

# LAFARGEHOLCIM

## OUR APPROACH TO TAX

March 2019

**LafargeHolcim has a successful track record in sustainability, which has become a key driver for growth, differentiation, net sales generation, and value creation for all stakeholders. In delivering our growth ambition, it is our responsibility to operate the business in the long-term interests of all our stakeholders, including employees, customers, suppliers, shareholders, governments, and the communities in which we operate. Our Approach to Tax supports this ambition.**

**We are committed to acting with transparency, integrity, and the highest ethical standards throughout all our operations. We will not tolerate anything that compromises this, and this includes the way we monitor our Tax affairs.**

Our Tax Strategy is built on five pillars:

1. **Full compliance and Alignment to Business Strategy:** We comply with tax laws in a responsible manner and align our tax strategy with our business strategy.
2. **Tax Governance:** We apply diligent care and judgment to ensure all decisions are well-considered and documented.
3. **Tax Transparency:** We value open and constructive relationships with tax authorities and support efforts to increase public trust in tax systems.
4. **Tax risks management:** We put the relevant processes and controls in place in order to limit financial risks for the Group.
5. **Tax Contribution:** We engage in initiatives to simplify and improve tax regimes to encourage investment and economic growth in all communities where we operate, including by paying taxes locally.

### **1. Full Compliance and alignment to Business Strategy**

We are committed to complying with tax laws in a responsible manner and aligning our tax strategy with our business strategy. The tax function promotes a culture of integrity and compliance that respects not only the letter of the law but also the spirit of its underlying principles. The tax function is committed:

- To align the tax positions adopted with commercial and economic activity, to follow the tax laws of each country that we operate in and to comply with the substance test.
- To interpret the relevant tax laws in a reasonable way and to thoroughly analyse any tax issues that may be open to interpretation.
- Where appropriate, to pre-align within a relationship of 'co-operative compliance', request for an advance tax agreement and/or (external) opinion before taking a filing position. We will not adopt a filing position, which is contrary to the documented intention of the law and/or case law at highest level.
- To refrain from claiming or accepting exemptions not granted according to the statutory, regulatory, or administrative frameworks.

- To follow the terms of the applicable Double Taxation Treaties and relevant guidance from local authorities, the Organisation for Economic Co-operation and Development (OECD), European Union (EU) and United Nations (UN).

All companies within the LafargeHolcim Group should comply fully with all applicable tax laws and regulations. We also instruct any external organisations, accounting or law firms we use to comply with our tax principles.

*How does it translate in practice?*

*Our Effective Tax Rate (ETR) reflects the balance between our decentralised organisation, yet with some globally managed functions. It predominantly derives from the mix of the statutory tax rates within the countries where we operate (i.e., in 2018 our most significant operating countries were subject to the following statutory rates: USA 25%, India 35%, France 34%, Mexico 30%, Canada 26%, Ecuador 25%, Algeria 19%). We expect that our comparable ETR will be relatively stable mid-term, unless major changes impact our structure, our business model or our territories.*

## **2. Tax Governance**

Our mission is to deliver sustainable financial results every year. When the business seeks tax advice and where alternative options exist to achieve the same commercial results, the most tax efficient approach is recommended by the tax team. However, a tax efficient approach must comply with our tax principles and we always act in line with business value creation. We apply diligent care and judgment to ensure all decisions are well-considered and documented. As tax laws are not always clear, getting this right requires careful judgment and we recognise that the tax authorities may not always agree with some of the judgments we make. To reduce such potential areas of disagreement:

- We do not engage or become involved in artificial tax arrangements. The artificiality of a tax treatment is tested by the tax team against the existence of commercial purpose and/or economic substance.
- We consider the reputational consequences of each filing position.
- We follow established procedures and channels when dealing with tax authority officials.
- We ensure that transfer prices pertaining to intercompany transactions are set by the Group Tax Function according to the OECD transfer pricing guidelines and respect the arm's length principle.
- All national, federal, state, provincial, or local tax audits are conducted and settled under the direction of the tax team.
- We use external advisers when required, but we mainly in-source the tax work.

*How does it translate in practice?*

*Our Code of Business Conduct sets out the standards of behaviour to which we expect all employees to adhere. This standard is no different when it comes to taxation. Our employees can also refer to the set of tax policies and directives that we publish internally. We provide to the Audit Committee of the Board of Directors an annual update on the group's effective tax rate, tax provisions, key tax strategy matters, and compliance with our tax principles.*

### 3. Tax Transparency

We value open and constructive relationships with tax authorities and support efforts to increase public trust in tax systems. Relationships between LafargeHolcim and tax authorities in all countries where the Group operates should be transparent and based on mutual trust.

We are committed:

- To be open and transparent with the tax authorities about tax matters and provide the relevant, reasonably requested information within established due dates, or within a reasonable time-frame.
- If questions or assessments from tax authorities appear not to be legitimate or are based on misunderstandings of the facts or the law, to work with tax authorities where possible, to identify the issues and explore options to resolve misunderstandings.
- Where relevant, reasonably requested information is not available, to timely inform the tax authorities and explore mutually acceptable alternatives.
- To work collaboratively with tax authorities to achieve early agreement on disputed issues and certainty on a real-time basis, wherever possible.
- To explain to the public and any relevant stakeholders the LafargeHolcim Tax Strategy and economic contribution and taxes paid via appropriate disclosures

*How does it translate in practice?*

*LafargeHolcim recognizes demands from civil society for increased transparency on taxes paid. Ahead of international and local regulations and guidance, we already publicly report on taxes paid per region on an annual basis. We also provide comparable ETR information in the tax note of our annual report to allow external stakeholders to better understand year on year variances in our tax position. This proactive transparency is recognized by our external stakeholders:*

*'LafargeHolcim are ahead of the curve in describing their responsible tax policies and how they are complying with new mandatory and stakeholder demands for greater transparency concerning their tax payments to governments wherever they operate'. Jermyn Brooks, Chair Transparency International's Business Advisory Board.<sup>1</sup> We also obtained the highest score in Taxation from the Dow Jones Sustainability Index for our Indian listed entities in 2018.*

### 4. Tax Risk Management

As tax is a highly technical matter and as tax legislation often changes, we put the relevant processes and controls in place in order to limit financial risks for the Group. On a quarterly basis, the tax team collects all data pertaining to tax risks from the operations and, as appropriate, reports tax risks to the CFO, Legal Counsel and Audit Committee of the Board. In 2018, LafargeHolcim has put in place more robust internal controls in place to ensure that tax decisions are taken at the appropriate level and that we meet our tax obligations. We focus on the following risk areas:

- Operational risk – The underlying risks of applying the tax laws, regulations and decisions to the everyday business operations of the Group.
- Compliance risk – Risks implicit in the systems, processes and procedures adopted by the Group in meeting its tax compliance obligations.

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<sup>1</sup> LafargeHolcim Sustainability Report 2017, page 8

- Financial accounting risk – Risks associated with the financial reporting of tax figures and the use of tax figures in cash flow planning and forecasting (including the risk of not having documented and tested internal controls over financial reporting).
- Transactional risk – Risks and exposures associated with the tax implications of specific transactions undertaken by the Group.
- Reputational risk – Risks associated with the wider impact that may arise from the Group's tax profile.
- People risk – Risks associated with the highly technical skills required to handle tax matters in all countries where the Group operates, gaps in such skills and succession planning challenges.

*How does it translate in practice?*

*To manage risks, we have developed a Tax Policy, which includes the following main approval rules:*

- *All tax provisions have to be duly sustained by underlying facts, documentation and regulations.*
- *All written or oral notices or inquiries concerning potential or existing tax audits or other examinations must be immediately referred to the tax team. No settlement, litigation or agreement with the tax authorities shall be initiated, conducted or concluded without the formal approval of the tax team.*
- *All proposed settlements or litigation processes or agreements have to be duly sustained by underlying facts and regulations and shall include a full disclosure of the financial consequences of such transactions.*
- *All intercompany flows shall follow the Group's Transfer Pricing policy. Any deviation shall be approved by the tax team.*
- *Intercompany dividend distributions and financing are approved by the Group Treasurer and the Group Head of Tax.*
- *The tax team must be notified of acquisitions, divestments and other restructurings.*

*In addition, out of the newly implemented 60 Minimum Standard Controls for the Group, 5 are dedicated to taxation.*

## **5. Tax Contribution**

We believe the taxes we pay have a key impact in the communities where we operate. In 2018 we paid CHF807 million in corporate income taxes across the world. Our local economic impact goes beyond corporate income tax payments. We also pay real estate taxes, production taxes, excise taxes, stamp duties, employment and other taxes in many other forms. That is not always understood by external stakeholders.

In addition, we trust that our contribution in the area of taxation is not only about the cash taxes we pay, but is also about engaging with stakeholders in initiatives to simplify and improve tax regimes and to break the silos between taxpayers and tax authorities. This is why:

- We support and work in collaboration with OECD on the Base Erosion and Profit Shifting (BEPS) project, as we understand that tax evasion is a concern for all parties.
- We strongly advocate for the enforcement of international tax reforms in a coherent and coordinated way, enabling a level playing field and reducing the risk of paying tax twice on the same income. For example, in 2018, we suffered from double taxation in the form of CHF64 million of non-recoverable withholding taxes.
- We also believe taxation can be positioned in a more positive way and that tax regimes can encourage investment and economic growth. We advocate for Pro-Growth Tax Policies and harmonised and transparent incentive regimes throughout the world.
- We also sometimes face additional taxes that we believe may not always have a positive impact on the economy or business growth. In such cases, we monitor this issue through our industry groups, public affairs, and tax networks and, where appropriate, pro-actively engage with regulators to ensure they do not unfairly single out our industry or our products for taxation.