

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
2. Accountability and tax governance
3. Tax compliance
4. Business and legal Structure
5. Tax regimes and incentives
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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 matter and at acceptable risks. 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 developments in environmental, social and governance (ESG), including tax transparency and tax technology, as well as in relationships with tax authorities and regulators
- Being compliant, based on timely and accurate fulfillment 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
- Dealing with acceptable tax risks by supporting our business in managing these risks, especially for changes in business models, as well as in the regulatory environment

In its approach to tax, AkzoNobel adheres to the VNO-NCW Tax Governance Code. In case 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 www.vno-ncw.nl/taxgovernancecode

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.

In that context, 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. 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 dialog 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 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 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. The tax team comprises tax professionals with specific geographic and technical responsibilities, including specialists in the area of transfer pricing, tax accounting and indirect tax. Advice is sought from external advisors on material transactions and 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. 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 stays current. This set-up ensures that the team has a presence in the countries where 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 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 internal Risk department, while the efficiency of the controls is validated by the tax function. As part of the internal control framework for the group, specific tax controls are performed, assessed and reviewed on a bi-annual or quarterly 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.

3. Tax compliance

The complete, accurate and timely preparation and submission of all required tax returns is subject to internal rules and processes. This is also applicable for the correct and timely payment of taxes.

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. A way to manage tax exposure is to be as "current" as possible in agreeing the final tax liability for the tax year with the relevant tax authority. Accordingly, AkzoNobel monitors 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.

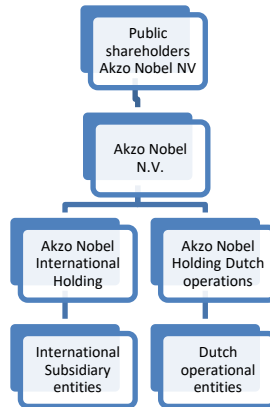
The company's tax planning approach is based on reasonable interpretations of applicable law and is aligned with the substance of the economic and commercial activity of its business. AkzoNobel acts in accordance with all applicable laws and takes guidance from relevant international standards (for example, 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.

Additionally, also in managing tax affairs and including the preparation of tax filings, employees must adhere to the AkzoNobel Code of Conduct. Possible violations of the AkzoNobel Code of Conduct, as well as laws or regulations, including tax laws, can be reported anonymously (as part of AkzoNobel's SpeakUp! grievance mechanism).

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



In case of mergers and acquisitions AkzoNobel incorporates legal entities acquired in the structure as and when possible.

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. The company aims to comply with both the spirit and the letter of the law. AkzoNobel acts in accordance with applicable laws and takes guidance from relevant international standards, for example OECD guidelines. Transfer prices are calculated 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 where possible. Such certainty is sought on the basis of full disclosure of all relevant information.

AkzoNobel does not seek to avoid taxes through "artificial" structures in tax haven jurisdictions.

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 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 dialog 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 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 positions and ensures working as much as possible in real time.

AkzoNobel also aims to have similar open and transparent relationships in other countries in which the company operates whenever possible. This open approach helps the company with the goal of achieving certainty on tax positions at an early stage.

AkzoNobel 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 where 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 people are needed to run and manage our operations, and a logistical infrastructure is needed to transport goods. By paying governments, AkzoNobel contributes to the general funds out of which these conditions can be financed.

AkzoNobel 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 2022 is 35.5%. The weighted average statutory income tax rate based on the geographic spread of AkzoNobel's activities is 23.6%. The difference between this statutory rate and the effective rate is explained in the following table:

Effective tax rate reconciliation		
in %	2021	2022
Corporate tax rate in the Netherlands	25.0	25.8
Effect of tax rates in other countries	0.2	(2.2)
Weighted average statutory income tax rate	25.2	23.6
Non-taxable income	(3.0)	(2.8)
Non-deductible expenses	2.3	6.1
(Rerecognition)/derecognition of deferred tax assets	(1.6)	1.0
Non-refundable withholding taxes	0.9	2.4
Adjustment for prior years	(3.3)	4.0
Deferred tax adjustment due to changes in tax rates	1.8	1.2
Effective tax rate	22.3	35.5

In the table below, the effective tax rate is shown for the years 2022 and 2021. 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), the effective tax rate on a total basis is also shown in the table below.

Continued operations only:	2021	2022
	in € millions	in € millions
Earnings before tax	1,105	602
Reported taxes	(246)	(214)
Reported tax rate	22.3%	35.5%
Including discontinued operations:		
Earnings before tax	1,113	589
Reported taxes	(248)	(211)
Reported tax rate	22.3%	35.8%
Cash taxes paid	(250)	(255)

The above amount of cash taxes paid in 2022 of €255 million (2021: €250 million) includes €224 million (2021: €222 million) of income tax paid as per the consolidated statement of cash flows, plus €32 million (2021: €28 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 years 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(s)

Corporate income and withholding taxes

Corporate income taxes and withholding taxes borne and paid in 2022 by AkzoNobel worldwide amounted to €255 million. The following overview shows a breakdown of the 2022 revenue, profit before tax, the taxes borne and paid and the number of AkzoNobel employees for some of its key countries and regions:

Tax statistics 2022				
In € millions	Revenue by origin	Profit before tax	Taxes paid	Number of employees (FTE)
The Netherlands*	409	8	32	2,300
China	1,387	72	43	4,300
United States	1,280	52	11	2,600
United Kingdom	1,092	116	0	3,000
Germany	518	-10	3	1,200
India	422	60	20	1,800
Sweden	430	-7	0	800
Spain	394	7	1	1,200
France	377	30	5	1,400
Italy	323	28	11	600
Other EMEA countries	1,542	87	39	5,900
Latin America	1,282	87	46	5,100
Other Asian countries and pacific	1,224	51	38	4,500
Other North America	166	21	6	500
Total	10,846	602	255	35,200

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

The taxes borne and paid include corporate income tax and withholding tax paid in 2022. This may include tax payments or refunds relating to previous years, whereas taxes and refunds related to the year 2022 may only have a cash impact in future years. The withholding tax is reported by the countries to which the taxes were paid. 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, deferred tax differences relating to 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.

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. At this point, AkzoNobel is awaiting the new EU rules on public country-by-country reporting. As preparation for this, AkzoNobel is building a set of reliable and structured data that can be retrieved from the systems at consolidated group level. Public country-by-country reporting is expected to be introduced mid-2024, based on the EU Directive on public country-by-country reporting.

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 is an overview of VAT/GST contribution and payroll taxes for the key countries as shown in the above table for income taxes.

Tax statistics 2022					
In € millions					
	Number of employees (FTE)	Total payroll taxes (employer & employee) collected by AN	VAT collected and borne by AN	VAT charged to AN	Total indirect tax contribution
The Netherlands	2,300	124	210	234	-24
UK	3,000	52	218	191	27
France	1,400	36	132	81	51
Germany	1,200	43	106	100	6
Spain	1,200	12	81	71	10
Italy	600	19	104	75	29
Sweden	800	27	103	101	2
China	4,300	36	177	140	37
United States	2,600	66	3		3
India	1,800	6	128	100	28
Total	19,200	421	1,262	1,093	169

* In this overview, AkzoNobel does not include other taxes that are not reported on separate accounts at consolidated level.

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 and self-assessed is 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 2022. 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.