kemira

# Tax Footprint 2017

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# Tax footprint report 2017

This tax footprint report is a non-audited report, where Kemira publishes its global tax policy and key tax figures. Kemira's quantitative tax analysis is prepared based on the financial statement (e.g. corporate income taxes), non-audited data derived from Kemira's ERP and estimations (e.g. VAT and customs duties). Estimations are prepared on transactional basis.

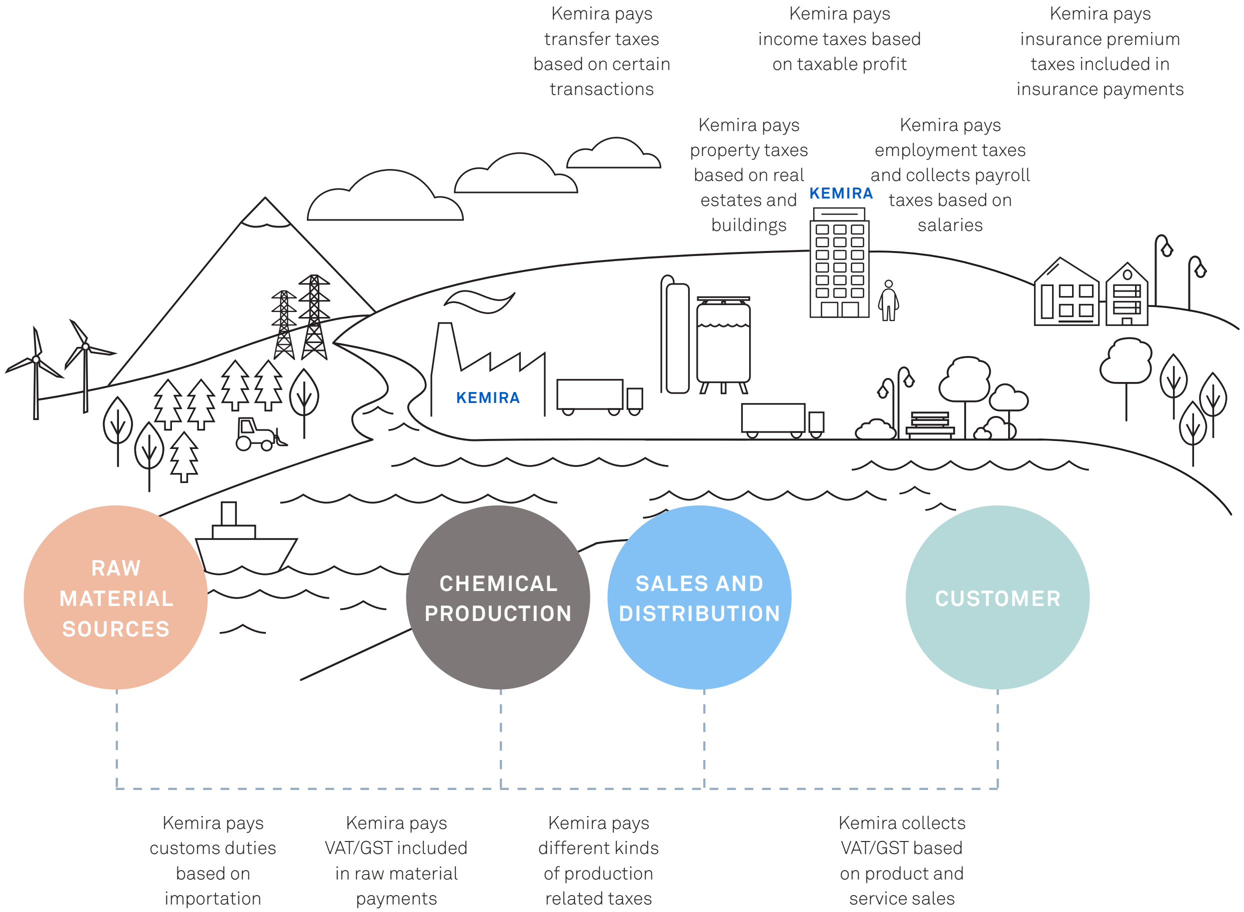
Kemira prioritizes transparency in tax matters and discloses comparable information package for investors' purposes.

## Kemira as a taxpayer in 2017

Kemira's approach to tax matters is to support responsible business performance in a sustainable way. Taxation is an essential factor in our current business environment and it has a significant impact on our businesses, financing and growth opportunities.

Kemira manages taxes according to the principles set in Kemira´s global tax policy ("Tax Policy"). Tax Policy sets standards to managing and executing tax matters throughout Kemira group companies. In order to support sustainable business operations with high ethical corporate responsibilities, Tax Policy is aligned with our corporate strategy and values as well as the Kemira Code of Conduct.

**Taxes in the full value chain from raw material supply to finished goods' deliveries to customers**



We are commited to conducting our business in compliance with all applicable laws and regulations and according to high ethical standards.

Kemira is a global chemicals company serving customers in water-intensive industries. We provide expertise, application know-how and chemicals that improve our customers' product quality, process and resource efficiency. Our focus is on pulp & paper, oil & gas and water treatment.

Chemical industry is a capital-intensive sector and, therefore, it is important that our business operations, structures and financing are organized in the most tax effective way (i.e. corporate income tax, VAT, property tax, customs duties, energy tax, waste tax, withholding tax etc.). Kemira operates in over 100 countries and has subsidiaries globally. Our business is built upon a combination of centralized business processes and local performance. Consequently, our profits are generated both in Finland, our headquarter jurisdiction, and locally according to arm's length transfer pricing principles.

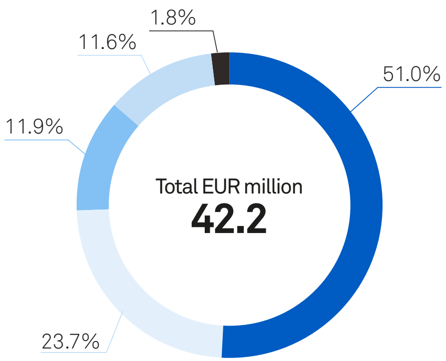
Tax consequences of business operations and decisions can be material e.g. in acquisitions, divestments, related financing and transfer pricing. Due to extensive global spread of our operations and investments, our business decisions may have tax impacts in multiple jurisdictions. From tax perspective, our focus is to promote and support profitable organic and inorganic growth in our business segments.

## Kemira's tax contribution

The amount and type of taxes paid by Kemira are shown below. In 2017, the amount was EUR 159.8 million of which EUR 42.2 million related to taxes borne and EUR 117.6 million to taxes collected.

Taxes borne include corporate income taxes (excluding deferred taxes), property taxes, excise taxes, custom duties, waste taxes, energy taxes and cost of indirect taxes. Taxes collected include VAT, GST, sales and use tax, payroll taxes and withholding taxes.

**Taxes borne in 2017,** EUR million and %



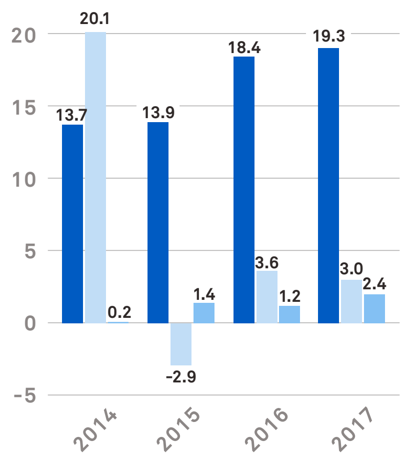

VAT and customs duties in the Tax footprint report are estimated based on transaction values and applicable VAT / customs duty rates for the year 2017.

## Demanding and uncertain tax environment in 2017

The changing tax landscape has increased complexity and administration for multinationals' operations globally. In addition, global economic and environmental changes affect the circumstances of Kemira's operations.

Kemira has reviewed and redesigned its business models, finance structures and transfer pricing to be aligned with the recommendations of OECD's BEPS actions and the EU anti-tax avoidance directive (ATAD). The OECD's Multilateral

**Corporate income taxes borne by region on cash flow basis,** EUR million




In 2015, Americas was refunded the overpaid taxes of 2014.

Instrument (MLI) was signed in June 2017. Part of the BEPS actions are adopted via MLI i.e. new tax treaty provisions relating to treaty abuse, hybrid mismatch arrangements, dispute resolution and permanent establishment. All Kemira's operating countries did not sign MLI and also the signatory countries have made reservations to it. For instance Finland made reservations to MLI. Further, OECD published an updated version of the OECD Model Tax Convention and the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

Overall, the future tax landscape is to be clarified when both the EU actions and the OECD's BEPS project proceed to the implementation phase. Since country-level implementation of tax law and treaty changes are still unfinished, Kemira still follows new requirements in its operating countries.

The US tax reform has significant impacts on Kemira. Overall effects will depend on Kemira's future growth and profitability in the US. The transition tax, limitation of interest cost deductibility and base erosion anti-abuse tax (BEAT) have immediate negative impacts on Kemira. However, the US federal corporate income tax rate reduction to 21% had already material positive effect due to changes in deferred taxes in 2017. The lower federal corporate income tax rate will have a positive tax effect also in the future.

Kemira has recognized the following tax trends:

- lowering of corporate income tax rates;
- increasing tax burden due to BEPS related international tax measures; and
- high VAT burden.

Kemira is well prepared to be compliant with new requirements when they are enforced.

## Five key elements of Kemira's tax strategy

### Tax management

Kemira's Tax Policy follows a sustainable tax strategy in order to implement Kemira's corporate strategy, values and the Kemira Code of Conduct from tax perspective and to support management in high ethical corporate responsibilities.

The scope of Kemira's tax strategy covers:

- Corporate income taxes
- Indirect taxes
- Customs duties
- Employment taxes
- Property taxes
- Energy and waste taxes
- Other applicable tax matters

Kemira's global tax team is responsible for managing and executing Kemira's Tax Policy. The global tax team is a part of Kemira CFO organization and it is responsible for preparing, documenting and executing Kemira's tax strategy and group level tax considerations. The affairs prepared by global tax team are approved by the CFO, the Management Board or the Board of Directors of Kemira Oyj according to Tax Policy principles.

### Tax compliance

We are committed to full compliance of all statutory obligations. Our target is to comply with the applicable tax rules in our operating countries for all tax filing, tax reporting and tax payment obligations. Kemira is commited to react to all tax authorities' requests in a timely manner.

We apply the OECD standards in cross-border transactions and we ensure that our transfer pricing is in accordance with the "arm's length principle".

Our target is to have a high-quality and timely tax compliance process. If an error is detected in submission of tax returns and tax computations to tax authorities, we disclose a correction as soon as reasonably practical after the error has been identified.

### Sustainable approach to tax planning and risk level

We create value to our stakeholders by optimizing the tax efficiency of business operations, including applying tax incentives and exemptions. We seek to do this in a way which is aligned with our commercial objectives. We do not operate in tax haven countries for tax reasons. Kemira targets a low tax risk level and does not engage in artificial arrangements.

### Tax risk management and tax risks

Tax risks are managed in alignment with Kemira's enterprise risk management system. Kemira communicates general tax related principles within the group and has harmonized practises and working methods for tax matters.

The day to day tax affairs are managed by Kemira's global tax team with the aid of relevant local finance team according to the principles in Kemira's Tax Policy.

Processes relating to different taxes are allocated to appropriate specialists within the global tax team who carry out a review in order to identify key risks and to set mitigating controls in place. Kemira has reduced the level of tax risks by implementing various internal processes, tools and analytics.

Our target is to mitigate tax risks with the aid of the following rules:

- observe all applicable laws, rules and regulations, case law and disclosure requirements;
- ensure that all decisions are taken at an appropriate level and supported with documentation evidencing the facts, conclusions and risks involved;
- seek professional advice and opinions from independent external advisors in complex and uncertain tax matters; and
- aim to certainty in tax positions.

## Transparency and relationship with the tax authorities

We are transparent and proactive in all interactions with the tax authorities. We have an open and positive working relationship with the tax authorities and aim at constructive dialogue with them. We are committed to prompt disclosure and transparency in all tax matters with the tax authorities. In cases of different interpretations between Kemira and the tax authorities, Kemira aims to resolve such differences in a constructive and professional way with the intention to bring matters to a swift conclusion.

# Financial statement disclosures

Kemira publishes tax information as a part of the group's financial statements. Income taxes and deferred taxes are included in the tax notes of the financial statements. See Note 2.6 Income taxes and Note 4.4 Deferred tax liabilities and assets to the consolidated financial statements.

The tax reconciliation explains the difference between the statutory tax rate in Finland compared to the rate at which Kemira is effectively taxed as per the tax charge on the income statements. The effective income tax rate was 24.4% (23.5%).

The subsidiaries have EUR 125.5 million (108.1) tax losses, of which no deferred tax benefits have been recognized. The subsidiaries' tax losses are incurred in different currencies and born mainly in Brazil and China.

According to the US tax reform signed on December 22, 2017, the federal corporate income tax rate reduced from 35% to 21%, which has been taken into account when calculating deferred tax assets and liabilities. The effect of tax rate change in deferred taxes is EUR 8.4 million positive. Deferred tax liabilities arise mainly from temporary differences in depreciations. In addition according to the US tax reform, the undistributed earnings & profits of foreign subsidiaries owned by US legal entities shall be subject to one-time tax (transition tax), which is EUR 2.0 million. This amount is included in "Non-deductible expenses and tax-exempt profits".

| RECONCILIATION BETWEEN TAX EXPENSE AND TAX CALCULATED AT DOMESTIC TAX RATE<br>EUR million | 2017 | 2016 |
|---|---|---|
| Profit before tax | 112.6 | 128.0 |
| Tax at parent's tax rate 20% | -22.5 | -25.6 |
| Foreign subsidiaries' different tax rate | -2.0 | -3.0 |
| Non-deductible expenses and tax-exempt profits | -3.2 | -2.9 |
| Share of profit or loss of associates | 0.0 | 0.0 |
| Tax losses | -5.9 | -5.5 |
| Tax for prior years | 0.1 | -1.8 |
| Effect of change in tax rates | 8.4 | -0.2 |
| Tax credit from WHT related to prior years | 0.0 | 3.1 |
| Changes in deferred taxes related to prior years | -2.3 | 5.8 |
| Others | 0.0 | 0.0 |
| **TOTAL TAXES** | **-27.4** | **-30.1** |

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## Deferred taxes in the balance sheet

Deferred taxes illustrate timing differences between accounting and taxation e.g. highest differences relate to depreciations in Finland, Sweden and the US. The most significant deferred taxes are explained below:

| DEFERRED TAX LIABILITIES EUR million | Jan 1 2017 | Change 2017 | 31 Dec 2017 |
|---|---|---|---|
| **Depreciation difference and untaxed reserves** | | | |
| Depreciation difference and untaxed reserves | 56.8 | -15.5 | 41.3 |
| Available-for-sale financial assets | 16.7 | 6.0 | 22.7 |
| Defined benefit pensions | 7.8 | 3.2 | 11.0 |
| Fair value adjustments of net assets acquired | 7.3 | -2.5 | 4.8 |
| Other | 18.7 | -13.4 | 5.2 |
| **TOTAL** | **107.3** | **-22.2** | **85.1** |
| **Deferred tax assets deducted** | -44.1 | | -22.7 |
| **DEFERRED TAX LIABILITIES IN THE BALANCE SHEET** | **63.2** | | **62.4** |
| **Deferred tax assets** | | | |
| Provisions | 16.1 | -2.3 | 13.8 |
| Tax losses | 22.8 | -12.4 | 10.4 |
| Defined benefit pensions | 8.1 | 1.8 | 9.9 |
| Other | 24.6 | -11.2 | 13.4 |
| **TOTAL** | **71.6** | **-24.0** | **47.6** |
| **Deferred tax liabilities deducted** | **-44.1** | | **-22.7** |
| **DEFERRED TAX ASSETS IN THE BALANCE SHEET** | **27.5** | | **24.8** |

## Kemira's tax footprint at group level

The tax footprint report for year 2017 is prepared at region level, including total amounts of all material tax expenses on *Taxes borne* and *Taxes collected* basis without previous year's comparable data, because year 2017 is the first year for the tax footprint disclosure.

| TAX FOOTPRINT 2017 EUR million | GROUP | EMEA | AMERICAS | APAC |
|---|---|---|---|---|
| **TAXES BORNE** | | | | |
| Corporate income taxes (excluding deferred taxes) | 21.5 | 16.4 | 4.0 | 1.2 |
| Customs duties | 10.0 | 1.6 | 5.5 | 2.9 |
| Property taxes | 5.0 | 1.7 | 2.9 | 0.4 |
| Waste, energy and excise taxes | 4.9 | 4.8 | 0.1 | 0.0 |
| Cost of indirect taxes | 0.8 | 0.3 | 0.4 | 0.1 |
| **TOTAL TAXES BORNE** | **42.2** | **24.8** | **12.9** | **4.5** |
| **TAXES COLLECTED** | | | | |
| VAT, GST, sales and use tax | 43.8 | 29.1 | 13.0 | 1.8 |
| Payroll taxes | 73.8 | 43.3 | 27.2 | 3.3 |
| **TOTAL TAXES COLLECTED** | **117.6** | **72.4** | **40.1** | **5.1** |

Tax footprint is prepared based on the financial statement figures (e.g. corporate income taxes), non-audited figures derived from Kemira's ERP and estimations (VAT and customs duties). Estimations are prepared on transactional basis. Volumes of VAT and customs duties are estimated based on transaction values and applicable VAT / customs duty rates and treatments for the year 2017.

## Other payments to governments

In addition to different taxes borne or collected by Kemira, we also make other contributions and compulsory payments to governments. For example in 2017, we paid and collected globally EUR 67.8 million employers' and employees' social security payments.

With the Finnish state's investment company Solidium Oy as a significant shareholder of Kemira, Kemira will contribute yearly dividend distributions to the Finnish state. Dividends to Solidium Oy were EUR 13.7 million in 2017.

## Ongoing tax appeals

The Group has subsidiaries in approximately 40 countries and hence has continuously tax audits on-going of which results have not yet been received. Prior tax audits have not resulted in material adjustments to income taxes. In addition, the Group has a tax dispute pending at the Supreme Administrative Court in Finland related to tax deductibility of certain interest costs. In case of an unfavorable decision, there will be no impact to the Group's financial position. As a result of favorable decision the Group's tax losses carried forward would increase materially.

## Information on companies registered in countries considered as tax havens

International operators such as the OECD, the EU and the Global Forum have defined their criteria for tax haven jurisdictions although currently only EU has published a list of jurisdictions considered as tax havens.

Kemira does not operate in tax haven countries or countries with preferencial tax regimes for tax reasons. With respect to countries listed by EU, Kemira has operations only in South Korea. Kemira has a subsidiary, Kemira Chemicals Korea Corporation in South Korea, where we have production and sales operations of chemicals products. We pay taxes in South Korea based on the local rules and tax laws (corporate income tax rate 22%). Kemira has also branches in Dubai, United Arab Emirates, Turkey and Columbia for sales operations.

EU removed eight countries from the tax haven list in January 2018 including South Korea and the United Arab Emirates.

Kemira has had treasury activities in the Netherlands since 1980's. We pay taxes in the Netherlands based on the local rules and tax laws (corporate income tax rate 25%). Kemira's subsidiaries are listed in the Note 6.2 to the consolidated financial statements.

In addition to registered companies, Kemira carries on global sourcing and sales operations in few countries which have been listed as tax havens by the OECD, the EU and the Global Forum. Because Kemira is a multinational company with operations in over 100 countries, pure business operations cannot be avoided in all of those countries in order to run business efficiently.

| TAX DEFINITIONS<br>Taxes borne | Taxes collected |
|---|---|
| **Corporate income tax** | All taxes which are based on the taxable profits of a company and temporary differences between accounting values and tax bases, as defined in the International Financial Reporting Standard IAS12. |
| **Current tax** | The corporate income tax due in respect of taxable profits of an accounting period, as defined in the International Financial Reporting Standard IAS12. |
| **Deferred tax** | The corporate income tax due in respect of temporary differences between accounting values and tax bases, as defined in the International Financial Reporting Standard IAS12. |
| **Effective income tax rate** | Income tax expense divided by Profit before income tax. |
| **Profit before tax** | Accounting profit for a period before deducting a charge for corporate income taxes. |
| **Tax** | Any amount of money required to be paid to a government without receiving any services, whether by law or by agreement, including without limitation corporate income tax, production taxes, property taxes, employment taxes, sales taxes, asset transfer tax and any other required payments. |
| **Tax borne** | Taxes which a company is obliged to pay to a government, directly or indirectly, on that company's own behalf in respect of an accounting period. Taxes borne include corporate income taxes (excluding deferred taxes), property taxes, excise taxes, custom duties, waste taxes and cost of indirect taxes. |
| **Tax collected** | Tax which a company is obliged to pay to a government on behalf of another person or a company. Taxes collected include VAT, GST, sales and use tax, payroll taxes and withholding taxes. |
| **Total tax rate** | Taxes borne divided by profit before tax increased by taxes borne in operating profit. |