DANONE TAX POLICY

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 Organization for Economic Cooperation and Development ("OECD") to review international tax rules so as to address weaknesses in the current tax system. In 2015, the OECD released its recommendations aiming at fighting tax erosion and profit shifting under the "BEPS"1 initiative. Since then, the OECD has set itself the goal of reaching a consensus among states on international taxation to resolve the tax challenges raised by the digitization of the economy.

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.

On March 14th, 2019, Danone signed a partnership agreement with the French tax authorities as part of the "Confiance Plus" program, which aims at developing transparency, trust and collaboration between taxpayers and the French tax administration. As part of "Confiance Plus", Danone maintains a continuous and transparent dialogue with French tax authorities on its French and international tax matters. This partnership is a natural fit with Danone's tax policy, which aims above all to ensure the compliance of our company with the applicable tax provisions and to ensure the security of our technical positions.

[1] "Base Erosion Profit Shifting" (BEPS) refers to tax strategies that exploit loopholes and differences in tax rules to avoid the taxation of profits or transfer them to countries or territories where the company does not carry on any real economic activity. The Inclusive BEPS Framework brings together more than 125 countries and jurisdictions that work collaboratively to implement BEPS measures and combat the erosion of the tax base.

Since 2016, Danone has officially published its tax policy. This publication of our tax policy constitutes a token of our commitment to explain our guiding principles in relation to taxes.

KEY FIGURES

The Effective Tax Rate[2] ("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 (32.01% for fiscal year 2020, 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 2020, the worldwide consolidated amount of corporate taxes accounted by Danone amounted to 762 million euros. This represents an Effective Tax Rate of 30.6% in 2020 (as compared to 27.7% in 2019). Such increase is mostly driven by the change in the Corporate Income Tax in The Netherlands, resulting in the reevaluation of the deferred taxes.

In addition to corporate taxes, Danone collects and pays numerous other mandatory contributions. These contributions include employee taxes and social contributions, sales taxes, environmental taxes, as well as customs duties and local transaction taxes. In 2020, Danone paid a total amount of 3.3 billion of mandatory contributions (including the amounts collected by Danone on behalf of the local tax authorities) and bore a net amount of mandatory contributions of 1.8 billion euros[3]. The distribution of mandatory contributions paid by Danone is presented in Danone's Annual Integrated Report by type of contributions and by major geographic areas.

[2] 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.

[3] The difference between the total amount of mandatory contributions paid by Danone and the net amount of mandatory contributions borne by Danone is made up of the amounts collected by Danone on behalf of the local tax authorities (eg. social security contributions, collected VAT, income tax of the employees, etc.).

In France, Danone collected and paid a total amount of mandatory contributions close to 600 million euros in 2020.

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. This commitment is in line with Danone's ambition to achieve "B Corp" certification worldwide[4], and to meet the highest standards in social and environmental performance, transparency and accountability.

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

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" [5]. 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

[4] B Corp certification is issued by the non-profit organization B Lab to companies that demonstrate high standards of social and environmental performance. Since 2015, Danone has partnered with B Lab to help define a coherent and achievable certification process for multinationals. In 2019, Danone has 17 "B Corp" certified entities around the world.

[5] 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.

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.

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.