

Rating object

Danone S.A.

Long term local currency senior unsecured issues issued by Danone S.A.

Rating incl. outlook / watch

BBB+ / stable

BBB+ / stable

The present rating is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Danone S.A.	19.12.2022	19.12.2022	Until withdrawal of the rating
Long term local currency senior unsecured issues issued by Danone S.A.	19.12.2022	19.12.2022	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

As part of the review of the unsolicited corporate issuer rating, as a result of a methodological adjustment in our corporate rating system, there was a change in the industry assessment with regard to Danone S.A. due to an adjustment in the calculation of a parameter (+1 notch). In the updated overall rating assessment, this is compensated for by what we believe to be weaker earnings and internal financing power in the current financial year compared to previous years, the effects of the war between Russia and Ukraine and generally higher uncertainty of the framework conditions (-1 notch), so that we maintain the rating of **BBB+ / stable**.

According to the interim financial report (H1 2022), Danone achieved sales growth of 12.6% to EUR 13.3 billion as of June 30, 2022 (June 30, 2021: EUR 11.8 billion), thus exceeding the pre-crisis level for the first time (June 30 to June 30, 2021). 2019: EUR 12.6 billion). On a like-for-like basis (mainly adjusted for currency and consolidation effects), sales growth was 7.4%. In the same period, recurring operating income increased disproportionately to sales by 3.9% to EUR 1.6 billion (June 30, 2021: EUR 1.6 billion), so that the recurring operating margin dropped from 13.1% to 12.1%. This was primarily due to strong cost inflation, which could only be offset to a limited extent by price increases. Before the pandemic, the recurring operating margin was 14.7% (as of June 30, 2019). At EUR 0.8 billion, EAT was significantly weaker than in the same period of the previous year (June 30, 2021: EUR 1.1 billion), contributed to by a weak investment result and increased tax expenses. The cash flow from operating activities was burdened by negative working capital changes, amounting to EUR 1.0 billion as of June 30, 2022 (June 30, 2021: EUR 1.4 billion). Free cash flow fell by 33.2% to EUR 0.7 billion (06/30/2021: EUR 1.0 billion). By reducing short-term investments by roughly EUR 2.1 billion, cash holdings increased overall. However, the reduced level of liquidity (including short-term investments), coupled with a slight reduction in financial debt, led to an increase in net financial debt by EUR 1.0 billion to EUR 11.2 billion. Overall, we see the Company's currently burdened earnings and internal financing power and the general conditions characterized by increased uncertainty - among other things as a result of the negative effects of the war between Russia and Ukraine and the associated burdens (impairment and decline in business due to the sale of the EDP business in Russia), rising costs and interest rates, as well as the gloomy global economic outlook - as a compensating effect for the change in the industry assessment in the course of the methodology adjustment.

We have also provided the EUR-denominated, unsubordinated and unsecured debt securities issued by Danone S.A. with an unsolicited corporate issue rating of **BBB+**, having strongly satisfactory credit quality and a low to medium risk of default. The outlook is also **stable**.

Primary key rating drivers:

- + Change in the industry assessment in the course of adjusting the methodology
- + Positive development in H1 2022 in sales and recurring operating income compared to the same period of the previous year
- Despite sales growth in H1 2022 (above the pre-crisis level), recurring operating income and operating income, as well as the corresponding margins, are noticeably below the pre-crisis level
- Cash flow from operating activities and Free cash flow with significant deterioration in H1 2022
- Danone's net financial debt increased by EUR 1,0 billion up to EUR 11,2 billion due to decreased short term investments

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Danone S.A. we have not identified any ESG factor with significant influence.

Danone has average values overall for CO₂ emissions, energy and water consumption, but is one of the best companies of its size in an industry comparison. As an international company with worldwide production sites and complex supply chains in industries with a higher risk profile (e.g. cocoa production), violations of labor and human rights cannot be ruled out for Danone. The consideration of ESG factors, however, has been part of the corporate strategy for years, and was highlighted in 2020 by the adaptation of a newly-created form of company in France, an "entreprise à mission", which anchors in its statutes corporate goals in the areas of social, environmental and health factors. The Company's social and environmental goals follow the United Nations Sustainable Development Goals, which we generally assess as positive. Although we generally assume that the strategic direction and focus on ESG factors will continue, it remains to be seen how they will be weighted in the future. Overall, we see Danone as solidly positioned with regard to ESG criteria, which has a stabilizing effect on the rating given the increasing focus in the market on sustainability. In November 2022, Danone announced a new global energy excellence program, Re-Fuel Danone, to transform the energy footprint of its sites worldwide and improve energy and cost-efficiency, resilience and decarbonization.

Overall, in our opinion, there are a number of aspects to be observed with regard to the ESG factors, although we cannot derive an effect from them at the moment which would impact the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the company's achievement of self-imposed goals and on regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A-

With regard to the scenarios, we refer to the statements in the last update report from May 27th, 2022. The scenarios remain unchanged.

Worst-case scenario: BBB

With regard to the scenarios, we refer to the statements in the last update report from May 27th, 2022. The scenarios remain unchanged.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Danone S.A.	Initial rating	29.03.2017	05.04.2017	04.03.2020	BBB+ / stable
LT LC Senior Unsecured Issues issued by Danone S.A.	Initial rating	28.09.2018	08.10.2018	04.03.2020	BBB+ / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public unsolicited rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating¹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

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In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

Rules on the presentation of credit ratings and rating outlooks

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To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

¹ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

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In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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