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CASE WORKSHOP

32E30001 Tax Challenges for MNEs / Wednesday, May 17th 2023

Project Unum

AGENDA | Case workshop on Wednesday May 17th, 2023

32E30001 Tax Challenges for Multinational Enterprises – Project Unum

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|--------------------|--|
| 16.30-17.00 | Case introduction & engagement scope
(Project Unum) |
| 17.00-19.00 | Group work |
| 19.00-20.30 | Presentations & feedback |

CASE INTRODUCTION

Dragon Group

Case introduction | Dragon Group

Dragon Group is a leading provider of industrial HVAC systems

- ▶ Headquartered in Helsinki, Finland, **Dragon Group** is a leading provider of industrial HVAC (Heating, Ventilation, and Air Conditioning) systems. It has operations in 15 European and Asian countries, including manufacturing facilities in five locations (Finland, Germany, Poland, Russia and China).
- ▶ In FY2022, the Group had turnover of EUR 1 350.7 million (EUR 1 255.8 million in FY2021) and it employed on average 2 852 (2 530) employees.
- ▶ The DragonAir® products are sold to over 80 countries worldwide, mainly to factories and production plants in order to provide thermal comfort and acceptable indoor air quality within reasonable installation, operation, and maintenance costs.
 - Majority of product sales are carried out through own distribution companies; however, also external sales representatives are utilized in regions where the Group has no subsidiary company.

Case introduction | Dragon Group [CONT'D]

Dragon Group is a leading provider of industrial HVAC systems

- ▶ Recently the Dragon Group acquired a Swedish technology start-up (SensorSync AB) which has developed an intelligent solution for managing, optimizing and automatizing the operation of industrial HVAC systems.
 - Through utilization of sensitive sensors and cloud computing data analytics, the solution produces important information about the system efficiency and enables significant energy and cost savings.
- ▶ In addition to supplementing modern HVAC system installations, the SensorSync® solution may be retrofitted also to older systems.
- ▶ Currently, the main target market for the SensorSync solution is among industrial companies and power plants. However, there have been successful pilot projects also in the private consumer market among individual house owners wishing to optimize their energy consumption.
 - There is also potential market for selling the consumption data to energy companies.

PROJECT UNUM

Realizing potential synergy benefits and cross-selling opportunities through integration

Project Unum | Current facts & plans

Realizing potential synergy benefits and cross-selling opportunities through integration

- ▶ In order to realize the potential related to synergy benefits and cross-selling opportunities, the newly acquired start-up (SensorSync AB) is to be operationally integrated to the Dragon Group during H2/2023.
- ▶ **The current facts & plans related to the integration process are as follows:**
 - The business operations of SensorSync will be organized under a newly established business division (Intelligent Solutions) and the local management will start reporting directly to the management team of the group. A new ERP system will be implemented to enable increase in business intelligence.
 - Local financial administration, HR, marketing and legal functions will be transferred to the group headquarters in Finland (Dragon Oyj) wherefrom necessary support and assistance for the daily business operations is provided. The transfer is likely to result in termination of current employment contracts among the administrative functions of SensorSync AB.
 - The intellectual property and intangibles will be transferred from SensorSync AB to Dragon Oyj.
 - The current R&D team in Sweden will continue the development work of the SensorSync® solution and report to the R&D Director of the Group (employed by Dragon Oyj).

Project Unum | Current facts & plans [CONT'D]

Realizing potential synergy benefits and cross-selling opportunities through integration

► The current facts & plans related to the integration process are as follows:

- The SensorSync® solution will be included in the sales portfolio of local distribution companies and external sales representatives. SensorSync AB will be responsible for producing marketing material, training the sales teams, providing technical support and organizing the customer service.
- The local distribution companies and sales representatives will, in turn, be responsible for determining appropriate pricing for the local market and negotiating the key agreement terms with the customers.
- In order to further develop the legal structure of the group, the shares of Dragon AB, a local sales company, will be sold to SensorSync AB by Dragon Oyj. The transaction will be financed with an intra-group loan from the group parent company.

Project Unum | Engagement scope

You have been requested to assist with the integration process

- ▶ Your task is prepare a brief BoD presentation covering key tax issues and potential risks to be taken into consideration when carrying out the planned integration process. More specifically, your input is expected on the following topics and related questions:
 - **Operating environment:** What are the major macro-level changes that could have an impact on the integrated operations? What kind of measures could be taken to ensure appropriate tax compliance in relevant operating countries?
 - **Permanent establishments and global mobility:** What kind of activities create potential exposures for permanent establishments? Which functions are likely to need support in relation to global mobility issues?
 - **Tax transparency & reporting:** The group is looking to insource its tax function in order to better support the business operations going forward. What kind of transparency initiatives and reporting obligations should the newly established Dragon Group tax team take into consideration when planning the processes and annual tasks?
 - **International tax developments:** Which international tax developments are the most relevant from management perspective; i.e. could have an impact on the current tax positions of the Group?
 - **Tax certainty:** What are the key tax risks and exposures related to the integration? How could these risks be tackled proactively to promote higher tax certainty?
- ▶ In addition to answering the above-mentioned questions, you are expected to provide a recommendation on key actions which should be initiated immediately in order to address the mentioned issues and mitigate the related exposures.

Project Unum | Engagement scope [CONT'D]

Your team has been invited to present your findings during the next BoD meeting

- ▶ Your team has also been invited to present your findings & recommendations and answer any potential follow-up questions during the **next BoD meeting** where you will have a 10-minute time slot to make your case.
- ▶ Due to the importance of the matter, similar task has been given to other teams who will also be present at the meeting.
 - For reporting purposes, a single-page presentation template has been provided (see the *Case Workshop* folder in MyCourses).
 - The BoD meeting starts at 19.00.
 - Due to practical presentation arrangements, you are expected to upload your presentation at the latest by 18.50 to the documentation portal of the meeting (i.e. specific Assignment folder in MyCourses).
 - If preferred, you may assign certain members of your team to be the designated spokespersons.

Team **XXX** | Key tax issues & recommended actions

Below are summarized our findings related to key tax issues as well as recommended actions for mitigating such exposures

Operating environment:	Permanent establishments and global mobility:	Tax transparency & reporting:
<ul style="list-style-type: none">➤ [XXX]➤ [XXX]➤ [XXX]	<ul style="list-style-type: none">➤ [XXX]➤ [XXX]➤ [XXX]	<ul style="list-style-type: none">➤ [XXX]➤ [XXX]➤ [XXX]
International tax developments:	Tax certainty and dispute prevention:	Recommended actions:
<ul style="list-style-type: none">➤ [XXX]➤ [XXX]➤ [XXX]	<ul style="list-style-type: none">➤ [XXX]➤ [XXX]➤ [XXX]	<ol style="list-style-type: none">1) [XXX]2) [XXX]3) [XXX]4) [XXX]5) [XXX]

Let's get started!

You can find below a summary of the key practicalities related to the workshop

▶ **Joint Q&A sessions @ 17.45 & 18.30**

▶ **The BoD meeting starts @ 19:00**

– Upload your presentation by 18:50 at the latest (specific Assignment folder in MyCourses)

Q & A



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