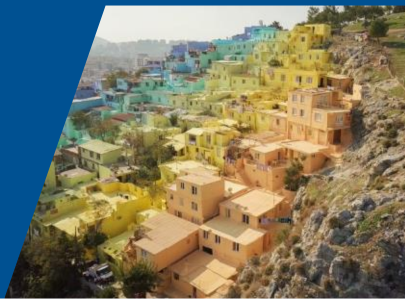
AkzoNobel’s approach to tax



This document explains AkzoNobel’s approach to tax. It contains the following chapters:

1. Approach to tax: Tax strategy and tax principles

Tax strategy

AkzoNobel’s tax strategy is to manage its income tax and other tax positions for the group in a sustainable manner and at acceptable risk. In doing so, the aim is to be in control over the tax processes to remain fully compliant in an efficient way.

In executing its tax strategy, AkzoNobel focuses on:

- A sustainable and long-term approach for tax by following and addressing environmental, social and governance (ESG) developments, including developments in the areas of tax transparency and tax technology
- Developing and maintaining constructive and transparent relationships with tax authorities and regulators
- Being compliant, based on timely and accurate fulfilment of tax compliance obligations in line with applicable tax laws and regulations
- Being in control, via development, implementation and monitoring of processes and controls for appropriate tax risk management and reporting purposes
- Remaining efficient in the approach to tax, in administrative procedures and ways of working, continuously striving for simplification and review of existing business models for compliance
- Tax following business. Mitigating tax risks by supporting our business in managing these risks, especially for changes in business models, as well as in case of regulatory changes.

In its approach to tax, AkzoNobel adheres to the VNO-NCW Tax Governance Code. To the extent AkzoNobel does not yet fully comply with all ambitions laid down in this code, this is explained in this document. For the full version of the Code, visit Tax Governance Code | VNO-NCW.

Tax principles

AkzoNobel's tax strategy is based on our tax principles. AkzoNobel has built a very strong foundation for sustainability and is recognized as a frontrunner in its industry. A coherent and responsible position on tax is an essential element of our sustainability strategies. AkzoNobel considers the taxes it pays a contribution to the communities in which it operates. This is an integral part of AkzoNobel's sustainability strategy and its social responsibilities. The tax principles also apply to how AkzoNobel operates in relationships with employees, customers and contractors.

AkzoNobel has adopted the following tax principles:

Compliance

Taxes are paid in accordance with all relevant rules and regulations in the countries in which AkzoNobel operates. AkzoNobel aims to comply with both the spirit and the letter of the law. This includes such measures as providing to the relevant tax authorities the information necessary for the correct determination of taxes to be assessed in connection with our operations and conforming transfer pricing practices to the arm's length principle. Compliance is monitored through a Tax Control Framework. Additionally, also in managing tax affairs, employees must adhere to the AkzoNobel Code of Conduct.

Business rationale

Tax follows business, and profit is allocated to countries in which value is created, in accordance with domestic and international rules and standards (such as the OECD guidelines) and applying the at arm's length principle. AkzoNobel does not seek to avoid taxes through "artificial" structures in tax haven jurisdictions.

Relationship with tax authorities

AkzoNobel seeks an open and constructive dialogue with tax authorities on the basis of disclosure of relevant facts and circumstances. AkzoNobel aims to enhance clarity and upfront certainty around tax.

Transparency

AkzoNobel is transparent about its approach to tax and its tax position. Disclosures are made in accordance with the relevant domestic regulations, as well as applicable reporting requirements and standards, such as IFRS.

2. Accountability and tax governance

Accountability

Tax is a core part of AkzoNobel's corporate social responsibility and governance and is managed by AkzoNobel's tax team. The tax team is accountable and responsible for defining and maintaining AkzoNobel's tax strategy. There is a clearly defined responsibility and accountability mapping (RACI) for tax matters for the group. This responsibility assignment matrix (RACI) is approved by the CFO. The tax strategy and tax principles are approved by the Executive Committee, and at least reviewed annually by the Audit Committee of the Supervisory Board. The tax strategy and tax principles apply to all group companies.

AkzoNobel's tax team is a center of expertise and part of AkzoNobel's finance function, headed by the Chief Financial Officer (CFO). AkzoNobel's Head of Tax reports into the CFO. Regular meetings take place between the CFO, Head of Tax and central and regional tax teams on the interaction between company (business) developments and tax relevant topics. Whenever needed, this leads to (tax) action plans and execution in line with the internal responsibility mapping.

The tax team comprises of tax professionals with specific geographic and subject matter responsibilities, including specialists in the areas of transfer pricing, tax accounting and indirect tax. Advice is sought from external advisors on material transactions or whenever the necessary expertise is not available in-house. Tax compliance is partly done in-house, and partly outsourced.

The tax function is a global function. Regional and local tax experts are an integral part of the tax function. This ensures that AkzoNobel has globally consistent tax policies, strategies and processes, while at the same time, the company continues to invest to ensure the team's knowledge and expertise stay up to date. The team has dedicated tax team members in the countries in which AkzoNobel has its main business operations and tax developments in these countries can therefore be monitored closely.

Tax control framework

The company has a tax control framework setting out the tax controls in place to monitor key tax risk areas. The existence and execution of effective controls in relation to key tax risks is monitored through a web-based tool on a periodic basis. The quality of this control tool and its usage is managed and reviewed by AkzoNobel's Risk and Internal Control department, while the efficiency of the controls is validated by the tax function.

As part of the group's internal control framework, actions are taken to create and maintain awareness, monitoring and adherence to the Tax Control Framework. Execution actions include the following:

- Under the ultimate responsibility of the Board of Management, the CFO annually reviews, evaluates, approves and where necessary adjusts the approach to tax
- Specific tax controls are performed, assessed and reviewed on a periodic basis, depending on the nature of the control
- Controls are in place to monitor key tax processes, among others for value-added tax (VAT), corporate income tax (CIT), wage tax and withholding tax (WHT)

- In case controls are not found to be effective, a specific action plan is formulated and executed. Internal and external auditors regularly review the company's tax controls as part of the audit of its financial results
- Regular meetings with local and regional tax specialists take place to align on tax relevant topics and tax impact on business developments.

Acquisitions, divestments and all other transactions that take place within the AkzoNobel group are subject to a review process by several departments, including accounting, treasury, legal and tax. As a consequence, we can monitor that the actual execution of the tax strategy on a transactional level is in accordance with the tax strategy as well as the overall organizational strategy.

The tax position of AkzoNobel is reflected in the Financial Statements of AkzoNobel and covered by the in-control statement by the AkzoNobel Management Board and by the independent Auditors' report.

Technology plays a pivotal role in enhancing the global tax function of AkzoNobel. Embracing technology is essential for our tax function to cope with an ever-evolving tax landscape. We continue to invest in tax technology for two main reasons:
i. remain tax compliant with new regulations (e.g. e-invoicing, e-reporting and Pillar Two) and
ii. improve our processes and minimize errors in our tax calculations. Examples of improvements include projects to further assess the possibilities for (broader usage of) tax determination technology and tax reporting tools in the areas of indirect tax and income tax accounting.

3. Tax compliance

AkzoNobel seeks to prepare and file all required tax returns in a timely manner. The complete, accurate and timely preparation and submission of all required tax returns, as well as the timely payment of taxes due, are subject to internal rules and processes.

AkzoNobel aims for certainty about its tax positions and seeks internal or external advice to review and validate positions where appropriate. The company centrally monitors the timely filing of corporate income tax returns and seeks to minimize the number of open tax years.

The company is committed to complying with the letter, intent, and spirit of the tax legislation of the countries in which it operates and aims to pay the right amount of tax at the right time. Paying taxes in compliance with the relevant laws and regulations in the jurisdictions that the company operates in, is part of AkzoNobel's overall business principles.

The company's tax planning approach is based on reasonable interpretations of applicable law and is aligned with the substance of the economic and commercial activity of its business. AkzoNobel acts in accordance with all applicable laws and takes guidance from relevant international standards (for example, the guidelines of the Organization for Economic Co-operation and Development, also called the OECD guidelines). AkzoNobel does not undertake transactions or engage in arrangements for which the sole purpose is to create a tax benefit which is in excess of a reasonable interpretation of relevant tax rules.

AkzoNobel has committed itself to trustworthy and transparent communication with tax authorities. If the company seeks decisions from tax authorities to confirm applicable tax treatment, it does so based on disclosure of all relevant facts and circumstances.

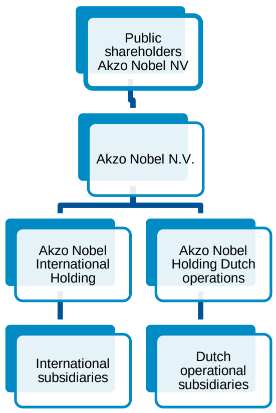
The approach to tax is an integral part of the AkzoNobel Code of Conduct. The Code of Conduct reflects our commitment to always act with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. Also in managing tax affairs, including tax compliance matters, employees must adhere to the AkzoNobel Code of Conduct. Possible violations of the AkzoNobel Code of Conduct, as well as violations of laws or regulations, including tax laws, can be reported anonymously (as part of AkzoNobel's SpeakUp! grievance mechanism). The code of conduct rules are actively promoted throughout the Tax Function, and AkzoNobel Tax team members regularly complete the relevant training programs, receiving practical guidance on how to apply and uphold the code in their daily work.

AkzoNobel closely monitors international tax developments including OECD initiatives. In 2022 the Council of the EU adopted the Pillar Two directive, which was subsequently embedded in Dutch law on December 19, 2023. This directive introduces a minimum corporate tax rate set at 15% for each jurisdiction in which a company operates. For AkzoNobel, the new rules are applicable as of 2024. In this respect a significant increase of the tax compliance burden is foreseen. No material financial impact is anticipated in the foreseeable future. Due to complexities in applying the Pillar Two legislation as well as the fact that further guidance on rules and regulations is expected, AkzoNobel will continue to assess the impact of the Pillar Two legislation on its future performance.

4. Business and legal structure

AkzoNobel's legal structure reflects the way the company operates its businesses. AkzoNobel's consolidated financial statements comprise assets, liabilities, income and expenses of the subsidiaries of the company worldwide. The company aims to constantly simplify, integrate and harmonize its legal entity structure in line with the targeted blueprint. Target is to have a flat legal entity structure under Akzo Nobel N.V. For a list of all affiliated legal entities and corporations reference is made to page 195 of the 2023 financial statements.

The simplified overview of the AkzoNobel group structure is as follows.



In case of mergers and acquisitions, AkzoNobel integrates legal entities acquired in the structure.

Tax follows business, and profit is allocated to legal entities in which value is created, in accordance with domestic and international tax rules and standards. AkzoNobel aims to pay an appropriate amount of tax according to where value is created within the normal course of commercial activity. AkzoNobel acts in accordance with applicable laws and takes guidance from relevant international standards, for example OECD guidelines. Transfer prices are determined using the arm’s-length principle. These principles are applied on intercompany transactions across the group, contingent on local laws.

Where possible, advance pricing agreements are entered into with the relevant country tax authorities to ensure upfront certainty. Such certainty is sought on the basis of full disclosure of all relevant information.

We use a framework to manage the risks that could occur in our business. This ensures that we identify and understand risks, assess them properly and deal with them effectively. We are committed to meeting our obligations towards our people and the societies in which we operate.

Our tax risk appetite is based on financial and compliance risk appetite, being low to medium. The AkzoNobel Tax department supports our business in managing these tax risks, especially in case of changes in business models, and in case of regulatory changes, through seeking accurate and timely fulfilment of tax compliance obligations in line with applicable tax laws and regulations. As a multinational company, navigating global tax risks can be complex and as such, we are exposed to reputational, compliance and financial risks relating to taxes.

Disclosures are made in accordance with the relevant domestic regulations and applicable reporting requirements and standards such as IFRS. Liabilities for uncertain tax positions are recognized if, and to the extent it is probable, that additional taxes will become due and the amount can be measured reliably. Our assessments are based on our best estimate of how the tax authorities concerned are likely to evaluate and respond to the cases in question, taking into account expert advice. Uncertain tax positions for which liabilities have been recorded, mainly relate to international transfer pricing and deductibility of expenses. In certain cases, uncertain tax positions are related to disputes with tax authorities. Such disputes are usually strongly contested and defended by the company, often assisted by outside counsel and/or experts. Significant judgment is involved in the determination of such liabilities. Probability is assessed by applying interpretation of legislation and relevant case law.

For the avoidance of any doubt, AkzoNobel does not seek to avoid or reduce taxes through “artificial” structures in tax haven jurisdictions.

Tax havens are defined as countries that do not share tax information under Tax Information Exchange Agreements or legal entities in countries that are listed in the EU non cooperative tax jurisdictions list (‘blacklist’). If we have presence in any of these countries, this is solely for genuine business activities.

5. Tax regimes and incentives

To stay competitive in the countries where AkzoNobel does business, AkzoNobel makes use of tax regimes and incentives designed by governments for this purpose and claims these incentives in line with the policy intent of such incentives. A few key examples of such usage are further explained below:

R&D incentives

Many jurisdictions stimulate research and development (R&D) activity that yields technological innovation and its positive spin-off effects for the economy at large. This is, for instance, done by effectively lowering the tax on income arising from certain intellectual property. Technology development is a key competitive success factor and growth driver for AkzoNobel. To foster innovation, the company makes use of incentives that have been introduced in the countries in which it operates. If, and to the extent that AkzoNobel's activities qualify for tax incentives in this domain, the company makes use of these incentives. This includes the so-called Innovation Box in the Netherlands and the R&D credit incentive in the UK. In both countries, AkzoNobel has substantial R&D activities.

Tax regime (participation exemption Netherlands)

Akzo Nobel N.V. is the top holding of the group, located in the Netherlands. All distributed profits made by AkzoNobel subsidiaries are ultimately received by Akzo Nobel N.V. as the ultimate parent company of the group.

Under the so-called participation exemption, such qualifying (dividend) income from participations is exempt from Dutch corporate income tax. The rationale behind this exemption is that this profit was already taxed in the country of residence of the participation itself and therefore prevents double taxation.

6. Relationships with authorities and other external stakeholders

AkzoNobel is transparent about its approach to tax and its tax position. Disclosures are made in accordance with the relevant domestic regulations, as well as applicable reporting requirements and standards such as IFRS. AkzoNobel seeks an open and constructive dialogue with tax authorities based on disclosure of relevant facts and circumstances. The company aims to enhance clarity and upfront certainty around tax.

AkzoNobel promotes open, transparent working relationships with tax authorities, participates in co-operative compliance programs and seeks, where possible, early engagement in advance of undertaking transactions and filing tax returns. The company only seeks rulings from tax authorities to confirm the applicable tax treatment, based on disclosure of relevant facts.

In the Netherlands, AkzoNobel engages with the Dutch tax authorities through regular meetings, calls and correspondence. This includes discussing the tax impacts of potential future events in advance. This constructive co-operation between AkzoNobel and the Dutch tax authorities results in transparency, as well as faster and greater clarity on AkzoNobel's tax positions and ensures working as much as possible in real time. In the context of the relationship with the Dutch tax authorities, there is an individual supervisory plan that is based on the tax authorities' customer view of AkzoNobel based on key risks for tax matters, management and monitoring activities. It also describes the carried out and planned supervisory activities on various tax matters and the division of activities between AkzoNobel and the Tax and Customs Administration.

We aim to have similar transparent relationships with other tax authorities whenever possible. For instance in the UK we have regular meetings with HMRC to discuss current business initiatives in real time and, where appropriate, will seek pre-transaction clearances from HMRC. Also we publish a UK tax principles statement in which we agree to our approach to tax for the country. In this statement reference is made to the central tax policy. This open approach helps the company with the goal of achieving certainty on tax positions at an early stage.

AkzoNobel shares its views on tax developments and seeks to engage constructively with governments and business groups to support the development of effective tax systems, legislation and administration, among others through VNO-NCW (the Confederation of Netherlands Industry and Employers) in the Netherlands.

7. Tax transparency and reporting

Tax contributions

In the countries in which AkzoNobel operates, the company contributes to society in several ways. The company pays suppliers, employees, capital providers and governments. AkzoNobel can only operate in countries if certain conditions are fulfilled. For example, educated team members are needed to run and manage our operations, and a logistical infrastructure is needed to transport goods. By paying taxes to governments, AkzoNobel contributes to the general funds out of which these conditions can be financed.

AkzoNobel's business generates tax receipts for the governments in the countries in which the company operates. In addition to corporation taxes, AkzoNobel pays and collects numerous other taxes, including employee taxes and sales taxes. AkzoNobel annually reports on (corporate) income taxes paid globally and per region. For key countries, the company reports on the income taxes paid per country, as well as on VAT and wage taxes withheld and paid (see below).

Effective tax rate and cash tax rate

The reported effective tax rate (ETR) for the year 2023 is 37.8% (2022: 35.5%). The weighted average statutory income tax rate based on the geographic spread of AkzoNobel's activities is 24.1% (2022: 23.6%). The relatively high effective tax rate compared to the weighted average statutory tax rate in 2023 is mainly the result of the items below:

- The de-recognition of deferred tax assets due to the reassessment of technical tax limitations to deduct interest; and
- Hyperinflation accounting.

The difference between the weighted average statutory income tax rate and the effective tax rate is explained in more detail in the following table:

Effective tax rate reconciliation in %	2022	2023
Corporate tax rate in the Netherlands	25.8	25.8
Effect of tax rates in other countries	(2.2)	(1.7)
Weighted average statutory income tax rate	**23.6**	**24.1**
Non-taxable income	(2.8)	(2.8)
Non-deductible expenses	3.3	2.2
Non-refundable withholding taxes	2.4	1.4
(Recognition)/derecognition of deferred tax assets	1.0	6.0
Adjustments for prior years	4.0	3.5
Hyperinflation impact	2.8	3.2
Deferred tax adjustment due to changes in tax rates	1.2	0.2
Effective tax rate	**35.5**	**37.8**

The effective tax rate as reflected in the annual report (continued operations only) is 37.8% in 2023 (2022: 35.5%). For completeness' sake, including discontinued operations, the cash tax paid and cash tax rate are as depicted in below table:

in € millions	2022	2023
Continued operations only		
Earnings before tax	602	784
Tax expense	214	296
Reported tax rate	35.5%	37.8%
Including discontinued operations		
Earnings before tax	589	779
Tax expense	211	296
Cash tax paid	255	295
Cash tax rate	35.8%	38.0%

According to the consolidated statement of cashflows, the cash income taxes paid in 2023 are €295 million (2022: €255 million).

The difference between the effective tax rate and the cash tax rate in a given year is mainly caused by the following factors:

- Deferred tax:
  - The creation or usage of tax losses and tax credits
  - Temporary differences, i.e. timing differences with respect to the recognition of transactions in IFRS financial statements and for tax purposes.
- Timing differences in tax payments:
  - The tax liability of a certain year is generally partly paid within the year, and partly in the next year(s).

Corporate income and withholding taxes

The table below gives a summary of the 2023 third-party revenue, profit before tax, the income taxes paid and accrued and the number of AkzoNobel employees for some of its key countries and regions[1]:

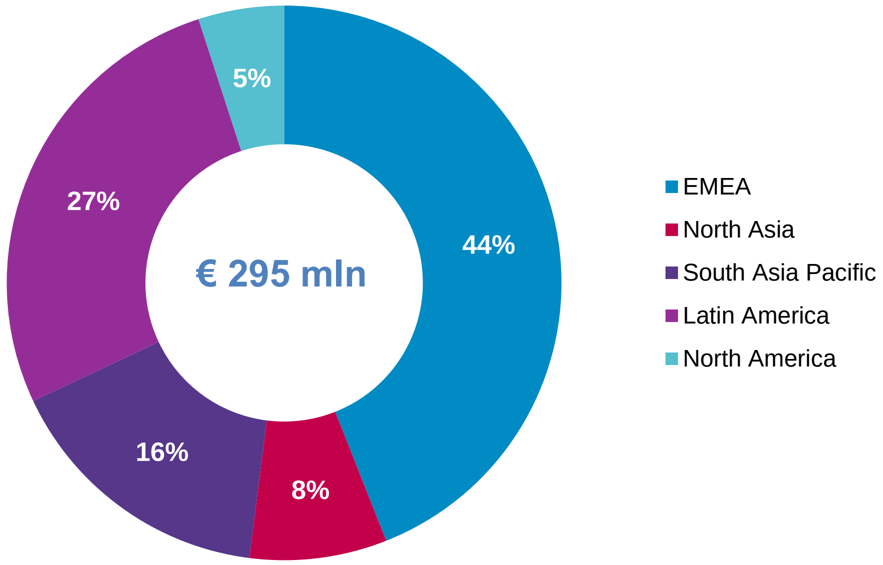
in € millions						Activities		
Country	Revenue by origin	Profit before tax	Income taxes paid	Income taxes accrued	FTE	Factory	Sales	Global HQ
Netherlands	409	38	32	56	2,300	🏭	📄	🏛
China	1,392	100	22	27	4,600	🏭	📄	
United States	1,231	39	10	11	2,600	🏭	📄	
United Kingdom	1,097	133	5	34	3,000	🏭	📄	
Brazil	596	70	51	18	1,600	🏭	📄	
Germany	511	35	37	34	1,100	🏭	📄	
India	411	61	19	17	2,100	🏭	📄	
Spain	393	21	3	6	1,300	🏭	📄	
France	390	32	11	8	1,400	🏭	📄	
Sweden	368	8	0	1	800	🏭	📄	
Türkiye	352	0	9	12	900	🏭	📄	
Colombia	341	34	20	19	2,600	🏭	📄	
Italy	318	29	7	5	500	🏭	📄	
Vietnam	207	30	10	5	900	🏭	📄	
South Korea	195	-3	0	0	500	🏭	📄	
Other EMEA countries	1,205	137	26	30	4,700	🏭	📄	
Other Asian countries and Pacific	755	67	21	25	2,800	🏭	📄	
Other Latin America	325	-53	7	-9	1,000	🏭	📄	
Other North America	172	6	5	-3	500	🏭	📄	
Total	**10.668**	**784**	**295**	**296**	**35,200**			

The income taxes paid include corporate income tax and withholding tax paid in 2023. This may include tax payments or refunds relating to previous years, whereas taxes and refunds related to the year 2023 may only have a cash impact in future years. For income subject to withholding tax, withholding taxes paid are reported at the level of the recipient. The corporate income tax paid in a given year can be lower or higher than the statutory rate in a country due to, among others, timing differences between tax law and accounting standards, carry forward of tax losses and/or tax credits, prior year true-ups, timing differences in payment and/or refunds.

The income taxes accrued included in the table above reflect the tax expense as per IFRS standards (IAS 12) i.e. including current and deferred tax expense.

[1] AkzoNobel does not yet fully comply with the country-by-country reporting requirement of the VNO-NCW Tax Governance Code, but is taking active steps towards this goal. This is reflected in the higher number of key countries we are reporting versus last year's report as well as additional data points as reflected in the table on this page (i.e. income taxes accrued plus activities performed). We also voluntarily disclose data for these key countries that the code does not explicitly require such as revenue, FTE numbers and profit before tax. We believe that providing this information underlines that AkzoNobel is constantly looking at what further steps can be taken to increase transparency on tax matters.

The following chart displays the proportion of the total income taxes paid per geographic region:



Corporate income taxes paid
On an annual basis, AkzoNobel provides the non-public country-by-country report to the tax authorities in the Netherlands, in line with the Base Erosion and Profit Shifting (BEPS) Plan as initiated by OECD and as enacted into Dutch legislation. Public country-by-country reporting rules will be applicable effective 2026 over the year 2025. The following information needs to be reported: net turnover, profit or loss before tax, tax accrued and paid, the amount of accumulated earnings, brief description of activities and number of employees.

This information must be reported for each EU Member State where the group is active and also for each jurisdiction deemed non-cooperative by the EU or that has been on the EU's "grey" list for a minimum of two years.

Other taxes including VAT/GST and payroll tax

AkzoNobel also pays and bears other taxes, such as custom duties, property taxes, sales taxes and environmental/energy taxes. Furthermore, the presence of AkzoNobel within countries also leads to other material tax revenues than those that are borne by AkzoNobel, such as the tax withheld from customers (VAT) and employees (wage tax).

Below overview includes VAT/GST contributions and payroll taxes paid for the key countries.

in € millions	**Total payroll taxes**	**VAT collected and borne**	**VAT charged to AN**	**Total VAT contribution**
The Netherlands	109	208	233	-25
China	61	246	189	57
United states	62	2	–	2
UK	49	214	193	21
Brazil	9	111	90	21
Germany	41	98	75	23
India	6	126	103	23
Spain	14	97	79	18
France	38	127	76	51
Colombia	7	69	53	15
Sweden	25	82	82	0
Türkiye	5	30	32	-2
Italy	10	100	70	31
Vietnam	5	15	15	1
South Korea	7	9	13	-4

As an employer, AkzoNobel withholds wage tax and social contributions on wages paid to its employees, both in its capacity as employer and in the form of remittance to government on behalf of employees. The overview reflects payroll contributions in the relevant countries.

Indirect taxes such as value added tax (VAT), goods and services tax (GST) and sales tax are consumption taxes. These taxes are charged by AkzoNobel to its customers, collected and paid to the (local) governments. Next to that, AkzoNobel can be liable to self-assess local indirect taxes. The indirect taxes charged to customers and self-assessed reflects the output tax of AkzoNobel. VAT and GST are levied on the added value, meaning that AkzoNobel in general can also reclaim the VAT/GST charged to AkzoNobel (input tax). The input tax is the VAT/GST paid upon purchases, including self-assessed indirect taxes and imports. Our indirect tax contribution is the balance between output tax and input tax on all goods and services sold and purchased (including intra-group) based on the tax returns filed for the year 2023. With respect to US sales and use tax, AkzoNobel is required to charge sales tax to customers unless an exemption applies. AkzoNobel remits all taxes collected to the taxing authorities. Additionally, AkzoNobel pays a use tax on taxable purchases and for samples and free-of-charge products given to customers. This is the output tax as reported in the overview for the US. In Brazil the amounts are related to the state taxes (ICMS).