Governance and compliance
A colorful happily ever after

It almost reads like a modern day beauty and the beast story – which ends with our passion for paint coming to the rescue.

The rundown Hay Bouslama district in the city of Béja, Tunisia, was in such a bad state that Miss Tunisia approached our Astral brand for help. It was a perfect opportunity to add more color to people’s lives through our global “Let’s Colour” program.

Within weeks, the drab, colorless area had been transformed with around 800 liters of paint, which is helping to preserve the architectural heritage of the old neighborhood. Dozens of residents and several AkzoNobel employees volunteered to help during the colorful renovation, which has positively impacted the daily lives of the delighted local community.

www.astral.ma/fr
www.astral.tn/fr
www.letscolourproject.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. For the full version of the Code, visit www.mccg.nl
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 best interests 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.

**BOARD OF MANAGEMENT AND EXECUTIVE COMMITTEE**

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 and the Chief Human Resources Officer. The Chief Corporate Development Officer was also a member of the Executive Committee until stepping down as of October 1, 2019. Reference is made to the paragraph Board of Management and executive succession in this chapter.

The composition of the Executive Committee ensures that 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, policies, rules and procedures incorporated in the company’s Policy 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 Supervisory Board, and is fundamental to AkzoNobel’s business strategy.

In order to ensure our transformation has a sustainable impact on the whole organization, our company culture forms an important part of discussions involving internal organizational changes and Human Resources strategy updates. In 2018, a quarterly Insight survey was launched to all employees, focusing on our wider organizational health, which was continued during 2019 (see Note 7 of the Sustainability statements). The Executive Committee and Supervisory Board regularly discuss 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 Supervisory Board has regular, direct interaction with all members of the Executive Committee and all Executive Committee members attend most Supervisory Board meetings.

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 Supervisory Board.
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 reappointment.

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).

**Diversity**

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 the company’s goals and objectives. The Diversity Policy addresses concrete targets relating to diversity, including nationality, age, gender, education and work background. As part of our commitment to fostering an inclusive and respectful workplace, we introduced training to increase awareness around unconscious bias in the workplace.

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 and has ensured the best candidates for the roles were nominated by the Supervisory Board and appointed by shareholders. Following the appointment of Joëlle Boxus as the new Chief Human Resources Officer as per March 9, 2020, AkzoNobel has a gender diversity of 33% female representatives at Executive Committee level.

**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 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. Further information on any outside board positions of the Executive Committee can be found on page 32.

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.

**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 2019, 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 for the Board of Management, which is approved by the AGM. The Remuneration Policy of the Board of Management will be resubmitted to the 2020 AGM in line with the implementation of the Shareholder Rights Directive II. 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 of the Board of Management, are described in the Remuneration report.

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
Executive Committee meetings are frequently held, at which the implementation of the company’s strategy is discussed. Functional agendas 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.

To help plan for success and ensure alignment within the entire AkzoNobel organization on the strategic and operational plan, the Board of Management and Executive Committee implemented an Integrated Business Planning (IBP) process across the company’s global businesses and functions. IBP provides, on a monthly basis, visibility on the long-term integrated business and financial plan, which covers the product portfolio, demand and supply. It therefore ensures early attention and remedial actions, where appropriate, on any potential gaps. The monthly IBP cycle ends with the Corporate Management Business Review (CMBR), which is chaired by the CEO. The Executive Committee attends these meetings, where it reviews the consolidated long-term company perspective, including risks and opportunities, decides on escalation and possible scenarios and supervises the key performance indicators with corrective actions, if applicable.

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, consists of representative Business and Functional Directors, as well as the CEO.

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 safety, integrity and sustainability, 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.

Integrity and Compliance Committee
This committee supports the Executive Committee with its responsibility in assuring and managing compliance, and with its reporting to the Supervisory Board. The Integrity and Compliance Committee systematically identifies...
material compliance risks, assists in assurance of compliance with laws, regulations and ethical standards, monitors compliance and report findings and recommendations to the Executive Committee. More details can be found on page 58.

Executive Pensions Committee
The Executive Pensions Committee oversees the general pension policies of AkzoNobel’s various pension plans and their financial consequences for the company. The committee is chaired by the CFO and includes the Chief Human Resources Officer, the General Counsel 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
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 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 four 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 this policy is to ensure a balanced composition, taking account of nationality, age, gender, education and work background. During 2019, the Diversity Policy was implemented through the Supervisory Board’s consistent and structured approach to succession planning. There are no divergences to report. The policy is included in the Supervisory Board’s Rules of Procedure, 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 2019, 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 25, 2019.

**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.

**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 2019, no transactions were reported under which a member had a conflict of interest which was of material significance to the company.

**Remuneration of the Supervisory Board**
Supervisory Board members receive a fixed annual remuneration and attendance fee, which is determined by the AGM. According to the Code, it is not possible for members to be remunerated in shares. The Remuneration Policy for the Supervisory Board – which was adopted by the AGM in 2014 – will, with limited changes, be submitted for approval at the 2020 AGM, in line with the implementation of the Shareholder Rights Directive II.

More information on the remuneration of the members of the Supervisory Board and the Remuneration Policy of the Supervisory Board can be found in the Remuneration Report and Note 25 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.

**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, the Group Controller, the Internal Auditor and the 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 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 ensures alignment with the Remuneration Policy of the Supervisory Board.

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 tabled as separate agenda items 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 Board of Management and Supervisory Board
- Remuneration of members of the Supervisory Board
- Material changes to the Remuneration Policy of the Board of Management
- Advisory vote on Remuneration report
- 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 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 online within six months of 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, 2019, a total of approximately 200 million common shares and 48 priority shares had been issued. This includes shares held in treasury which cannot be voted on and which are not eligible for dividend. The company has been informed that by December 31, 2019, each of Capital Research and Management Company, BlackRock Inc., and Massachusetts Financial Services Company held more than 5% of the company’s share capital.

The majority of shares in Akzo Nobel N.V. are included in a global certificate and held through the system maintained by the Dutch Central Securities Depository (Euroclear Nederland). In the past, Akzo Nobel N.V. also issued (physical) bearer share certificates (Bearer Certificates). A limited number of Bearer Certificates has not yet been surrendered to Akzo Nobel N.V., although holders...
of Bearer Certificates are entitled to a corresponding number of shares in Akzo Nobel N.V.

It is noted that, as a result of Dutch legislation which became effective as of July 2019, the relevant shares will be registered in the name of Akzo Nobel N.V. by operation of law as per January 1, 2021. Pursuant to this legislation, owners of Bearer Certificates will continue to be entitled to a corresponding number of shares in Akzo Nobel N.V. until January 2, 2026. On that date, their entitlement will expire by operation of law. For more information, contact Investor Relations (investor.relations@akzonobel.com).

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 the prevailing quoted price for common shares.

The AGM held on April 25, 2019, 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 preemptive rights, up to a maximum of 10% of the issued share capital. The Board of Management was also given a mandate to acquire common shares in the company’s share capital. The maximum number of shares that the company will hold in its own share capital at any time shall not exceed 10% of its 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 whether the consolidated financial statements give a true and fair view of the financial position of the group (the company together with its subsidiaries).

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 previous lead audit partner retired in 2019, it was decided to appoint the current lead audit partner as per the start of the audit on the financial year 2019. In close co-operation 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 any services to 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 that do not meet these requirements, 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 Internal Auditor 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 biannually 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).

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 several Risk, Control and Compliance Committees, which are explained on page 58. As in previous years, we continued to work on system embedded controls, standard role design and segregation of duty monitoring.

The AkzoNobel internal control framework

The AkzoNobel internal control framework provides reasonable assurance in achieving business goals, including strategic, operational and reporting goals, in addition to those covering compliance. Internal control is not only about policies and procedures, but also relates strongly to people, culture and behaviors.

An integrated Risk and Internal Control department 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.
Doing business involves risk. It’s our ambition to be a successful and respected company through managing risks as an essential element of our corporate governance and strategy.

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 Executive Committee are responsible for managing the risks associated with our activities and 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. It 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/risk-management-framework](http://www.akzonobel.com/risk-management-framework)
The table below summarizes the major risk factors for the company in the foreseeable future. The symbols represent management’s assessment of risk development compared with the previous year.

<table>
<thead>
<tr>
<th>Risk Management</th>
<th>( \rightarrow )</th>
<th>Risk Management</th>
<th>( \rightarrow )</th>
</tr>
</thead>
<tbody>
<tr>
<td>External – Strategic</td>
<td>( \rightarrow )</td>
<td>Internal – Strategic</td>
<td>( \rightarrow )</td>
</tr>
<tr>
<td>• Global economy and the geo-political context</td>
<td>( \rightarrow )</td>
<td>• Organic growth</td>
<td>( \rightarrow )</td>
</tr>
<tr>
<td>• Strategic moves in our value chain</td>
<td>( \rightarrow )</td>
<td>• Innovation, identification and successful implementation of major transforming technologies</td>
<td>( \rightarrow )</td>
</tr>
<tr>
<td>External – Operational</td>
<td>( \rightarrow )</td>
<td>Internal – Operational</td>
<td>( \rightarrow )</td>
</tr>
<tr>
<td>• Information technology and cybersecurity</td>
<td>( \rightarrow )</td>
<td>• Management of change</td>
<td>( \rightarrow )</td>
</tr>
<tr>
<td>• Analytics and big data</td>
<td>( \rightarrow )</td>
<td>• Compliance</td>
<td>( \rightarrow )</td>
</tr>
<tr>
<td>• Complying with laws and regulatory developments</td>
<td>( \rightarrow )</td>
<td>• Geo-political assessment as part of investment decisions and medium-term operational planning</td>
<td>( \rightarrow )</td>
</tr>
</tbody>
</table>

Risk has been assessed to increase. ▲
Risk has been assessed to remain fairly stable. □

External – Strategic
GLOBAL ECONOMY AND THE GEO-POLITICAL CONTEXT
The unpredictable world’s geo-political situation and the highly competitive markets in which we operate require our ongoing attention to protect our financial performance.

Mitigating actions
• Continued focus on operational cost and complexity reduction
• Deployment of commercial and procurement excellence programs

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.

Mitigating actions
• Competitive intelligence analysis of (new) competitors, customers and suppliers
• Secure freedom to invest through strategic alignment with shareholders and other stakeholders
• Identify opportunities for M&A, based on strategic rationale

External – Operational
INFORMATION TECHNOLOGY AND CYBERSECURITY
Our longer-term IT strategy means we increasingly rely on fewer consolidated critical applications. With the number of digital business transactions on the increase, the non-availability of IT systems – or unauthorized access – could have a direct impact on our business processes, competitive position and reputation.

Mitigating actions
• System (ERP) consolidation to increase robustness of digital landscape
• New security standards for industrial control systems
• Lifecycle planning for key applications
• Embedding a cybersecurity culture (training, awareness creation)
• KPI definition around vulnerability management
• Deployment of information protection in the new generation workplace
External – Compliance

COMPLYING WITH LAWS AND REGULATORY DEVELOPMENT

As a global player, we are exposed to increasingly stringent laws and regulations covering a growing range of subjects (such as environmental releases, human rights, competition law).

Mitigating actions
- Fostering an open and transparent culture, continuously educating and training
- Implementation of a Business Partner Compliance Framework
- Define ambitious standards in VOC/dust emission/energy control systems
- Operate under state-of-the-art safety requirements for our manufacturing and R&D sites

Internal – Strategic

ORGANIC GROWTH

Market leadership in those parts of the world where our markets are growing is one of the cornerstones of our strategy. A global presence, in combination with locally tailored go-to-market models, is an essential ingredient to success.

Mitigating actions
- Clear BU strategic mandates to deliver on growth opportunities
- Deployment of commercial excellence programs

Internal – Operational

MANAGEMENT OF CHANGE

Our Winning together: 15 by 20 ambition is transforming the company. At the same time, we also recognize the risks associated with change, as well as the need to invest in building an organization structure which encourages and embraces change, while balancing opportunity and managing risk.

Mitigating actions
- Set up a Transformation Office to support adoption of new organizational model
- Global Process Owners to implement standard solutions across the company
- Reward system to set desired behavioral changes in motion and keep momentum
- Launch of organizational health initiatives and periodic tracking of progress
- Range of programs to attract and retain talent
- Updating internal authority procedures and our control framework to reflect changes in roles and responsibilities

Internal – Strategic

INNOVATION, IDENTIFICATION AND SUCCESSFUL IMPLEMENTATION OF MAJOR TRANSFORMING TECHNOLOGIES

Our leadership positions and future success are underpinned by investment in research, the adoption of major transforming technologies and continuous development of the talents and skills of our people.

Mitigating actions
- Funding for technology road maps and innovation strategies
- Investing in promising venture funds
- Partnering with innovative startups (Paint the Future)
- IT resources to support the business in new technology applications

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 organizational structure and governance framework with common standards, methods and tools to deliver insightful information across the company.

Mitigating actions
- Risk and mitigation ownership with an empowered community of Global Process Owners
- Define master data quality standards and priorities
- Extended set of key controls
INTEGRITY AND COMPLIANCE MANAGEMENT

We’re committed to leading with integrity in our industry. It’s one of our three core principles for doing business. Our robust Integrity and Compliance program helps ensure compliance with laws and regulations and guides our employees to make fair and honest decisions every day.

GOVERNANCE AND ORGANIZATION

The Executive Committee is responsible for maintaining a culture of integrity and ensuring an effective compliance control framework. The Audit Committee of the Supervisory Board supervises this responsibility. The Executive Committee has delegated certain responsibilities to the following working committees (which are further explained on our website):

Integrity and Compliance Committee
Reviews investigations into material violations of laws, regulations and internal rules and into SpeakUp! reports, and decides on disciplinary measures and control improvement actions. It also monitors and responds to trends in such irregularities. In 2019, this committee was installed to replace the numerous BU and function compliance committees, thus elevating the level at which integrity and compliance irregularities are decided, while improving consistency of measures. This coincides with the initiative of streamlining company-wide end-to-end processes.

Risk, Control and Compliance Committees (RCC)
Responsible for supervising the effectiveness of the control environment and for reviewing weaknesses in this environment, as well as progress on improvement actions.

Human Rights Committee
Responsible for supervising the company’s human rights program (see Note 8 of the Sustainability statements).

Privacy Committee
Responsible for supervising the company’s privacy control framework.

Day-to-day management of the integrity and compliance framework is delegated to the Integrity and Compliance function, which is led by the Director of Integrity and Compliance. The Director of Integrity and Compliance reports to the General Counsel and, as necessary, has access to the Chairman of the Audit Committee of the Supervisory Board. This function includes legal experts in the field of competition law, bribery and corruption, export control and sanctions, fraud, privacy and human rights, who are...
responsible for setting the rules and making training programs available for their area of expertise, and for providing day-to-day expert guidance and support. The function’s Integrity and Compliance Managers, located in major business hubs spread over six regions, are responsible for risk identification and response, training and awareness, support and monitoring.

In 2019, the heads of the Integrity and Compliance, Internal Control and Internal Audit function met monthly to discuss findings and trends, and to align actions.

RISK MANAGEMENT

Annually, each BU and major function identifies its key compliance risks and defines actions to mitigate these risks. These actions form part of the BU/function integrity and compliance plan, which in turn forms part of a larger BU/function legal plan. The top five inherent compliance risks relate to competition law, environmental law, anti-bribery, fraud and data protection. In 2019, key focus areas were competition, bribery and privacy.

POLICY MANAGEMENT

In 2019, the company launched a new Policy Portal. This portal will become the one-stop-shop for key policies, rules and procedures relating to our Global Processes. By reducing complexity and increasing transparency, it will become easier for employees to understand what rules apply to their job, and will increase our effectiveness in applying the rules.

AWARENESS AND EDUCATION

We employ several methods to inform and educate employees on integrity and compliance rules and controls, including communication campaigns, e-learnings and training sessions.

Communication campaigns
Employees worldwide regularly receive communications to inform them of certain compliance risks and duties. For example, in 2019, two campaigns were run to alert employees to external fraud threats, with another two focusing on privacy requirements. We also share lessons from investigations on an anonymized basis.

In November, a global Integrity Week was held with a focus on compliance in the field of gifts, hospitality and conflicts of interest. Senior leaders distributed messages and videos, articles were posted and discussions held on internal digital platforms, while teams took part in dilemma games and workshops.

E-learning
The company operates a suite of integrity and compliance related e-learnings that is mandatory for employees. E-learnings include: Code of Conduct; Life-Saving Rules; competition law; anti-bribery, gifts and entertainment; export control and sanctions; fraud; information security; and privacy. In response to an increased number of harassment and discrimination-related SpeakUp! reports, we introduced a series of diversity and respectful treatment e-learnings in the second half of 2019.

Training sessions
Numerous face-to-face and virtual trainings are provided on integrity and compliance related topics to dedicated audiences. In 2019, we provided more than 90 trainings on competition law and around 25 on privacy.

DUE DILIGENCE

We have processes in place to perform due diligence screenings and investigations on business partners and other relevant third parties. As part of our export control and sanctions framework, we screen customers for sanctions and screen transactions for export license requirements. In 2019, we further automated this process to increase assurance that all relevant restrictions are covered.

During 2019, we continued our extensive due diligence on risks of impact on human rights in our supply chains of mica, cobalt and tin-based raw materials and improved the related supplier self-assessment framework (see Note 5 in the Sustainability statements).

During Integrity Week, we launched a new gift and conflict of interest register, creating more transparency on gifts received and provided, and on potential conflicts between the company’s interests and one’s personal interests.

We also introduced a comprehensive registration and assessment process for personal data processing activities. This will enable us to have better visibility on all relevant personal data processing activities and help us support businesses and functions to ensure that these activities comply with applicable privacy rules.

As part of our M&A program, we screen acquisition targets for past non-compliance and assess their integrity culture and compliance framework. For example, in 2019, extensive compliance due diligence was performed prior to closing the acquisition of Mapaero.

MONITORING

We have several processes to monitor compliance by employees and business partners with our rules. For example, every year we require employees to confirm that they have understood and complied with our Code of Conduct as part of the performance evaluation cycle. We also require managers to self-assess and confirm compliance by their units with our rules as part of the internal control self-assessment. We monitor supplier performance, including their control framework relating to bribery and human rights, as part of the EcoVadis self-assessment and Together for Sustainability audits.

In 2019, we ran a poll among employees to seek their feedback on our integrity culture. The results show that employees feel we have high standards
of integrity and they feel comfortable to raise concerns.

Every year, we run a competition law compliance declaration program, whereby more than 14,000 employees are reminded of our competition law rules and asked to confirm compliance or raise concerns or questions with our competition law experts. In 2019, preparations were made to integrate this program with a learning program, to be run in February 2020.

Our internal audit function performs numerous audits on our operations. Their audit plan is risk-based and takes account of prior compliance and internal control findings. In 2019, several internal audits were held at the request of the Integrity and Compliance function to validate compliance with our rules in certain units.

**GRIEVANCE AND INVESTIGATION**

Our SpeakUp! grievance mechanism offers employees, business partners and members of the public a means to raise concerns relating to compliance with our Code of Conduct. We apply strict principles of confidentiality, respect for anonymity, non-retaliation, objectivity and the right to be heard. In 2019, the investigation process was further improved by introducing a strict investigation protocol, which applies to all investigations. Investigators must follow certain planning, investigation and reporting steps to safeguard the right quality and speed.

As mentioned under Governance and organization, all decisions are now taken by one committee, increasing efficiency and consistency. In 2019, the total number of reports reduced slightly, although the percentage received through SpeakUp! was significantly higher. All reports and alerts led to 25 dismissals and numerous other disciplinary measures and control improvements, confirming the value of our grievance framework.

**SpeakUp! reports**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reports and alerts registered</td>
<td>261</td>
<td>238</td>
<td>222</td>
</tr>
<tr>
<td>Reports received through SpeakUp!</td>
<td>129</td>
<td>104</td>
<td>164</td>
</tr>
<tr>
<td>Safety</td>
<td>23</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Integrity</td>
<td>53</td>
<td>50</td>
<td>59</td>
</tr>
<tr>
<td>Sustainability</td>
<td>53</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td>Conclusions SpeakUp! reports:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Partially) substantiated</td>
<td>17</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Unsubstantiated</td>
<td>80</td>
<td>42</td>
<td>82</td>
</tr>
<tr>
<td>Other (e.g., referred)</td>
<td>32</td>
<td>48</td>
<td>54</td>
</tr>
<tr>
<td>Dismissals resulting from SpeakUp! reports</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

- 2017 numbers include the Specialty Chemicals business.
- In 2019, we abandoned the distinction between category 1 and 2 matters. All matters are now decided by one Integrity Compliance Committee.
- "Referred" means that a matter does not relate to a Code of Conduct violation and is referred to another function for handling.
- In 2019, we closed 41 SpeakUp! reports from previous years, ten of which were (partially) substantiated, leading to 0 dismissals.
- In 2019, 58 reports and alerts were received outside our SpeakUp! mechanism. 28 thereof were (partially) substantiated, leading to 21 dismissals.
- "Sustainability" includes reports on harassment and discrimination and other Code of Conduct employment matters.

**REPORTING**

During 2019, the Director of Integrity and Compliance twice reported to the Executive Committee and the Audit Committee of the Supervisory Board on the material compliance matters, the results from investigations and the progress on the Integrity and Compliance plan. We also introduced a monthly reporting of investigation matters to the Executive Committee.

Through the RCC meetings, material compliance related internal control weaknesses are addressed and reported. We discuss material investigation matters quarterly with our external auditor.
This report describes the implementation of our Remuneration Policy in 2019 for members of the Board of Management and Supervisory Board.

To realize our strategy and create the long-term value we aim for, it is essential that AkzoNobel can attract and retain high caliber members to its Board of Management and Supervisory Board. The remuneration policies for each of these boards support this essential condition to our success.

The Remuneration Policy for the Board of Management (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. Details about its implementation in 2019 can be found below in chapter 1.

The Remuneration Policy for the Supervisory Board was adopted by shareholders at the Annual General Meeting (AGM) in 2014 and will, with limited changes, be submitted for approval to the AGM in 2020. Details about the implementation of the current policy during 2019 are in chapter 2.

The implementation of the remuneration of both the Board of Management and Supervisory Board has been fully compliant with the applicable policies.

The revised European directive on the encouragement of long-term shareholder engagement (SRD II) and its codification in Dutch law have been taken into account in the disclosure presented in this report.

For a full description of the Remuneration Policy for both the Board of Management and the Supervisory Board, please visit our website: www.akzonobel.com

1. REMUNERATION FOR THE BOARD OF MANAGEMENT

In implementing the Policy as set out above, 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.

Variable remuneration provides an incentive to realize long-term value creation. For the short term, the Supervisory Board sets operational targets over a one-year period that are crucial to the company and are pre-conditions to value creation. The biggest portion of the remuneration packages of Board of Management members is directly aimed at strategic priorities that will contribute to building sustainable long-term value creation, with targets for the return for shareholders and the return on invested capital. For the period 2018 to 2020, following the separation of the Specialty Chemicals business, a one-off long-term incentive to reward bringing value creation at a higher level has been added.

Prior to agreeing on incentives, the Remuneration Committee conducted 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.

In 2019, the labor market peer group, as referred to in the policy, consisted of the following companies:

- Ahold Delhaize
- Air Liquide
- ASML
- DSM
- Ferro Corporation
- Henkel
- KPN
- LafargeHolcim
- PPG Industries

The table on page 62 gives an overview of the performance for the members of the Board of Management who were in office in 2019.

Base salary
The Remuneration Committee reviewed the salaries of members of the Board of Management during the year, considering 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 2.75% of base salary were agreed, effective as of January 1, 2019:

- Thierry Vanlancker, CEO: €1,006,000
- Maarten de Vries, CFO: €677,000

Short-term incentive (STI)
In 2019, the financial objectives of the short-term incentive were return on sales (ROS) and operational cash flow (OCF). The individual and qualitative objectives reflect progress towards the achievement of long-term strategic objectives. The performance achieved is summarized in the table on page 62.

In determining the outcome of the short-term incentive elements, 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.

The Remuneration Committee subsequently determined that bonus payments for the Board of Management would be:

- Thierry Vanlancker, CEO: €387,826 (57.3% of salary)
- Maarten de Vries, CFO: €886,610 (88.1% of salary)

No matching shares were granted to the CEO or CFO in 2019 and no investment in shares under the matching arrangement were made, as this arrangement has been suspended for the period 2018 to 2020. The value of the share-matching plan for these three years is invested in the newly-created 2020 Performance Incentive Plan.

For a full description of the Remuneration Policy in 2019 for members of the Board of Management and the Supervisory Board, please visit our website: www.akzonobel.com
Governance and compliance  |  AkzoNobel Report 2019

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.

Conditional grant LTI share plan 2019-2021
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 2019, 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, 2019:
- 21,379 shares were conditionally granted to Thierry Vanlancker, CEO
- 14,387 shares were conditionally granted to Maarten de Vries, CFO

Vesting of the conditional grant is linked to two performance metrics: ROI and relative total shareholder return (TSR), equally weighted and independently determining 50% of the LTI vesting. The Supervisory Board reviews ROI performance measure and target each year and ensures that both are directly linked to the strategic direction. The performance level determines: (i) the performance level below which no shares vest; (ii) the performance level at which the target number of shares vest; and (iii) the performance level at which the maximum number of shares vest.

TSR is measured relative to an industry peer group, consisting of the following nine companies:
- Asian Paints
- Axalta
- Kansai Paint
- Masco Corp
- Nippon Paint
- PPG
- RPM International
- Sherwin Williams
- Tikkurilla

The vesting schedule that will apply to the relative TSR metric is listed in the table below. When making the performance assessment, the TSR result of AkzoNobel is included within the ranked peer group.

Relative 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>
Vesting of the LTI Share Plan 2017-2019
Under the LTI Share Plan 2017-2019, a conditional grant of 27,300 shares was made to the CEO. No grant was made to the CFO, as the CFO started with the company on January 1, 2018.

Vesting of the conditional grant was linked to three metrics: ROI (35%); relative TSR (35%); and the company’s average position in the DJSI ranking (30%). These targets were set by the Supervisory Board prior to the divestment of Specialty Chemicals. Following the completion of the sale, these performance targets are no longer relevant or applicable and the Supervisory Board has decided to apply the average historic performance of 85%. The final vesting percentage of the 2017 conditional grant – after including the dividend yield of 11.37% during the performance period – equaled 94.66%. The Remuneration Committee determined that Thierry Vanlancker will vest 25,842 shares, subject to a further two-year holding requirement. At December 31, 2019, these shares had a market value of €2,342,319. An overview of all shares awarded or due to Board of Management members is shown in the table below.

2020 Performance Incentive Plan
The 2020 Performance Incentive Plan is an exceptional, one-off plan to incentivize improvement of the company’s return on sales (ROS), put in place and approved by the AGM following the divestment of Specialty Chemicals. It includes achievement of 15% ROS (excluding unallocated corporate center costs) by the end of 2020, presented to shareholders as financial guidance towards upper quartile industry performance.

The 2020 Performance Incentive Plan could award both members of the Board of Management with a cash payment of two times annual base salary, provided that 15% ROS is achieved by the end of 2020. The performance ranges are set out in the table on this page. If a change of control event 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.

Claw back and value adjustment
In 2019, there was no cause for a claw back or value adjustment by the Remuneration Committee.

Loans
The company does not grant loans, advance payments or guarantees to members of the Supervisory Board, members of the Executive Committee or any family member of such persons.

Shareholding requirements and share matching
As of December 31, 2019, CEO Thierry Vanlancker held 19,181 shares, of which 1,924 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.

---

**Performance range – 2020 Performance Incentive Plan**

<table>
<thead>
<tr>
<th>2020 ROS target</th>
<th>Below threshold</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award level</td>
<td>&lt;14%</td>
<td>14%</td>
<td>15%</td>
<td>≥17%</td>
</tr>
<tr>
<td></td>
<td>0% of base salary</td>
<td>100% of base salary</td>
<td>200% of base salary</td>
<td>400% of base salary</td>
</tr>
</tbody>
</table>

---

**2019 remuneration of the Board of Management – Number of performance-related shares**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Performance period</th>
<th>Award Date</th>
<th>Vesting Date</th>
<th>End of holding period</th>
<th>Balance at January 1, 2019</th>
<th>Awarded in 2019</th>
<th>Vested in 2019</th>
<th>Forfeited in 2019</th>
<th>Dividend in 2019</th>
<th>Balance at December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thierry Vanlancker</td>
<td>January 1, 2018</td>
<td>February 2021</td>
<td>February 2023</td>
<td>20,813</td>
<td>–</td>
<td>–</td>
<td>1,692</td>
<td>22,505</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maarten de Vries</td>
<td>January 1, 2019</td>
<td>February 2022</td>
<td>February 2024</td>
<td>17,722</td>
<td>–</td>
<td>–</td>
<td>1,441</td>
<td>19,163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>January 1, 2018</td>
<td>February 2021</td>
<td>February 2023</td>
<td>14,387</td>
<td>–</td>
<td>–</td>
<td>1,170</td>
<td>15,557</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
respectively, subject to the terms of the Share-Matching Plan. Shares acquired in 2019 by the CEO contribute towards his required shareholding in accordance with the Remuneration Policy.

As of December 31, 2019, CFO Maarten de Vries held 4,164 shares. The shares acquired by the CFO during 2019 contribute towards his required shareholding in accordance with the Remuneration Policy.

Comparative information
In compliance with point (b), paragraph 1 of Article 9b of the EU Directive on long-term shareholder engagement, we present below: the annual change of remuneration of each individual member of the Board of Management; the performance of the company; and the average remuneration on a full-time equivalent basis of company employees over at least the five most recent financial years.

Comparative table of remuneration and company performance over last five reported financial years (RFY)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration CEO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed compensation</td>
<td>1,167,500</td>
<td>1,223,900</td>
<td>1,339,000</td>
<td>1,135,825</td>
<td>1,151,900</td>
<td>1,186,500</td>
</tr>
<tr>
<td>Total direct compensation</td>
<td>3,183,600</td>
<td>3,443,300</td>
<td>3,518,900</td>
<td>2,825,863</td>
<td>2,899,883</td>
<td>3,561,212</td>
</tr>
<tr>
<td>% change fixed compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% change total compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remuneration CFO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed compensation</td>
<td>n.a.</td>
<td>691,000</td>
<td>710,300</td>
<td>715,016</td>
<td>797,500</td>
<td>819,800</td>
</tr>
<tr>
<td>Total direct compensation</td>
<td>n.a.</td>
<td>1,322,700</td>
<td>1,586,400</td>
<td>2,169,290</td>
<td>1,515,816</td>
<td>1,843,977</td>
</tr>
<tr>
<td>% change fixed compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% change total compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income attributable to shareholders</td>
<td>546,000,000</td>
<td>979,000,000</td>
<td>970,000,000</td>
<td>832,000,000</td>
<td>6,674,000,000</td>
<td>539,000,000</td>
</tr>
<tr>
<td>Net income % change</td>
<td>(25)</td>
<td>79</td>
<td>(1)</td>
<td>(14)</td>
<td>(702)</td>
<td>(82)</td>
</tr>
<tr>
<td>ROI</td>
<td>10.9</td>
<td>14.0</td>
<td>14.4</td>
<td>13.9</td>
<td>12.6</td>
<td>14.1</td>
</tr>
<tr>
<td>ROI % change</td>
<td>21%</td>
<td>28%</td>
<td>3%</td>
<td>(3%)</td>
<td>(9%)</td>
<td>12%</td>
</tr>
<tr>
<td>Adjusted Operating Income (OPI)</td>
<td>1,072,000,000</td>
<td>1,462,000,000</td>
<td>928,000,000</td>
<td>905,000,000</td>
<td>798,000,000</td>
<td>991,000,000</td>
</tr>
<tr>
<td>Adjusted OPI % change</td>
<td>20%</td>
<td>36%</td>
<td>(37%)</td>
<td>(2%)</td>
<td>(12%)</td>
<td>24%</td>
</tr>
<tr>
<td>Average remuneration on a full-time equivalent basis of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average salary per employee</td>
<td>58,589</td>
<td>59,176</td>
<td>58,559</td>
<td>53,453</td>
<td>56,619</td>
<td>54,825</td>
</tr>
<tr>
<td>% change average remuneration</td>
<td>0%</td>
<td>1%</td>
<td>(1%)</td>
<td>(9%)</td>
<td>6%</td>
<td>(3%)</td>
</tr>
</tbody>
</table>

¹ Maëlys Castella in service as of September 2014, 2014 remuneration excluded share based compensation, making an annualized figure noncomparable.
² Calculated as employee benefits over average number of employees.
³ In years of transition, the compensation for the newly appointed Board of Management member has been annualized.
⁴ The salary increase budgets for 2015 amounted to 3.4%, for 2016 to 3.8%, for 2017 to 4.1%, for 2018 to 3.5% and for 2019 to 4.26% of total salaries.

Over the last few years of transition, the company's performance fluctuated significantly, as the table shows. Net income attributable to shareholders was reduced in 2014 due to higher tax and lower profit from discontinued operations and recovered again in 2015 due to the positive effects of process optimization, lower costs, favorable currency developments and incidental items. In 2018, net profit increased sharply, mainly due to the divestment of Specialty Chemicals, with a deal result of €5,811 million after tax. The transition was also reflected in the development of remuneration. Restructuring due to discontinued operations, for example, resulted in a reduction of the average salary per employee, followed by increases when operations stabilized and profits increased again. In 2018, the increase in average salary was also influenced by the inclusion of a one-off €57 million pension cost for the UK Guaranteed Minimum Pension equalizations.

The pay ratio between the total compensation of the CEO in 2019 and the total compensation of an AkzoNobel employee (calculated as an average of all employees as of December 31, 2019) is 65.0 (2018: 51.2).

Post-contract compensation
Board of Management members 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. Contributions are paid...
over the base salary in the current year and vary depending on the Board member’s age.

**Board contracts**
Agreements for members of the Board of Management are concluded for a period not exceeding four years. After the initial term, re-appointments 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.

2. **RENUMERATION FOR THE SUPERVISORY BOARD**

Members of the Supervisory Board receive a fixed remuneration based on the roles and responsibilities. Travel expenses and facilities are borne by the company and reviewed by the Audit Committee. Implementation of the Remuneration Policy for the Supervisory Board in 2019 resulted in the payout as presented in the table on the right. According to the Code, members are not remunerated in shares.

3. **RENUMERATION POLICIES FOR THE NEXT FINANCIAL YEAR**

The Supervisory Board has evaluated the remuneration policies for the Board of Management and Supervisory Board. We have considered input from stakeholders and the requirements of the EU Directive on the encouragement of long-term shareholder engagement (SRD II) and the Dutch regulation implementing this Directive. As a result, new policies were prepared for both boards, to be submitted for approval at the AGM in April 2020.

**Remuneration Policy for the Board of Management**
The Supervisory Board has concluded that the Remuneration Policy for the Board of Management – approved by the AGM in 2005 and since amended, most recently in 2018 – is in line with the objectives of the company. The remuneration it provides is balanced and adequate. The disclosure on the Policy has been extended to provide additional insight, in compliance with SRD II, and the Remuneration Policy will be submitted to the AGM with limited changes.

For implementation in 2020, the Supervisory Board has decided that:
- The one-off Performance Incentive Plan introduced in 2018 remains in place, to be concluded this year. The suspension of the matching shares arrangement will be continued until this conclusion
- Metrics applied for the STI in 2019 were ROS and OCF, and are intended to continue for the 2020 financial year, as they remain relevant and aligned with the company’s strategy
- Metrics applied for LTI will remain in line with the strategic direction of the company. Should there be any changes to the current metrics, these will then be submitted to shareholders for approval

**Remuneration Policy for the Supervisory Board**
The Supervisory Board has concluded that the Remuneration Policy for the Supervisory Board – approved by the AGM in 2014 – is in line with the objectives of the company. The remuneration it provides is balanced and adequate and will remain unchanged. The disclosure on the Policy has been extended to provide additional insight, in compliance with SRD II, and this revised Remuneration Policy will be submitted to the AGM.

### 2019 Remuneration of the Supervisory Board

<table>
<thead>
<tr>
<th>Name of Board Member</th>
<th>2019 Remuneration (€)</th>
<th>Attendance fee (€)</th>
<th>Committee allowance fees (€)</th>
<th>Employer’s charges (€)</th>
<th>2019 Total Remuneration (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smedegaard Andersen, Chairman</td>
<td>111,373</td>
<td>130,000</td>
<td>12,500</td>
<td>20,000</td>
<td>162,500</td>
</tr>
<tr>
<td>Antony Burgmans</td>
<td>53,215</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Peggy Bruzelius</td>
<td>119,318</td>
<td>21,667</td>
<td>5,000</td>
<td>6,667</td>
<td>37,710</td>
</tr>
<tr>
<td>Byron Grote, Deputy Chairman</td>
<td>135,500</td>
<td>78,000</td>
<td>12,500</td>
<td>40,000</td>
<td>130,500</td>
</tr>
<tr>
<td>Pamela Kirby</td>
<td>92,500</td>
<td>65,000</td>
<td>12,500</td>
<td>15,000</td>
<td>92,500</td>
</tr>
<tr>
<td>Louis Hughes</td>
<td>32,322</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dick Sluimers</td>
<td>107,500</td>
<td>65,000</td>
<td>2,500</td>
<td>40,000</td>
<td>107,500</td>
</tr>
<tr>
<td>Ben Verwaayen</td>
<td>95,000</td>
<td>65,000</td>
<td>12,500</td>
<td>15,000</td>
<td>92,500</td>
</tr>
<tr>
<td>Sue Clark</td>
<td>87,995</td>
<td>65,000</td>
<td>12,500</td>
<td>15,000</td>
<td>92,500</td>
</tr>
<tr>
<td>Patrick Thomas</td>
<td>90,659</td>
<td>65,000</td>
<td>12,500</td>
<td>20,000</td>
<td>97,500</td>
</tr>
<tr>
<td>Michiel Jaski</td>
<td>78,159</td>
<td>65,000</td>
<td>2,500</td>
<td>20,000</td>
<td>87,500</td>
</tr>
<tr>
<td>Jolanda Poots-Bijl</td>
<td>–</td>
<td>43,333</td>
<td>2,500</td>
<td>13,333</td>
<td>59,166</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,003,541</td>
<td>663,000</td>
<td>87,500</td>
<td>205,000</td>
<td>959,876</td>
</tr>
</tbody>
</table>

1 As of May 1, 2018.  2 Until April 30, 2019.  3 Until April 30, 2018.  4 As of May 1, 2019.
AKZONOBEL AND THE CAPITAL MARKETS

SHARES

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 2019, 229 million AkzoNobel shares were traded on Euronext Amsterdam (2018: 176 million).

AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US. Please refer to the table below for stock codes and ticker symbols.

<table>
<thead>
<tr>
<th>Euronext ticker symbol</th>
<th>AKZA</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISIN common share</td>
<td>NL0013267909</td>
</tr>
<tr>
<td>OTC ticker symbol</td>
<td>AKZOY</td>
</tr>
<tr>
<td>ISIN ADR</td>
<td>US0101995035</td>
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</tbody>
</table>

AkzoNobel has 100% free float, and a broad base of international shareholders.

Based on an independent shareholder analysis, the Distribution of shares chart (see opposite page) shows the geographical spread of AkzoNobel shareholders.

Around 3% of the company’s share capital is held by private investors, many of whom are resident in the Netherlands. Approximately 11% of the company’s share capital is held by sustainable and responsible investors*.

*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 Environmental, Social and Governance (ESG) approach
  Sustainable and responsible investor themed funds managed by broad sustainable and responsible investors

<table>
<thead>
<tr>
<th>Key share data¹</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-end (share price in €)</td>
<td>73.02</td>
<td>70.40</td>
<td>90.69</td>
</tr>
<tr>
<td>Year-high (share price in €)²</td>
<td>82.64</td>
<td>82.7</td>
<td>91.86</td>
</tr>
<tr>
<td>Year-low (share price in €)²</td>
<td>59.11</td>
<td>66.82</td>
<td>69.12</td>
</tr>
<tr>
<td>Number of shares outstanding at year-end (in millions)</td>
<td>253</td>
<td>258</td>
<td>200</td>
</tr>
<tr>
<td>Market capitalization at year-end (in € billions)</td>
<td>18.4</td>
<td>17.6</td>
<td>18.1</td>
</tr>
<tr>
<td>Dividend per share (in €)</td>
<td>2.50</td>
<td>1.80</td>
<td>1.90</td>
</tr>
<tr>
<td>Dividend yield (in %)³</td>
<td>3.3</td>
<td>2.6</td>
<td>2.1</td>
</tr>
</tbody>
</table>

¹ Based on Bloomberg share data.
² Based on close value.
³ Based on year-end share price. Excluding special dividend of €4.00 in 2017 and €4.50 in 2019.

We were proud to receive recognition from the Top Employers Institute in Brazil, China, the UK, the Netherlands and the US during the course of 2019. It was the seventh year AkzoNobel had received Top Employer status in the UK, the sixth year in China (pictured) and the third year in Brazil.

Following 2019 reviews, AkzoNobel was included in a number of leading sustainability indices and continues to be the reference in the paints and coatings industry. See “Managing sustainability” in the Sustainability statements for a complete overview.

The AkzoNobel share price was up 28.8% at year-end 2019, compared with 2018, out-performing both the Bloomberg Global Chemicals and AEX indices (see Share price performance graph above).
At year-end 2019, AkzoNobel was covered by 26 equity brokers. An overview of analyst recommendations is shown in the graph above.

**DIVIDEND**

The dividend policy is to pay a stable to rising dividend. In 2019, an interim dividend of €0.41 per share (2018: €0.37) was paid. The Board of Management proposes a 2019 final dividend of €1.49 per share, which would equal a total 2019 dividend of €1.90 (2018: €1.80) per share.

The dividend proposed to the 2020 Annual General Meeting of shareholders, following adoption, will be payable as of May 7, 2020. AkzoNobel’s shares will be trading ex-dividend as of April 27, 2020. In compliance with the listing requirements of Euronext Amsterdam, the record date for the final dividend will be April 28, 2020.

**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 on the right for the current credit ratings and outlook.

For further information please visit our website: akzonobel.com