

A young child with dark hair, wearing a white long-sleeved shirt and a black and white checkered skirt, is pointing towards the camera. The background is a blurred cityscape with tall buildings. A white curved line is drawn over the top left of the child's head.

Tax Transparency & Reporting

Katri Svahnström | Tax Manager Neste | 2.5.2023 | Aalto
University

Agenda

Transparency

1. ESG Reporting
2. Neste's tax management

Tax reporting

3. Tax footprint
4. CbC-reporting
5. Pillar 1 & 2
6. DAC6/MDR

Conclusions

Abbreviations

BEPS = Base erosion and profit shifting (OECD 2013-)

CbCR = Country-by-country reporting (non-public OECD; public EU Directive 2021/2101)

CSRD = Corporate Sustainability Reporting Directive (EU)

DAC6/MDR = Mandatory Disclosure Regime (EU Directive (2018/822))

ESG = Environmental, Social and Governance

ETR = Effective tax rate (income tax expense / profit before tax)

FY = Financial year

GloBE = Global Anti-Base Erosion

GRI = Global Reporting Initiative

MNE = Multinational enterprise

NGO = Non-governmental organisation

Transparency

**Tax transparency means
sharing of information in
an open way without
secrets**



Tax transparency in brief

- Tax information has generally been subject to secrecy
- NGOs support that corporates should i.a. be under obligation to publicly disclose their country-by-country reports
- Business representatives are concerned about protection of business and trade secrets and the increasing administrative burden

Tax transparency

- Tax payer vs. Tax Authority and vice versa
- Tax citizen vs. Society, incl. Investors
- Tax citizen vs. other Stakeholders incl. Auditors

* More information, please see OECD, IBFD and Helsinki University, Kristiina Äimä, Finland.

1. ESG (Environment, Social, Governance)



ESG reporting at Neste –reporting framework

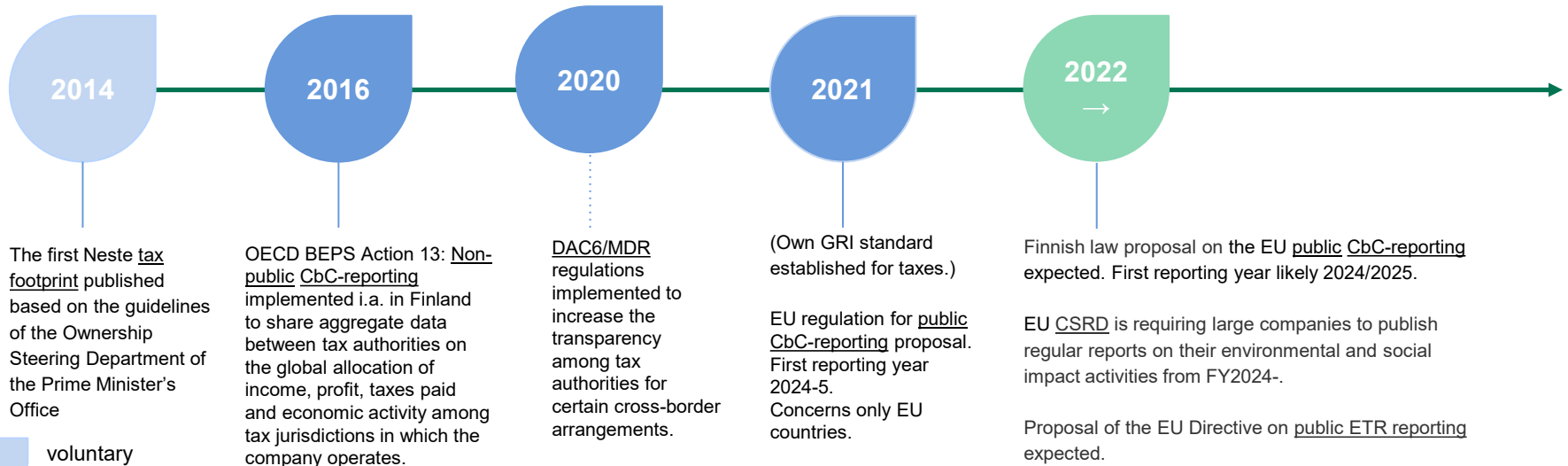
- Neste's sustainability report has been prepared in accordance with the **GRI (Global Reporting Initiative)**
- We are committed to the **UN Global Compact (UNGC)**, United Nations Guiding Principles on Human Rights (UNGP) and the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work.
- Neste follows the **OECD Guidelines for Multinational Enterprises and guidelines for good governance**.
- Neste is committed to apply the **Task Force on Climate-related Financial Disclosures (TCFD)** reporting principles from 2019
- We are actively following global sustainability reporting standardization in the EU, such as the **Corporate Sustainability Reporting Directive (CSRD)** and the **European Sustainability Reporting Standards (ESRS)**, as well as with the **coming standards from the International Sustainability Standards Board (ISSB)**, in order to keep our reporting methodologies up to date proactively
- We support the **principles of World Economic Forum's (WEF) Stakeholder Capitalism**.
- Our reporting meets the requirements of the **EU Directive on disclosure of non-financial and diversity information** and the Finnish Accounting Act as well as the information in accord with the current requirements of **EU Taxonomy regulation**.



Regulatory environment and reporting framework changes towards consistent sustainability data collection



ESG tax reporting timeline



2. Neste's tax management

FI: 14+4
NL: 1
US: 1

Our strategic themes

Grow renewable and circular solutions

Get ready for the future

Boost competitiveness and transformation

Renewable Aviation

Renewable
Polymers and
Chemicals

Renewable Road
Transportation

From a regional oil refiner to becoming a global leader in renewable and circular solutions.

Business

Tax opportunities for enhancing the company's agility and flexibility

Shareholders

Secure a stable and attractive cash return with a higher profit after tax

Society

Open, accurate and timely reports filed

Statutory taxes paid in every country in which Neste Operates

Neste's tax strategy is to support the Group's long-term business strategy by providing feasible solutions for business decisions

Tax Principles

We follow all relevant local laws and regulations, as well as the OECD Transfer Pricing Guidelines

The material business decisions take into account the feasible tax solutions

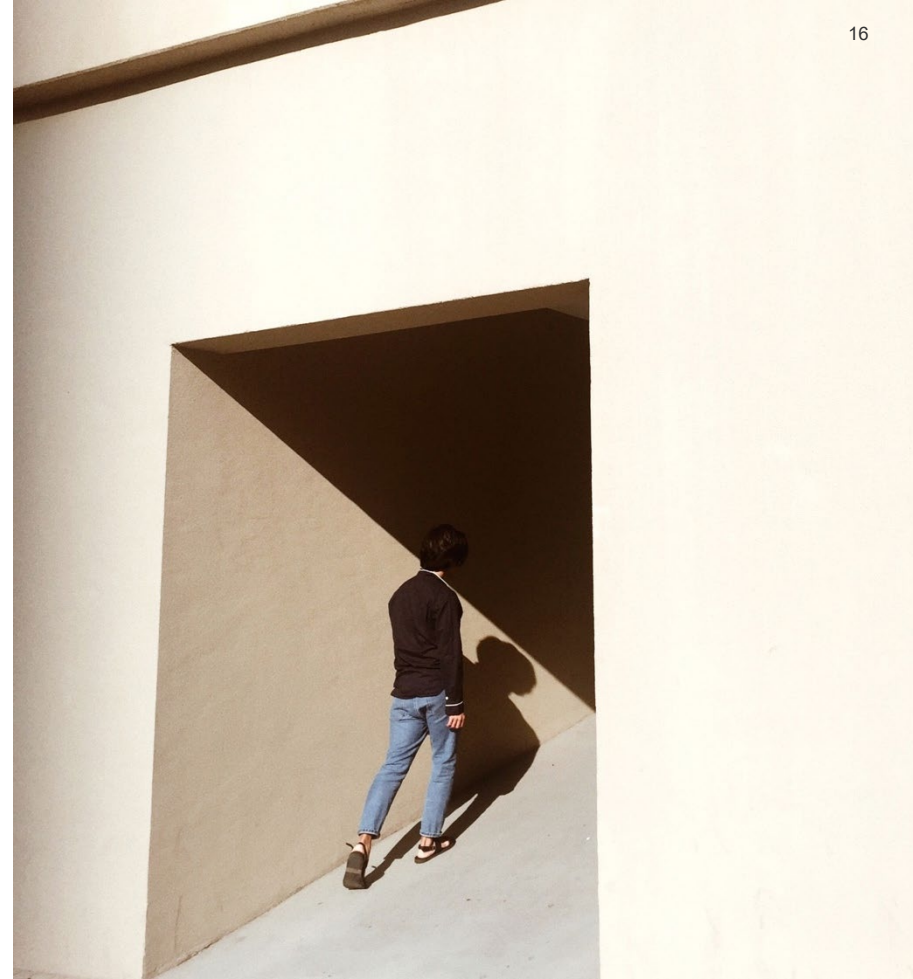
We do not use tax havens, low tax jurisdictions nor other such arrangements to avoid taxes

We ensure a high quality of tax compliance in every jurisdiction in which we operate

We maintain open and honest relationships with the tax authorities

We publish a Tax Footprint annually

Feedback from audience



Tax reporting

Drivers of tax reporting



ESG REPORTING

- Tax footprint
- Public CbC reporting
 - GRI
- Other developments



TAX MANAGEMENT

- Group tax position
- Group strategy
- Risk management



STAKEHOLDER EXPECTATIONS

- ETR and cash tax estimates
- ESG reporting



COSTS AND QUALITY

- Group level process and tools
 - Materiality
 - IT solutions



PILLAR II

- Impact
- Compliance
 - IFRS



FINANCIAL ACCOUNTING STANDARDS

- IFRS requirements for P&L, BS, notes
- Quarterly and year end process

3. Tax Footprint (All taxes)

Why Tax Footprint?

- Increases knowledge of taxes both internally and externally
- Provides a deeper understanding of statutory taxes and charges, as well as their magnitude
- Provides accurate input for tax solutions
- Keeps us focused and helps prioritization
- Provides valuable benchmarking data on tax management
- Increases useful tax discussion based on detailed facts

Content



Tax strategy

Business driven



Management of tax affairs in Neste

BoD->CEO->CFO->Finance



Neste's approach to tax planning

Business driven



Co-operation with key stakeholders

Open and honest



Principles regarding business transactions

Business driven



Principles regarding group structure and tax agreements

Simple structures



Tax figures

4,6 billion EUR in 2022

	2022	2022	2022	2022	2022
	Finland	Sweden	United States	Other countries	Group in total
Revenue, MEUR	15 941	1 993	5 251	2 523	25 707
Earnings before taxes, MEUR	1 547	23	98	610	2 279
Taxes borne, MEUR					
Corporate income tax	320	5	25	54	404
Real estate tax	1	0	1	7	9
Employer's charges	60	1	4	13	77
Customs duty	20	0	0	5	25
Total taxes borne, MEUR	400	6	30	78	514
Taxes collected, MEUR					
VAT/GST, remitted	1 366	93	99	-59	1 498
Excise taxes	1 977	1	98	281	2 357
Withholding taxes	142	0	10	21	173
Employee's social security	23	0	3	7	33
Total taxes collected, MEUR	3 507	94	211	249	4 061
Total taxes borne and collected, MEUR	3 908	100	241	327	4 575

Feedback from audience



4. CbC-reporting (Income tax)

Non-public CbCR

- OECD BEPS Action 13
- CbCR requirements are introduced in the EU Directive 2016/881
- The Finnish CbCR rules follow in all relevant aspects the above regulation
 - Group revenue >750MEUR (MNE)
 - Provisions on secondary filing and surrogate parent filing are also in line with the BEPS Action 13 final report
 - Report must be submitted within 12 months after the end of the accounting period for which the report is being prepared
 - Finland has signed to the OECD multilateral competent authority agreement on the exchange of CbC reports
 - All multinational enterprise groups must **notify** the relevant tax authorities of the reporting entity and submit the CbCR within the given timelines

Non-public CbCR at Neste

Roles and responsibilities:

- **CbC report*** and notifications of the Finnish companies are filed by Neste Oyj' Corporate Tax Team **in Finland** electronically and
- Other country respective **notifications** locally** by subsidiaries
 - Each group company has a person/persons responsible for coordinating transfer pricing (TP) issues with the Corporate Tax Team. They are the primary contacts to handle TP issues and will look for needed information locally. Typically TP contact person is Finance/General Manager, Chief Accountant, Country Controller or Finance Business Partner.

* CbC report is a tax form where country specific information on e.g. turnover, taxes paid, share capital, number of employees, etc. has to be filed to the tax authorities annually. CbC report is considered part of transfer pricing documentation.

** CbC notification is a tax form sent to the local tax authorities informing that which of the group companies sends the CbC report. Then local tax authorities know from which country they can request for CbC report information. All countries do not have CbC notification requirement. Neste needs to follow the countries having such obligation.

Non-Public CbCRs often electronically (XML) – Notifications vary

CbC Reporting Solution
Easy CbC Report Generation
www.altova.com

Select the country that you will send the CbC Report to.

Reporting Country Switzerland
Supports the requirements of the Swiss Tax Authorities (Eidgenössische Steuerverwaltung ESTV - "Technische Wegleitung vom 24.6.2020")

OECD Schema OECD XML Schema v 2.0
Please select which version of the OECD Schema you want to use for the CbC Message.

Reporting Entity
 Name * **Test Reporting Entity AG**
 Country * Switzerland
 Tax ID Number (UID) * 4545454545454545454 issued by Switzerland
 Entity ID
 Address Werdstrasse 75
 Zurich
 Switzerland
 Reporting Role * Ultimate Parent Entity

[Quick Start Guide](#)
[Also Available for On-Premises Installation](#)

Version 2.1.5
Based on OECD CbC XML Schema Version 2.1 (June 2015)

[Create a new CbC Report](#) [Create new CbC Report](#) [Create New CbC Report](#)

The Reporting Entity of the Multinational Enterprise (MNE) Group that ensures the preparation and filing of the CbC Report.

Selvitysvelvollisen tiedot

Suomalainen Y-tunnus * 6612663-4
 Nimi *
 Muu nimi

Selvitysvelvollisen osoitetiedot

Ilmoita ainakin selvitysvelvollisen osoitteen sijaintivaltio ja kaupunki tai kunta.

Selvitysvelvollisen osoitetiedot

Osoitteen tyyppi Osoitteen sijaintivaltio *
 < Valitse > < Valitse >

Kaupunki/kunta * PL Kadun nimi
 Talon/rakennuksen numero Huoneiston numero Sijaintikerros rakennuksessa
 Kaupungin osa Postinumero Osavaltio tms.



Brannförsäkrings- och Skatteverket
 403 32 Göteborg

Underrättelse Annans skyldighet land-för-land-rapport

Datum 9.9.2020

Svensk enhet som omfattas av den kommande land-för-land-rapporten

Namn: NESTE AB Organisationsnummer: 556232-3906

Rapporteringskyldig svensk eller utländsk enhet

Namn: NESTE Oyj Organisationsnummer/Identifikationsnummer: 1852302-9

Postadress: PL 95

00095 NESTE

Land där rapporten kommer att lämnas: Finland

Underrättelse om rapporteringskyldighet

Datum för räkenskapsårens början och slut: 2020-01-01 - 2020-12-31

Public EU CbCR

EU Directive 2021/2101 to be implemented in Finland

- >750 MEUR turnover, EU ultimate parent company
- Publicly accessible commercial register, group website
- On country basis all EU countries and non-cooperative jurisdictions

Data to be published

- Description of the nature of the activities
- Net turnover, including turnover with related parties
- Profit/loss before income tax
- Income tax paid and accrued
- Accumulated earnings
- Number of full time employees

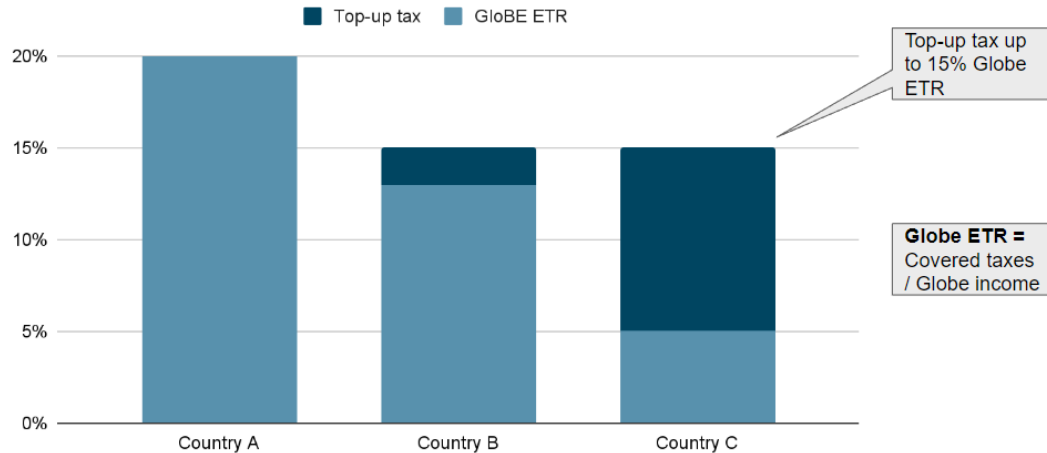
When

- Likely from FY2025 onwards to be published in 2026
- 12 months after the end of financial year
- Auditors need to check whether the report was published with the provisions of the Directive

5. OECD Pillar 1 and Pillar 2

Minimum tax under Pillar 2 = GloBE rules

Minimum tax under Globe rules



- Two-pillar solution to address the tax challenges of the digitalization of the economy
- To ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate
- GloBE= Global Anti-Base Erosion

Pillar 2 implementation in EU – in force in 2024 (?)

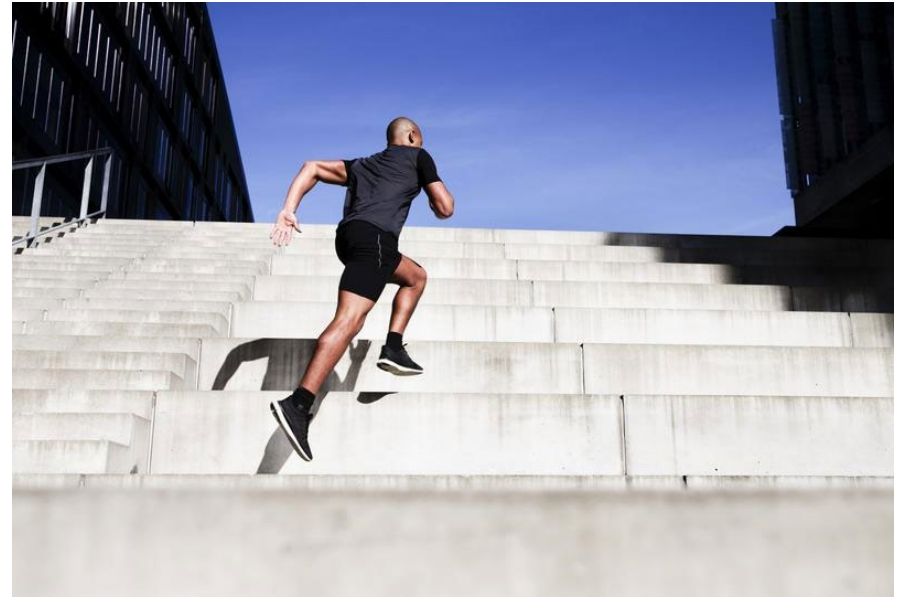


Pillar 2 rules in short

Scope	Safe Harbours	GloBE ETR	Top-up tax	Tax filings
<ul style="list-style-type: none"> • MNE Group revenue > 750 MEUR • Entities that are consolidated in financial statements • Companies and PEs 	<ul style="list-style-type: none"> • Valid 2024-2026 • De minimis test (revenue < 10 MEUR, PBT < 1 MEUR) • Simplified ETR test (>15%/16%/17%) • Routine profit test 	<ul style="list-style-type: none"> • ETR (15%) = Adjusted covered taxes/GloBE income • GloBE income: PBT in IFRS + excluded/included items + elections • Adjusted covered taxes: Covered taxes + adjustments + deferred taxes @15% 	<ul style="list-style-type: none"> • GloBE ETR calculations per jurisdiction • De minimis and substance based carve-outs • Domestic top-up taxes • Possible top-up tax to be paid to ultimate parent entity (UPE) 	<ul style="list-style-type: none"> • GloBE information return • Domestic top-up tax filings • 15 months after FY (FY 2024 18 months)

What Pillar 2 means for Neste

- Follow up the development in EU and globally
- Understand the rules → New tax accounting layer
- Where do we get the data → Integrate calculations into current processes
- Analyze financial impacts and prepare for FY 2023 financial statements discloses
- Train relevant people and communicate throughout the group
- Create process descriptions and working instructions for Pillar 2



Pillar 1 in short

Pillar 1 provides jurisdictions in which consumers and users are located a new taxing right over a portion of the residual profits.

Amount A

- For businesses with > 20 BEUR global revenue and profitability > 10%
- New allocation of 25% of deemed global residual profit (profit before tax above 10%) among countries where customers are located, regardless of where the business' physical activities are located.

Amount B

- Guaranteed minimum percentage return to a country where “routine” marketing and distribution functions occur. Meant to “approximate” to arm’s length standard pricing out of routine profit. Fixed return for certain “baseline” activities.

6. DAC6/MDR (Income tax)

Based on EU Directive 2018/822

What to report?

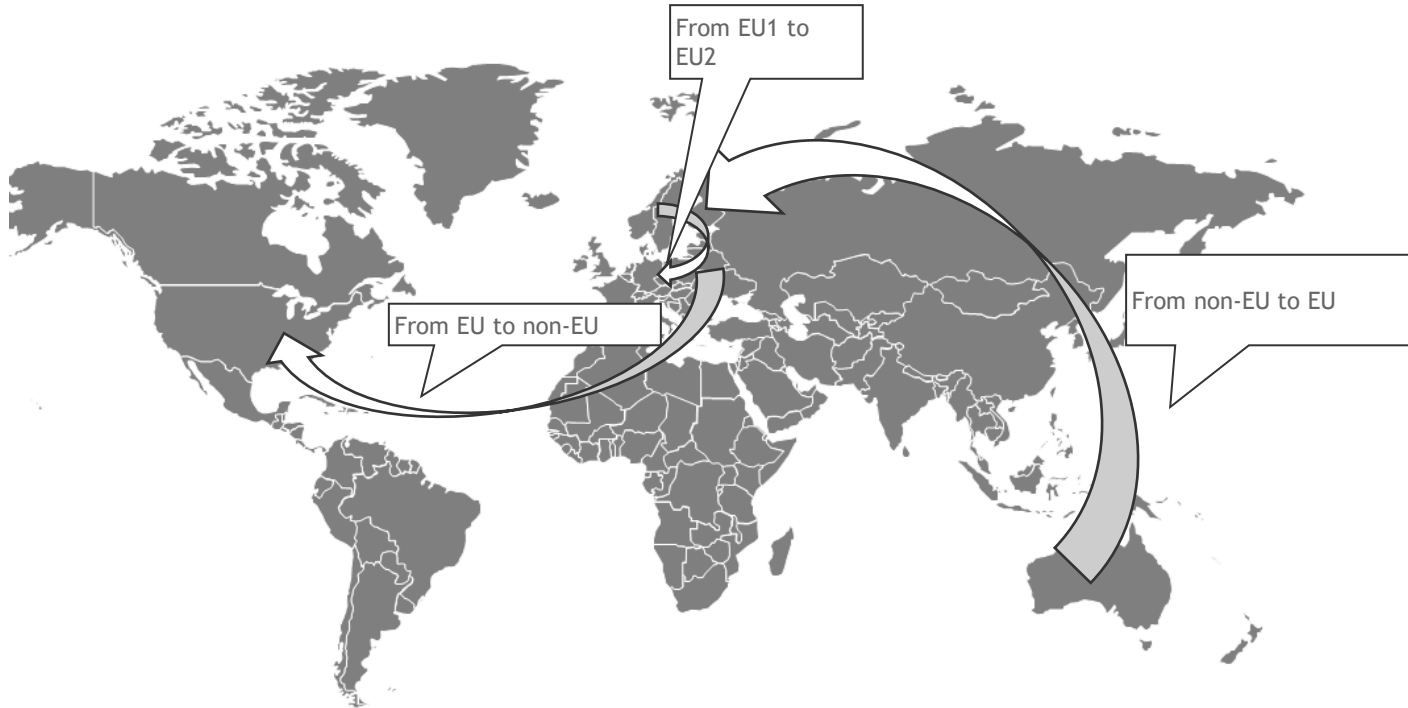
- EU introduced a directive (DAC6) on mandatory disclosure rules (MDR) aimed at increasing transparency to **detect** potentially **aggressive cross-border tax planning**
- Examples:
 - Company A pays interest payment to Company B who can treat the payment as income tax exempt dividend (double dip)
 - Company A agrees a success fee with an external service provider for a cross-border transaction and such success fee is linked to income tax savings received from the transaction
 - Artificial structures or nature of payments with income tax benefit
 - Hidden ownership structures with chain of companies/trusts offering income tax benefit

Out of scope:

- Purely domestic arrangements
- Typical recurring intra-group transfer pricing transactions

Cross-border¹ EU Arrangement/Plan/Agreement/Structuring

Companies are liable to report



MDR/DAC6 at Neste



Local EU legislations may deviate

Who, when and what if we fail?

1. External tax service providers report **primarily** (usually Big4s)
2. Neste reports **secondarily** on behalf of Neste EU companies

- Started in August 2020

- Filing must be done no later than in **30 days after** the **arrangement**/plan/advice/agreement was prepared
- Liability continues monthly

- Non-compliance is sanctioned (Max 15 kEUR penalties in Finland but even millions of euros in Poland)

Implementation 2018-2020

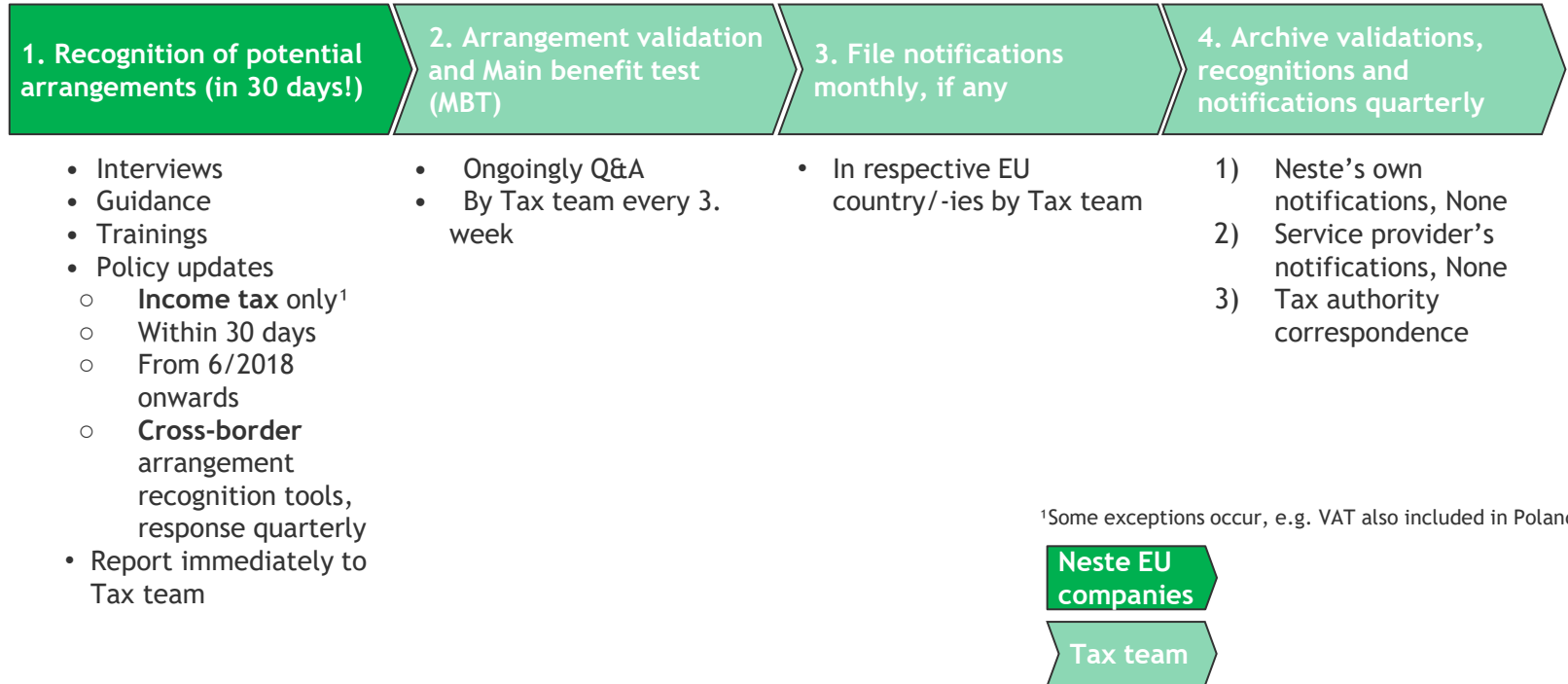
- Understanding of Directive's scope 2018-2020
 - Tool demos and benchmarks evaluated 2018-2019->self-made process chosen for Neste
 - Directive interpretations examined, Big4s and Tax administration
 - Approach chosen for Neste: **Centralized model with minimized costs and workload for business**
 - Understanding of local regimes deviating from EU scope
- Prepared readiness for August 2020- (Finland and Germany)
 - Interviews: Finance/M&A, HR, Procurement, Treasury
 - Trainings: Finance/M&A, HR, Procurement, Treasury, Legal/COO, Contracts team
 - Policy reviews and update needs: Finance, Procurement, Treasury, Sales
 - Recognition tools implemented 7-9/2020
 - Steering group reviews weekly in 8-9/2020, every 3. Week as of 10/2020-
 - Recognition process continues to meet the **30 days time frame**

 - Arrangements between 6/2018 and 6/2020-> **0 found for Neste**
 - Arrangements made 7-9/2020 -> **0 found for Neste**
 - Finnish tax authorities' review passed 9/2020
 - Auditor's review passed 11/2020
- Local regimes to be reviewed more closely, such as Swedish internal arrangements for 2021

18.1§ 1-k	To my understanding Neste has not used such entities in the Group structure where an entity has no tax residency in any state, e.g. acquired any partnerships
18.1§ 2b-k (TP*)	To my understanding Neste has not paid cross-border any payment to an associated party resident in the country of the below list** .
20§	To my understanding Neste has not paid any cross-border payment to a bank-account located in a country without decent exchange of information rules (in an exotic and developing country)
20§	To my understanding Neste EU company has not opened or taken into use US bank account .
General	To my understanding, an external tax advisor has not informed Neste about a cross-border transaction/agreement which external tax advisor has reported to any Tax Authority.
General	I understand that I need to report the above mentioned cross-border plan/agreement, if any, to the Steering Group (JMT, KS, TT) Tax and Custom quickly, within 30 days .

DAC6 Process at Neste

Roles and Responsibilities



Conclusions

- Public pressure for sustainability and requirement for transparent reporting increasing steadily.
- OECDs BEPS actions implemented increasing complex regulation for taxation.
- Business environment in turbulence, rapid changes, growth, globalization vs localization.
- All this creates big challenges for tax function to keep up with the changes – have a holistic view and focus on the material issues but at the same time have an eye for the details.





Thank you

Contact

Appendix

CSRD (Corporate Sustainability Reporting Directive (EU))

EU CSR Directive is aiming for sustainability reporting to reach similar status than financial reporting

- Effective from FY2024-
- Significantly enhance the scope of the existing Non-Financial Reporting Directive (NFRD) rules
- Reported non-financial information needs to be audited

	NFRD - Non-Financial Reporting Directive, the current Directive	CSRD - Corporate Sustainability Reporting Directive
When applicable?	FY 2018	FY 2023 <ul style="list-style-type: none"> • FY 2023: first set of Sustainability Reporting Standards (draft standards available mid-2022) • FY 2024: second set of Sustainability Reporting Standards • Adoption EU-Directive in member states legislation: Dec 1, 2022
What is the scope of the reporting requirements?	Companies are to report on: <ul style="list-style-type: none"> • Environmental protection • Social responsibility and treatment of employees • Respect for human rights • Anti-corruption and bribery • Diversity on company boards (in terms of age, gender, educational and professional background) 	Adding additional requirements on: <ul style="list-style-type: none"> • Double materiality concept: Sustainability risk (incl climate change) affecting the company + Companies' impact on society and environment • Process to select material topics for stakeholders • More forward looking information, including targets and progress thereon • Disclose information relating to intangibles (social, human and intellectual capital) • Reporting in line with Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation
3rd party assurance	Non-mandatory in Finland	Mandatory – limited level of assurance Including: <ul style="list-style-type: none"> • Integration in Auditor's Report, • Involvement of key audit partner, • Scope to include EU Taxonomy and process to identify key relevant information.

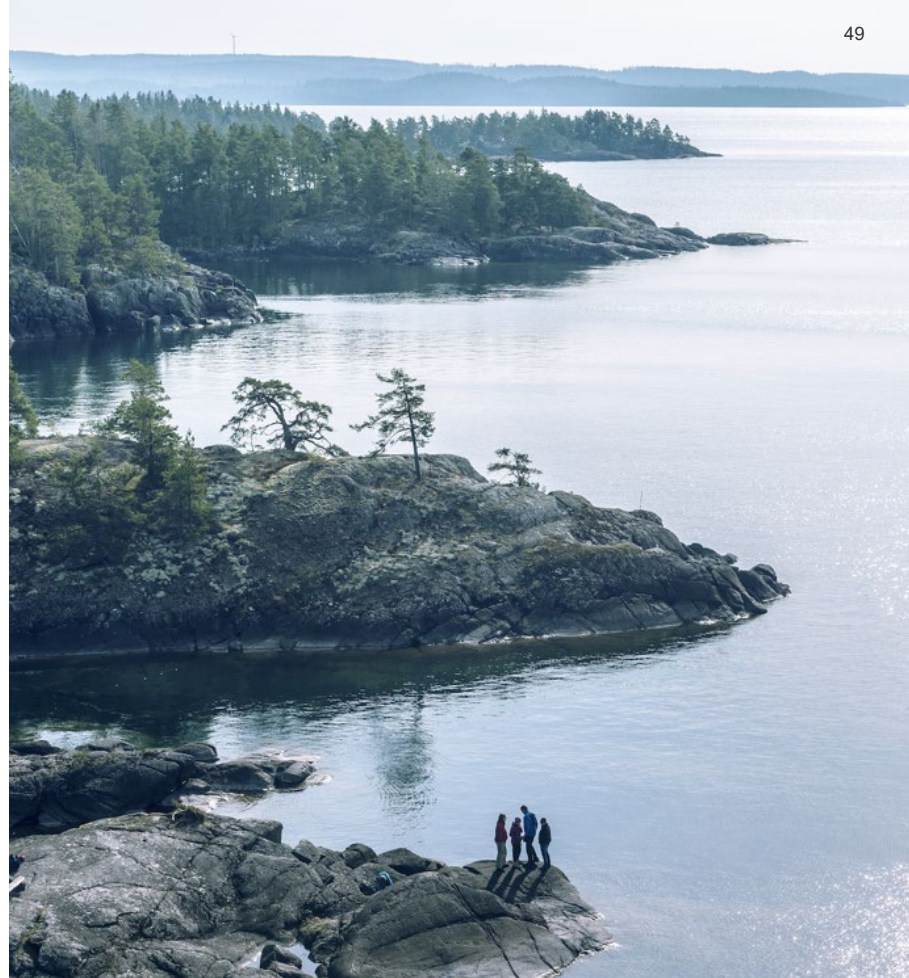


**Our purpose
is to create a
healthier planet
for our children**

<https://www.youtube.com/watch?v=Ovkgs-Qll6Y&t>

Neste in a nutshell

- We create solutions for combating **climate change** and accelerating a shift to a **circular economy**.
- We **refine** waste, residues and innovative raw materials into renewable fuels and sustainable feedstock for polymers and chemicals.
- We are the world's leading producer of sustainable aviation fuel and renewable diesel, and renewable feedstock solutions for various polymers and chemicals industry uses. We are also developing chemical recycling to combat the plastic waste challenge.
- Our ambition is to make the Porvoo refinery in Finland the most sustainable refinery in Europe by 2030. We are introducing renewable and recycled raw materials such as liquefied waste plastic as refinery raw materials. We have committed to reaching carbon-neutral production by 2035.



Driven by our purpose



We are

4,872

dedicated professionals
committed to our
purpose

In 2021, our customers reduced

10.9 Mt

greenhouse gas emissions with
our renewable products

In 2021, we reached

1,920 m€

comparable EBITDA

A strong global mindset with key markets in Europe and North America

Production:

Porvoo, Finland,
Rotterdam, The Netherlands,
Singapore

Other locations:

Espoo, Naantali, Stockholm, Tallinn, Riga,
Vilnius, Geneva, Amsterdam, Düsseldorf,
Houston, Singapore, Shanghai, Melbourne

