

## **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. In that context, we have adopted the following tax principles.**

### **Compliance**

Taxes are paid in accordance with all relevant rules and regulations in the countries in which we operate. We aim to comply with both the spirit and the letter of the law. Compliance is monitored through a Tax Control Framework. Additionally, also in managing tax affairs, our 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.

We do not seek to avoid taxes through “artificial” structures in tax haven jurisdictions.

### **Relationship with tax authorities**

We seek an open and constructive dialog with tax authorities on the basis of disclosure of relevant facts and circumstances. We aim to enhance clarity and upfront certainty around tax.

### **Transparency**

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

## Tax update 2020

### Effective tax rate and Cash tax rate

The reported effective tax rate (ETR) for the year 2020 is 26.2% (€241 million). The weighted average statutory income tax rate based on the geographic spread of AkzoNobel's activities is 24.6%. The difference between this statutory rate and the effective rate is explained in the following table:

<b>Effective tax rate</b>		
in %	<b>2019</b>	<b>2020</b>
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	(2.2)	(0.4)
<b>Weighted average statutory income tax rate</b>	<b>22.8</b>	<b>24.6</b>
Non-taxable income	(1.0)	(1.2)
Non-deductible expenses	3.2	1.8
(De)recognition of deferred tax assets	5.8	(0.1)
Non-refundable withholding taxes	0.4	0.6
Adjustment for prior years	(0.2)	0.2
Deferred tax adjustment due to changes in tax rates	(1.7)	0.3
<b>Effective tax rate</b>	<b>29.3</b>	<b>26.2</b>

In the table below the effective tax rate is shown for the years 2019 and 2020. In the annual report only the effective tax rate for continued operations is shown. As the cash tax paid in the cash flow statement is on a total basis (including discontinued operations), we also show the effective tax rate on a total basis in the table below.

<b>Continued operations only:</b>	<b>2019</b>	<b>2020</b>	<b>Calculated average</b>
	<b>In € millions</b>	<b>In € millions</b>	<b>In € millions</b>
Earnings before tax	785	919	852
Reported Taxes	(230)	(241)	(235.5)
Reported Tax rate	29.3%	26.2%	27.6%
<b>Including discontinued operations:</b>			
Earnings before tax	806	920	863
Reported Taxes	(229)	(249)	(239)
Reported Tax rate	28.4%	27.1%	27.7%
Cash Taxes Paid	(184)	(187)	(185.5)

The above amount of cash taxes paid of €187 million includes €22 million Dutch dividend withholding tax for the account of AkzoNobel on the executed share buyback program.

The difference between the book tax rate and the amount of tax paid in a given year is mainly caused by the following factors:

- Deferred tax:
  - the creation or usage of tax losses and tax credits
  - certain cost or income elements may be included for IFRS results in another year than for taxable results
- Timing differences tax payment
  - the tax liability of a certain year is generally partly paid within the year, and partly in the next year

## Taxes borne and paid by AkzoNobel

In the countries where AkzoNobel is operating, we are contributing to society in several ways. We pay to suppliers, employees, capital providers and governments. AkzoNobel can only operate in countries if certain conditions are fulfilled. For example, educated people are needed to run and manage our operations, and a logistical infrastructure is needed in order to transport our goods. By paying to governments, we contribute to the general funds out of which these conditions can be financed.

We provide our 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 enacted into Dutch legislation.

Corporate income taxes and withholding taxes paid and borne in 2020 by AkzoNobel worldwide were €187 million.

The following overview shows a breakdown of the 2020 revenue, the taxes borne and paid and the number of AkzoNobel employees for its key countries and regions:

2020	Taxes paid In € millions	Total revenue In € millions	Number of employees as per YE
Netherlands*	(22)	342	2,300
United Kingdom	(1)	838	3,000
Germany	(12)	372	1,200
Sweden	(1)	140	900
Other European countries	(45)	2,276	7,100
China	(29)	1,205	4,500
Other Asian countries	(40)	1,139	5,800
United States and Canada	(2)	1,019	2,700
South America	(29)	697	2,600
Other regions	(7)	502	2,100
<b>Total</b>	<b>(187)</b>	<b>8,530</b>	<b>32,200</b>

\* Including Dutch dividend withholding tax for account of AkzoNobel on the executed share buyback program.

The taxes paid and borne include corporate income tax and withholding tax paid in 2020. This may include tax payments or refunds relating to previous years, whereas taxes and refunds related to the year 2020 may only have a cash impact in future years. The withholding tax is reported by the countries to which the taxes were paid.

As already mentioned above, the actual amount of tax paid can differ from the tax expenses as reported in the 2020 annual report. The difference between the actual tax paid and tax expense reported are caused by various items such as deferred tax stemming from timing differences or loss carryforwards.

Besides the indicated taxes, AkzoNobel also pays and bears other taxes like custom and excise duties, sales taxes and environmental/energy taxes. These taxes are not included in the overview above. Furthermore, the presence of AkzoNobel within countries also leads to other material tax revenues than those that are borne by AkzoNobel, like the tax withheld from customers (VAT) and employees (wage tax).