Tax footprint 2019

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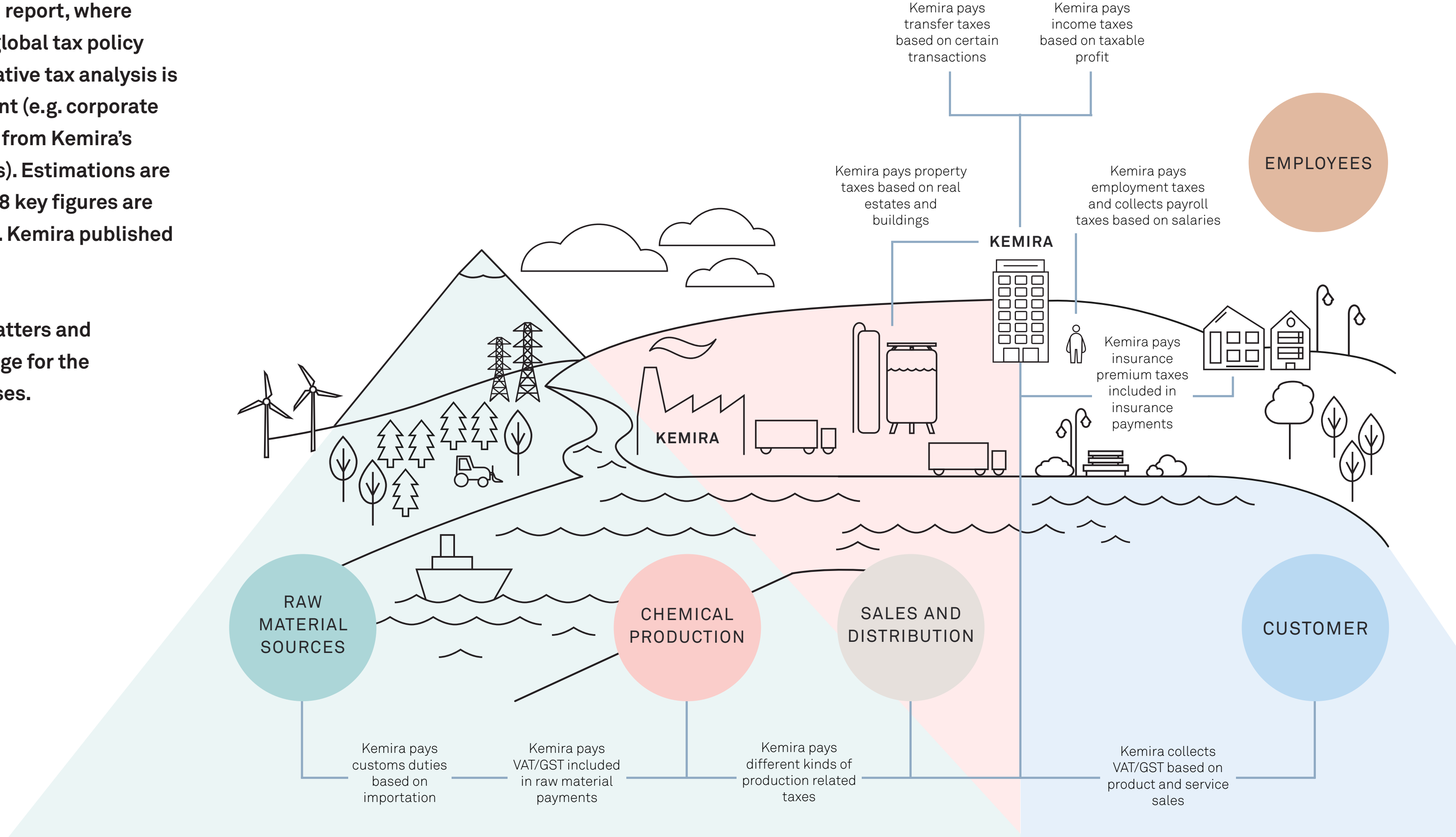
Tax footprint report 2019

This tax footprint report is a non-audited report, where Kemira publishes the key aspects of its global tax policy and the 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. customs duties). Estimations are prepared on transactional basis. The 2018 key figures are in the brackets for comparison purposes. Kemira published the first tax footprint report in 2017.

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



Taxes through the full value chain from raw material supply to finished goods deliveries to customers.

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KEMIRA AS A TAXPAYER IN 2019

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 the 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. We are committed to conducting our business in compliance with all applicable laws and regulations and according to high ethical standards. We are a responsible corporate citizen in all our operating countries.

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.

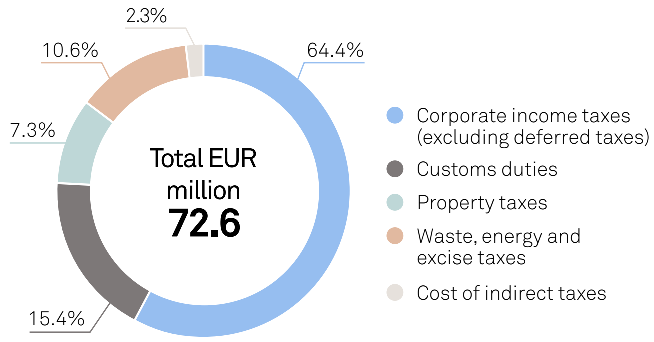
Tax consequences of business operations and decisions can be material e.g. in acquisitions, divestments, financing and transfer pricing. Due to extensive global spread of our operations and investments, our business decisions may have tax impacts in multiple jurisdictions. From tax perspective, the focus 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 in the graphics on the right. In 2019, the amount was EUR **235.0** million (EUR 176.9 million) of which EUR **72.6** million (EUR 51.7 million) related to taxes borne and EUR **162.4** million (EUR 125.2 million) to taxes collected.

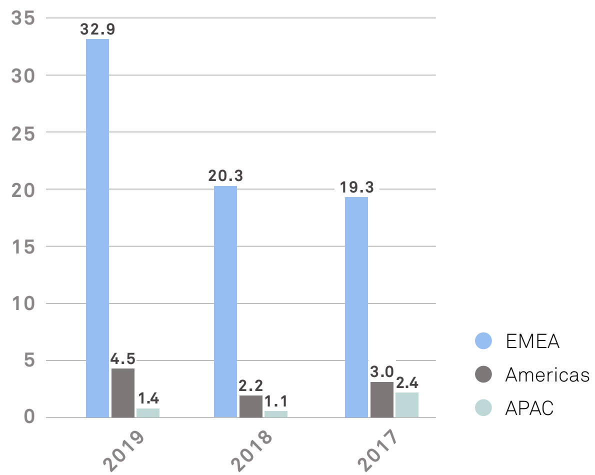
Taxes borne include corporate income taxes (excluding deferred taxes), property taxes, excise taxes, custom duties, waste taxes, energy taxes and cost of indirect taxes. Taxes collected include value added tax (VAT), goods and services tax (GST), sales and use tax, payroll taxes and withholding taxes.

TAXES BORNE IN 2019
EUR million and %[1]



[1] Customs duties in the Tax footprint report are estimated based on transaction values and applicable customs duty rates for the year 2019.

CORPORATE INCOME TAXES BORNE BY REGION ON CASH FLOW BASIS
EUR million



CHANGING AND CHALLENGING TAX ENVIRONMENT IN 2019

The global tax environment is arguably more dynamic and challenging than before. The actions of the OECD's Base Erosion and Profit Shifting (BEPS) project has effected the international taxation leading to a several tax legislative changes in many jurisdictions. The requirements for public transparency and mandatory disclosures have increased the administrational burden 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 BEPS actions and the EU anti- tax avoidance directive (ATAD I and II). Also, Kemira is preparing to meet the requirements of DAC6 reporting in relevant jurisdictions.

Brexit is continuously creating uncertainty around the economy, customs and taxation of the operations in the UK and generally across the Europe, especially from VAT and customs perspective. Kemira keeps monitoring the Brexit developments during the transition period and is preparing for relevant actions.

Generally Kemira has recognized the following tax trends:
- continuously changing global tax environment,
- increasing administrational burden due to requirements for public transparency and mandatory disclosures as well as related increased penalty risks; and
- increasing complexity around VAT.

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

FIVE KEY ELEMENTS OF KEMIRA'S TAX STRATEGY

1 TAX MANAGEMENT IN THE GROUP

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 issues prepared and presented by the global tax team are approved by the CFO, the Management Board or the Board of Directors of Kemira Oyj according to Tax Policy.

2 TAX COMPLIANCE

We are committed to meet all statutory compliance obligations in each jurisdiction. 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 committed to react to the 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". Kemira also meets the transfer pricing and Country-by-Country ("CbC") reporting requirements in each jurisdiction as required.

3 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. This is always aligned with our commercial objectives as taxation is a consequence of business operations and is, therefore, based on business decisions and needs. 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.

4 TAX RISK MANAGEMENT AND TAX RISKS

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

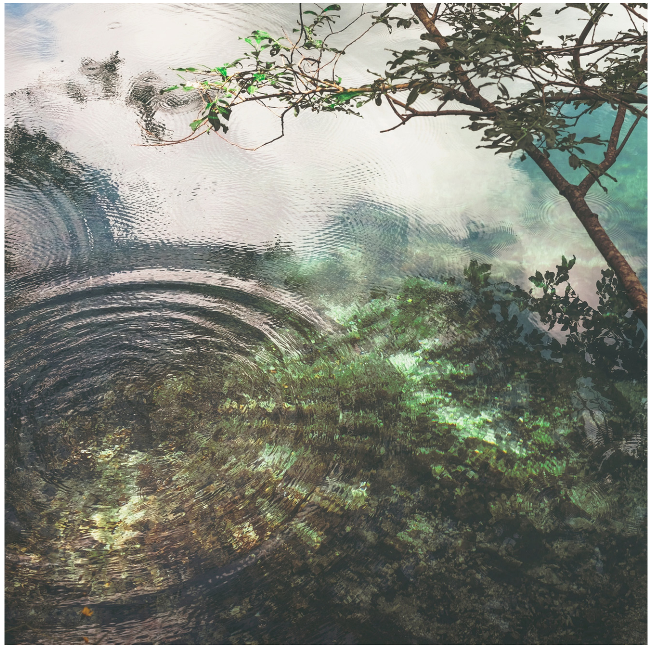
The day to day tax affairs are managed by Kemira's global tax team together with the relevant local finance team according to the Kemira's Tax Policy. Processes relating to different taxes are allocated to appropriate specialists within the global tax team who carry out a review in order to identify 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 by:

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

5 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 we 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 effectively bring matters to a conclusion.



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FINANCIAL STATEMENT DISCLOSURES

Kemira publishes tax information as a part of the group's financial statements. See Note 2.6 Income taxes and Note 4.4 Deferred tax liabilities and assets to the consolidated financial statements. The Management evaluates regularly the positions taken in the tax returns to identify situations in which the applicable tax regulation may be subject to interpretation. The Management evaluates also other potential uncertainties related to the tax positions identified in the tax audits or tax disputes. The potential provisions are recorded based on estimated outcome and probability.

The tax reconciliation below 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.

RECONCILIATION BETWEEN TAX EXPENSE AND TAX CALCULATED AT DOMESTIC TAX RATE

	2019	2018
Profit before tax	**154.7**	123.3
Tax at parent's tax rate 20%	**-30.9**	24.7
Foreign subsidiaries' different tax rate	**-2.7**	-3.3
Non-deductible expenses and tax-exempt profits	**-1.3**	3.8
Share of profit or loss of associates	**0.0**	0.0
Tax losses	**0.2**	-4.6
Tax for prior years	**-1.3**	-0.6
Effect of change in tax rates	**0.0**	0.0
Changes in deferred taxes related to prior years	**-2.2**	1.3
Others	**0.0**	0.0
Total taxes	**-38.2**	-28.1

The effective income tax rate was **24.7%** (22.8%).
The subsidiaries have EUR **157.1** million (EUR 131.5 million) 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.

DEFERRED TAXES

Deferred taxes illustrate timing differences between accounting and taxation. The most significant deferred taxes are elaborated below:

DEFERRED TAXES IN THE BALANCE SHEET

	1 Jan 2019	Change 2019	31 Dec 2019
Deferred tax liabilities			
Depreciation and untaxed reserves	44.4	-0.1	44.3
Other shares	21.2	3.3	24.5
Defined benefit pensions	13.8	-3.4	10.4
Fair value adjustments of net assets acquired	3.3	-0.5	2.8
Other items	5.3	4.1	9.4
Total	**88.1**	3.4	**91.5**
Deferred tax assets deducted	-17.9		-23.7
Deferred tax liabilities in the balance sheet	**70.1**		**23.7**
Deferred tax assets			
Provisions	14.1	3.6	17.7
Tax losses	9.3	2.9	12.2
Defined benefit pensions	10.2	1.3	11.5
Other	12.6	5.5	18.0
Total	**46.1**	13.3	**59.4**
Deferred tax liabilities deducted	-17.9		-23.7
Deferred tax assets in the balance sheet	**28.2**		**35.7**

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KEMIRA'S TAX FOOTPRINT AT GROUP LEVEL

The tax footprint report for year 2019 is prepared at region level, including total amounts of all material tax expenses on Taxes borne and Taxes collected basis.

TAX FOOTPRINT 2019[1]

EUR million	Group		EMEA		Americas		APAC	
	2019	2018	2019	2018	2019	2018	2019	2018
Taxes borne								
Corporate income taxes (excluding deferred taxes)	**46.7**	**30.0**	37.9	23.1	7.9	6.0	1.0	0.9
Customs duties	**11.2**	**9.3**	1.8	1.3	5.4	4.7	3.9	3.4
Property taxes	**5.3**	**4.8**	1.8	1.8	3.0	2.7	0.6	0.4
Waste, energy and excise taxes[2]	**7.7**	**7.1**	6.3	5.8	1.4	1.3	0.0	0.0
Cost of indirect taxes	**1.7**	**0.9**	0.4	0.4	1.1	0.4	0.2	0.1
Total taxes borne	**72.6**	**52.1**	48.2	32.3	18.8	15.0	5.7	4.7
Taxes collected								
VAT, GST, sales and use tax	**103.9**	**58.3**	82.9	44.4	12.9	10.3	8.1	3.5
Payroll taxes	**58.5**	**66.9**	38.5	42.7	17.3	21.5	2.7	2.8
Total taxes collected	**162.4**	**125.2**	121.4	87.0	30.2	31.8	10.8	6.3

[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 (customs duties). Estimations are prepared on transactional basis. Volumes of customs duties are estimated based on transaction values and applicable customs duty rates and treatments for the year 2019.

[2] Gross amount, no refunds included

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 2019, we paid and collected globally EUR **67.3** million (EUR **65.4** million) employers' and employees' social security payments.

As the Finnish state's investment company Solidium Oy is a significant shareholder of Kemira, Kemira contributes yearly dividend distributions to the Finnish state. Dividends to Solidium Oy were EUR **13.7** million in 2019 (EUR **13.7** million in 2018).

ONGOING TAX APPEALS

The Group has subsidiaries in approximately 40 countries and, hence, has continuously tax audits on-going. The potential uncertainties over the income tax treatments of the periods open for tax re-assessment and uncertainties potentially identified in the on-going tax audits are required to be assessed by the Management as the outcomes are unknown.

The Group has a tax dispute pending in the Board of Adjustment in Finland related to the 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 a favorable decision, the Group's income tax credits and tax losses carried forward would increase materially.

COMPANIES REGISTERED IN COUNTRIES CONSIDERED AS TAX HAVENS

International public organizations such as the OECD, the EU and the Global Forum have defined their criteria for tax haven jurisdictions. EU and OECD have published lists of jurisdictions considered as non-cooperative tax havens.

Kemira does not operate in tax haven countries or countries with preferential tax regimes for tax reasons. Kemira has no operations in the non-cooperative tax haven countries listed by the EU or OECD. Kemira's subsidiaries are listed in the Note 6.2 to the consolidated financial statements.

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%).

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

TAX DEFINITIONS	
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.