

# Tax principles

**AkzoNobel has built a very strong foundation for sustainability and is recognized as a leader in its industry. This is demonstrated by our consistently high position on the Dow Jones Sustainability Index (DJSI) in the Materials Industry Group in recent years. We believe that 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 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 2018

Please note that in the Annual Report 2018 (AR2018) the Specialty Chemicals business -which was divested per 1 October 2018 - is reported as discontinued operations. Where reference is made to *continued operations*, only the remaining Paints & Coatings business is included.

### Effective tax rate and Cash tax rate

The reported effective tax rate (ETR) for the year 2018 for *continued operations* is 21% (€18 mln). The underlying tax rate based on the geographic spread of AkzoNobel's activities is 25%. The difference between this underlying rate and the effective rate is explained in the following table:

<b>Effective tax rate</b>		
in %	<b>2017</b>	<b>2018</b>
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	(1.0)	(0.1)
<b>Weighted average statutory income tax rate</b>	<b>24.0</b>	<b>24.9</b>
US tax reform	7.3	0.0
Separation of Specialty Chemicals business	4.2	(7.0)
Non-taxable (income)/expenses	0.7	2.4
(De)recognition of deferred tax assets	1.6	1.6
Non-refundable withholding taxes	1.8	2.3
Adjustment for prior years	(7.3)	(4.0)
Other	0.8	0.4
<b>Effective tax rate</b>	<b>33.1</b>	<b>20.6</b>

For comparison reasons, the above table presents the effective consolidated tax rate excluding the impact of results on discontinued operations. Including these results, the effective consolidated tax rate is 7.5%, as the deal result is largely tax exempted, refer to Note 2.

In below table the average reported book tax rate and cash tax rate are calculated for the years 2017 and 2018. In the AR only the book tax rate for continued operation is shown. As the cash tax paid in the cash flow statement is on a total – including discontinued operations – basis, we also show the book tax rate on a total basis in below table.

	2017	2018	Calculated Average
<b><i>Continued operations only:</i></b>			
Earnings before Tax	764	573	668,5
Reported Taxes	253	118	186
Reported Tax Rate	33,1%	20,6%	26,9%
<b>Including discontinued operations (excl divestment result):</b>			
Earnings before Tax	1326	1206	1266
Reported Taxes	422	286	354
Reported Tax Rate	31,8%	23,7%	27,8%
Cash Taxes Paid	338	305	322
Cash Tax Rate	25,5%	25,3%	25,4%

The reported book tax rate is higher in 2017 mainly because of the impact of the US tax reform and of the separation of the Specialty Chemicals business, partly offset with adjustments previous years. It is lower in 2018 mainly because of the separation of the Specialty Chemicals business and adjustments previous years.

The average cash tax rate is lower than book tax rate mainly because of the use of old tax losses from previous years.

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:
  - o the creation or usage of tax losses and tax credits
  - o certain cost or income elements may be included for IFRS results in another year than for taxable results
- Timing differences tax payments; 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

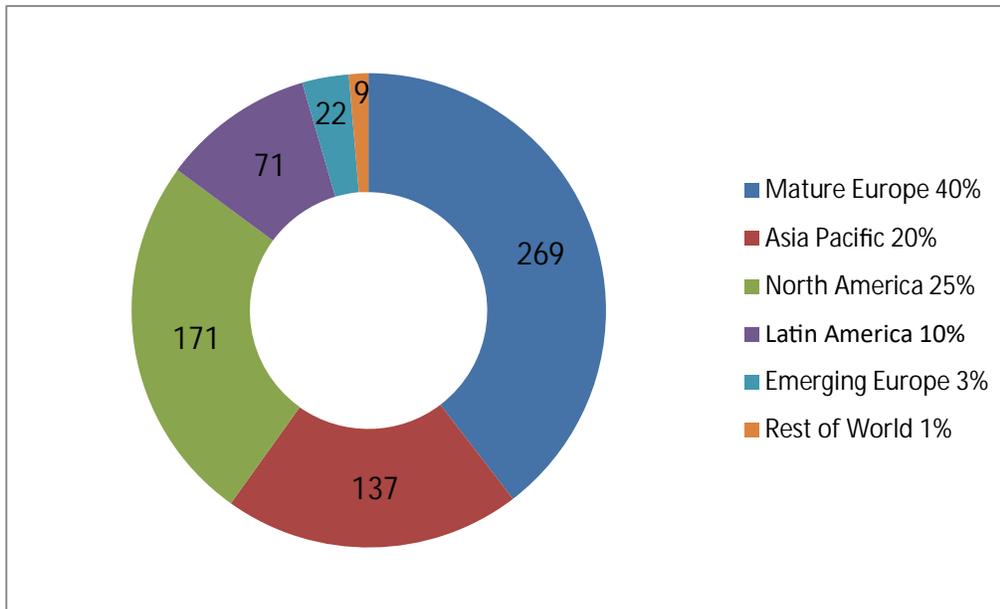
In the countries where AkzoNobel is operating we are contributing to society in several ways. We pay to suppliers, employees, capital providers and governments. AkzoNobel can only operate in countries if certain conditions are fulfilled. For example educated people are needed to run and manage our operations, 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.

Taxes in 2018 paid and borne by AkzoNobel worldwide (including discontinued operations) are €79 mln (was €61 mln in 2017). Please note that the Specialty Chemicals business was divested per 1 October 2018, so its Q4 tax amounts are not included anymore in the 2018 numbers.

The taxes paid and borne amount includes the following direct taxes<sup>1</sup>:

- corporate income tax paid including withholding tax
- employee taxes and social security contributions paid and borne by AkzoNobel

The following diagram shows the regional breakdown of the taxes borne and paid by AkzoNobel in 2018:



We supply the country-by-country-report to the tax authorities in line with the Base Erosion and Profit Shifting (BEPS) Plan as initiated by OECD and enacted into Dutch legislation.

<sup>1</sup> 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 graph. 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).