

**Please find below responses given to questions raised by Eumedion during the AkzoNobel 2020 AGM on April 23<sup>rd</sup>.**

**These questions relate to agenda item 2.**

We received the following **two questions** from Eumedion.

AkzoNobel's external accountant has marked the transformation regarding the execution of the "Winning together: 15 by 20 strategy" as a 'Key Audit Matter' in its audit opinion. It notes that: "Inherently, transformation processes have the potential to lead to a disruption of the organization, processes and culture. The specific and ambitious external target on 15% ROS by 2020 inherently increases pressure on management to achieve such targets, and as such contributes to the risk of management override of internal controls risk, which is a presumed audit risk in our audit". Could the Board of Management as well as the Supervisory Board reflect on this remark? Do they recognize the risk, if yes, what mitigating measures have they taken to manage this signaled risks? Could the external accountant clarify whether he appreciates these additional measures?

In its **second question**, Eumedion notes that Key Audit Matters have been defined by the professional organization of accountants NBA as specific points of attention that, according to the external auditor, were most important during the audit and that have a high informative value from a user's perspective. In view of the importance of these 'Key Audit Matters', we expect the Supervisory Board or its Audit Committee to reflect on the manner in which these matters were addressed by the Board of Management and by the Supervisory Board in its annual report. Would the Supervisory Board (or its Audit Committee) be willing to do this in the next annual report?

#### Answer

Nils Andersen: In reply to the first question, please be informed that the Supervisory Board is closely monitoring the ongoing transformation and focus on encouraging management to seek the right balance between delivering short-term results and long-term sustainability. It's reassuring to see that management's strategic priorities address both the underlying challenges and drive the necessary immediate changes. This should deliver the simplification and operational excellence required to build long-term competitiveness. The Supervisory Board is pleased to see that the company continues to pay close attention to its core principles of safety, integrity and sustainability, despite the pressures being put on the organization by its transformation. Thierry, could you please share your comments too?

Thierry Vanlancker: Indeed, our transformation is all about creating a high performing focused Paints and Coatings company, delivering performance in line with the industry front runners. This is in no way a short-term exercise. We are, for example, also investing in the business at the same time through our ERP integration. We are really rebuilding our house; our strategy is about laying the proper foundations in place on which we can further build AkzoNobel in the future. This is why we have always indicated 2020 is not an end point, it is a stop along the way with further room for improvement beyond. Fernand, could you please share your view on this from an external auditor's perspective?

Fernand Izeboud, PWC: Thank you for your question. Last year during the AGM it was noted by a shareholder that the 15 by 20 strategy creates an ambitious target and we were asked

whether we would consider that in our audit. We did, as documented in the Key Audit Matter to which the question refers.

As you can read in our KAM, the transformation affects the company in multiple areas relevant to our audit. First of all there were changes, inherent to a transformation, in systems, processes and controls, which we needed to understand and adapt our audit to, addressing in many cases both the old and the new situation. Secondly, we identified that there are ambitious targets accompanying the transformation, which inherently contribute to the risk of management override of control. We specifically considered the impact of the ambition included in the Company's stated target to achieve 15% Return on Sales ('ROS') by 2020. And thirdly, the changes, including the cost savings, impact the assessment of the recoverability of assets such as deferred taxes and goodwill. We performed work at group level and instructed and supervised our component teams to ensure we addressed this appropriately worldwide. The progress of the transformation in 2019 resulting in these three impact areas for our audit, caused us to identify this as a key audit matter. We discussed our risk assessment, planned approach and our findings throughout the audit with the Board of Management and the Supervisory Board. From the procedures performed, we did not have material findings.

Nils Andersen: Thank you, Fernand. In reply to the second question from Eumedion, the external auditor communicates the Key Audit Matters to the Supervisory Board. In addition, the Audit Committee regularly discusses and reviews the key audit matters, and how these are being addressed, during its meetings throughout the year, both with management as with the external auditor. After each Audit Committee meeting, Mr. Byron Grote as the Chairman of the Audit Committee, updates the Supervisory Board on the most important items that were discussed, including the key audit matters. We will review to see whether it is appropriate to provide further information on the discussions on the key audit matters in our next annual report.