TAX POLICY

DANONE

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CONTEXT & CHALLENGES

The last few years have witnessed growing attention from the media, public and non-governmental organizations on perceived international tax avoidance by large multinational corporations. Further, governments around the world are concerned about their respective tax base erosion due to artificial allocation of taxable profits to locations different from those where the valuable business activity takes place. Governments concerns are exacerbated in a context of increasing financial pressure on public budgets.

In light of the above, G20 member countries requested the Organisation for Economic Cooperation and Development ("OECD") to review international tax rules so as to address weaknesses in the current tax system. OECD launched a massive fast-paced program over the last three years to develop 15 Action Plans under the Base Erosion and Profit Shifting ("BEPS") initiative. In 2015, the BEPS initiative resulted in the OECD issuing a package of recommendations for a coordinated international approach to reform the international tax system.

As a multinational Company operating worldwide, Danone acknowledges the key role of taxes in the budget and development of the countries where its operations are located. This is the reason why Danone is supportive of the BEPS initiative, to which it actively contributed by providing input to business consultations. We are convinced that increased transparency towards tax administrations will ultimately contribute to reduce unfair tax competition, and hence benefit our business.

This publication of our Tax Policy is a token of our commitment to explain our guiding principles in relation to taxes.

KEY FIGURES

The Effective Tax Rate[1] ("ETR") of Danone is below the corporate income tax rate in France, where the Danone Company is headquartered. The difference between the consolidated ETR of the Danone Company and the French corporate income tax rate (34.4% for fiscal year 2018, excluding exceptional corporate income tax surcharges) is reconciled in the Company's Registration Document (Note 9.1 of the Annexes to the Consolidated Accounts). This difference is mainly due to the difference between the French corporate income tax rate and the corporate income tax rates applicable in the other countries where the Company's profits are taxed. In this respect, the Danone's Effective Tax Rate is reflective of the statutory corporate income tax rates of the countries in which we operate our business.

In 2018, the worldwide consolidated amount of corporate taxes accounted by Danone amounted to 716 million euros. This represents an Effective Tax Rate of 29,9% in 2018 (as compared to 25,6% in 2017). After the decrease of the ETR in 2017 (which was mainly explained by the impact of the decrease of the corporate income tax rate in the United-States following the US tax reform), the effective corporate income tax rate has increased again in 2018 (the 2018 ETR being negatively impacted notably by the impairment of Centrale Danone in Morocco).

In addition to corporate taxes, the Danone Company pays and collects numerous other mandatory contributions. These contributions include employee taxes and social contributions, sales taxes, customs duties and local transactions taxes. In 2018, Danone paid in France a total of over 500 million euros in mandatory contributions.

DANONE TAX POLICY

In line with its "dual social and economic project", Danone is committed to manage its tax policy in a responsible and transparent way.

Guided by this commitment, the tax policy of Danone relies on three key principles:

[1] For a given tax year, the Effective Tax Rate corresponds to the sum of taxes (due and deferred) of the Company and its consolidated subsidiaries, divided by the Company's profit before tax as determined based on applicable accounting consolidation rules.

PREPARE – Ensuring transparent and complete tax compliance

The first objective of the Danone tax policy is to ensure that the Company and its subsidiaries comply with all local tax regulations and laws wherever Danone operates. It means in particular that all tax returns required by law or regulations are filed in due time, and all taxes paid accordingly.

In relation to cross-border transactions, Danone applies the OECD standard and ensures that the transfer pricing policies implemented within the Company respect the "arm's length principle" [2]. It is part of the mission of the Danone Tax Department to define the transfer pricing policies of each business, and to control carefully their correct application within the Company. Also, Danone prepares a Country by Country Report, following the international guidelines.

For Danone, cross-border transactions consist mainly of royalty payments for the remuneration of the brands owned centrally, management fees for the remuneration of services provided by the French headquarters or locally by shared service centers, and payments for raw materials and finished products. Those cross-border transactions are documented in each country, and fully disclosed to the local authorities whenever required.

Finally, on a consolidated basis, Danone supervises the overall amount of corporate taxes paid by the Company on a worldwide basis. Danone is fully committed to transparency towards local tax administrations.

PROPOSE – Proposing tax solutions that are the most relevant to the reality of our business

The ambition of the Danone tax policy is to bring value to the Company's stakeholders by protecting its overall competitiveness. For that purpose, the Danone tax department monitors the tax situation of the Company and makes sure that the most relevant options are implemented when available according to local laws and regulations.

[2] In order to avoid artificial transfer of profits, the so-called « arm's length principle » aims at setting the price of intragroup transactions within multinational groups as if they were carried out between independent parties.

The mission of the Danone Tax Department also encompasses the monitoring of the payment deadlines for all taxes, so as to ensure an optimized management of the cash tax position of the Company,

Due to the complexity of the various tax systems all over the world, multinational groups very often face situations of “double taxation” when the same economic profit is taxed in two different jurisdictions. As part of its mission, the Danone Tax Department seeks to mitigate such situations of “double taxation” by relying on the good application of the tax treaties signed by the countries where the Company operates.

The Danone Tax Department is organized through a corporate team and local professionals working closely with the operations. The Tax Department is in charge of assisting the business in the development of the operations and contributes to the implementation of the most efficient organization. When proposing tax solutions, the Danone Tax Department is committed not to implement aggressive tax planning schemes that would disconnect from the conduct of the business or to enter into artificial tax planning arrangements.

In accordance with its social responsibility, Danone also contributes to the public debate. In the field of taxation, Danone regularly participates in consultations initiated by governments, tax authorities and international organizations in order to help progress towards more effective tax policies. In that sense, Danone notably provides input to governments and international organizations about potential impacts of tax changes to the economic environment.

PROTECT – Ensuring predictability for the Company

Finally, the tax policy of Danone aims at providing financial visibility and mid-term projections for the Company. In this perspective, the Danone tax department constantly monitors proposed draft legislations around the world, so as to anticipate the financial consequences of tax law evolutions. Besides, Danone regularly reviews areas of tax risks, which may result from potential challenges of the Company’s tax positions by local tax authorities.

In order to minimize the risks of potential tax disputes, the Danone Tax Department is encouraged to engage proactively with local tax authorities whenever possible. In addition, Danone tax professionals are committed to exchange information with the tax authorities in a cooperative and transparent manner.

However, situations may still arise where the positions of the Company are challenged by local tax authorities. Disagreements with the tax administrations may result from divergent interpretation of local or international tax provisions. In addition, jurisdictional conflicts may lead to challenges regarding the appropriate country in which a specific item of profit shall be taxed.

As a result, Danone manages tax audits that may be initiated anywhere in the world where the Company operates its business. An important mission of the Danone Tax Department is to ensure a good defense of the Company by making sure that all technical questions of the local tax administration are answered in due time.

In certain cases, the defense of the Company’s interests may lead to litigation processes. The Danone Tax Department is then in charge of following up on litigation processes initiated locally.