Zone (country)	Category	Transaction date [a]	Ownership as of December 31 2020	2021
Main companies accounted for using the equity method for the first time during 2021						
–		–	–		–	–
Main associates with changes in ownership percentage						
–		–	–		–	–
Main companies no longer accounted for using the equity method as of December 31						
Harmless Harvest		Noram (United States)	Waters	January	39.2%	51.0%
Mengniu		(CNAO) Japan	EDP	May	9.8%	0.0%

(a) Month in the 2021 fiscal year.

Note 5.4. Carrying amount and changes during the period

		2021			2022		
(in € millions)	Notes	Net goodwill	Group's share in net assets and net income	Total	Net goodwill	Group's share in net assets and net income	Total
As of January 1		**350**	**566**	**915**	**210**	**561**	**771**
Acquisitions, influence acquired during the year and capital increase		0	32	**33**	8	23	**32**
Disposals, losses of influence during the year and decreases in ownership percentage		(31)	(14)	**(44)**	(6)	8	**2**
Reclassification within assets held for sale	5.6	(154)	(64)	**(217)**	–	(170)	**(170)**
Share of profit of associates before impact of disposals, revaluation and other	5.5	–	(2)	**(2)**	–	31	**31**
Dividends paid		–	(24)	**(24)**	–	(22)	**(22)**

Translation adjustments	44	50	94	(4)	7	4
Impairment	–	–	–	(47)	(22)	(69)
Adjustment of the Group's share in net assets	–	16	16	–	(2)	(2)
As of December 31	210	561	771	162	414	576

Note 5.5. Share of profit of associates

		Year ended December 31	
(in € millions)	Notes	**2021**	**2022**
Share of profit of associates before impact of disposals, revaluation and other		(2)	31
Impairment	5.6	–	(69)
Gains (losses) on disposal, revaluation and other	5.6	587	6
Total		**585**	**(32)**

Note 5.6. Agreement with Mengniu to sell Danone's non-controlling interest in the Inner Mongolia Dairy (EDP, China) and Yashili (Specialized Nutrition, China) joint ventures, and to acquire Dumex (Specialized Nutrition) in 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 owned 20% and Mengniu 80% of the new joint venture. In 2014, Danone, Mengniu and Yashili decided to extend their strategic alliance into infant milk formula in China. This enabled Danone to hold a 25% stake in Yashili and become its second-largest shareholder behind Mengniu, which 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.

Gradual exit from the partnership with Mengniu

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

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

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

On August 16, 2022, at their Extraordinary General Meeting, Yashili's independent shareholders approved the transaction including, in particular, the sale of Danone's stake in Yashili and Yashili's sale of Dumex in China to Danone.

Impacts on the consolidated financial statements

Disposal of Danone's stake in the fresh dairy joint venture in China set up jointly with Mengniu

The disposal of the equity-accounted shares relating to Danone's 20% stake in the Inner Mongolia Dairy joint venture was finalized on August 26, 2022. As of December 31, 2021, these shares were classified as assets held for sale in accordance with IFRS 5 in view of the provisions of the shareholders' agreement. This disposal generated sales proceeds of €175 million and a non-material disposal result, after selling expenses and the recycling of the cumulative translation adjustments, presented within Share of profit of associates in 2022.

Planned disposal of the stake in Yashili

Since Yashili's independent shareholders approved the disposal at the Extraordinary General Meeting of August 16, 2022, Danone believes that the transaction is highly probable and that the conditions for classification as assets held for sale set out in IFRS 5 had been achieved as of the date the consolidated financial statements for the year ended December 31, 2022 were prepared. The equity-accounted shares in Yashili were therefore reclassified as Assets held for sale after having been previously remeasured on the basis of the expected sale price net of transaction expenses. This remeasurement resulted in a €68 million impairment loss of the investment in Yashili, recognized in Share of profit of associates in the 2022 consolidated financial statements.

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

Danone anticipates that the conditions precedent relating to this transaction will be lifted during the 2023 fiscal year, on the date when the Group will effectively acquire control of Dumex Baby Food Co. Ltd. An off-balance sheet commitment was measured at around €117 million as of December 31, 2022.

Note 5.7. Impairment review of other Investments in associates

Impairment review as of December 31, 2022

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

Impairment review as of December 31, 2021

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

Note 6.Information concerning the Group's operating activities

Note 6.1. Accounting principles

Sales

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

Cost of goods sold

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

Selling expense

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

General and administrative expense

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

Research and Development expense

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

Note 6.2. Operating segments

General principles

Following the implementation of the new geography-led organization (see Note 2 of the Notes to the consolidated financial statements) and starting in 2022, the primary operating decision-makers (Chief Executive Officer Antoine de SAINT-AFFRIQUE and Chief Financial Officer, Technology & Data, Jürgen ESSER) monitor and evaluate Danone's performance according to the following four geographical zones (corresponding to the new operating segments under IFRS 8):

- Europe;
- North America (including United States and Canada);
- China, North Asia and Oceania;
- Rest of the World.

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

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

These indicators are also monitored by category (EDP, Specialized Nutrition and Waters); the other key indicators reviewed and used internally by the primary operating decision-makers are monitored at Group level.

Reporting by geographical zone

Year ended December 31

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2021[c]	2022	2021[d]	2022	2021[d]	2022
Europe [b]	8,341	8,773	1,291	1,088	15.5%	12.4%
North America	5,564	6,712	603	679	10.8%	10.1%
China, North Asia and Oceania	3,008	3,428	939	1,037	31.2%	30.2%
Rest of the World	7,369	8,748	504	573	6.8%	6.6%
Group total	**24,281**	**27,661**	**3,337**	**3,377**	**13.7%**	**12.2%**

(a) Net sales to third parties.
(b) Including net sales of €2,134 million generated in France in 2022 (€2,033 million in 2021).
(c) As part of the new organization, 2021 revenue has been reallocated due to the redefinition of operating segments.
(d) Taking into account the reallocation of certain central costs between the categories following the redefinition of the operating segments.

Information by category

Sales, Recurring operating income and Recurring operating margin

Year ended December 31

(in € millions, except percentage)	Sales [a]		Recurring operating income		Recurring operating margin	
	2021	2022	2021[b]	2022	2021 [b]	2022
EDP	13,090	14,799	1,355	1,207	10.4%	8.2%
Specialized Nutrition	7,230	8,319	1,634	1,799	22.6%	21.6%
Waters	3,961	4,543	348	370	8.8%	8.2%
Group total	**24,281**	**27,661**	**3,337**	**3,377**	**13.7%**	**12.2%**

(a) Net sales to third parties.

(b) Taking into account the reallocation of certain central costs between the categories following the redefinition of the operating segments.

Other information

Top ten countries contributing to sales

Year ended December 31

(in percentage)	2021	2022
United States	20%	22%
China	10%	10%
France	8%	8%
Russia	6%	6%
Indonesia	6%	6%
United Kingdom	6%	5%
Mexico	4%	5%
Spain	4%	4%
Germany	3%	3%
Brazil	2%	3%

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

As of December 31

(in € millions)	2021[b]	2022
Europe [a]	11,521	11,426
North America	10,313	10,864
China, North Asia and Oceania	5,453	5,614
Rest of the World	3,609	3,087
Group total	**30,895**	**30,991**

(a) Including €2,341 million in France as of December 31, 2022 (€2,254 million as of December 31, 2021).

(b) Taking into account the reallocation of goodwill as a result of the Group's reorganization and the redefinition of its operating segments carried out in 2022 (see Note 10.3 of the Notes to the consolidated financial statements).

Note 6.3. Other components of recurring operating income

Other income (expense)

	Year ended December 31	
(in € millions)	**2021**	**2022**
Various taxes [(a)]	(39)	(53)
Restructuring costs [(b)]	(6)	(8)
Capital gains on disposals of property, plant and equipment and intangible assets	8	2
Other [(c)]	34	(33)
Total	**(3)**	**(92)**

(a) Comprises notably sales taxes.
(b) Excluding strategic restructuring or transformation operations.
(c) Comprises currency translation differences, asset impairment, provisions for doubtful receivables and several other components.

Note 6.4. Working capital

Accounting principles

Inventories

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

Trade receivables

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

Impairment provisions

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

Transactions in foreign currencies

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

Carrying amount

(in € millions, except percentage)	As of December 31 2021	2022
Goods purchased for resale	92	63
Raw materials and supplies	819	1,044
Semi-finished goods and work-in-progress	209	244
Finished goods	915	1,303
Non-refundable containers	125	197
Impairment provisions	(180)	(233)
Inventories, net	1,982	2,619
Trade and other receivables from operations	2,956	3,370
Impairment provisions	(94)	(98)
Trade receivables, net	2,862	3,272
State and local authorities	746	867
Derivatives - assets [(a)]	53	84
Other	207	364
Total other current assets	1,006	1,315
Total current assets	**5,850**	**7,206**
Trade payables	(3,998)	(4,899)
Year-end rebates payable to customers	(1,304)	(1,594)
State and local authorities	(295)	(329)
Personnel costs, including social security charges	(1,019)	(1,113)
Derivatives - liabilities [(a)]	(89)	(49)
Other	(310)	(506)
Total other current liabilities	(3,018)	(3,591)
Total current liabilities	**(7,016)**	**(8,490)**
Working capital	**(1,166)**	**(1,284)**
As a percentage of consolidated sales	4.8%	4.6%

(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 2021	2022
Portion of consolidated sales made to the Group's largest customers		
Group's largest customer	6.8%	5.9%
Group's five largest customers	13.9%	12.9%
Group's ten largest customers	20.2%	18.9%
Portion of overdue trade receivables not yet fully impaired [(a)]	**5.8%**	**10.0%**

(a) More than 30 days overdue. The main change relates to a specific environment in Europe and does not therefore reflect an increase in credit risk.

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

As of both December 31, 2022 and December 31, 2021, 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.

Carrying amount of trade receivables and payables

	As of December 31	
(in € millions)	**2021**	**2022**
Trade receivables	2,956	3,370
Impairment provisions	(94)	(98)
Carrying amount of trade receivables	**2,862**	**3,272**
Discounts granted to customers [(a)]	(1,304)	(1,594)
Carrying amount of trade receivables net of discounts granted	**1,558**	**1,678**

(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 (in particular, jugs in the Waters Reporting Category) 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 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.

Carrying amount and changes during the period

				2021				2022
(in € millions)	Land and buildings	Machinery and equipment	Other and assets in progress	Total	Land and buildings	Machinery and equipment	Other and assets in progress	Total
Carrying amount								
As of January 1	**2,600**	**2,608**	**1,365**	**6,572**	**2,772**	**2,727**	**1,344**	**6,844**
Capital expenditure [(a)]	72	146	752	970	47	104	655	806
Disposals	(13)	–	(15)	(28)	(3)	(5)	(4)	(12)
Reclassification of assets held for sale	(9)	(8)	(1)	(17)	(0)	(1)	(0)	(1)
Changes in consolidation	39	10	1	50	17	(1)	(2)	14
Translation adjustments	75	80	44	199	23	26	7	56
Impairment [(a) (b)]	(7)	(82)	(79)	(168)	(25)	(155)	(20)	(200)
Depreciation charges [(a)]	(147)	(449)	(115)	(711)	(161)	(470)	(134)	(766)
Impacts of the above on the right-of-use assets (gross) [(c)]	129	41	75	245	83	23	77	183
Impacts of the above on the right-of-use assets (depreciation and impairment) [(c)]	(126)	(26)	(77)	(229)	(123)	(23)	(71)	(216)
Others [(d)]	160	406	(605)	(39)	229	358	(542)	45
As of December 31	**2,772**	**2,727**	**1,344**	**6,844**	**2,859**	**2,583**	**1,310**	**6,752**
Of which right-of-use assets [(c)]	691	182	209	1,082	643	155	194	992
Of which gross amount	*4,813*	*8,765*	*2,443*	*16,021*	*5,238*	*8,965*	*2,438*	*16,641*
Of which depreciation and impairment	*(2,040)*	*(6,038)*	*(1,099)*	*(9,177)*	*(2,379)*	*(6,382)*	*(1,127)*	*(9,889)*

(a) Excluding right-of-use assets.

(b) And accelerated depreciation/amortization. These items result from the plan for the transformation of Danone's operations (see Note 7.2 of the Notes to the consolidated financial statements).

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

(d) 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)	**2021**	**2022**
Related cash flows	(1,043)	(873)
As a percentage of sales	*4.3%*	*3.2%*

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

Commitments given in 2022

		Amount of financial flows for the period				
(in € millions)	**Total**	**2023**	**2024**	**2025**	**2026**	**2027 and after**
Commitments to purchase goods and services [a]	(6,274)	(2,959)	(928)	(339)	(269)	(1,778)
Capital expenditure commitments	(195)	(166)	(21)	(2)	(1)	(7)
Guarantees and pledges given	(4)	(4)	–	–	–	–
Other	(80)	(51)	(17)	(8)	(2)	(2)
Total	**(6,553)**	**(3,180)**	**(965)**	**(348)**	**(272)**	**(1,787)**

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

Commitments given in 2021

		Amount of financial flows for the period				
(in € millions)	**Total**	**2022**	**2023**	**2024**	**2025**	**2026 and after**
Commitments to purchase goods and services [a]	(5,300)	(2,494)	(759)	(446)	(201)	(1,400)
Capital expenditure commitments	(187)	(184)	(2)	–	–	–
Guarantees and pledges given	(21)	(21)	–	–	–	–
Other	(96)	(51)	(16)	(9)	(5)	(16)
Total	**(5,604)**	**(2,750)**	**(778)**	**(455)**	**(206)**	**(1,416)**

(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 category and, to a lesser extent, to the EDP category. Similarly, some raw materials are billed or indexed in foreign currencies, in particular for the Waters and EDP categories. 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, 2022, the main hedged currencies in terms of value included the British pound, Chinese yuan, American dollar, Indonesian rupiah and Hong Kong dollar.

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 categories. 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 2022 fiscal year)

	Year ended December 31	
	2021	**2022**
(in € millions)	**Income (expense)**	**Income (expense)**
Increase of 5%		
Liquid milk, milk powder and other milk-based ingredients	(134)	(188)
Plastics, including PET/rPET	(57)	(75)
Decrease of 5%		
Liquid milk, milk powder and other milk-based ingredients	134	188
Plastics, including PET/rPET	57	75

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 relating 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 2022

In 2022, the net Other operating expense of €(1,234) million consisted mainly of the following items:

(in € millions)	Notes	**Related income (expenses)**
Local First plan	7.3	(227)
Transformation of Danone’s operations	7.2	(184)
Impairment of intangible assets	10.4	(658)

Other operating income (expense) in 2021

In 2021, the net Other operating expense of €(1,080) million consisted mainly of the following items:

(in € millions)	Notes	**Related income (expenses)**
Local First plan	3	(727)
Transformation of Danone’s operations	7.2	(297)
Impairment of intangible assets	10.3	(52)

Note 7.2. Transformation of Danone’s operations

In 2022, Danone continued to transform its operations across its entire value chain and to adaptation of its production equipments. The related Other operating expenses totaled €184 million.

These expenses concerned mainly the EDP and Waters categories and related mainly to the accelerated depreciation of property, plant and equipment, the cost of employee-related measures as well as the costs of consulting and other external supports.

Note 7.3. Local First plan for Danone’s organization

In 2022, Danone continued to implement the Local First plan launched in 2021. Other operating expenses in respect of the plan amounted to €227 million and mainly concerned costs for adapting processes and harmonizing information systems. The Group also recognized a reversal of provisions for a total amount of €311 million, of which €177 million corresponds to payments made during the period and €134 million to a reassessment of the assumptions underlying the provision for employee-related measures.

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 geographical zone

	As of December 31	
	2021	**2022**
Total number of employees	**98,105**	**96,166**
By geographical zone		
Europe	26%	27%
North America	6%	6%
China, North Asia & Oceania	9%	9%
Rest of the World	59%	58%
Of which Africa, Middle East and South-East Asia	24%	24%
Of which Latin America	24%	24%
Total	**100%**	**100%**

Note 8.2. Personnel costs of fully consolidated companies

	Year ended December 31	
(in € millions)	**2021**	**2022**
Salaries and social security charges [(a)]	(4,107)	(4,348)
Retirement obligations – defined benefit plans [(b)]	(44)	(40)
Expenses relating to Group performance shares (GPS) and to fidelity shares [(c)]	(13)	(18)

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

(b) Service cost.

(c) As from the 2022 fiscal year (see Note 8.4 of the Notes to the consolidated financial statements).

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)	**2021**	**2022**
Defined benefit retirement plans	1,074	745
Other long-term benefits	31	27
Total	**1,105**	**772**

Defined benefit retirement plans and other post-employment benefits

Carrying amount of gross obligations

	As of December 31	
(in percentage)	**2021**	**2022**
Retirement plan for senior managers	34%	32%
Other	15%	13%
France	48%	45%
Germany	10%	10%
Indonesia	10%	13%
Belgium	8%	7%
United States	8%	8%
Ireland	6%	5%
Other [(a)]	11%	12%
Total	**100%**	**100%**

(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, 2022, 69 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

	2021			2022		
(in € millions)	Retirement plan for senior managers	Other plans	Total	Retirement plan for senior managers	Other plans	Total
Vested rights with projected salaries	580	1,053	1,633	400	828	1,228
Fair value of plan assets	(124)	(435)	(559)	(112)	(371)	(483)
Vested rights net of fair value of plan assets	**456**	**617**	**1,074**	**288**	**457**	**745**
Impact of ceiling on assets			–			–
Obligations for which provisions have been recorded on the balance sheet	**456**	**617**	**1,074**	**288**	**457**	**745**

In addition, the total amount of contributions/benefits to be paid out in 2023 in connection with these plans is estimated at €49 million.

Actuarial assumptions

Methodology

The Group defines the actuarial assumptions by country and/or subsidiary. The discount rates used in 2022 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)	2021	2022
Discount rate	1.4%	4.0%
Expected return on plan assets	1.4%	4.0%
Salary growth rate	3.0%	3.0%
Retirement age	60-66	60-66

Sensitivity analysis of the discount rate

Year ended December 31

	Retirement plan for senior managers	
	2021	2022
(in € millions)	Increase (decrease)	Increase (decrease)
50 bps increase	(65)	(30)
50 bps decrease	74	34

Changes in carrying amount of provisions

(in € millions)	2021				2022			
	Vested rights	Plan assets	Impact of ceiling on assets	Obligations provisioned	Vested rights	Plan assets	Impact of ceiling on assets	Obligations provisioned
As of January 1	**1,752**	**(533)**	**–**	**1,219**	**1,633**	**(559)**	**–**	**1,074**
Service cost	44	–		44	40	–		40
Effect of discounting	26	–		26	34	–		34
Expected return on plan assets	–	(6)		(6)	–	(9)		(9)
Other	(42)	1		(41)	(1)	2		1
Expense for the year	27	(5)	–	23	73	(7)	–	66
Payments made to retirees	(54)	28		(27)	(58)	31		(27)
Contributions to plan assets	–	(17)		(17)	–	(15)		(15)
Changes in demographic assumptions	1	–		1	1	–		1
Changes in economic assumptions	(136)	–		(136)	(476)	–		(476)
Experience effects	19	(20)		(2)	57	69		126
Actuarial gains and losses	(116)	(20)	–	(137)	(419)	69	–	(349)
Translation adjustments	26	(11)		15	0	(4)		(4)
Other	(2)	–		(2)	(1)	1		(0)
As of December 31	**1,633**	**(559)**	**–**	**1,074**	**1,228**	**(483)**	**–**	**745**

The decrease in the provision between December 31, 2021 and December 31, 2022 was due mainly to the increase 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

(in € millions, except percentage)	Retirement plan for senior managers	
	2021	2022
Fair value of plan assets	**(124)**	**(112)**
Main class of plan assets		
Debt securities (a) (b)	90%	90%
Stock equity (b)	4%	4%
Real estate and other asset classes (b)	5%	5%

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

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

Defined contribution retirement plans

Contributions paid as part of defined contribution plans are recognized according to their function under various headings in the consolidated income statement.

Note 8.4. Group performance shares and fidelity shares

Group policy

The Group has awarded long-term compensation in the form of Group performance shares (GPS) to around 1,750 directors and senior executives, as well as to the corporate officers. In addition, since 2022, the Group has also granted fidelity shares to around 1,750 directors and senior executives.

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.

General principles applicable to fidelity shares

The fidelity shares are shares in the Company that are subject to progressive continuous employment conditions of one to three years, set by the Shareholders' Meeting for each plan.

Group performance shares and fidelity shares outstanding

	Year ended December 31	
(in number of shares)	**2021**	**2022**
As of January 1	**1,944,149**	**1,810,772**
Maximum number [(a)]	2,006,027	1,880,387
Shares granted during the year	796,638	1,514,921
Maximum number [(a)]	*836,468*	*1,708,681*
Shares that lapsed or were canceled during the year [(b)]	(538,884)	(533,216)
Shares delivered during the year	(391,131)	(196,575)
As of December 31	**1,810,772**	**2,595,903**
Maximum number [(a)]	*1,880,387*	*2,822,688*

(a) If the continuous employment and performance conditions are fully met, where applicable.
(b) For the GPS granted in 2020, the Board of Directors must examine the level of achievement of the performance condition relating to sales growth in the second quarter of 2023. For the purposes of the 2022 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 and of the fidelity shares is calculated on the basis of assumptions made by the Group's management. The corresponding charge is spread over the vesting period. It is allocated according to its function to the various headings in the consolidated income statement.

In the case of the GPS, when the performance conditions are:

- based on non-market performance (such as, for example, conditions relating to sales growth, the achievement of a level of free cash flow and environmental 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 said shares will lapse;
- market performance-related (such as, for example, conditions linked to the achievement of a level of Total Shareholder Return), the measurement of the related charges takes into account the probability of achieving these conditions, assessed at the grant date. These charges cannot be subsequently written back.

In addition, the GPS and fidelity shares 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

(in € per share, except for number of shares)	Year ended December 31 2021	2022
Number of shares granted	796,638	1,514,921
Of which based on non-market performance conditions	*740,863*	*655,021*
Of which based on market performance conditions	*55,775*	*352,704*
Of which fidelity shares		*507,196*
Fair value of shares granted based on non-market performance conditions [a]	51.0	47.5
Fair value of shares granted based on market performance conditions [a]	29.9	32.7
Fair value of fidelity shares granted [a]		51.0
Average DANONE share price	57.8	52.5

(a) Fair value as of the grant date.

Expenses related to GPS including taxes

(in € millions)	Year ended December 31 2021	2022
Group performance shares (GPS) and fidelity shares	(13)	(18)
Total expense	**(13)**	**(18)**

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 70% 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 corresponding expense is allocated according to its function to the various headings in the consolidated income statement.

Capital increases reserved for employees

In 2022, these various capital increases reserved for employees accounted for a total amount of €51,050,622.60.

Note 9. Income tax

Note 9.1. Income tax expense

Income before tax and tax expense

	Year ended December 31	
(in € millions, except tax rate in percentage)	**2021**	**2022**
Income before tax	**1,995**	**1,832**
Current tax (expense) income	(663)	(738)
Deferred tax (expense) income	73	(40)
Current and deferred tax (expense) income	**(589)**	**(778)**
Effective tax rate	29.5%	42.4%
Amount (paid) received during the year	(569)	(716)

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 2022, the Group effective tax rate was 42.4%, higher than in 2021.

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 25.83% country tax rate in France

		Year ended December 31	
(in percentage)	Notes	**2021**	**2022**
Country tax rate in France		28.4%	25.8%
Differences between French and foreign tax rates [(a)]		(6.6)%	(3.6)%
Tax on dividends and royalties		3.9%	3.6%
Permanent differences		1.4%	3.3%
Tax loss carryforwards [(b)]	9.3	3.0%	9.0%
Tax rate adjustments and unallocated taxes		(0.3)%	(1.3)%
Impact of capital gains and losses on disposal and asset impairment [(c)]		(0.1)%	6.1%
Other differences		(0.2)%	(0.4)%
Effective tax rate		**29.5%**	**42.4%**

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

(b) This comprised the impacts of the non-recognition and impairment of the deferred tax assets in certain Latin American countries in 2022 and 2021, as well as in France in 2022.

(c) In 2022, mainly the non-deductibility of goodwill impairment (see Note 10.4 of the Notes to the consolidated financial statements).

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	**2021**	**2022**
Breakdown by type of deferred tax			
Property, plant and equipment and intangible assets		(1,683)	(1,722)
Tax loss carryforwards	9.3	281	120
Provisions for retirement obligations and other long-term benefits		260	184
Employee profit-sharing provisions		13	20
Restructuring provisions	15.3	131	72
Other		385	477
Net deferred taxes		**(612)**	**(849)**
Deferred tax assets		890	734
Deferred tax liabilities		(1,502)	(1,583)
Net deferred taxes		**(612)**	**(849)**

Changes during the period

(in € millions)	Notes	**2021**	**2022**
As of January 1		**(681)**	**(612)**
Changes recognized in Other comprehensive income		16	(97)
Changes recognized in profit or loss		73	(40)
Changes in consolidation scope	4.2	25	(20)
Other [(a)]		(45)	(80)
As of December 31		**(612)**	**(849)**

(a) Consists notably of currency effects.

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

	As of December 31	
(in € millions)	**2021**	**2022**
Tax losses – recognized portion		
Recognized tax loss carryforwards [(a)] [(b)]	1,083	448
Tax savings [(c)]	281	120
Tax losses – unrecognized portion		
Tax loss carryforwards and tax credits not yet used [(a)]	715	1,469
Potential tax savings	197	396

(a) Basis amount.
(b) In 2022, as in 2021, 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, 2022 can be carried forward indefinitely. The probable consumption horizon for most of these losses is less than ten years. In view of the macro-economic environment and, in particular, the increase in interest rates, Danone has reconsidered its ability to use some of its tax losses, particularly in France.

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 Geographical Zone 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

		2021				2022			
(in € millions)	Notes	Goodwill	Brands [(a)]	Other intangible assets	Total	Goodwill	Brands [(a)]	Other intangible assets	Total
Carrying amount									
As of January 1		**17,016**	**5,669**	**351**	**23,037**	**17,871**	**5,805**	**377**	**24,053**
Changes in consolidation scope	4.2	23	(35)	–	(13)	40	83	68	190
Capital expenditure		–	–	71	71	–	–	100	100
Disposals		–	–	(2)	(2)	–	–	(1)	(1)
Translation adjustments	1.3	838	204	9	1,050	426	83	(5)	504
Impairment	7.1, 10.3	(7)	(45)	(5)	(57)	(400)	(151)	(25)	(575)
Amortization charges		–	(2)	(101)	(103)	–	(2)	(104)	(106)
Other		2	14	53	69	0	25	49	74
As of December 31		**17,871**	**5,805**	**377**	**24,053**	**17,938**	**5,843**	**459**	**24,239**
Of which amortization		–	*(26)*	*(1,084)*		–	*(24)*	*(1,129)*	

(a) Includes brands with indefinite useful lives and the other brands (none of which is estimated to be individually material).

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

In accordance with IAS 36 *Impairment of Assets*, its reorganization and the redefinition of its operating segments (see Note 2.1 of the Notes to the consolidated financial statements) led the Group to reassess the definition of its cash-generating units (CGUs) and groups of CGUs to which goodwill should be allocated as of January 1, 2022, the date of implementation of the new organization.

To reflect this new organization, Danone now allocates goodwill to CGUs at the level of the geographical zones and no longer at the level of the Reporting Entities.
In addition, in accordance with IAS 36, Danone has carried out analyses to ensure that each CGU or group of CGUs to which goodwill is so allocated shall:

- represent the lowest level within the Group at which goodwill is monitored for internal management purposes; and
- not be larger than an operating segment as defined by IFRS 8 *Operating Segments* before aggregation.

The Group has identified mainly the Global Specialized Nutrition CGU, which, as it covers its worldwide Specialized Nutrition business, has been reallocated at the level of the geographical zones. Its goodwill has been reallocated to the various CGUs pro rata to their relative value and the Group ensured in advance that there was no indication of impairment as regards the CGUs that had been the subject of reallocation.

Lastly, Danone has also considered possible aggregations of CGUs within each geographical zone based on cross-category synergies achieved following the reorganization of the Group's businesses. The main consequence of which was the creation of the Europe CGU.

Note 10.4. 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 on the basis of the information available on that date. The periods covered for the CGUs and groups of CGUs are three to five years.

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, 2022

For the purposes of impairment testing as of December 31, 2022, the Group has projected in its business plans the effects on its various businesses of the following items, according to its best estimate based on (i) the information available at that date with respect to external items, and (ii) the initiatives and projects that will be implemented by the Group in accordance with its plans at that same date:

- the effects of the Covid-19 health crisis on its main activities that are the most affected, i.e. those of the China, North Asia and Oceania zone or the Waters category as described below, over all or part of the duration of the plan to take into account the uncertainty as to its magnitude and duration;
- general acceleration of inflation in raw material prices (milk and dairy ingredients), packaging and logistics costs during 2022 and 2023. For CGUs with limited headroom, the Group has also simulated worsened inflation scenarios (higher level and extrapolation over the following years of the plan), via its operating margin sensitivity analyses. In addition, the effects on raw material costs for 2022 of an increase or decrease in the prices of the Group's two main categories of raw materials are presented in Note 6.7 of the Notes to the consolidated financial statements;
- an after-tax discount rate of between 6.1% and 23.5% and a long-term growth rate of between 0% and 3%.
- operational costs and capital expenditure related to the Plan for the transformation of its operations over the duration of the business plan.

On February 22, 2023, Danone also announced its new roadmap (Danone Impact Journey), detailing its objectives and commitments regarding combating climate change, such as its ambition to reduce its methane emissions by 2030, as announced in its press release of January 17, 2023.

The procedures for implementing these new objectives were being drawn up as of the date the consolidated financial statements for the year ended December 31, 2022 were prepared. To date, the Group does not anticipate significant changes in the assumptions underlying the business plans as drawn up as of December 31, 2022.

Lastly, the Group has also taken into account in its business plans the risks related to climate change and its potential effects by means of sensitivity analyses of net sales and operating margin in the exposed geographical zones. These analyses have not indicated any impairment.

The implementation of these scenarios in the impairment tests did not highlight any additional impairment.

Carrying amount of goodwill and brands with indefinite useful lives

As of December 31		
(in € millions)	**2021**	**2022**
Europe CGU	5,254	5,179
Noram CGU	6,516	6,914
China, North Asia and Oceania CGU	4,887	4,985
Other CGUs [(a)]	1,214	860
Goodwill	17,871	17,938
Brands with indefinite useful lives [(b)]	5,726	5,842
Carrying amount of goodwill and brands with indefinite useful lives [(c)]	**23,597**	**23,780**

(a) Composed of ten CGUs.

(b) Consists of several brands, the most material being Nutricia, International Delight, Silk and Alpro.

(c) After taking into account impairment for the year.

Goodwill of the Europe CGU, the Noram CGU and the China, North Asia and Oceania CGU

As of December 31, 2022, the recoverable amount exceeded the carrying amount by the following amounts:

(in € billions)	
Europe CGU	9
Noram CGU	4
China, North Asia and Oceania CGU	>10

Sensitivity analysis for the key value in use assumptions

	Year ended December 31	
(in € billions, except percentage)	**Impact on recoverable amount**	**Annual decrease to make recoverable amount equal carrying amount**
Sales – 50bps decrease [(a)]		
Europe CGU	(1)	10%
Noram CGU	< (0.5)	6%
China, North Asia and Oceania CGU	(1)	>10%
Recurring operating margin – 100bps decrease [(b)]		
Europe CGU	(2)	6%
Noram CGU	(1)	3%
China, North Asia and Oceania CGU	(1)	>10%
Long-term growth rate – 50bps decrease		
Europe CGU	(1)	
Noram CGU	(2)	
China, North Asia and Oceania CGU	(3)	
Discount rate – 50bps increase		
Europe CGU	(2)	
Noram CGU	(2)	
China, North Asia and Oceania CGU	(3)	

(a) Decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2023 projections.

(b) Decrease applied, each year, to the assumed recurring operating margin, including the final year, on the basis of the 2023 projections.

Goodwill of the CIS CGU

Regarding Danone CIS CGU, an impairment test of the Russian assets was carried out, details of which are provided in Note 3.2 of the Notes to the consolidated financial statements.

Goodwill of the other CGUs

As of December 31, 2022, the CGUs other than the Europe CGU, the Noram CGU and the China, North Asia and Oceania CGU represented in total 5% of the carrying amount of the goodwill allocated to these CGUs. Following the impairment test, the Group recognized an impairment in respect of two CGUs allocated to the Europe Zone and the Rest of the World Zone totaling €37 million.

Following the goodwill impairment test of these CGUs, the Group recognized an impairment provision in respect of some of these CGUs in Africa totaling €101 million.

Brands with indefinite useful lives

The Group's main brands are *Nutricia, International Delight, Silk* and *Alpro*. As of December 31, 2022, they represented more than 50% of the carrying amount of the Group's brands with indefinite useful lives. The other brands are located in diverse geographical areas and different countries and spread over all categories and none represented individually more than 9% of the carrying amount of the Group's brands with indefinite useful lives as of December 31, 2022.

Impairment review of the main brands with indefinite useful lives

As of December 31, 2022, 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 for the key value in use 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 2022 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, 2022, the tests carried out on brands with indefinite useful lives other than *Nutricia, International Delight, Silk* and *Alpro* required the partial or total impairment (totaling €62 million) of three brands, 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:

- 50bps decrease in sales (decrease applied, each year, to the assumed growth in sales, including the final year, on the basis of the 2022 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, 2021, following the impairment tests of the other brands with indefinite useful lives, the Group recognized an impairment provision in respect of three brands in the EDP Reporting Entity in the aggregate amount of €45 million.

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

Note 11.1. Accounting principles

Financing

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

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.

Short-term investments are measured at their fair value, changes being recognized under the heading Interest income on cash equivalents and short-term investments in the consolidated income statement. Other short-term investments are measured at amortized cost.

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, with changes recognized in the income statement. Foreign exchange gains and losses arising from the translation of intra-Group loans classified as net investments in foreign operations and 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 and recycled on the disposal of the hedged asset.

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, 2021**	**Bonds issued**	**Bonds repaid**	**Net flows from other financing arrangements**	**Impact of accrued interest**	**Impact of changes in exchange rates and other non-cash impacts [c]**	**Non-current portion becoming current**	**Changes in consolidation scope**	**As of December 31, 2022**
Financing managed at Company level									
Bonds – non-current portion	11,640	600	–			(380)	(1,825)	–	10,036
Bonds – current portion	1,751	–	(1,682)			13	1,825	–	1,906
Commercial paper [a]	757			30		(2)	1	–	786
Total	14,148	600	(1,682)	30		(370)	1	–	12,727
Lease debt									
Non-current portion	767			–		149	(186)	(1)	730
Current portion	215			(241)		44	186	(1)	203
Total	982	–	–	(241)	–	193	(1)	(1)	933
Other financing arrangements [b]									
Non-current portion	35			(4)		0	(5)	14	40
Current portion [d]	1,044			(815)	2	200	4	28	463
Total	1,079	–	–	(819)	2	200	(2)	43	503
Total	**16,209**	**600**	**(1,682)**	**(1,029)**	**2**	**24**	**(2)**	**41**	**14,162**

(a) As of December 31, 2021 and 2022, these were included in Current financial debt.
(b) Subsidiaries' bank financings.
(c) Concerning the lease debt, corresponds mainly to new financing in the period.
(d) Including bank overdrafts totaling €330 million as of December 31, 2022.

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.

In September 2021, Danone carried out the early redemption of the hybrid financing for an amount of €0.5 billion, and at the same time carried out the reissuance of a hybrid financing with an issue of perpetual securities for the same amount, denominated in euros, bearing an annual coupon of 1% and with a first call on December 16, 2026.

Through this combination of transactions, Danone was able to take advantage of favorable market conditions and actively manage its hybrid debt portfolio, while keeping the total amount of hybrid debt unchanged.

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			
	2021		2022	
(in € millions)	Committed amount	Amount used	Committed amount	Amount used
Bank financing [(a)]				
Syndicated credit facility [(b)]	2,000	–	2,000	–
Committed credit facilities [(c)]	953	–	972	–
Bank loans	749	–	–	–
Capital markets financing [(a)]				
EMTN financing [(d)]	NA	9,620	NA	11,941
Hybrid financing [(e)]	NA	1,250	NA	1,250
Bonds on the US market [(d)]	NA	3,770	NA	3,280
Short-term debt instruments	NA	755	NA	786

(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 2023 to 2027.
(d) Bonds issued by the Company are disclosed on the Danone website.

Main financing transactions in 2022

	Year ended December 31		
	2022		
(in millions of currency)	Currency	Nominal	Maturity
New financing			
Eurobonds	EUR	600	2032
Repayments			
Eurobonds	EUR	1,000	2022
USD bond	USD	702	2022
USD bond	USD	148	2022

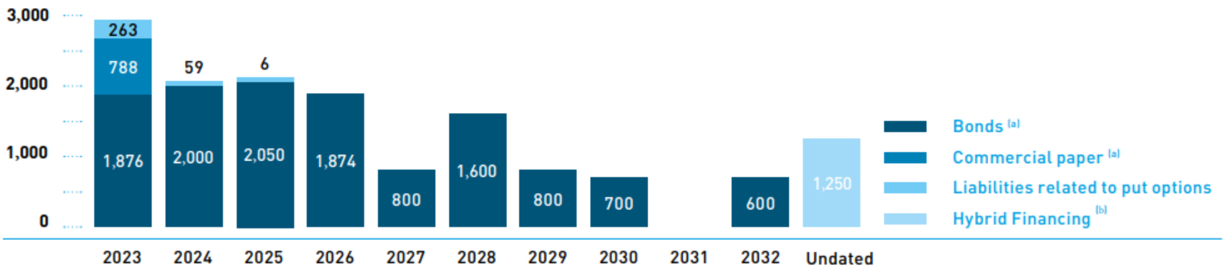
Main financing transactions in 2021

	Year ended December 31		
	2021		
(in millions of currency)	Currency	Nominal	Maturity
New financing			
Hybrid financing	EUR	500	2026
Eurobonds	EUR	1,000	2025
Eurobonds	EUR	700	2030
Repayments			
Eurobonds	EUR	1,000	2021
JPY private placement	JPY	6,000	2021
JPY private placement	JPY	8,000	2021
JPY private placement	JPY	10,500	2021
USD bond	USD	800	2021

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.

(b) Including €750 million with a call date in 2023 and €500 million with a call date in 2026.

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 2023	Cash flows 2024	Cash flows 2025	Cash flows 2026	Cash flows 2027 and after
Interest on debt [(a)]	(183)	(134)	(116)	(104)	(141)
Cash flows on derivatives [(a) (b) (c)]	(17)	(45)	(32)	(35)	(99)

(a) The floating interest rates are calculated on the basis of the rates applicable as of December 31, 2022.

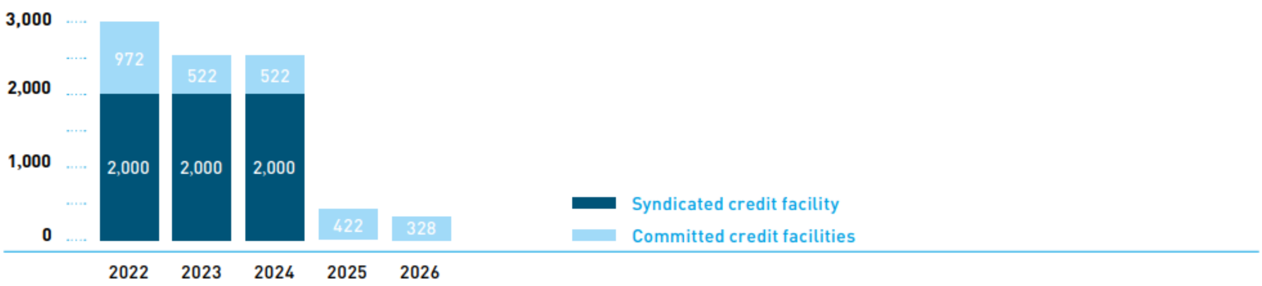
(b) Net contractual flows, including premiums payable, and net flows payable or receivable relating to the exercise of options in the money at year-end.

(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			
	2021		2022	
	Moody's	Standard and Poor's	Moody's	Standard and Poor's
Short-term rating [(a)]				
Rating	–	A-2	–	A-2
Long-term rating [(b)]				
Rating	Baa1	BBB+	Baa1	BBB+
Outlook	Stable	Stable	Stable	Stable

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

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

Note 11.5. Cash and short-term investments

Carrying amount

	As of December 31	
(in € millions)	**2021**	**2022**
Money market funds	4,237	2,082
Bank deposits, negotiable debt instruments and other short-term investments	960	1,550
Total Short-term investments	**5,197**	**3,631**
Cash	659	1,051
Total Cash and cash equivalents	**5,856**	**4,682**

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)	**2021**	**2022**
Non-current financial debt [(a)]	12,537	11,238
Current financial debt [(a)]	4,048	3,628
Short-term investments	(5,197)	(3,631)
Cash	(659)	(1,051)
Derivatives - assets - Non-current [(b)]	(120)	(18)
Derivatives - assets - Current [(b)]	(91)	(60)
Net debt	**10,519**	**10,107**

(a) Consists of €933 million of lease debt following the application of IFRS 16 *Leases*.

(b) Used solely to manage net debt.

Changes in net debt in 2022

Danone's net debt totaled €10,107 million as of December 31, 2022, €412 million lower than as of December 31, 2021. It included €323 million of put options granted to non-controlling interests, €31 million lower than as of December 31, 2021.

Changes in net debt in 2021

Danone's net debt totaled €10,519 million as of December 31, 2021, €1,422 million lower than as of December 31, 2020. It included €354 million of put options granted to non-controlling interests, €9 million lower than as of December 31, 2020.

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 2022

During 2022, despite the increase in interest rates, cost of net debt decreased from €(167) million in 2021 to €(153) million, 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, 2022 and December 31, 2021, 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 2022 as in 2021, 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 Group's residual exposure is not significant.

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

Note 12.1. Accounting principles

Investments in other non-consolidated companies

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

Fair value

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

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

Other financial assets

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

Bonds and money-market funds are recognized at fair value in the consolidated balance sheet. Changes in fair value are recognized under consolidated equity in Accumulated other comprehensive income and recycled to profit or loss under Other financial income (expense) upon their disposal.

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 2022 as in 2021, the Group did not carry out any material transactions.

Carrying amount

	As of December 31	
(in € millions)	**2021**	**2022**
Investments in other non-consolidated companies	290	341
Bonds and money-market funds [(a)]	114	4
FPS Danone Communities	13	13
Other [(b)]	255	440
Other financial assets	382	457
Long-term loans	16	11
Other financial assets	**688**	**808**

(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:

- swap points and option premiums, in particular those related to operational foreign exchange risk and the acquisition/disposal of companies and equity investments, and the ineffective portions of derivatives that meet the conditions for classification as hedging instruments, 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 (see Note 11.2 of the Notes to the consolidated financial statements), 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 quarterly 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 value (other than the time value, see below) 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 value (other than the time value) of the derivatives are recognized in equity under translation adjustments and are recycled as income (expense) when the hedged asset is derecognized;
- future cash flows 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.
- The time value changes related to instruments qualified as fair value hedges or net investment hedges (swap points, currency option premium and basis spread of cross-currency swaps) or of foreign exchange derivatives are recognized in equity under Accumulated other comprehensive income and amortized over the term of the hedge. In the case of cash flow hedges, changes in the time value of foreign exchange derivatives are recognized in equity under Accumulated 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, 2022, the Group's residual exposure after hedging of exchange risks on its highly probable commercial operating transactions is significantly reduced for 2022, the main unhedged currency being the Turkish lira.

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

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. 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.

As part of these policies, the Group therefore uses currency swap contracts (foreign exchange swaps or 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

As of December 31

	2021			2022		
(in € millions)	**Notional**	**Fair value**	**Of which recognized in equity**	**Notional**	**Fair value**	**Of which recognized in equity**
Used to hedge operational currency risk	**(1,992)**	**(65)**	**(65)**	**(2,181)**	**38**	**39**
Cash flow hedge – currency options [(a)]	(318)	(6)	(6)	(109)	1	1
Cash flow hedge – forward currency contracts [(a)]	(1,677)	(60)	(60)	(2,072)	37	37
No hedge accounting applied	3	–	–	0	(1)	–
Used to manage raw materials	**262**	**16**	**16**	**112**	**(6)**	**(6)**
Used to manage net debt	**5,962**	**189**	**83**	**6,244**	**(312)**	**32**
Fair value hedge	3,147	102	–	3,050	(371)	–
Cash flow hedge	2,721	85	83	2,389	62	33
Net investment hedge	70	–	–	100	(1)	(1)
No hedge accounting applied	24	2	–	705	1	–
Total	**4,233**	**140**	**34**	**4,175**	**(280)**	**64**

(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

(in € millions)	2021 Forward currency contracts, net [a]	2021 Currency options, net [b]	2021 Total	2022 Forward currency contracts, net [a]	2022 Currency options, net [b]	2022 Total
(Sales)/Purchases of currencies						
CNY [c]	(349)	–	(349)	(852)	–	(852)
GBP [c]	(418)	(164)	(582)	(609)	(39)	(647)
MXN [c]	(125)	–	(125)	(171)	–	(171)
CAD [c]	(104)	(19)	(122)	(126)	(36)	(162)
BRL [c]	(85)	–	(85)	(94)	–	(94)
AUD [c]	(138)	(25)	(164)	(93)	(22)	(115)
HKD [c]	(303)	(94)	(397)	(73)	(10)	(83)
RUB [c]	(85)	–	(85)	(0)	–	(0)
USD [c]	136	(15)	121	363	(2)	361
Other [c]	(204)	–	(204)	(418)	–	(418)
Total	**(1,674)**	**(318)**	**(1,992)**	**(2,072)**	**(109)**	**(2,181)**

(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 have the following impacts on the Group's financial statements:

- an impact on equity in the case of derivatives documented as cash flow hedges;
- an impact on profit or loss in the case of transactions to which hedge accounting is not applied.

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 2022.

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 2022, as in 2021, 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 2022, as in 2021, 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 or fair value hedges, and for the change in fair value of the instruments not qualifying as hedges.

In 2022 as in 2021, 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 2022, as in 2021, the corresponding amounts are not material.

Management of raw material price volatility risk

As of December 31, 2022, the commodity portfolio consisted of diesel, plastic, dairy, sugar and soya 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

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

Exposure related to derivative instruments

	As of December 31	
(as a percentage of the total fair value as of December 31) [(a)]	**2021**	**2022**
Counterparty rating (Standard & Poor's)		
AAA, AA and A	99%	91%
BBB, BB and B	1%	9%
Unrated	–	–

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

The Group has entered into over-the-counter derivatives with leading banks under the terms of framework agreements that provide for the offsetting of amounts payable and receivable in the event one of the contracting parties defaults. These conditional offsetting agreements do not fulfill the IAS 32 criteria for offsetting derivative assets and liabilities in the balance sheet.

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, 2022 and December 31, 2021, 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	**2021**	**2022**
Risk on Company shares			
Treasury shares	14.2	2,380	1,559
Risk on other shares			
Investments in associates	5	771	576
Assets held for sale	4.2, 5.6	251	202
Investments in other non-consolidated companies	12.2	290	341

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

(in € millions)	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Amortized cost**	**Carrying amount**	**Fair value**	**Fair value level [c]**
As of December 31, 2022						
Financial assets						
Investments in other non-consolidated companies	50	291	–	341	341	1-3
Long-term loans and long-term financial assets	17	–	451	468	468	1-3
Derivatives - assets [a]	43	36	–	78	78	2
Trade receivables [b]	3,272	–	–	3,272	3,272	–
Other current assets [b]	1,233	82	–	1,315	1,315	–
Short-term loans	–	–	3	3	3	–
Money market funds	2,082	–	–	2,082	2,082	1
Other short-term investments	–	–	1,550	1,550	1,550	2
Cash	1,051	–	–	1,051	1,051	1
Total	**7,748**	**409**	**2,004**	**10,160**	**10,160**	
Financial liabilities						
Financing	3,179	–	10,983	14,162	13,701	2
Derivatives - liabilities [a]	380	2	–	382	382	2
Trade payables [b]	–	–	4,899	4,899	4,899	–
Other current liabilities [b]	–	49	3,542	3,591	3,591	–
Total	**3,559**	**51**	**19,424**	**23,034**	**22,573**	

(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 that is 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. DANONE treasury shares

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

		Changes during the period			
(in number of shares)	Situation as of December 31, 2021	Buybacks	Delivery of shares	Cancellation	As of December 31, 2022
Shares allocated to external growth transaction	**30,059,360**				**30,059,360**
Shares allocated to employee shareholding plans	**593,919**		(203,283)		**390,636**
Shares allocated to cancelation	**13,158,315**			(13,158,315)	**–**
Shares held by the Company	**43,811,594**		**(203,283)**	**(13,158,315)**	**30,449,996**
Shares held by Danone Spain	**5,780,005**				**5,780,005**
Total shares held by the Group	**49,591,599**		**(203,283)**	**(13,158,315)**	**36,230,001**

Note 14.3 Outstanding DANONE shares

Year ended December 31

		2021			2022		
(in number of shares)	Notes	**Share capital**	**Treasury**	**Outstanding**	**Share capital**	**Treasury**	**Outstanding**
As of January 1		686,629,600	(36,833,690)	649,795,910	687,682,489	(49,591,599)	638,090,890
Capital increase	8.5	1,052,889		1,052,889	1,313,758		1,313,758
Changes in treasury shares	14.2		(12,757,909)	(12,757,909)	(13,158,315)	13,361,598	203,283
As of December 31		**687,682,489**	**(49,591,599)**	**638,090,890**	**675,837,932**	**(36,230,001)**	**639,607,931**

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) 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 three 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 increase in the average number of fidelity shares allocated to approximately 1,750 directors and senior executives;
- the reduction in the number of shares that could theoretically be acquired, in accordance with the treasury stock method specified by IAS 33 *Earnings per share*.

Earnings per share

(in € per share, except for number of shares)	Notes	Year ended December 31 2021	2022
Net income - Group share		1,924	959
Coupon relating to hybrid financing, net of tax		(26)	(13)
Adjusted net income - Group share		1,898	945
Number of outstanding shares			
As of January 1		649,795,910	638,090,890
Effects of changes during the year	14.3	(11,705,020)	1,517,041
As of December 31		638,090,890	639,607,931
Average number of outstanding shares			
• Before dilution		646,155,699	639,050,821
Dilutive impact			
Group performance shares and fidelity shares		290,129	433,786
• After dilution		646,445,829	639,484,607
Net income – Group share, per share			
• Before dilution		2.94	1.48
• After dilution		2.94	1.48

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 2022 dividend

The Shareholders' Meeting on April 26, 2022 in Paris approved the dividend proposed relating to the 2021 fiscal year of €1.94 per share in cash.

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

Note 15.1. Accounting principles

Other provisions

Other provisions consist of provisions and investment subsidies.

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

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

Other non-current liabilities

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

Note 15.2. Other non-current provisions and liabilities

	As of December 31	
(in € millions)	**2021**	**2022**
Other non-current provisions	1,243	1,074
Other non-current liabilities [(a)]	580	491
Total [(b)]	**1,823**	**1,565**

(a) These relate to uncertain income tax positions.
(b) The current portion totaled €298 million as of December 31, 2022 (€496 million as of December 31, 2021).

Note 15.3. Changes in Other provisions

		Changes during the period						
(in € millions)	**As of January 1, 2022**	**Changes in consolidation scope**	**Increase**	**Reversal of provisions used**	**Reversal of provisions not used**	**Translation adjustments**	**Other**	**As of December 31, 2022**
Tax and territorial risks [(a)]	95	11	14	(4)	(11)	(1)	0	105
Employee-related and commercial disputes and other provisions	540	(0)	100	(23)	(40)	0	(19)	557
Restructuring provisions [(b)]	608	–	158	(214)	(151)	(1)	11	412
Total	**1,243**	**11**	**272**	**(241)**	**(202)**	**(1)**	**(8)**	**1,074**

(a) These concern those risks not relating to income tax, which are presented in Other non-current liabilities.
(b) Including a €98 million increase in respect of the Local First plan.

Changes in Other provisions in 2022 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, 2022, 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 compensation granted to some employees, with these provisions established in the context of the normal course of business, as well as provisions relating to employee-related measures under the terms of the Local First plan.

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 2022, a number of actions were brought by cattle farmers against various players in the dairy industry in Spain, including the Spanish subsidiary Danone S.A.. Cattle farmers have filed claims alleging that they have suffered damages for the under-priced milk sold. Danone S.A. firmly refutes these allegations and intends to defend its interests in each of these proceedings.

In 2021, a number of class action lawsuits were filed in the United States against the U.S. subsidiary Nurture Inc. on the basis of alleged misleading advertising regarding the presence of certain heavy metals in food products. In several parallel lawsuits, plaintiffs (who are individuals) have alleged that they have suffered personal injury resulting from having consumed these food products. Nurture Inc. formally denies all these allegations and reaffirms the safety of its products. Nurture Inc. is vigorously defending its interests in each of these proceedings.

In addition, on October 7, 2021, Danone received a Statement of Objections (*notification de griefs*) from the French Competition Authority. This Statement of Objections, which was sent to more than 100 companies and 14 professional organizations, concerns in particular issues related to the application of competition rules, and communication initiatives concerning the absence of bisphenol A from food contact materials before 2015.
Danone vigorously contests the French Competition Authority's allegations and intends to answer all of its questions in the context of the adversarial procedure, within the required time frame.

No provision has been recognized in the consolidated financial statements for the year ended December 31, 2022 as the Group is not currently in a position to make a reliable assessment of the potential impact of the outcome of these ongoing proceedings on its results and financial position.

In general, the Company and its subsidiaries are parties to legal proceedings arising in the 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.

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 2021, the amounts pertaining to 2022 are not material.

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

Compensation paid

	Year ended December 31	
(in € millions)	**2021**	**2022**
Compensation paid to corporate officers and members of the Executive Committee [(a)]	17.3	28.6
Attendance fees paid to Directors	0.8	0.8
Total	**18.2**	**29.4**
Carrying amount of shares subject to performance conditions granted during the year [(b)]	8.2	18.4

(a) Annual and multi-year fixed and variable compensation (gross amount excluding employer contributions), of which the variable portion totaled €12.5 million in 2022 (€5.6 million in 2021).

(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, 2022, in accordance with IFRS, i.e. a total of €31.7 million for Executive Committee members. Indeed, as regards the Chief Executive Officer Antoine de SAINT-AFFRIQUE, he does not benefit from this plan as it has been closed to new beneficiaries since 2003.

Loans and guarantees

In 2022, as in 2021, no loan or guarantee was granted or established by the Company or its subsidiaries on behalf of Executive Committee members.

Note 17. Subsequent events

To the Company's knowledge, no material events occurred after February 21, 2023, the date on which the 2022 consolidated financial statements were approved by the Board of Directors.

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

	Pricewaterhouse-Coopers Audit		Mazars & Associés		Ernst & Young Audit			
(in € millions, except percentage)		**2021**		**2022**		**2021**		**2022**
Statutory audit: certification of the individual and consolidated financial statements	4.0	74%	4.0	86%	5.5	85%	6.0	82%
Services other than the certification of the financial statements	1.4	26%	0.6	14%	1.0	15%	1.3	18%
Total [(a)]	**5.4**	**100%**	**4.6**	**100%**	**6.4**	**100%**	**7.3**	**100%**

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

(b) Mazars & Associés was appointed Statutory auditors of Danone by the Shareholders' Meeting of April 26, 2022.

In 2022, 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 €2.5 million (€2.6 million in 2021), of which €0.9 million for Mazars & Associés (€1.2 million for PricewaterhouseCoopers Audit in 2021) and €1.6 million for Ernst & Young Audit (€1.4 million in 2021). The fees for services other than the certification of the financial statements for the year ended December 31, 2022 totaled €1.6 million (€1.5 million in 2021), of which €0.6 million for Mazars & Associés (€0.7 million for PricewaterhouseCoopers Audit in 2021) and €1.0 million for Ernst & Young Audit (€0.7 million in 2021) and included in particular fees for due diligences, tax services and agreed-upon procedures related to disposals of companies' shares, and fees for tax services related to reorganization projects.

The fees of the Statutory auditors' networks for services other than the certification of the financial statements to certain foreign subsidiaries of Danone totaled €0.4 million (€0.9 million in 2021), of which €0.0 million for Mazars & Associés (€0.7 million for PricewaterhouseCoopers Audit in 2021) and €0.4 million for Ernst & Young Audit (€0.2 million in 2021), and included in particular fees for tax services related notably to the review of technical documentation or 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 exemption options in respect of the year ended December 31, 2022, which shall be mentioned in the consolidated financial statements pursuant to local regulations

Country and exemption	Company (company number)
Germany Exemption option from audit of individual accounts under § 264 (3) HGB	Milupa GmbH
Ireland Exemption option from publication of individual accounts under section 357 (1) of the Companies Act 2014	Nutricia Infant Nutrition Limited (384474), Danone Europe Limited (407825), Danone Limited (217235), Nutricia Ireland Limited (106997)

Statutory auditors' report on the consolidated financial statements

To the Annual General Meeting of Danone,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Danone for the year ended December 31, 2022.

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 December 31, 2022 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 the independence requirements of the French Commercial Code (*Code de commerce*) and the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*) for the period from January 1, 2022 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.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to 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

Risk identified	Our response
As of December 31, 2022, total net sales were recorded for an amount of €27,661 million in the consolidated financial statements. As indicated in Note 6.1 to the consolidated financial statements, the 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. 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 year-end.	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 that we considered to be key, in the main operating entities. We also performed substantive procedures to assess: • the amounts to be refunded to customers being measured and recognized on the reporting date, on a sample on customers, 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; • whether revenue was being recognized in the appropriate period by (i) testing, using sampling techniques, 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.

Goodwill, brands and invested capital in Russia

Risk identified	Our response
As of December 31, 2022, goodwill amounted to €17,938 million euros and brands amounted to €5,843 million. In the course of the financial year, the Group recognized a €171 million impairment charge on goodwill and brands excluding Russia. In addition, a €487 million impairment charge has been recognized relating to invested capital in Russia. These assets are subject to impairment tests, at least once a year in the case of goodwill and brands with indefinite useful lives. 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 according to the royalty relief methodology for brands, with the exception of certain brands for which the group possesses third-party valuations, as explained in Notes 3 and 10.3 to the consolidated financial statements. In 2022, as indicated in Note 10.3 to the consolidated financial statements, management has also revised the definition of the cash generating units (CGUs) and groups of CGUs to which goodwill are allocated to reflect the Group's reorganization leading to the allocation of goodwill to geography-led CGUs and no longer to category-led CGUs. 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 brands. Taking into account the sensitivity of these estimates, we therefore deemed the measurement of goodwill and brands to be a key audit matter.	*Goodwill and brands* We gained an understanding of the processes set up by management to allocate the goodwill to CGUs or groups of CGUs, in order to identify any indications of loss in value and to determine the cash flow projections underlying the impairment tests. For a sample of CGUs and brands, identified on the basis of quantitative and qualitative factors, as well as for the invested capital in Russia, we examined the methods and main assumptions used to determine the recoverable amount, including: • 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; • the long-term growth rates, the discount rates and the royalties' rates, with the support of financial valuation experts included in the audit team. *Invested capital in Russia* Regarding the invested capital in Russia, we have moreover examined the implications of the ongoing disengagement project. 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.

Tax assets and liabilities

Risk identified	Our response
The 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. As indicated in Note 15 to the consolidated financial statements, liabilities for tax risks, including territorial risks, amounted to €596 million as of December 31, 2022. As of December 31, 2022, the amount of €120 million 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 to the consolidated financial statements. The recoverability of these deferred tax assets resulting from tax loss carryforwards is based primarily on the ability of the entities concerned to meet their targets defined in the business plans drawn up by management. The recognition of tax assets and liabilities and liabilities for tax risks constitutes a key audit matter, given (i) the judgment required to assess the recoverability of deferred taxes and (ii) the probable outflows of resources related to tax disputes.	We gained an understanding the procedures implemented within the Group to identify the main tax risks, as well as management's assessments of these risks. 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 included tax specialists in the audit team in order to assess the assumptions used by management to determine the liabilities for tax risks. We examined the deferred tax positions for the most significant entities. Our work consisted primarily in examining the consistency of the assumptions concerning the use of the tax loss carryforwards against future taxable profits with the business projections prepared by the management, used in particular within the scope of the impairment tests on goodwill and on brands.

Specific Verifications

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

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

We attest that the consolidated non-financial statement required by Article L. 225-102-1 of the French Commercial Code (Code de commerce) is included in the information relating to the Group given in the management report, it being specified that, in accordance with Article L. 823-10 of said Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein and the information has to be subject to a report by an independent third party.

Report on Other Legal and Regulatory Requirements

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

We have also verified, in accordance with the professional standard applicable in France relating to the procedures performed by statutory auditors regarding the annual and consolidated financial statements presented in the European single electronic format, that 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*), prepared under the responsibility of chief executive officer, complies with the single electronic format defined in Commission Delegated Regulation (EU) No. 2019/815 of 17 December 2018. Regarding consolidated financial statements, our work includes verifying that the tagging thereof complies with the format defined in the above-mentioned regulation.

On the basis of our work, we conclude that the presentation of the consolidated financial statements intended to be included in the annual financial report complies, in all material respects, with the European single electronic format.

Due to the technical limitations inherent in the macro-tagging of consolidated accounts according to the single European electronic information format, the content of certain tags in the notes may not be returned in the same way as the consolidated accounts attached to this report.

We have no responsibility to verify that the consolidated financial statements that will ultimately be included by your Company in the annual financial report filed with the AMF (*Autorité des marchés financiers*) agree with those on which we have performed our work.

Appointment of the Statutory Auditors

We were appointed statutory auditors of Danone by the annual general meetings held on 28 April 2016 for ERNST & YOUNG Audit and on 22 April 2022 for MAZARS & Associés.

As at December 31, 2022, ERNST & YOUNG Audit and MAZARS & Associés were in the seventh year of total uninterrupted engagement and the first year of engagement respectively.

Previously, ERNST & YOUNG et Autres held office as statutory auditor of Danone since 2010.

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 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 from 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 made 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:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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;
- obtains 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;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;
- assesses 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 his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains 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 auditor is 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 to the Audit Committee a report 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 significant deficiencies, if any, 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) No. 537/2014, confirming our independence within the meaning of the rules applicable in France as set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*). 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, le 7 mars 2023

The Statutory Auditors

French original signed by

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