

# Taxation at DSM

*DSM believes a responsible approach to tax is an integral part of doing sustainable business in a robust, well-functioning society. Income from direct and indirect taxation, generated as a result of the vigorous economic activity of companies like DSM, is a primary source of revenue for public exchequers.*

*As such, tax is a subject relevant for society at large while also more and more complex.*

*The way that companies such as DSM contribute to society through (direct and indirect) taxes, duties and other payments to governments is not always easy for non-specialists to understand; the relevant information is often spread across various resources including annual and quarterly reports and other publications. This paper brings together all the relevant information that DSM makes public on taxation, from policies to payments, in one central resource.*

*It should be evident that DSM's contribution to society extends beyond the topic of taxation as covered in this paper. DSM's strategy addresses the main important societal trends and has especially strong alignment with five of the 17 United Nations Sustainable Development Goals (SDGs also referred to as global goals), which set out the strategy for the world. In this way the growth and success of DSM benefits all stakeholders. More information can be found in the Integrated Annual Report.*

# Tax policy

DSM believes that a responsible tax approach is an integral aspect of sustainable business. DSM views the fulfillment of its tax obligations as part of the process of creating long-term value for all stakeholders.

DSM's tax position is consistent with the normal course of its business operations and reflects the corporate strategy as well as the geographic spread of its activities. It strives to be compliant with national and international rules and best-practice guidelines (such as the OECD Guidelines for Multinational Enterprises) and to be in line with the arm's length principle.

DSM supports the idea of a global solution for fair tax policies and systems. Thus, DSM closely monitors and provides input on the OECD initiative on Base Erosion & Profit Shifting, including topics such as country-by-country reporting.

A number of governments have updated or are in the process of updating the transfer-pricing documentation requirements, including country-by-country reporting to the tax authorities. The country-by-country report for 2016 is filed and procedures are set-up to ensure compliance with the new requirements. The company closely monitors related developments and will follow up on legislative proposals in this respect as applicable.

DSM is transparent towards tax authorities in all the countries in which it operates and works closely together

with them to determine the amount of tax due. DSM does not make use of so-called 'tax havens' for tax avoidance. DSM has fostered good working relationships with tax authorities in various countries, which has long-term benefits for both DSM and the authorities.

This limits the potential for disputes at a later stage, and ultimately provides DSM with more clarity and assurance about its tax positions.

In the Netherlands, the home country, DSM concluded a so-called tax covenant ('horizontal monitoring') with the Dutch tax authorities.

This entails on the one hand that the tax authorities can rely on DSM to provide any relevant information upfront, which can then be discussed in 'real time'.

On the other hand, DSM benefits from upfront information and clarity in advance on expectations and obligations as well as fewer after-the-fact checks.

The tax covenant applies to all Dutch taxes (e.g. corporate income tax, VAT, wage taxes and various other direct and indirect taxes) due by all DSM's legal entities.

Thus, both DSM and the tax authorities benefit from having this covenant in place, which is founded on transparency, trust and mutual understanding. DSM looks to implement similar arrangements in other countries.

# Tax governance

DSM strives to be compliant with the letter and the spirit of the tax laws and regulations as regards its tax policy and practices.

DSM has a robust governance framework founded on DSM's Articles of Association, the DSM Code of Business Conduct, the company's Management Framework including Corporate Requirements and Directives, and its risk management system. DSM applies all 113 best practices of the Dutch Corporate Governance Code.

Proper organization, procedures and processes are in place at DSM between the tax team, the business, and other Corporate Staff, Shared Services and Functional Excellence departments. The aim is to create a strong interconnection in order to keep everyone aware of relevant tax legislation and to ensure compliance.

DSM identifies and discloses relevant regulatory risks, including taxation risks, plus related mitigation actions in its Integrated Annual Report (DSM Integrated Annual Report 2017, page 116). As part of the DSM risk management process, tax risks and incidents are also reported and discussed with the Audit Committee of the Supervisory Board.

Both financial-related and non-financial risks are taken into account by the Audit Committee. Non-financial risks include amongst others risks related to people, organization, culture and operational and reputational aspects. Tax risks are also included in DSM's Risk appetite overview in the Integrated Annual Report (page 113).

The Tax Control Framework is a tax risk management and control system, which ensures that Group Taxation is aware of the worldwide tax risks for DSM. Compliance with both direct and indirect tax matters is monitored through this Tax Control Framework in order to achieve an effective, efficient and transparent tax function.

Group Taxation possesses sufficient insights to adequately manage these risks. The key stakeholders in the Tax Control Framework are well-established and include: Supervisory Board, Managing Board, Executive Committee, Group Taxation, business, external auditors, as well as the tax authorities in countries where DSM is operating.

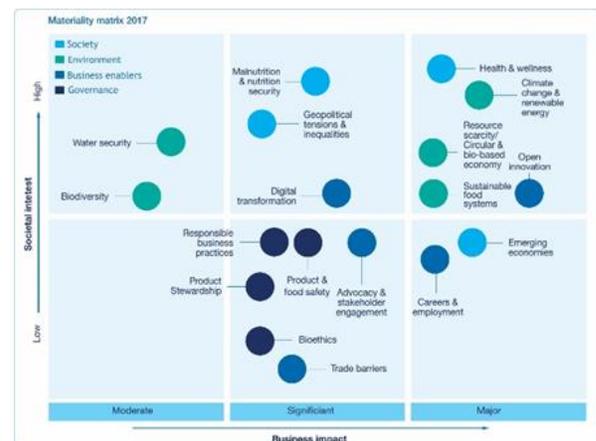
External auditors verify that the financial statements prepared by DSM represent a fair picture of the financial position of the organization. In the context of the annual audit, the tax team discusses key transactions as well as any relevant correspondence with the tax authorities with the external auditors.

DSM's Managing Board is responsible for establishing the approach to taxation under the supervision of the Audit Committee of the Supervisory Board. All members of the Supervisory Board are independent in accordance with the Best Practice provisions of the Dutch Corporate Governance Code.

## Tax in DSM's stakeholder engagement

Taking part in strategic and proactive dialogue with key stakeholders helps DSM to deepen its insights into the drivers of its business and the needs of society across the world, and thus be ahead of competition in adjusting to changing demands. By working together, DSM and its stakeholders can create shared value and contribute to a more sustainable, prosperous and resilient world.

DSM's stakeholder groups have been identified based on the influence they have on the company's operations, as well as whether they are significantly affected by them. DSM determines the materialities relevant to the company through a process of ongoing stakeholder engagement and lists them in the company's Integrated Annual Report. DSM's materiality matrix in 2017 represents the 18 material topics and their positioning as seen by the company's stakeholders in the year. Corporate income tax is considered an integral part of the material topic "Responsible business practices".



Graphic from DSM Integrated Annual Report 2017, p. 27

# Economic value generated and distributed in 2017

## Economic value generated €8.6bn

DSM believes sustainable business growth is closely linked with robust societies and healthy economies - and vice versa. DSM is mindful of its responsibilities as a multinational company operating within and alongside society and addresses the most challenging societal issues with its business and operations.

DSM contributes to the economy of the more than 50 countries where it currently has operations with a total economic value generated of more than €8.6 billion in net sales from continuing operations.

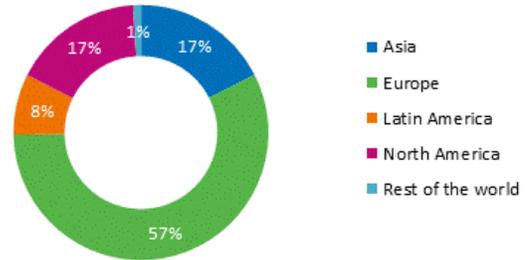
In 2017, DSM posted an operating result of €957 million. A regional split of the economic value generated is given in the charts to the right.

## Economic value distributed €7bn

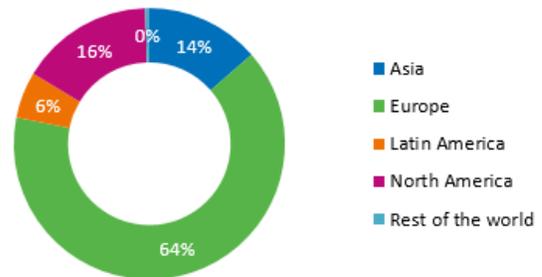
DSM's contribution to society in terms of economic value distributed consists of various aspects, including employee benefits, goods and services purchased from suppliers, customs duties and other payments to governments including taxation.

The overall breakdown per category is shown in the chart to the right and further detailed on the following pages.

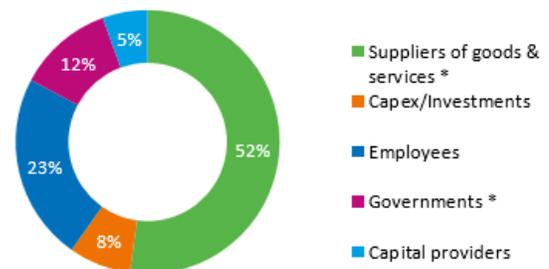
Total Net Sales: €8.6 bn (split by origin)



Total Operating profit: € 957m



Economic value distributed €7 bn (per type)



\*best estimate basis

## Economic value generated and distributed in 2017 (2)

### Value distributed to employees: €1.76bn

DSM's contribution to society includes the provision of employment to more than 21,000 people globally in areas including manufacturing, marketing and sales, logistics, research and development and administration.

Total employee benefit costs around the world amounted to €1.76 billion in 2017, of which around 40% went towards wage taxes and social security contributions. The uppermost charts on the right give a further breakdown of DSM's spending on employment in 2017, the first chart by type of employee benefit, while the second gives the split per region.

### Value distributed to suppliers of goods & services: €4bn\*

The external spend for DSM in 2017 amounted to €4 billion (related to goods and services captured in net sales) which also implies further (indirect) tax proceeds for governments. The third chart gives the split per region.

### Value distributed in capex/investments: €586m

In 2017, DSM invested €586 million in capital projects around the world, the regional breakdown of which is given in the final chart. These investments have also led to considerable indirect economic benefits such as third-party employment and government revenues (an exact value for these indirect benefits is difficult to quantify and so is not included in this paper).

### Value distributed to capital providers: €425m

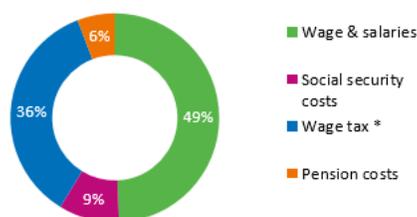
DSM's capital providers (shareholders and creditors) provide funds to finance the asset base used to create economic value. In turn, these stakeholders receive annual dividend and interest payments from DSM which trigger withholding tax obligations. The total value of interest and dividends distributed to providers of capital in 2017 amounted to €425 million.

### Value distributed to philanthropy & sponsorships: >€5.7m

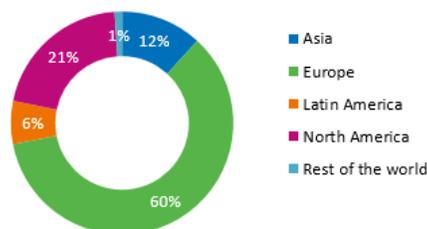
DSM supports causes and initiatives that relate to its mission of using its Bright Science to create Brighter Living. It does so by providing products, expertise and funding. In 2017, DSM donated more than €5.7 million to a range of initiatives. DSM is also engaged in various

cross-sector partnerships aimed at bringing innovative solutions for improved nutrition to as many beneficiaries as possible, such as with the UN World Food Programme and the Scaling Up Nutrition (SUN) Movement's SUN Business Network, as well as through its continued support of the now independent non-profit humanitarian nutrition foundation Sight & Life. The value to society of all these programs is not included in this amount.

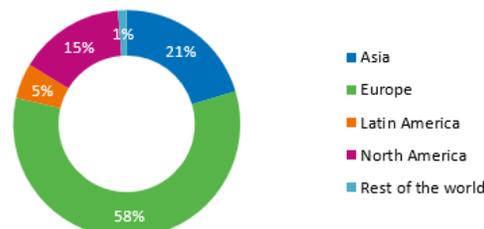
Value distributed to employees (per type)



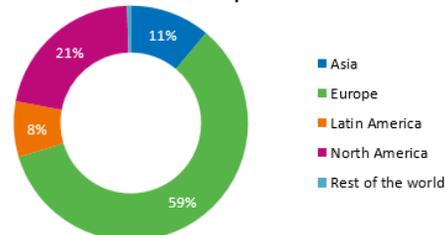
Value distributed to employees



Value distributed to service & goods suppliers



Value distributed in capex/investments



\* Best estimate basis

# Economic value generated and distributed in 2017 (3)

## Value distributed to governments in taxes: €0.9bn\*

DSM believes its obligation is to ensure that the correct amount of tax is paid to authorities and to observe all applicable rules and regulations in the markets where the company operates.

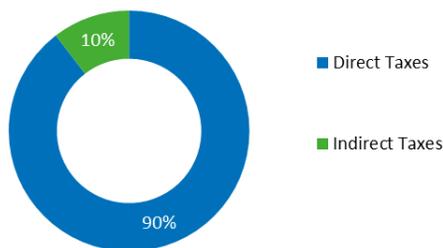
While meeting this obligation, DSM recognizes that it also has a responsibility to its shareholders to control its tax costs.

All these taxes are a significant source of funding of public services by governmental institutions at several levels globally. DSM sees it as its duty to contribute to this.

For 2017, the estimated total amount of taxes generated by DSM was around €0.9 billion (it should be noted that the values for e.g. property taxes and environmental taxes have not been included in this paper, which lead to a higher total tax outcome than this amount).

This value is further illustrated by tax type in the chart below. The vast majority of the taxes borne in 2017 are direct taxes, of which a significant part relates to taxes paid for DSM’s employees as wage tax and social security contributions (any other wage-related taxes paid directly by employees are not included in the current valuation). Indirect taxes, including VAT and customs duties, account for a further 10%.

Value distributed to governments in taxes (by type)



The total income tax paid by DSM in 2017, including corporate income tax, dividend and withholding tax, amounted to €124 million. The level of DSM’s income tax payments reflects the geographic spread of its results over the years, which is among other things a result of acquisitions and divestments, loss positions and the application of tax regulations in countries where DSM

operates. As a result, the relative contribution per region varies from year to year.

The actual amount of corporate tax paid in a particular year can differ from the accounting expense as reported in the company’s financial statement (2017: €115 million). Differences between the cash outflow and the expense charged are a result of elements such as tax losses in previous years, deferred tax, timing differences or uncertain tax position matters.

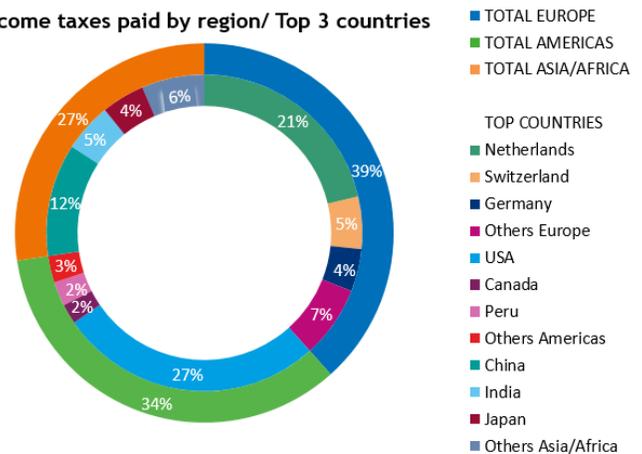
The tax accounting expense of €115 million for 2017 represents an amount of €0.66 per average ordinary share in circulation.

Europe is an important hub for DSM’s major business flows, contributing to 39% of the income tax payments. DSM employs around half of its personnel in Europe and undertakes a significant proportion of its investments, external spend, research and development activities and administrative activities in the region (being also the location of the corporate head office and a number of business group headquarters).

Americas continues to make great contribution with around 34% of DSM’s total income tax payments being made in the region, mainly driven by the US, given the significance of DSM’s operations in the country.

Asia/ Africa amounted to around 27% of total income tax paid in 2017.

Income taxes paid by region/ Top 3 countries



\* Best estimate basis

# Effective tax rate

In the last 5 years, DSM's continuing operations had an effective tax rate of between approximately 17 and 23%, which translates into an average yearly income tax expense of around €105 million. This effective tax rate is in line with that of peer companies.

The average tax rate presented in this paper is calculated on the basis of the income statement as a weighted average of the tax rates in the jurisdictions where DSM undertakes its business operations.

Other effects refer to values including prior year adjustments, losses not recognized or expired and deferred taxes adjustments.

For the relationship between this effective tax rate and the income tax rate in the Netherlands, please refer to page 178 of DSM's Integrated Annual Report 2017, where all the usual IFRS taxation figures reported for the years 2016 and 2017 can be found.

The effective income tax rate on the adjusted result from continuing operations was 17% in 2017 (2016: 18%). This decrease was mainly caused by a one-time benefit from the US tax reform. As from 2018, this tax reform, being

a combination of a decreased US federal tax rate from 35% to 21% and a broadening of the tax base, will have a net positive effect of approximately 1%. Overall however, the effective tax rate is expected to remain within the 18-20% range.

## Starting point: average tax rate:

Effective tax rate	2017
Group average applicable tax rate	20.4%
Tax effects of:	
Tax rate change US tax reform	-3.0%
Tax exempt income and non-deductible expenses	-0.5%
Other effects	-0.1%
Effective tax rate continuing operations	16.8%

## DSM global presence



## Supporting the transformation to sustainable solutions

DSM takes an active role in promoting debate on the role of taxation and other economic instruments in supporting the transformation to sustainable solutions. DSM engages with stakeholders to progress this agenda in forums such as the World Economic Forum.

Such instruments could play a key role in encouraging a more balanced approach to the use of scarce resources, for example by internalizing the external costs of their use.

DSM is an advocate of the development and implementation of a global system to put a meaningful *price* on the use of carbon. This would provide an economic stimulus to reduce harmful emissions, whilst also providing an incentive for innovation in new technologies in the transition away from the use of fossil fuels to new low-carbon areas such as the bio-based economy.

In April 2017, DSM CEO Feike Sijbesma role as Co-Chair of the High Level Assembly of the Carbon Pricing Leadership Coalition (CPLC) was extended for a second year. At various high-level events throughout the year, such as New York Climate Week and the UN Climate Conference COP23, Mr. Sijbesma shared DSM's experience with carbon pricing. He called on other businesses to

implement an internal carbon price and advocated for embedding a price on carbon in global financial systems. A complement to such an approach could be a reduction in taxes on labor while increasing those on the use of scarce resources. Shifting taxes from labor to resources would simultaneously stimulate the development of the circular economy (where products and systems are designed in such a way that they can be returned and the materials recycled, re-used or remanufactured, meaning that waste no longer exists but becomes the input for a new round of production) and a more conscious use of resources, whilst also stimulating job creation and flexibility on the labor-market.

DSM engages in dialogue with various partners and stakeholders on these topics including the World Bank, the Dutch think-tank Ex'Tax and the World Business Council for Sustainable Development (WBCSD). DSM has a long-term relationship with the WBCSD, in particular as regards the development of metrics to measure external impacts such as through Life Cycle Assessments.

DSM aims to be a front-runner in climate action. Next to reducing its own carbon footprint, the company enables a low-carbon, bio-renewable economy through its innovative solutions and advocates climate action.

# Group Taxation

All units within DSM are responsible for ensuring that they are compliant with their legal and tax obligations in accordance with the DSM Code of Business Conduct.

A global team of tax professionals advises the Managing Board, the Executive Committee and the business on the management of tax matters and tax risks. Tax is the ultimate responsibility of DSM's Chief Financial Officer and is part of the finance function of the company.

The Group Taxation team operates in close co-operation with, the business, and other Support Functions and Functional Excellence departments within DSM, as well as with external tax advisors.

In meeting the company's legal tax obligations, DSM's global tax team operates with full integrity and professionalism.

DSM's Group Taxation team professionals has an international and diverse profile. Until 2017 the team was organized in a matrix model. As the international tax landscape is rapidly changing, DSM Group Taxation transformed its way of working into a functional approach. One of the key benefits of the functional way-of-working is that 'capability and talent development' can be properly captured. A functional leadership team is introduced leading the expert teams. The 'Leadership Team' consists of the (tax) Strategy Lead (SL), Regional Tax Lead (RTL), the Business Tax Lead (BTL), the Transfer Pricing Lead (TPL) and the M&A Lead (MAL). This functional approach facilitates a rotation between the different functional areas and stimulates the learning and growth of the DSM Group Taxation team. Moreover, it enables the tax team to efficiently ensure compliance and cover all relevant tax aspects of DSM's business.

Part of the 2017 annual plan and in connection with the implementation of a 'functional approach', Group Taxation introduced RASCI's for the main tax processes, embraced a 'pro-active feedback culture', enhanced the business partner rolled and enlarged the digital strategy.

Group Taxation creates awareness on the multiple tax subjects relevant to DSM as a global organization, participating in relevant (regional) business meetings and with an internal webinar, which brings diverse current tax matters to a larger audience across DSM.

Group Taxation aims to connect its tax competences with DSM's nutrition and materials businesses and innovation

portfolio, its regional organizations and support and corporate functions, in order to create sustainable solutions in line with DSM's strategy.

## Main tasks and responsibilities

- Define the fiscal strategies and policies for DSM globally.
- Advise and support the Managing Board, the Executive Committee, the Support Groups, the business groups and their organizational entities, and the regions and their legal entities with regard to fiscal matters.
- Advise and support relevant DSM legal entities with regard to the implementation of legal and organizational structures necessary to reach sustainable solutions balancing both business and fiscal needs.
- Manage tax audits and contact tax authorities when appropriate and conclude, if feasible, advanced tax rulings with them.
- Participate in (inter)national groups of experts to represent DSM's interests.
- Set corporate requirements for the management of DSM's legal entities.

## Tax risk management

Tax risks are monitored through our Tax Control Framework, which ensures that Group Taxation is aware of the worldwide tax risks for DSM. Internal procedures for example include:

- Group Taxation's involvement in reorganizations and business restructurings;
- Reporting of tax risks in line with COSO model;
- Monitoring of local changes in tax;
- Regular monitoring of intercompany transactions;
- Clear assignment of compliance responsibilities between Group Taxation and local management as well as involvement of local tax experts;
- Clear disclosure of DSM's tax position, for instance through the publication of this Position Paper;
- Creating tax awareness within the organization through webinars, e-learning and manuals; and
- Strong focus on professional development of members of the Group Taxation department.

# Preparation of this paper

DSM has published this paper as part of its commitment to clear and transparent reporting, continuing to build a sustainable business as a trusted partner for its various stakeholders.

The way that companies such as DSM contribute to society through (direct and indirect) taxes, duties and other payments to governments is not always easy for non-specialists to understand; the relevant information is often spread across various resources including annual and quarterly reports and other publications.

This paper brings together all the relevant information that DSM makes public on taxation, from policies to payments, in one central resource. The information presented relates to the consolidated level of reporting and does not include partners and associates. This paper has not been subject to a separate audit.

For the purposes of this paper certain figures are presented on a best estimate basis when calculating the total amount of tax generated and are specifically footnoted as such.

Moreover, certain taxes (e.g. property tax, and environmental tax) have not been included in the overall tax amount paid by DSM in 2017 contained in this paper.

In order to clearly understand the content of this paper, an explanation of the technical terms used in compiling this paper is given below. These are not detailed definitions, but rather to be used as guidance.

Indicator	Details
Net sales	This comprises revenue generated by supply of goods and services, less discounts, VAT and other sales related taxes, and royalty income (in case of ordinary business). Data presented relate to continuing operations.
Operating profit	The company's earnings from core business operations, also known as Adjusted EBIT (earnings before interest and tax). Data presented relate to continuing operations.
Employee benefits	These are defined as the total remuneration, in cash or in kind payable by an employer to an employee and also include wage taxes, employees' social security contributions and post-employment benefits
Wage taxes	This includes payroll and employee taxes withheld from employee remuneration, and paid to governments
Capex / investments	Accounting capital expenditure relates to the purchase of intangible assets (excluding goodwill) and property, plant and equipment
Total tax generated	The value includes amounts to be paid to a government, whether by law or by agreement, including both direct and indirect taxes
Indirect tax	Taxes which are levied on consumption of specified goods rather than on income
Direct tax	Taxes generally paid directly to the government and for the purpose of this paper also includes income tax and employer wage taxes
Income tax	This includes any tax on the business calculated on the basis of its profits, plus withholding tax. The income tax paid may vary over the years.
Effective Tax Rate	The tax charge of an accounting period divided by the accounting profit before tax
Profit before tax	Accounting profit for a period before deducting corporate income taxes

# Disclaimer

This document may contain forward-looking statements with respect to DSM's future (financial) performance and position. Such statements are based on current expectations, estimates and projections of DSM and information currently available to the company.

Examples of forward-looking statements include statements made or implied about the company's strategy, estimates of sales growth, financial results, cost savings and future developments in its existing business as well as the impact of future acquisitions, and the company's financial position. These statements can be management estimates based on information provided by specialized agencies or advisors.

DSM cautions readers that such statements involve certain risks and uncertainties that are difficult to predict and therefore it should be understood that many factors can cause the company's actual performance and position to differ materially from these statements.

These factors include, but are not limited to, macro-economic, market and business trends and conditions, (low-cost) competition, legal claims, the ability to protect intellectual property, changes in legislation, changes in exchange and interest rates, changes in tax rates, pension costs, raw material and energy prices, employee costs, the implementation of the company's strategy, the company's ability to identify and complete acquisitions and to successfully integrate acquired companies, the company's ability to realize planned disposals, savings, restructuring or benefits, the company's ability to identify, develop and successfully commercialize new products, markets or technologies, economic and/or political changes and other developments in countries and markets in which DSM operates.

As a result, DSM's actual future performance, position and/or financial results may differ materially from the plans, goals and expectations set forth in such forward-looking statements.

DSM has no obligation to update the statements contained in this document, unless required by law.

A more comprehensive discussion of the risk factors affecting DSM's business can be found in the company's latest Integrated Annual Report, a copy of which can be found on the company's corporate website, <http://www.dsm.com>.

Information provided in this document is unaudited.

## **DSM - Bright Science. Brighter Living.™**

Royal DSM is a global science-based company active in health, nutrition and materials. By connecting its unique competences in life sciences and materials sciences, DSM is driving economic prosperity, environmental progress and social advances to create sustainable value for all stakeholders simultaneously. DSM delivers innovative solutions that nourish, protect and improve performance in global markets such as food and dietary supplements, personal care, feed, medical devices, automotive, paints, electrical and electronics, life protection, alternative energy and bio-based materials. DSM and its associated companies deliver annual net sales of about €10 billion with approximately 25,000 employees. The company is listed on Euronext Amsterdam. More information can be found at [www.dsm.com](http://www.dsm.com).

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