Governance and compliance
This section explains our corporate governance structure and outlines the remuneration of our Board of Management. You will also find information about risk management, compliance and integrity management, and AkzoNobel and the capital markets.

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**Transforming homes with ease**

Our Coral brand in Brazil launched its new premium interior wall paint range in 2018. Coral Renova has a creamy consistency, which makes painting easier and leaves a beautiful finish.

Available in five ready-mixed colors – and a further 240 via in-store tinting systems and roller wet testers – it protects against day-to-day wear and tear and can even be applied directly onto mold, without the need to clean the surface in advance.

Coral Renova was inspired by our Dulux Valentine Crème de Couleur range in France, which has been a big success. Both products are designed to help consumers make confident color choices and transform their homes with ease.

For more details visit [www.akzonobel.com](http://www.akzonobel.com)
AkzoNobel aspires to the highest standards of corporate governance and seeks to consistently enhance and improve corporate governance performance, emphasizing transparency and embedding a sustainable culture of long-term value creation.

Akzo Nobel N.V. is a public limited liability company (Naamloze Vennootschap) established under the laws of the Netherlands, with common shares listed on Euronext Amsterdam. AkzoNobel has a sponsored level 1 American Depositary Receipt (ADR) program and ADRs can be traded on the international OTCQX platform in the US.

The company’s management and supervision are organized under Dutch law in a so-called two-tier system, comprising a Board of Management (solely composed of executive directors) and a Supervisory Board (solely composed of non-executive directors). The Supervisory Board supervises the Board of Management and ensures a strong external presence in the governance of the company. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders (AGM) for the performance of their functions.

Our corporate governance framework is based on the company’s Articles of Association, the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code (the “Code”), and all applicable laws and regulations, including securities laws. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code are explained in accordance with the Code’s “comply or explain” principle.

With the exception of those aspects of our governance which can only be amended with the approval of the AGM, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied, if this is considered to be in the interest of the company. Where changes are made, these will be reported and explained in the annual report for the relevant year and discussed at the subsequent AGM.

A revised version of the Code was implemented with effect from January 1, 2017. The Code has been implemented in practices where required and is reflected in the Rules of Procedure of the Board of Management and of the Supervisory Board, which are both available on our website. The Code was also published on the website of the Corporate Governance Code Monitoring Committee (www mccg.nl).
BOARD OF MANAGEMENT AND EXECUTIVE COMMITTEE

General
The Board of Management is entrusted with the management of the company. When it comes to the management of our business, it operates in the context of an Executive Committee. The Executive Committee comprises the members of the Board of Management, (currently the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO)), the Chief Operating Officer, the Chief Supply Chain Officer, the General Counsel, the Chief Corporate Development Officer and the Chief Human Resources Officer. This ensures functional, operational and commercial expertise is entrenched at the highest level of the organization.

Among other responsibilities, the Board of Management defines the strategic direction. It establishes and maintains internal policies and procedures for effective risk management and control, manages the realization of the company’s operational and financial targets, its sustainability performance and its pursuit of long-term value creation. In fulfilling their duties, Board of Management members are assisted by the Executive Committee and guided by the interests of the company and its affiliated enterprises, taking into consideration the relevant interests of the company’s stakeholders.

The Board of Management and Executive Committee promote openness and engagement through a SpeakUp! grievance mechanism and have established a Code of Conduct, directives, rules, guidelines and manuals incorporated in the company’s Directives framework, in order to drive a culture of good governance, consistency and functional excellence. The values of good governance, sustainability and teamwork adopted by the Board of Management are incorporated in these documents. The Board of Management believes these values contribute to a culture focused on long-term value creation and actively encourages these values through leading by example.

A strong company culture fostering a solid and well-embedded balance between performance and organizational health is highly valued by the Board of Management and the Supervisory Board, and is fundamental to AkzoNobel’s business strategy. In order to ensure our transformation has a sustainable impact on the whole organization, AkzoNobel’s company culture forms an important part of discussions involving internal organizational changes and Human Resources strategy updates. During 2018, a quarterly Insight Survey (Organizational Health Index) was launched to all employees, focusing on our wider organizational health (see Note 4 of the Sustainability statements). The Supervisory Board regularly discusses the results of the survey, the targets and the actions taken to achieve such targets.

The Board of Management takes precedence; all Executive Committee decisions require a majority of the members of the Board of Management. The Board of Management can at all times decide to reserve decisions for the Board of Management. The members of the Board of Management remain accountable for all decisions made by the Executive Committee. The Board of Management is accountable for its performance to the Supervisory Board and is answerable to the shareholders of the company at the AGM. The Executive Committee members who are not also members of the Board of Management report to the CEO.

The CEO leads the Executive Committee in its overall management of the company. He is the main point of liaison with the Supervisory Board. The CFO is responsible for overseeing AkzoNobel’s finances, its corporate control, investor relations and information management.

The tasks, responsibilities and procedures of the Board of Management and Executive Committee are set out in their Rules of Procedure. These rules have been approved by the Supervisory Board and are available on our website. Authority to represent the company is vested in the two members of the Board of Management, acting jointly. This includes the signing of documents. The Board of Management has also
delegated a level of authority to corporate agents, including the other members of the Executive Committee. The list of authorized signatories is filed with the public registry and is available on request from the Dutch Chamber of Commerce.

The Managing Directors of our business units and the Corporate Directors in charge of the different functions report to individual Executive Committee members with specific responsibility for their activities and performance.

Appointment
Board of Management members are appointed and removed from office by the AGM. The Board of Management members were appointed by EGMs (Extraordinary General Meetings) held in 2017. The other members of the Executive Committee are appointed by the CEO, after consultation with the Supervisory Board. Board of Management members are appointed for a four-year term (or less), with the possibility of re-appointment.

As described later in this section, the Meeting of Holders of Priority Shares has the right to make binding nominations for the appointment of members of the Board of Management and the Supervisory Board. However, as the company subscribes to the principles of the Code in general, members of the Supervisory Board and the Board of Management are (with the exception of those circumstances described later in this section) appointed on the basis of non-binding nominations by the Supervisory Board. In such cases, resolutions to appoint a member of the Supervisory Board or the Board of Management require a simple majority of the votes cast by shareholders.

Under certain conditions specified in the Articles of Association, shareholders may also be entitled to nominate Supervisory Board or Board of Management members for appointment. Such nominations require a two-thirds majority, representing at least 50% of the outstanding share capital, in order to be adopted at an AGM (or EGM).

AkzoNobel believes in the strength of diversity and in accordance with the Code, a Diversity Policy has been adopted for the composition of the Board of Management and Executive Committee. The objective of the Diversity Policy is to enrich the Board of Management's perspective, improve performance, increase member value and enhance the probability of achievement of AkzoNobel’s goals and objectives. The Policy addresses concrete targets relating to diversity, including nationality, age, gender, education and work background. A consistent and structured approach is applied to succession planning for the Board of Management and Executive Committee, taking into account the implementation of the Diversity Policy. AkzoNobel currently diverges from the gender target of at least 30% female and at least 30% male Board of Management members. It is believed that due to the size and scale of the Board of Management (being only two members), this divergence is justified as it has ensured the best candidates for the roles were nominated by the Supervisory Board and appointed by shareholders. Nevertheless, at Executive Committee level, AkzoNobel has a gender diversity with 29% female representatives.

Outside directorships
Members of the Executive Committee are not allowed to hold more than one supervisory board membership or non-executive directorship in another listed company. This is more stringent than the requirements of the Dutch Civil Code, which allows members of a board of management to hold two such positions.

The exception to this rule is that in the 18 months prior to their retirement, Executive Committee members are allowed to hold more than one such supervisory board membership or non-executive directorship in order to allow them to prepare for retirement, as long as this does not interfere with the performance of their tasks as a member of the Executive Committee. Furthermore, an exception can be made for an executive joining the Executive Committee upon approval from the Supervisory Board. However, a maximum of two supervisory board memberships or non-executive directorships will apply.

Acceptance of external supervisory board memberships or non-executive directorships in other listed companies by members of the Executive Committee is always subject to approval by the Supervisory Board, for which authority has been delegated to the Chairman of the Supervisory Board. Currently, no outside directorships in listed companies are held by members of the Executive Committee.

Conflicts of interest
Members of the Board of Management and the other members of the Executive Committee shall not participate in the
discussions and decision-making on a subject or transaction in relation to which they have a conflict of interest with the company. Supervisory Board approval is required for decisions to enter into transactions under which Board of Management or Executive Committee members have a conflict of interest of material significance to the company and to the relevant member. Any such decisions involving members of the Board of Management will be recorded in the annual report for the relevant year, with reference to the conflict of interest and declaring that the relevant best practice provisions of the Code have been complied with.

During 2018, no transactions were reported under which a member of the Board of Management or Executive Committee had a conflict of interest which was of material significance to the company and to the relevant member.

Remuneration
The remuneration of the members of the Board of Management is set in line with the Remuneration Policy, which is approved by the AGM. The Supervisory Board is responsible for determining the remuneration of the members of the Board of Management on the advice of the Remuneration Committee. The components of Board of Management remuneration, as well as the Remuneration Policy itself, are described in the Remuneration report and in Note 24 of the Consolidated financial statements.

The service contracts of the members of the Board of Management do contain change of control provisions. Further details can be found in the Remuneration report. The service contracts of the Board of Management are compliant with the Code. The main elements of these contracts are available on our website.

Operational Control Cycle
To facilitate efficient management and oversight of operations, the Board of Management and Executive Committee have established an Operational Control Cycle (OCC), conducted once per month. The OCC consists of a monthly Business Review Meeting, comprising the CEO, the CFO, the Chief Operating Officer, the Chief Supply Chain Officer and the leadership of our business units.

The other members of the Executive Committee have a standing invitation to these meetings. The meetings provide a forum for regular business and operational oversight, with a focus on commercial activities and supply chain processes.

Executive Committee meetings are frequently held following the Business Review Meeting, at which the implementation of the company’s strategy is discussed. The functional agendas of Commercial Excellence; HSE&S; Human Resources (HR); Integrated Supply Chain; Sustainability and the Technology and Technical groups are also discussed at these Executive Committee meetings.
Additional meetings are held to discuss specific topics as required.

The Board of Management and Executive Committee have delegated authorities to individual Executive Committee members and to certain committees and councils.

**COMMITTEES**

**Sustainability Council**
The Executive Committee has established a Sustainability Council to advise on sustainability developments. The council monitors the integration of sustainability into management processes and oversees the company’s sustainability targets and sustainability performance. The council, which meets quarterly, is chaired by the CEO and includes the Chief Corporate Development Officer, Chief Operating Officer, Chief Supply Chain Officer, Chief Human Resources Officer, representative business and functional directors and the Corporate Director of Sustainability. Significant sustainability aspects material to the company are reviewed annually, with input from internal and external stakeholders. The Sustainability Council focuses on topics with the biggest impact on accelerating the AkzoNobel strategy to create shared value, building on our core principles of sustainability, safety and integrity, including respect for human rights.

Progress regarding sustainability objectives, development, target-setting and implementation is reviewed quarterly by the Executive Committee, semi-annually by the Supervisory Board and is verified annually by PricewaterhouseCoopers Accountants N.V. The Audit Committee takes an active role in assessing the quality and reliability of sustainability performance reporting.

**Corporate Compliance Committee**
The company has a Corporate Compliance Committee to support the Executive Committee with its responsibility in assuring and managing compliance, and with its reporting to the Supervisory Board. The Corporate Compliance Committee systematically identifies material compliance risks, assists in assurance of compliance with laws, regulations and ethical standards, monitors compliance and reports findings and recommendations to the Executive Committee. The Corporate Compliance Committee is chaired by the General Counsel and also consists of the Corporate Secretary, the Group Controller, two senior business managers and Corporate Directors of Internal Audit, Compliance, HR and HSE&S. Other members may be added at the discretion of the Executive Committee.

AkzoNobel has a company-wide tool in place to discuss and monitor progress with respect to compliance-related issues. More details are available in the Compliance and integrity management chapter.

**Executive Pensions Committee**
The Executive Pensions Committee oversees the general pension policies of the various pension plans of the company and their financial consequences for the company. The committee is chaired by the CFO and includes the Chief Human Resources Officer, the Director Legal Corporate and Corporate Directors of Treasury, Pensions and Rewards.

**Disclosure Committee**
The Board of Management has established a Disclosure Committee which consists of senior executives with a background in corporate law, finance and investor relations. The task of the Disclosure Committee is to establish and maintain disclosure controls and procedures, and to advise the Board of Management and a committee comprising the CEO, CFO and General Counsel on the accurate and timely disclosure of material financial and non-financial information.

**SUPERVISORY BOARD**

**General**
This section provides an overview of the responsibilities and governance of the Supervisory Board. For an understanding of the activities of the Supervisory Board over the past year, please refer to the Supervisory Board Chairman’s statement and the Report of the Supervisory Board.

The responsibility of the Supervisory Board is to supervise the policies adopted by the Board of Management and the Executive Committee and to oversee the general conduct of the business of the company. In practice, this means supervising:
- The corporate strategy
- The achievement of the company’s operational and financial objectives
- The design and effectiveness of the internal risk management and control systems
- The main financial parameters, compliance with applicable laws and regulations and risk factors

The Supervisory Board advises the Board of Management and Executive Committee, while taking into account the interests of the company and its stakeholders. Major investments, acquisitions and functional initiatives are subject to Supervisory Board approval.
The Supervisory Board is governed by its Rules of Procedure (available on our website). The Rules of Procedure include the profile and the Charters of the Committees, which set out the tasks and responsibilities of the Supervisory Board, as well as its operational processes.

Role of the Chairman
The Chairman of the Supervisory Board determines the agenda, chairs Supervisory Board meetings and the AGM, monitors the proper functioning of the Supervisory Board and its committees, arranges for adequate provision of information to its members and acts on behalf of the Supervisory Board as the main contact for the Board of Management and Executive Committee. He initiates the evaluation of the functioning of the Supervisory Board, its committees, individual members and the functioning of the Board of Management.

Throughout the year, the Chairman of the Supervisory Board ensures that regular updates are provided to the Supervisory Board on the company’s businesses, sustainability, legal matters, social and corporate governance, accounting, investor relations, compliance, risk management and internal controls.

Composition
The Supervisory Board members, including their biographies, can be found in the Leadership section. In compliance with the Dutch Civil Code, the Supervisory Board has a balanced composition, consisting of at least 30% female and at least 30% male members, reflecting the nature and variety of the company’s businesses, their international spread and expertise in fields such as finance, economics, information technology (IT), societal, environmental and legal aspects of business, government and public administration.

The current members represent five nationalities and have diverse experience, appropriate to the markets in which AkzoNobel operates, as well as knowledge of different markets and non-operational areas. The Supervisory Board maintains a skills matrix, which provides an overview of the skills and experience of the individual members. The Supervisory Board skills matrix can be found in the Report of the Supervisory Board.

In addition, in accordance with the Code, a Diversity Policy has been adopted for the composition of the Supervisory Board. The objective of the Diversity Policy is to ensure a balanced composition, taking account of nationality, age, gender, education and work background. During 2018, the Diversity Policy was implemented through the Supervisory Board’s consistent and structured approach to succession planning. There are no divergences to report. The Diversity Policy is included in the Supervisory Board’s Rules of Procedures, which can be found on our website.

When nominating and selecting new candidates for the Supervisory Board, the Supervisory Board profile and skills matrix, the requirements of the Act on Management and Supervision, and the principles and provisions of the Code, are taken into account.

Appointment
Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures identical to those previously outlined for the members of the Board of Management.

In accordance with the Code, the Rules of Procedure of the Supervisory Board have been updated such that Supervisory Board members are eligible for re-election once for a period not exceeding four years. Thereafter, members may be re-elected a second time for a period of two years. This period may be extended by two years at the most. In the event of a re-appointment after an eight-year period, reasons shall be given in the Report of the Supervisory Board. Terms of appointment are based on a re-appointment scheme, available on our website. In 2018, one appointment and one re-appointment to the Supervisory Board were proposed to, and approved by, the Annual General Meeting of shareholders held on April 26.

Induction and training
Following appointment to the Supervisory Board, new members receive a comprehensive induction tailored to their individual needs. This includes extensive briefings about all major business and functional aspects of the company and its corporate governance and compliance requirements. The induction includes meetings with the CEO, CFO, all other Executive Committee members and relevant members of senior management, as well as site visits. This enables new Supervisory Board members to quickly build up an understanding of AkzoNobel’s businesses and strategy, as well as the key risks and issues the company faces. In addition, the Chairman ensures the Supervisory Board is provided with regular updates and that the Supervisory Board undertakes training, for example in the area of compliance and ethics.

Independence of the Supervisory Board
Supervisory Board members are required to act critically and independently of one another, the Board of Management, the Executive Committee and the company’s stakeholders.

Each member of the Supervisory Board meets the independence requirements as stated in the Code and has completed the annual independence questionnaire addressing the relevant requirements for independence.

To this end, the company takes steps to verify that:
• There are no cross ties between Supervisory Board members and members of the Board of Management
• There have been no employment relationships between Supervisory
Board members and AkzoNobel during the five years preceding their last appointment:
- No personal financial compensation has been paid, other than in relation to work as a Supervisory Board member.
- No Supervisory Board member has had important business relationships with the company in the year prior to their last appointment.
- There are no significant shareholding interests (amounting to more than 10% of the share capital of the company) between Supervisory Board members, or their closely associated persons and the company.

Conflict of interest
Members of the Supervisory Board shall not participate in the discussions and decision-making on a subject or transaction in relation to which they have a conflict of interest with the company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the company, and to the relevant Supervisory Board member, require the approval of the Supervisory Board. Any such decisions will be recorded in the annual report for the relevant year, with reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. During 2018, no transactions were reported under which a member had a conflict of interest which was of material significance to the company.

Remuneration
Supervisory Board members receive a fixed annual remuneration and attendance fee, which is determined by the AGM. More information on the remuneration of the members of the Supervisory Board can be found in Note 24 of the Consolidated financial statements.

SUPERVISORY BOARD COMMITTEES
The Supervisory Board has established three permanent committees – Audit Committee, Nomination Committee and Remuneration Committee. This section explains aspects of the governance and roles and responsibilities of these committees. Information on the work, composition and attendance of the Supervisory Board members at the meetings of the committees during the year is set out in the Report of the Supervisory Board.

Each committee has a charter describing its role and responsibilities, as well as the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Supervisory Board Rules of Procedure. The committees report on their deliberations and findings to the full Supervisory Board.

In 2017, the Supervisory Board also established a temporary Shareholder Relations Committee. Its role is to oversee the strengthening of AkzoNobel’s relationship with shareholders and review relevant feedback from the investor community. The committee reports on its deliberations and findings to the full Supervisory Board. The Shareholder Relations Committee comprises Mr. Andersen (Chairman), Mr. Verwaayen, Dr. Kirby and Mr. Grote. Four meetings were held in 2018, with the company’s Director of Investor Relations acting as Secretary.

Audit Committee
The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of:
- Accounting, reporting, risk management and internal control practices of the company
- Compliance with legal and regulatory requirements
- Performance of the Internal Audit function
- Qualifications, performance and independence of the external auditor

The Audit Committee has a role in assessing the quality and integrity of reporting on sustainability performance and takes an active role in reviewing the company’s sustainability performance data.

As a rule, the CFO, Group Controller, Corporate Director of Internal Audit and lead partner of the external auditor attend all regular meetings. After most Audit Committee meetings, members hold a separate meeting with only the internal auditor present, a separate meeting with only the external auditor present and sessions with only Audit Committee members in attendance.

In addition, there are regular executive sessions with only Audit Committee members and the CFO present. Other members of the Executive Committee attend as and when requested. The General Counsel reports to the Audit Committee on compliance matters at every regular Audit Committee meeting and provides a claim and liability report to the Audit Committee once a year.

The Chairman of the Audit Committee is primarily responsible for the proper functioning of the Audit Committee and reports the activities and findings of the committee to the Supervisory Board, which discusses these activities and findings when necessary. The Chairman also initiates the evaluation of the functioning of the Audit Committee and its individual members, without members of the Board of Management being present.

Nomination Committee
The Nomination Committee focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members. The Nomination Committee assesses the size and composition of both Boards, evaluates the functioning of the individual members, makes proposals for appointments and re-appointments and supervises the Board of Management on the selection of senior management. The Nomination Committee also considers appointments by the CEO of Executive Committee members who are not also a member of the Board of Management.
When selecting candidates for appointment to the Supervisory Board, account is taken of the Supervisory Board profile, the diversity requirements of the Dutch Civil Code and the Code, as well as the need for knowledge of the markets in which the company operates and insights from other markets and non-operational areas.

Remuneration Committee
The Remuneration Committee is responsible for making proposals to the Supervisory Board on the Remuneration Policy for the Board of Management, for overseeing the remuneration of the individual members of the Board of Management and other members of the Executive Committee, and for overseeing the remuneration schemes for AkzoNobel executives involving the company’s shares.

The Remuneration Committee conducts periodic reviews of the performance of the members of the Board of Management and Executive Committee. The Remuneration Committee also reviews the remuneration of members of the Supervisory Board and prepares proposals for adjustments, if necessary.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders (AGM) is an integral part of the governance of the company and its system of checks and balances. The AGM reviews the annual report and decides on the adoption of the financial statements and the dividend proposal, as well as the discharge of members of the Supervisory Board and Board of Management.

The AGM is convened by public notice and the agenda, notes to the agenda and the procedure for attendance and voting at the meeting are published in advance and posted on our website. Matters proposed for consideration, approval or adoption are listed separately in the agenda and explained in writing in advance of the meeting.

These proposals include, where relevant:
- Adoption of the financial statements
- Dividend proposal
- Discharge of members of the Supervisory Board and Board of Management
- (Re)election of members of the Supervisory Board
- Remuneration policy of the Board of Management
- Material changes to the Remuneration Policy of the Board of Management
- Other important matters, such as major acquisitions or the sale or demerger of a substantial part of the company, as required by law
- Authorization of the Board of Management to issue new shares
- Authorization of the Board of Management to repurchase shares
- Amendments to the Articles of Association

The company provides remote voting possibilities to its shareholders. Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the AGM. All resolutions are made on the basis of the “one share, one vote” principle (assuming an equal par value for each class of shares). All resolutions are adopted by absolute majority, unless the law or the company’s Articles of Association stipulate otherwise.

Holders of common shares in aggregate representing at least 1% of the total issued capital, or, according to the Official List of Euronext Amsterdam N.V., representing a value of at least €50 million, may submit proposals for the AGM agenda. Such proposals must be adequately substantiated and must be submitted in writing, or electronically, to the company at least 60 calendar days in advance of the meeting. Draft minutes of the AGM are made available on the company’s website within three months of the meeting date. The final and duly signed minutes are made available on the website within six months after the meeting date.

Share classes
AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. Common shares are also traded over-the-counter on OTCQX in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2018, a total of 256 million common shares and 48 priority shares had been issued. The company has been informed that by December 31, 2018,
Capital Research and Management Company, Norges Bank, MFS Investment Management and Elliott Advisors (UK) Limited each held more than 5% of the company’s share capital.

The priority shares are held by the Foundation Akzo Nobel (Stichting Akzo Nobel). The Foundation’s Board consists of members of AkzoNobel’s Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the nomination rights for the appointment of members of the Board of Management and the Supervisory Board, as well as the right to approve amendments to the Articles of Association of the company.

No cumulative preferred shares have been issued to date. Cumulative preferred shares merely have a financing function, which means if necessary, and possible, they will be issued at or near to the prevailing quoted price for common shares.

The AGM held on April 26, 2018, authorized the Board of Management for a period of 18 months after that date, or, if earlier, until the date on which the AGM again extends the authorization – subject to approval from the Supervisory Board – to issue shares in the capital of the company free from pre-emptive rights, up to a maximum of 10% of the issued share capital. The Board of Management was also given a mandate to acquire up to a maximum of 10% of the issued share capital.

Anti-takeover provisions and control
According to the Code, the company is required to provide an overview of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used.

The priority shares may be considered to constitute a form of anti-takeover measure, in relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board. The Foundation Akzo Nobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company’s management and policies is at stake.

This may be the case if a public bid for the common shares of the company has been announced, or has been made, or the justified expectation exists that such a bid will be made, without any agreement having been reached in relation to such a bid with the company. The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued common shares of the company without making an offer. Or if, in the opinion of the Board of the Foundation Akzo Nobel, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases, the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders.

The Board of the Foundation Akzo Nobel has reserved the right to make use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances.

Although a deviation from provision 4.3.3 of the Code, the Supervisory Board and the Board of Management are of the opinion that these provisions will enhance the continuity of the company’s management and policies.

In the event of a hostile takeover bid, or other action which the Board of Management and Supervisory Board consider adverse to the company's interests, the two Boards reserve the right to use all available powers (including the right to invoke a response time in accordance with provisions 4.1.6 and 4.1.7 of the Code), while taking into account the relevant interests of the company and its affiliate enterprise and stakeholders.

AUDITORS
The external auditor is appointed by the AGM on proposal of the Supervisory Board. The appointment is reviewed every four years and the results of this review and assessment are reported to the AGM. The external auditor attends all regular Audit Committee meetings, as well as the majority of the additional meetings, and the meeting of the Supervisory Board at which the financial statements are approved.

During these meetings, the auditor discusses the outcome of the audit procedures and the reflections thereof in the auditors’ report and the management letter. In particular, the key audit matters are highlighted. The auditor receives the financial information and underlying reports of the quarterly figures and can comment on and respond to this information.

The lead external auditor is present at the AGM and may be questioned with regard to his statement on the fairness of the financial statements.

Auditor independence
The Audit Committee and Board of Management report their dealings with the external auditor to the Supervisory Board annually and discuss the auditor’s independence.

As the current lead audit partner will retire in 2019, it was decided to appoint a new lead audit partner as per the start of the audit on the financial year 2019. In close cooperation with PricewaterhouseCoopers Accountants N.V. and after having interviews with potential candidates, the Audit Committee decided on the succession of the current lead audit partner.
Other services

One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and monitoring of the auditors and the services they provide to the company. Pursuant to the Audit Profession Act, the auditors are prohibited from providing the company with services in the Netherlands other than “audit services aimed at providing reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board,” as referred to in the reports mentioned.

The company has taken the position that no additional services may be provided by the external auditor and its global network unless local statutory requirements so dictate. In order to anchor this in our procedures, the Supervisory Board adopted the AkzoNobel Rules on External Auditor Independence and Selection and the related AkzoNobel Guidelines on Auditor Independence. These documents are available on our website.

Internal Audit

The Internal Audit function is mandated to provide the Board of Management, Executive Committee and Audit Committee with independent, objective assurance on the adequacy of the design and operating effectiveness of the internal control framework described below.

The Corporate Director of Internal Audit reports to the Board of Management and has direct access to the Audit Committee and its Chairman. The function performs its mandate based on a risk-based audit plan, which is approved by the Board of Management and the Audit Committee. It reports a summary of the audit findings bi-annually to the Board of Management and Executive Committee, and the Audit Committee, which culminates in an annual assessment of the quality and effectiveness of the company’s internal control systems. (See Audit Committee earlier in this section).

During 2018, the mandatory external evaluation of the performance and quality of the Internal Audit function by the Dutch Institute of Internal Auditors was conducted. The assessors were satisfied with the effectiveness of the function.

SHARE DEALING RULES AND RULES ON DISCLOSURE CONTROL

In accordance with Dutch law and regulations (including the European Market Abuse Regulation), the company maintains insider lists and exercises controls around the dissemination and disclosure of potentially price sensitive information.

All employees and the members of the Board of Management, Executive Committee and Supervisory Board, are subject to the AkzoNobel Share Dealing Rules, which limit their opportunities to trade in AkzoNobel securities. Transactions in AkzoNobel shares carried out by Board of Management, Executive Committee and Supervisory Board members (including their closely associated persons) are, as and when required, notified to the Dutch Authority for the Financial Markets (AFM).

The Board of Management, Executive Committee and Supervisory Board members require authorization from the General Counsel prior to carrying out any transactions in respect of AkzoNobel securities, even in a so-called “open period”. In relevant cases, the General Counsel can prohibit carrying out transactions in respect of other companies’ securities. In addition, all employees are subject to the AkzoNobel Rules on Disclosure Control.

INTERNAL CONTROLS AND RISK MANAGEMENT

Internal controls

The company has strict procedures for internal controls. The Board of Management and Executive Committee have established an Internal Control Committee to assess the adequacy and effectiveness of the company’s internal control framework (see diagram on this page). As in previous years, we continued to work on system-embedded controls, standard role design and segregation of duty monitoring. The design of the annual internal control self-assessment process was adapted to the most recent changes in the company structure. An integrated Risk and Internal Control department (RIC) supports all businesses and functions in their work.

Risk management

Our risk management system is explained in more detail in the following section. Reference is made to the Statement of the Board of Management in the Leadership section for statements relating to internal risk management and control systems.
At AkzoNobel, we share the simple, deeply rooted belief that doing the right thing is a moral imperative – and can also be good for our business. That’s why we operate from a foundation of core principles: sustainability, safety and integrity, including respect for human rights.

As an employer, manufacturer, business partner and member of communities globally, we understand that we have many significant roles to play in society. It’s a big responsibility, and an even bigger opportunity to make the world a better place.

“Our focus on human rights in particular helps us to be a good corporate citizen,” explains Siham Lotfi, our Global Head of Human Rights. “Being the reference in our industry doesn’t just apply to our products and services. It also means being a leader in terms of respecting human rights when doing business – as well as meeting growing customer expectations on the issue.”

Siham adds that in some cases, large international companies can have an even bigger impact on human rights than people may realize. “Our high standards on human rights can cross borders, and we can also influence partners to follow in our footsteps,” she continues.

AkzoNobel is committed to having human rights respected across the entire value chain. Efforts are championed by senior leadership, with our Executive Committee directly overseeing the work of a dedicated Human Rights Committee.

“We want to lead our industry in all relevant areas, including sustainability and integrity,” notes Siham. “That means we must respect human rights when doing business.”

For more details on our approach to human rights, see page 171.
Doing business involves taking risks. By seeking to take balanced risks, we strive to be a successful and respected company and managing those risks is an essential element of our corporate governance and strategy development.

We continuously strive to foster a high awareness of business risks and internal control to provide transparency in our operations.

The Board of Management and the Executive Committee are responsible for managing the risks associated with our activities and, in turn, for the establishment and adequate functioning of appropriate risk management and control systems (see Statement of the Board of Management in the Leadership section).

RISK MANAGEMENT FRAMEWORK

Our risk management framework is in line with the Enterprise Risk Management – Integrated Framework of COSO and the Dutch Corporate Governance Code, and provides reasonable assurance that our business objectives can be achieved and our obligations to customers, shareholders, employees and society can be met.

For more information on our risk management framework, visit: www.akzonobel.com/en/risk-management-framework
MEDIUM-TERM RISKS

RISK MANAGEMENT IN 2018

Risk management is a company-wide activity, under the responsibility of the Board of Management and Executive Committee, which ensures we focus on the areas of major risk exposure.

During 2018, we held a significant number of enterprise risk workshops across the organization. The number reflects the maturity and complexity of the organization. The identified scenarios are prioritized by responsible management teams and functional experts, with adequate mitigating actions being defined.

We also launched several important initiatives, coordinated by a Transformation Office, to support our Winning together: 15 by 20 strategy. We recognize the inherent risks associated with the multiple changes in the organization resulting from these initiatives. We have therefore defined the necessary actions to mitigate these risks and are supported by our Risk and In Control department in our ongoing assessment.

Our initial focus is on risks that may impact achievement of our strategy in the next three-to-five years (medium-term risks). We also recognize relevant risks beyond this five-year horizon (long-term risks). Both risk categories feature in this chapter.

The table below summarizes the major risk factors for the company in the next three-to-five years. The symbols represent management’s assessment of how these risks are expected to develop, compared with the previous year.

<table>
<thead>
<tr>
<th>External – Strategic</th>
<th>Internal – Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global economy and the geo-political context</td>
<td>Innovation, identification and successful implementation of major transforming technologies</td>
</tr>
<tr>
<td>Strategic moves in our value chain</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External – Operational</th>
<th>Internal – Operational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and energy</td>
<td>Attraction and retention of talent</td>
</tr>
<tr>
<td>Product liability</td>
<td>Management of change</td>
</tr>
<tr>
<td>Information technology and cybersecurity</td>
<td>Analytics and big data</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>External – Financial</th>
<th>Internal – Strategic</th>
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</thead>
<tbody>
<tr>
<td>Post-retirement benefits</td>
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<table>
<thead>
<tr>
<th>External – Compliance</th>
<th>Internal – Strategic</th>
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</thead>
<tbody>
<tr>
<td>Complying with laws and regulatory developments</td>
<td></td>
</tr>
</tbody>
</table>

The following changes have been made for 2018:

- International operations and Exchange rate fluctuations are now part of Global economy and the geo-political context
- Production process risks are included under Complying with laws and regulatory developments
- The mitigating actions defined for Environmental risks and liabilities are now spread across several risk areas
- Analytics and big data is a new category

External - Strategic

GLOBAL ECONOMY AND THE GEO-POLITICAL CONTEXT

The world’s geo-political situation remains unpredictable and, as a company, we operate in highly competitive markets. Failure to carefully manage and develop a good understanding of end-user segments could have an immediate impact on financial performance, resulting in the company not realizing its financial guidance.

Mitigating actions

- Continue our strategy to reduce both our operational cost base and complexity
- Leverage our Global Business Services to further standardize core functional processes in all regions
- Further deploy our commercial excellence programs and more sustainable product solutions to capture organic growth
- Centralize management of foreign currency exposure and reduction of transactional exposure through natural hedges in our main currencies (see Note 25 of the Consolidated financial statements)
- Include political risk assessment in investment decisions and medium-term operational planning
External – Operational

PRODUCT LIABILITY

High impact product liability claims, while unlikely, could result from the use of former, current or new technologies and compounds.

Mitigating actions
- Quality improvement programs across the company
- Product stewardship and regulatory affairs integrated in R&D, HSE&S and sustainability agenda
- Tailored insurance coverage for product liability claims

External – Operational

INFORMATION TECHNOLOGY AND CYBERSECURITY

The company’s longer term IT strategy means we increasingly rely on fewer consolidated critical applications. With the number of digital exchanges of business transactions increasing, the non-availability of IT systems – or unauthorized access – could have a direct impact on our business processes, competitive position and reputation.

Mitigating actions
- Focus on measures such as redundant design, back-up processes, virus protection, anti-spoofing, advanced forensic scanning and mission critical infrastructure support

External – Strategic

STRATEGIC MOVES IN OUR VALUE CHAIN

An accumulation of strategic moves (horizontally and/or vertically) could impact our competitive position and/or increase the vulnerability of operations. Further industry consolidation renders acquisitions more expensive, makes possible anti-trust implications larger and the required synergy targets more difficult to achieve.

Mitigating actions
- Competitive intelligence analysis of (new) competitors, customers and suppliers
- Strengthen mergers and acquisitions (M&A) and integration capabilities
- Further enhance pipeline of viable market and technology opportunities for M&A, focusing on strategic rationale
- Secure freedom to invest through strategic alignment with shareholders and other stakeholders

External – Operational

RAW MATERIALS AND ENERGY

Prices for key raw materials and energy can be volatile, are affected by economic conditions and regulations, as well as national policies and subsidies. The chart on the right shows our relative spend on key raw materials, excluding energy.

Mitigating actions
- Actively leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers
- Manage risks related to single sourced materials, demand forecasting and margin-impact assessment
- Increase our sourcing efficiency by introducing new forecasting tools in close cooperation with the business
- Created the role of Resins Business Director to optimize the design and management of a sustainable resin strategy

Breakdown of total raw material spend in %

A Additives 16
B Commodity resins 19
C Latex and monomers 11
D Packaging 11
E Pigments and colorants 7
F Solvents 10
G Specialty resins 14
H Titanium dioxides 12

External – Financial

POST-RETIREMENT BENEFITS

Our current policy is to contribute to defined contribution schemes wherever possible. A number of defined benefit pension and healthcare schemes from the past are generally funded through external trusts or foundations, where AkzoNobel faces the potential risk of funding shortfalls.

Mitigating actions
- Improve incident response and reporting by implementing a cyber Security Operations Center (SOC), providing improved coordination, monitoring and response to cyber security
- Centrally monitor access control processes and identify access enhancements
- Roll-out of the new Information Management security standard for industrial control systems to all manufacturing locations
- Further test and improve IT security response and incident management process
- Further rationalize our application landscape to reduce complexity and enhance efficiency and effectiveness

Our policy is to offer defined contribution schemes to new employees and, where appropriate, to existing employees. The most significant defined benefit schemes are closed to new entrants and
are managed and controlled by independent trustees.

- We practice proactive pension risk management and continuously review options to reduce the financial and demographic risks via investment in longevity and bulk annuity policies. The most significant defined benefit schemes have been closed to new entrants for more than 15 years.

External - Compliance

COMPLYING WITH LAWS AND REGULATORY DEVELOPMENT

Our global footprint exposes us to increasingly stringent laws and regulations covering an increasing range of subjects (such as safe use of hazardous compounds, environmental releases, soil contamination, human rights, competition law).

Mitigating actions

- Remain dedicated to minimizing AkzoNobel’s compliance risk by fostering an open and transparent culture, continuously educating and training our employees worldwide and increasing awareness (for example, our Code of Conduct)
- Monitor overall compliance through our comprehensive annual Non-Financial Letter of Representation (NFLoR) process

Internal - Strategic

INNOVATION, IDENTIFICATION AND SUCCESSFUL IMPLEMENTATION OF MAJOR TRANSFORMING TECHNOLOGIES

Our success and leadership positions depend on the sustainable growth of our business through research and the adoption of major transforming technologies, social media and digital applications in general.

Mitigating actions

- Prioritize funding for technology road maps and innovation strategies
- Enhance our global open innovation capability
- Invest in promising venture funds
- Explore acquiring/partnering with innovative startups
- Dedicated IT team to support the business in new technology applications
- Implementation of Business Partner Compliance Framework
- Define leading technology standards in VOC/dust emission/energy control systems
- Conduct mandatory annual environmental liability reviews
- Integrate environmental standards and regulations in plant design
- Continuously innovate to remain at the forefront of new, sustainable product introductions
- ALPS is being implemented to drive continuous improvement and operational excellence
- Operate under state-of-the-art safety requirements for our manufacturing and R&D sites (for example, AkzoNobel People, Process and Product Safety Common Platform)
- Ongoing business continuity planning

Internal - Operational

MANAGEMENT OF CHANGE

Our Winning together: 15 by 20 strategy will help transform AkzoNobel into a long-term leader. But we also recognize the risks associated with such profound changes. This means we need to invest in building an organization structure which encourages and embraces change, while balancing opportunity and risk.

Mitigating actions

- Focus on core principles and values and embed these in reward systems to set desired behavioral changes in motion
- Identify organizational health initiatives and track progress periodically
- Roll out principles of commercial excellence in all levels of the organization
- Support adoption of a new organization model through the creation of a Planning and Transformation Office, including a network of Regional Transformation Leads
- Implement standard solutions across the company under the responsibility of designated Global Process Owners
- Continue the journey of creating fit-for-purpose support functions to drive synergies and standardization at a company-wide level
- Roll-out R&D effectiveness program, including Innovation Team and startup challenge

Internal - Operational

ATTRACTION AND RETENTION OF TALENT

Ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce across the globe is an increasingly complex process. At the same time, it determines to a large extent the success of our organization.

Mitigating actions

- Strengthen AkzoNobel’s employee value proposition
- Focus on talent development programs and succession planning (for example, Talent and Opportunity Review, Your AkzoNobel, nomination of Talent Managers)
- Fully embed values and behaviors in our Performance and Development Dialog annual appraisal
- Prioritize funding for technology road maps and innovation strategies
LONG-TERM RISKS

Long-term risks are existing risks associated with current trends that are anticipated to increase, or risks currently not material, but that could develop into major areas of concern for the company, or for society as a whole. We monitor the development of these risks as part of our risk management process and include them in our overall strategic assessment.

The most significant long-term risks we observe are:

- Increasing public concern arising from environmental/safety properties of specific ingredients in products leading to legislation banning or restricting the use of products containing them and/or customers deselecting products in key markets
- Failing to listen to, and engage with, an ever-widening field of stakeholders – in particular customers, investors and regulators – in the area of sustainable development and the systematic changes needed for its achievement. This requires extra attention for:
  - Transparency on the economic, environmental and social impact of our strategy and activities
  - A comprehensive human rights framework following UN guiding principles
  - Concerns over tax avoidance by large corporations
  - A persistently negative perception of the role of global corporations in society, leading to reputational and financial damage
- Increasing short-termism among investors, which could cause businesses to:
  - De-prioritize investments required for long-term and sustainable growth
  - Miss out on future opportunities
  - Excessively focus on short-term financial results at the expense of long-term value creation and identification of long-term risks
- Impact on business of climate change and the shift towards a circular economy under various scenarios:
  - A carbon price leading to higher cost of raw materials
  - Increase in frequency and severity of extreme weather events, leading to supply chain disruption
  - Restrictions on emissions leading to increased demand for low carbon solutions or higher production costs
  - A global shift to a circular economy with major implications for businesses to be an enabler and deliver circular solutions in collaboration with others

Mitigating actions

- Maintain strong process and data ownership
- Define and implement an IM platform to support advanced analytics and management of big data

Internal - Operational

ANALYTICS AND BIG DATA

In order to utilize data analytics and “big data” to support even better decision-making, we recognize the need to invest in an appropriate organization structure and governance framework with common standards, methods and tools to deliver insightful information across the company.

Mitigating actions

- Maintain strong process and data ownership
- Define and implement an IM platform to support advanced analytics and management of big data
Integrity is one of our core principles. We’re committed to conducting business in a lawful, fair and honest way and expect the same from our business partners. We have a robust compliance program which is focused on the risks most material to the company and its stakeholders.

**RISK IDENTIFICATION AND PRIORITIZATION**

We identify compliance risks through several processes, including:
- Enterprise Risk Management (see page 71)
- Internal control self-assessments
- Non-Financial Letter of Representation (NFLoR)
- Monitoring of legal developments
- SpeakUp! investigations
- Compliance training
- Supplier self-assessments

As part of the NFLoR process, every business and major function identifies its inherent and residual compliance risks and reports this in a Compliance Risk Overview to the relevant Executive Committee member as part of the newly introduced Risk Compliance and Control reporting process (see page 77). In turn, the Executive Committee members report the compliance risks to the CEO.

In 2018, the top five inherent compliance risks were in the field of competition law, environmental law, bribery, fraud and data protection. Action plans are in place to mitigate these risks.

**POLICIES AND CONTROLS**

Our Code of Conduct and Business Partner Code of Conduct explain our three core principles of safety, integrity and sustainability to our employees and business partners and outline what we

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**INTEGRITY WEEK**

In June 2018, the company held an Integrity Week, which focused on reminding employees of our commitment to doing business with integrity. This program included the relaunch of an updated Code of Conduct and e-learning.
expect from them. These codes, and our SpeakUp! procedure, are available in 32 languages. They are also supplemented by internal rules and procedures – which are available to employees in our Directives Portal – and by agreements with our business partners. For example, the section on Honest Business Conduct refers to the Directives and Rules on Anti-Bribery, Gifts and Entertainment, which also contains detailed rules on facilitation payments, political contributions, charitable donations and sponsorships. Employees are required to confirm compliance as part of the annual performance evaluation, while all business partners are required to sign our Business Partner Code of Conduct, or show that they apply similar business principles.

In 2018, we updated our Binding Corporate Rules on the protection of personal data to meet the requirements of the EU General Data Protection Regulation. With these Binding Corporate Rules, we apply the same high privacy standards across all our operations worldwide.

**GOVERNANCE AND ORGANIZATION**

The Board of Management and the Executive Committee are responsible for an effective compliance management framework across all AkzoNobel group entities, and for maintaining a culture of integrity which supports long-term value creation. The Audit Committee supervises this responsibility on behalf of the Supervisory Board.

**Compliance committees**

The Executive Committee has appointed a Corporate Compliance Committee (see page 64), Human Rights Committee, Privacy Committee and Life-Saving Rules Committee consisting of senior leaders from different disciplines, including business representatives that monitor and assess the frameworks for which they are responsible. Their composition and responsibilities are explained on our website. In 2018, the Sensitive Country Committee was integrated into the Corporate Compliance Committee.

**Risk, Compliance and Control Committee**

Introduced in 2018, every business unit and major function has a Risk, Compliance and Control Committee. This committee consists of the managing director, finance director, human resources director and representation from Compliance, Internal Control and Internal Audit. These committees meet four times per year and review the compliance and control risks, deficiencies and actions.

The introduction of this new process means that the Quarterly Attestation, Compliance Committee and Internal Audit meetings have been integrated. This enables business and functional leaders to get a better view of all compliance and control risks and actions, as well as enabling prioritization across Compliance, Internal Control and Audit findings and cross-fertilization between those functions.

**Compliance function**

The Compliance function:
- Hosts the Codes of Conduct and Directives Portal
- Develops and communicates rules and guidance
- Manages compliance training programs
- Facilitates risk assessments
- Performs compliance due diligence
- Manages investigations
- Facilitates compliance self-assessment
- Reports on compliance to senior leadership

Its legal experts in the field of competition law, export control, anti-bribery, privacy and human rights provide legal advice, training and support. Its Compliance Managers support the business and functional leaders in managing the day-to-day compliance operations.

In 2018, the compliance resources were streamlined to better suit our transformation into a more focused paints and coatings company.

**Internal Audit**

The effectiveness of the compliance framework is audited by the Internal Audit function. Following investigations, Internal Audit may also be engaged to conduct additional reviews to establish root cause analysis.

**COMMUNICATION AND EDUCATION**

Our core principles and directives are communicated to employees in several ways, including a comprehensive digital training program, classroom training and compliance communications. They serve to educate our employees and inspire them to apply high ethical standards.

**Digital training**

The Code of Conduct and Life-Saving Rules online training are mandatory for every employee. In the second half of 2018, we relaunched our Code of Conduct digital training as a refresher to all employees. Mandatory digital training is also provided to designated employees in the field of competition law, export control, bribery, privacy, fraud and information security.

In 2018, new online training was launched on bribery and privacy. The overall completion rate of online compliance training was at 71%, lower than previous years in light of the relaunch of the Code of Conduct, bribery and privacy training during the course of the year.

**Classroom training**

Classroom training is provided on a variety of topics, including general compliance awareness, the Code of Conduct, SpeakUp!, competition law, export control, privacy and discrimination and harassment.
Communication

The Compliance function issues compliance bulletins, spotlights and articles in company digital newsletters on a regular basis. For example, in 2018, we twice issued a company-wide alert on external fraud attempts, supported by a user-friendly animation which explained what to watch out for and what to do in case of attempted fraud. On several occasions, communications on competition law were also issued in support of our pricing acceleration actions, which informed employees about what they can and cannot do.

As with every year, in early December, a year-end integrity message was issued. Sent directly from the General Counsel, it reminded employees of our accounting rules and our rules on gifts and entertainment ahead of the holiday season.

Compliance portal

A comprehensive compliance web portal is available to employees containing guidance, templates and references on various compliance topics. In 2018, a new section was launched to help employees ensure privacy compliance when carrying out personal data processing activities. The portal contains step-by-step guidance and templates, including standard data processing agreements, terms and conditions for websites and cookie policies.

SCREENING AND MONITORING

We use several processes and tools to screen employees, business partners, activities and acquisition targets. For example, we have a business partner screening tool, which enables employees to perform a compliance check on potential new suppliers, agents and other high risk business partners.

We also have a sanctioned party and country screening tool, which is interfaced with ERP systems and automatically screens parties and transactions against sanctioned parties and country lists. In 2018, we embedded the personal data processing activity register in our information management processes (privacy by design) and registered and assessed numerous existing personal data processing activities.

Compliance of our operations is monitored in several ways. For example, as part of the annual internal control self-assessment and NFLoR process. Compliance of suppliers is monitored through the Together for Sustainability EcoVadis self-assessments and audits (see page 164).

GRIEVANCE AND INVESTIGATIONS

Our SpeakUp! grievance mechanism offers employees, business partners and members of the general public a confidential environment in which they can raise concerns relating to compliance with our Code of Conduct. We offer anonymous reporting and apply strict principles of confidentiality and non-retaliation. As an example of our non-retaliation principle, in 2018, a manager was dismissed for inappropriate behavior towards one of his employees after she had filed a SpeakUp! report against him.

SpeakUp! reports

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reports registered</td>
<td>324</td>
<td>261</td>
<td>238</td>
</tr>
<tr>
<td>Reports received through SpeakUp!</td>
<td>187</td>
<td>129</td>
<td>104</td>
</tr>
<tr>
<td>Safety</td>
<td>23</td>
<td>23</td>
<td>6</td>
</tr>
<tr>
<td>Integrity</td>
<td>64</td>
<td>53</td>
<td>50</td>
</tr>
<tr>
<td>Sustainability</td>
<td>100</td>
<td>53</td>
<td>48</td>
</tr>
<tr>
<td>SpeakUp! Paints and Coatings/Specialty Chemicals(^1)</td>
<td>162/25</td>
<td>104/25</td>
<td>104</td>
</tr>
<tr>
<td>SpeakUp! reports Category 1(^1)/Category 2</td>
<td>13/174</td>
<td>14/115</td>
<td>21/83</td>
</tr>
<tr>
<td>SpeakUp! reports (partially) substantiated/unsubstantiated/referred(^1)</td>
<td>38/84/16</td>
<td>17/80/2</td>
<td>14/42/5</td>
</tr>
<tr>
<td>Total number of dismissals resulting from SpeakUp! reports</td>
<td>16</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

\(^1\) Corporate matters are included in Paints and Coatings.
\(^2\) Matters with a financial impact >€0.5 million, or involving senior management, or relating to competition law, anti-bribery or export control.
\(^3\) Referred means: allegation not related to a Code of Conduct violation; investigation referred to another department.

SpeakUp! reports are investigated on their merits, in accordance with investigation procedures that are available to everyone on our internal and external websites. The investigations are conducted or managed by dedicated resources supervised by the Head of Investigations.

Reports are categorized into: Category 1 (matters with a potential financial impact of >€0.5 million, or involving senior management or relating to competition law, export control or anti-bribery); and Category 2 (other matters). Category 1 SpeakUp! reports are decided by the...
Corporate Compliance Committee. Category 2 reports are decided by the business or function’s Risk, Compliance and Control Committee.

In 2018, we developed a comprehensive investigation protocol and reporting templates to further improve the quality, efficiency and consistency of investigations. In 2018, 104 SpeakUp! reports were received, 21 of which were Category 1 and 83 were Category 2. In total, 14 of the 104 SpeakUp! reports were substantiated, leading to five dismissals.

Potential Code of Conduct violations that are reported to the Compliance function, other than through the formal SpeakUp! channels, are also logged in the company’s Code of Conduct violation report database and follow a similar investigation procedure. In 2018, 134 of these so-called non-SpeakUp! reports were logged and investigated.

Alongside the SpeakUp! grievance mechanism, we have a data breach reporting procedure. This procedure facilitates the reporting, assessment and follow-up of potential breaches of personal data. In 2018, we received 19 personal data breach reports. While relatively small in scale and without direct material impact to individuals, three reports were of such a nature that the authorities had to be notified. In relation to another report, a service provider had caused a breach and notified the authorities. In all instances, repair actions were taken immediately.

**DECLARATION AND REPORTING**

**NFLoR**
Every year, management verifies and confirms that they comply with laws and internal rules through the Non-Financial Letter of Representation (NFLoR). Exceptions must be reported and actions planned and documented. The process is positioned as an invitation to business and functional leadership to provide transparency, to better understand the company’s compliance risks and to facilitate prioritization and coordinate actions.

In 2018, all management team members of business units and major functions completed the NFLoR for their area of responsibility. The results of the NFLoR process were rolled-up to the relevant Executive Committee members and subsequently discussed by them with the CEO. The final results are reported in the year-end Compliance Report, which is submitted to the Executive Committee and the Audit Committee of the Supervisory Board. The external auditor receives a copy of the Compliance Report.

**Individual declarations**
Annually, employees confirm compliance with the Code of Conduct as part of the year-end performance evaluation. Employees exposed to competition law restrictions are required to confirm their compliance with our competition rules in the annual Competition Law Compliance Declaration. The declaration serves to remind employees of the importance of compliance with competition laws, educate them on what the key restrictions are and request disclosure of any irregularities in this field.

In 2018, more than 10,000 employees signed the Competition Law Compliance Declaration. Designated employees of newly acquired businesses (Colourland, Fabryo, Xylazel) were invited to confirm competition law compliance, or to report any irregularities that they would be aware of, providing them internal amnesty for such a report.

**Reporting**
To ensure that management is well-informed, there are several compliance reporting procedures in the company. Monthly, key compliance investigations are reported in the Business Review Meeting. Quarterly, compliance issues and concerns are reported in the Risk, Compliance and Control Committee meetings. The General Counsel provides an update on compliance matters in Audit Committee meetings. The final results are reported in the year-end Compliance Report, which is submitted to the Executive Committee and the Audit Committee of the Supervisory Board. The external auditor receives a copy of the Compliance Report.

**MEASUREMENT AND IMPROVEMENT**
We measure our integrity culture in several ways. For example, our company-wide Organizational Health Index survey includes several integrity-related questions. The findings feed into the Compliance plan and programs. Integrity dilemmas are included in our recruitment standards and contribute to recruitment decisions. The integrity culture is considered in SpeakUp! investigations and audits and contributes to defining any follow-up actions to repair irregularities or improve the environment.

Managers are incentivized to act with integrity as their performance is evaluated based on how they achieve objectives, according to nine leadership behaviors.
This report describes our Remuneration Policy and how it was implemented for members of the Board of Management in 2018.

The Supervisory Board determines the remuneration and individual service agreement terms for the Board of Management. The Remuneration Committee, comprising members of the Supervisory Board, has delegated authority to make these decisions within the framework of our Remuneration Policy, which is approved by our shareholders. Our Remuneration Policy – including all structures and policies related to the remuneration and contract terms of the Board of Management – references the Dutch Corporate Governance Code.

REMUNERATION POLICY

Our Remuneration Policy (the “Policy”) was first adopted by shareholders at the Annual General Meeting (AGM) in 2005. It has undergone several amendments since then, most recently in 2018, and these changes are noted in this report.

As a major international company, it is essential that we can attract and retain high caliber executives to the Board of Management. Equally, their performance should be focused on achieving those strategic aims which promote AkzoNobel, safeguard it and create sustainable, long-term value. The Policy is designed to enable these objectives, while balancing the perspectives of shareholders and other key stakeholders. Consequently, there is alignment between our executive remuneration principles and those which apply more broadly in the company.

Total remuneration

Our Policy seeks to enable members of the Board of Management to receive market competitive levels of remuneration across all package elements. To this end, we use the median level of the external market as a reference point, which is taken from industry peers, plus a range of companies that are of a similar scale, complexity and geographic reach to AkzoNobel. When setting and reviewing remuneration levels, we also consider factors affecting our industry, alongside other relevant inputs.

Members of the Board of Management can receive a remuneration package consisting of:

- Base salary
- Performance-related short-term incentives, delivered in cash and with the ability to award matching shares
- Performance-related long-term incentive, awarded in the form of shares
- Post-contract benefits
- Other benefits

Base salary

Salaries are set by the Remuneration Committee. Salary levels are usually reviewed annually, without any commitment to increase them.

Short-term incentive (STI)

The STI is designed to give focus to a range of strategically important annual objectives, both financial and non-financial. Collectively, these objectives are targeted to deliver a level of performance which is in line with our operational plans. They do not incentivize undue risk taking or other behaviors which are contrary to the company’s interests.

The target STI is 100% of base salary for the CEO and 65% of base salary for any other member of the Board of Management. Financial performance accounts for 70% of the STI, while the remaining 30% is linked to achieving individual and qualitative goals, including sustainability and people-related targets.

At the start of each financial year, the Remuneration Committee will consider the company’s priorities and therefore how it intends to incentivize short-term performance. It will agree the metrics for inclusion in the STI, their relative weighting and targets for achievement. Up to four financial metrics can be selected from the following list:

- Revenue growth
- Adjusted EBITDA
- Adjusted operating income
- Return on sales (ROS)
- Return on investment (ROI)
- Operating income (OPI)
- Net income (to shareholders)
- Operational cash flow (OCF)

These metrics are as used or defined in our annual report, subject to minor adjustments if required, in order to provide an appropriate indicator of management’s performance.

For each target, the Remuneration Committee sets performance ranges each year. These performance ranges determine: (i) The performance level below which no payouts are made; (ii) The performance level at which 100% payout is made; and (iii) The performance level at which the maximum payout of 150% is made. In aggregate, STI awards will not exceed 150% of base salary for the CEO, and 100% of base salary for any other member of the Board of Management.

Bonus awards are paid in cash, but Board of Management members who have yet to achieve their minimum shareholding level are required to invest one-third of their short-term incentive (net after tax and other deductions) in AkzoNobel shares. A Share Matching Plan is in place to enable them to more quickly accumulate shares in the company. However, this arrangement has been suspended for bonus awards arising from performance in 2018 to 2020, since it has been replaced by the 2020 Performance Incentive Plan (more details about this plan can be found on page 84).

Long-term incentive (LTI)

The company’s LTI plan is designed to give focus to the strategic priorities that will contribute to building sustainable long-term value creation. By making awards in equity of the company,
alignment is created between the Board of Management and AkzoNobel’s shareholders.

The vehicle through which long-term performance is incentivized is the performance-related share plan. It was approved by shareholders at the AGM in 2004 and has been amended several times, most recently in 2018. Under the performance-related share plan, shares are conditionally granted to the members of the Board of Management on an annual basis, following approval from the Remuneration Committee. Since 2018, performance has been incentivized through two equally-weighted metrics, which are measured over a three-year period:

- Total shareholder return (TSR) measured relative to a competitor peer group
- Growth in return on investment (ROI)

Both of these metrics operate independently of each other and, therefore, each governs 50% of the conditional target grant. The Remuneration Committee determines the targets that comprise each metric and the peer group constituents.

A target level of performance will vest 100% of the target number of shares conditionally granted. Maximum vesting is 150% of the conditional share grant. No shares will vest if a minimum level of performance is not achieved.

Once the performance period has ended, the Remuneration Committee will assess the extent to which the targets have been met. The number of shares to vest is adjusted for dividends that were paid to shareholders over the three-year performance period. In total, the performance share plan covers five financial years, as any vested shares must be retained by the Board of Management member for a further two financial years.

Shareholding requirements
Members of the Board of Management are required to hold shares in the company for the duration of their tenure in that capacity. The shares must be accumulated over five years from the date of their appointment to the Board of Management. The holding requirements are expressed as a percentage of the executive’s annual gross base salary as follows:

- CEO 3x
- CFO 1.5x
- Any other member of the Board of Management 1x

Pay mix
The Remuneration Policy is designed to put a higher proportion of the Board of Management’s package “at risk” in the form of variable pay, i.e. derived through incentive plans. The total value

---

### CEO target pay mix 2018 in %

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Fixed Pay</th>
<th>Variable Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below threshold performance</td>
<td>100</td>
<td>48</td>
</tr>
<tr>
<td>At threshold performance</td>
<td>52</td>
<td>27</td>
</tr>
<tr>
<td>At target performance</td>
<td>73</td>
<td>27</td>
</tr>
<tr>
<td>At/beyond maximum performance</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

### CFO target pay mix 2018 in %

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Fixed Pay</th>
<th>Variable Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below threshold performance</td>
<td>100</td>
<td>31</td>
</tr>
<tr>
<td>At threshold performance</td>
<td>47</td>
<td>31</td>
</tr>
<tr>
<td>At target performance</td>
<td>53</td>
<td>31</td>
</tr>
<tr>
<td>At/beyond maximum performance</td>
<td>77</td>
<td>23</td>
</tr>
</tbody>
</table>
of remuneration that can be earned rises with the level of performance that is delivered, and consequently the relative proportion of the fixed pay package reduces.

The charts on page 81 show the ratio between fixed and variable pay – the pay mix – for the CEO and CFO under various performance scenarios. The fixed pay component only refers to base salary, excluding post-contract benefits and other benefits. The variable component includes the STI, LTI and the share matching plan, on the assumption that these are the normal policy components for the Board of Management. Share price developments are not taken into account.

Post-contract benefits
Members of the Board of Management receive a contribution towards pension and similar retirement benefits, as determined by the Supervisory Board.

Other benefits
Other benefits – such as a company car – are determined by the Supervisory Board and are given to provide members of the Board of Management with a market competitive package.

Claw back and value adjustment
All variable pay components are subject to the claw back and value adjustment provisions of the Dutch Civil Code.

Loans
The company does not grant loans, advance payments or guarantees to its Board members.

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2018

The Supervisory Board, with delegated authority to the Remuneration Committee, is responsible for ensuring that the Remuneration Policy is appropriately applied and aligns with the company’s objectives. The policy itself, alongside the checks and balances in its execution, are designed to avoid incidents where members of the Board of Management – and senior executives for whom similar incentive plans apply – could act in their own interest, take risks that are not in line with the company’s strategy or risk appetite, or where remuneration levels cannot be justified in any reasonable circumstance.

To ensure remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on the short and long-term performance of the individual Board member and the company. Performance targets must be realistic and sufficiently stretching. In addition, and particularly with regard to the variable remuneration components, the Remuneration Committee ensures that the relationship between the chosen performance criteria and the strategic objectives applied – as well as the relationship between remuneration and performance – are properly reviewed and accounted for both ex-ante and ex-post.

Prior to agreeing incentives, the Remuneration Committee carried out scenario analyses of the possible financial outcomes of meeting different performance levels, and how they may affect the structure and value of the Board of Management’s total remuneration. A pay ratio is also taken into account, comparing the total remuneration of the CEO and the average total remuneration for an AkzoNobel employee over the financial year.

The overall remuneration levels are aimed at the median level of the external market. For benchmarking purposes, a peer group has been defined by the Remuneration Committee. In 2018, the peer group consisted of the following companies:

- Ahold Delhaize
- Air Liquide
- ASML
- DSM
- Henkel
- Ferro Corporation
- KPN
- PPG Industries
- Randstad
- RELX Group
- RPM International
- Sherwin-Williams
- Sika
- The Linde Group
- LafargeHolcim
- Vopak
- Signify
- Wolters Kluwer

The Remuneration Committee consults with external remuneration professionals to obtain appropriate benchmark data and on other matters where it requires independent advice. When making pay changes for members of the Board of Management, it evaluates the impact on pay differentials with other executives in the company. When other benefits are granted, the Remuneration Committee does so understanding market practice, plus any relevant legal or tax considerations.

The Supervisory Board has determined that, in the event of a change in control in the company, the vesting of awards made under the performance share plan will be 100% of all shares conditionally granted. This does not affect the discretion it has to correct the variable remuneration of

**Compensation Board of Management 2018**

<table>
<thead>
<tr>
<th></th>
<th>Thierry Vanlancker</th>
<th>Maarten de Vries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Chief Executive Officer</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Base salary</td>
<td>979,000</td>
<td>659,000</td>
</tr>
<tr>
<td>Short-term incentive</td>
<td>587,400</td>
<td>307,753</td>
</tr>
<tr>
<td>Share awards¹</td>
<td>1,156,540</td>
<td>410,420</td>
</tr>
<tr>
<td>Other long-term incentive</td>
<td>356,593</td>
<td>240,036</td>
</tr>
<tr>
<td>Post-contract benefits²</td>
<td>163,500</td>
<td>129,200</td>
</tr>
<tr>
<td>Other emoluments²</td>
<td>13,443</td>
<td>9,443</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td><strong>3,256,476</strong></td>
<td><strong>1,755,852</strong></td>
</tr>
</tbody>
</table>

¹ Costs relating to share awards (performance-related share plan and share-matching plan) are non-cash and relate to the expenses following IFRS 2.
² Post-contract benefits refer to payments intended for building up retirement.
³ Other emoluments include employer’s charges (social contributions) and other compensations, such as car arrangements.
the Board of Management upwards or downwards in exceptional circumstances.

For communication purposes, the table opposite presents an overview of the remuneration of the members of the Board of Management who were in office in 2018. See Note 24 of the Consolidated financial statements for more details.

**Base salary**
The Remuneration Committee reviewed the salaries of members of the Board of Management in the year, having regard to market data, inflation data and the level of increases that were to be applied for AkzoNobel employees in the Netherlands, including those who are covered by a collective labor agreement. Increases to the value of 3% of base salary were agreed, to be effective from January 1, 2018:
- Mr. Vanlancker, CEO: €979,000
- Mr. de Vries, CFO: €659,000

**Short-term incentive (STI)**
In 2018, the objectives of the short-term incentive were to reward performance on ROS and OCF; to measure individual and collective performance; and to encourage progress towards the achievement of long-term strategic objectives, including sustainability.

The performance targets for achievement were determined by the Supervisory Board and were applied to the STI by the Remuneration Committee. Qualitative STI targets were set and assessed by the Supervisory Board in the context of the medium-term objectives of the company. AkzoNobel does not disclose all qualitative targets, as they are considered commercially sensitive information. However, the targets for 2018 included goals set in relation to delivering on the company’s communicated strategy, including sustainability objectives.

ROS was calculated by determining the ratio of adjusted operating income over revenue. OCF was calculated as EBITDA minus the change in operating working capital and minus capital expenditures, all in constant currencies.

In determining the outcome of the short-term incentive elements (ROS, OCF and personal targets), the Remuneration Committee applied a reasonableness test in which the actual level of the performance was critically assessed in light of the assumptions made at the beginning of the year. The test also included an assessment of the progress made with the strategic objectives under prevailing market conditions. Taking into consideration the level of performance that the company had delivered during 2018, and achievement that had been made on a number of key strategic goals, the Remuneration Committee determined that bonus payments for the Board of Management would be:
- Mr. Vanlancker, CEO: €587,400 (60% of salary)
- Mr. de Vries, CFO: €307,753 (46.7% of salary)

A total of 1,936 matching shares were awarded to the CEO in 2018 to cover the 2017 financial year. The CFO did not earn a 2017 bonus due to his appointment date.

**Long-term incentives (LTI)**
The objectives of our long-term incentive plan are to encourage long-term sustainable economic and shareholder value creation — both absolute and relative to competitors — and to align Board of Management interests with those of shareholders, as well as ensuring retention of the members of the Board of Management. Performance-related shares are considered to provide a strong alignment with shareholders’ interests.

**Performance-related share plan 2018-2020**
The Remuneration Committee determines the grant levels to be made in respect of members of the Board of Management, within the limits and plans that have been approved by shareholders. In 2018, the CEO and CFO received a conditional grant of shares equivalent to the face value of 150% of their annual base salaries. The grant price was set based on the market closing price of an AkzoNobel common share as of January 2, 2018.

The metrics applicable to the performance-related share plan for the 2018-2020 performance period are relative TSR and ROI, equally weighted. The target and ranges for the ROI metric will not be disclosed as they are considered to be commercially sensitive information. However, the relative TSR industry peer group consists of nine companies for 2018 to 2020:
- Asian Paints
- Kansai Paint
- Nippon Paint
- RPM International
- AkzoNobel
- Masco Corp
- PPG
- Sherwin Williams
- Tikkurila

The vesting schedule that will apply to the relative TSR metric, which applies to half of the conditional target grant, is noted in the next table. When making the performance assessment, the TSR result of AkzoNobel is included within the ranked peer group.

**TSR vesting scheme for the conditional grants**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Vesting (as % of 50% of conditional grant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>150</td>
</tr>
<tr>
<td>2</td>
<td>135</td>
</tr>
<tr>
<td>3</td>
<td>120</td>
</tr>
<tr>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>75</td>
</tr>
<tr>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td>8–10</td>
<td>0</td>
</tr>
</tbody>
</table>

**Replacement of the share matching plan**
The Remuneration Committee determined that the share matching plan will be suspended for three years, i.e. in relation to performance in the years 2018 to 2020. The value of the share matching plan for these three years will be invested in the newly-created 2020 Performance Incentive Plan. This was approved by shareholders at the 2018 AGM. In 2021, the 2020 Performance Incentive Plan will cease to apply and it is anticipated that the share matching plan, as included in the Remuneration Policy, will recommence.
2020 Performance Incentive Plan

The 2020 Performance Incentive Plan is an exceptional, one-off incentive with a cash payout based on the achievement of 15% ROS by the end of 2020. Its key objective is to incentivize the achievement of the 2020 financial guidance as presented to shareholders and deliver upper quartile industry performance.

The 2020 Performance Incentive Plan could award a payment of two times annual base salary to members of the Board of Management provided that 15% ROS is achieved by the end of 2020. The performance ranges, as set out in the below table, determine: (i) The performance level below which no payouts are made; (ii) The performance level at which 100% of base salary payout is made (threshold); (iii) The performance level at which the target payout of 200% of base salary is made; and (iv) The performance level at which the maximum payout of 400% of base salary is made.

If a change of control event over AkzoNobel were to occur during the performance period, the Remuneration Committee can test the Plan’s performance conditions and determine the terms and conditions of any payment arising from it, including the timing of it.

<table>
<thead>
<tr>
<th>Performance range – 2020 Performance Incentive Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold</td>
</tr>
<tr>
<td>2020 ROS target</td>
</tr>
<tr>
<td>Award level</td>
</tr>
</tbody>
</table>

Pay ratio

The pay ratio compares the total compensation of the CEO against the total compensation of an AkzoNobel employee, calculated as an average of all employees as of December 31, 2018. In respect of 2018, the ratio is 56.4 (2017: 58.6).

Claw back and value adjustment

In 2018, there was no cause for a claw back or value adjustment by the Remuneration Committee.

Shareholding requirements and share matching

As of December 31, 2018, the CEO, Mr. Vanlancker, held 13,682 shares, of which 2,166 qualified for share matching under the Share Matching Plan on a ratio 1:1. The matching shares were conditionally granted during 2017 and 2018 and will be released in 2020 and 2021 respectively, subject to the terms of the Share Matching Plan. The shares acquired by Mr. Vanlancker during 2018 contribute towards his required shareholding in accordance with the Remuneration Policy (see also Note 24 of the Consolidated financial statements).

As of December 31, 2018, the CFO, Mr. de Vries, held 2,562 shares. Mr. de Vries did not have an opportunity to make a share deferral in 2018, or be granted matching shares, since he was not paid a bonus in relation to 2017 performance.

Shares obtained by members of the Board of Management under the performance-related share plan are taken into account for share ownership purposes (but not for matching purposes) as soon as they have become unconditional. This includes vested shares that are to be retained during the blocking period of two years after vesting.

Qualifying shares

<table>
<thead>
<tr>
<th>Board members</th>
<th>Qualifying shares acquired in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thierry Vanlancker</td>
<td>1,936</td>
</tr>
<tr>
<td>Maarten de Vries</td>
<td>0</td>
</tr>
</tbody>
</table>

Post-contract compensation

The members of the Board of Management receive contributions towards post-contract benefits, which are defined as a percentage of income as determined by the Supervisory Board. Currently, they are based on age. The contributions are paid over the base salary in the current year. The contributions will therefore vary depending on the age of the Board member.

Board contracts

Agreements for members of the Board of Management are concluded for a period not exceeding four years. After the initial term, reappointments may take place for consecutive periods of up to four years each. The notice period by the Board member and by the company shall be subject to a six-month term. Members of the Board of Management normally retire in the year they reach the legal retirement age.

Remuneration Policy for the next financial year

The Supervisory Board closely monitors whether the policy and its implementation are in line with the objectives of the company. The metrics applied for the STIs in 2018 were ROS and OCF, and are intended to continue for the 2019 financial year, as they remain relevant and align with the company’s strategy.

The metrics applied for the LTIs (TSR and ROI) will continue to be applied in 2019. The vesting schemes for TSR performance will remain unchanged. The target and ranges for the ROI metric will not be disclosed as they are considered commercially sensitive information.

Our Cetol brand was used to coat the stunning Casa Erizo in Argentina. The product helps to protect the wooden interior and gives a soft, natural finish. The venue has various uses, such as storing wine and providing entertainment and workshop space.
AKZONOBEL AND THE CAPITAL MARKETS

AkzoNobel is a strong case for investment. A focused paints and coatings company with global brands, leading positions in large and attractive markets and a balanced geographic exposure, including 50% revenue from emerging markets. We’re well positioned to accelerate growth and enhance profitability – with our Winning together: 15 by 20 strategy – and deliver significant returns to shareholders.

LISTINGS

AkzoNobel’s common shares are listed on Euronext Amsterdam. The company is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. During the year, 176 million AkzoNobel shares were traded on Euronext Amsterdam (2017: 232 million). AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US. See the table on the right for stock codes and ticker symbols:

| Euronext ticker symbol | AKZA |
| ISIN common share | NL0013267909 |
| OTC ticker symbol | AKZOY |
| ISIN ADR | US0101995035 |

EXTERNAL BENCHMARKS

Following 2018 reviews, we are included in a number of leading sustainability indices: DJSI World, FTSE4Good, MSCI ACWI ESG Leaders Index and SRI Index, Vigeo ESG indices and the Ethibel Sustainability Index (ESI) Excellence Global. We retained our Gold rating at EcoVadis, our OEKOM prime status, remain an industry leader according to Sustainalytics and have been recognized as a leader by CDP. We were also included in the Global 100 Most Sustainable Corporations in the World by Corporate Knights. In 2019, we will focus on external benchmarks that help create the most value for us and our stakeholders (see Managing sustainability).

Key share data

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-end (share price in €)</td>
<td>79.39</td>
<td>73.02</td>
<td>70.40</td>
</tr>
<tr>
<td>Year-high (share price in €)</td>
<td>64.74</td>
<td>82.64</td>
<td>82.7</td>
</tr>
<tr>
<td>Year-low (share price in €)</td>
<td>50.17</td>
<td>56.11</td>
<td>68.82</td>
</tr>
<tr>
<td>Year-average (share price in €)</td>
<td>58.80</td>
<td>74.47</td>
<td>76.41</td>
</tr>
<tr>
<td>Average daily trade (in € millions)</td>
<td>38.6</td>
<td>67.4</td>
<td>52.6</td>
</tr>
<tr>
<td>Average daily trade (in millions of shares)</td>
<td>0.7</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Number of shares outstanding at year-end (in millions)</td>
<td>252</td>
<td>253</td>
<td>256</td>
</tr>
<tr>
<td>Market capitalization at year-end (in € billions)</td>
<td>15.0</td>
<td>18.4</td>
<td>17.8</td>
</tr>
<tr>
<td>Net income per share (in €)</td>
<td>3.85</td>
<td>3.31</td>
<td>2.6</td>
</tr>
<tr>
<td>Dividend per share (in €)</td>
<td>1.65</td>
<td>2.50</td>
<td>1.80</td>
</tr>
<tr>
<td>Dividend yield (in %)</td>
<td>2.8</td>
<td>3.4</td>
<td>2.6</td>
</tr>
</tbody>
</table>

1 Based on close value.
2 Based on year-end share price.

Share price performance 2018

AkzoNobel share price in €

Share price performance 2018

Our share price was 3.2% lower at year-end 2018 compared with 2017, outperforming both the DJ Stoxx Chemicals and AEX indices (see graph above).

DIVIDEND

Our dividend policy is to pay a stable to rising dividend. In 2018, an interim dividend of €0.37 per share (2017: €0.56) was paid.
The Board of Management proposes a 2018 final dividend of €1.43 per share (post consolidation), which would equal a total 2018 dividend of €1.80 (2017: €2.50, including €0.85 related to the Specialty Chemicals business) per share.

The dividend proposed to the 2019 Annual General Meeting of shareholders, following adoption, will be payable as of May 6, 2019. AkzoNobel’s shares will be trading ex-dividend as of April 29, 2019. In compliance with the listing requirements of Euronext Amsterdam, the record date for the final dividend will be April 30, 2019.

ANALYST RECOMMENDATIONS

At year-end 2018, AkzoNobel was covered by 21 equity brokers. An overview of analyst recommendations is shown on the right.

<table>
<thead>
<tr>
<th>Analyst recommendations in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Buy</td>
</tr>
<tr>
<td>B Hold</td>
</tr>
<tr>
<td>C Sell</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Distribution of shares 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>A US</td>
</tr>
<tr>
<td>B UK</td>
</tr>
<tr>
<td>C Rest of Europe</td>
</tr>
<tr>
<td>D Rest of world</td>
</tr>
<tr>
<td>E Undisclosed</td>
</tr>
</tbody>
</table>

BROAD SHAREHOLDER BASE

AkzoNobel has 100% free float, and a broad base of international shareholders. Based on an independent shareholder analysis, the chart on the right shows the geographical spread of AkzoNobel shareholders. Around 2% of the company’s share capital is held by private investors, many of whom are resident in the Netherlands. Approximately 14.5% of the company’s share capital is held by sustainable and responsible investors.*

<table>
<thead>
<tr>
<th>Dividend paid in € per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim dividend</td>
</tr>
<tr>
<td>Final dividend</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debt maturity* in € millions (nominal amounts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018: 800</td>
</tr>
<tr>
<td>2019: 500</td>
</tr>
<tr>
<td>2020: 750</td>
</tr>
<tr>
<td>2021: 500</td>
</tr>
<tr>
<td>2022: 500</td>
</tr>
<tr>
<td>2023: 500</td>
</tr>
<tr>
<td>2024: 500</td>
</tr>
<tr>
<td>2025: 500</td>
</tr>
<tr>
<td>2026: 500</td>
</tr>
</tbody>
</table>

* As calculated by Nasdaq, according to their methodology which is to include the sum of:
  + Core sustainable and responsible investor firms where 100% of equity assets are managed with an ESG approach
  + Sustainable and responsible investor themed funds managed by broad sustainable and responsible investors

CREDIT RATING AND BONDS

AkzoNobel is committed to maintaining a strong investment grade credit rating. Regular review meetings are held between rating agencies and AkzoNobel senior management. See the table below for the current credit ratings and outlook.

<table>
<thead>
<tr>
<th>BONDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>On December 17, 2018, a 4% €800 million bond reached maturity and was repaid. The maturity schedule of outstanding bonds can be seen on this page.</td>
</tr>
</tbody>
</table>