

# REMUNERATION POLICY FOR THE BOARD OF MANAGEMENT 2020

## STRATEGIC CONTEXT OF THE POLICY

AkzoNobel has a clear strategic focus to become the reference in paints and coatings with strong global brands, leading market positions and a balanced geographic exposure across all regions. Our strategy is aimed at long-term value creation. We're building our future on solid foundations — our long and proud heritage of more than 200 years and our core principles and our values of safety, integrity and sustainability.

#### **REMUNERATION OBJECTIVES**

To realize our strategy and the sustainable, long-term value we aim for, the Remuneration Policy for the Board of Management (the "Policy") is designed to attract and retain high caliber executives. As major international company, it is essential that the composition of the Board of Management will be constituted in a balanced manner to reflect the nature, variety and international spread of the Company's businesses.

The Policy is designed to enable the Board of Management to achieve the Company's objectives, while balancing the perspectives of shareholders and other key stakeholders. Variable remuneration provides an incentive to realize long-term value creation. For the short term, the Supervisory Board sets operational targets over a 1-year period, that are crucial to the Company and are a precondition to value creation. The biggest portion of the executive remuneration packages of BoM 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.

The remuneration principles that apply for the Board of Management are aligned with those applying more broadly in the Company. This provides a shared sense of purpose and direction at the different management levels and a shared reward when success is achieved.

#### **COMPOSITION REMUNERATION PACKAGE**

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 internal consistency. Base salary and variable remuneration should rise in line with increasing responsibility. A consistent built-up of remuneration from layer to layer supports talent development and a solid succession pipeline within the Company.

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

- Base salary
- Variable remuneration consisting of:
  - o Performance-related short-term incentives, delivered in cash and with the ability to award matching shares
  - o Performance-related long-term incentives, 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.

## Variable remuneration

The Remuneration Policy is designed to put a high 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 of remuneration that can be earned rises with the level of performance that is delivered. Consequently, the relative proportion of the fixed pay package reduces.

Performance targets must be realistic and sufficiently stretching. 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, scenario analyses on the possible financial outcomes of meeting different performance levels are carried out and how they may affect the structure and value of the Board of Management's total remuneration.

The charts below 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.

The remuneration structure promotes long-term share ownership of executives, by granting long-term incentives in shares, by inviting them to invest in the share matching plan and by setting specific shareholding requirements. Share ownership promotes alignment to the long-term interests of the Company and its shareholders.





## Short-term incentive (STI)

The STI is designed to give focus to a range of strategically important annual objectives over a one-year performance period. Collectively, these objectives are targeted to deliver a level of performance which is in line with our operational plans, that are vital to create value in the long term. 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. The short-term performance is measured on both financial and non-financial objectives. 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 when performance over the previous year has been assessed and the conditional grant is vested. 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.

## Long-term incentive (LTI)

The Company's LTI 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. Performance is 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 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, for TSR, 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.

TSR is measured relative to the following industry peer group:

- Asian Paints
- Kansai Paint
- Nippon Paint
- RPM International
- Axalta

- Masco Group
- PPG
- Sherwin Williams
- Tikkurilla

The table below shows the applicable vesting scheme. Please note that the TSR result of AkzoNobel is included within the ranked peer group when making the performance assessment.

| TSR Vesting scheme for conditional grants |  |
|---|--|
| Rank                                      | Vesting (as % of 50% of conditional grant) |
| 1   | 150  |
| 2   | 135  |
| 3   | 120  |
| 4   | 100  |
| 5   | 75   |
| 6   | 50   |
| 7   | 25   |
| 8-10                                      | 0  |

The ROI performance range (threshold, target and maximum) is set on an annual basis by the Supervisory Board.

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.

## Value adjustment and claw back

The Supervisory Board has the authority to adjust the vesting of variable remuneration of the Board of Management if the result as calculated under the Policy is not reasonable or fair under the prevailing circumstances.

The Supervisory Board can reclaim in whole or in part any variable remuneration that has vested or has been paid out on the basis of incorrect information on the underlying performance achievement.



Any value adjustment or claw back is at the discretion of the Supervisory Board. It will be accounted for in the Remuneration Report that will be submitted to the Annual General Meeting of shareholders.

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.

## 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

#### 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, understanding market practice and relevant legal or tax considerations.

#### Loans

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

## **Derogation and deviation**

In the exceptional circumstances and to assure the viability of the Company or to serve its long-term interests and sustainability, the Supervisory Board may derogate temporarily from the Policy on base salary, variable remuneration and post-contract benefits as set out above. In this event the Supervisory Board will present the derogation and propose a new Policy to the General Meeting of shareholders as soon as reasonably possible.

When recruiting a new member for the Board of Management the Supervisory Board may, on top of the remuneration as set out above, grant a one-off payment to compensate for remuneration that the new member loses in the transition.

# PUBLIC SUPPORT FOR THE POLICY

In drafting this remuneration policy, the Supervisory Board has considered:

- The interest of all stakeholders
- The experience with and evaluation of the Remuneration Policy that was first approved by the AGM in 2005, the principles and structures of which are continued in this Policy
- Feedback on this Policy and its implementation received in shareholder consultations
- The principles and best practices of the Dutch Corporate Governance Code 2016 and the revised EU Directive to encourage long-term shareholder engagement (SRD II).



With these considerations the Supervisory Board is of the opinion that is has secured the required public support for this remuneration policy.

# **IMPLEMENTATION AND DURATION OF THE POLICY**

This remuneration policy is applicable for the year 2020 and, after approval of the AGM, will become effective from 1 January 2020 (retro-actively).