

# REMUNERATION POLICY FOR THE BOARD OF MANAGEMENT AS OF 2021

This Remuneration Policy for the Board of Management (the “Policy”) will, after approval of the AGM, become effective from 1 January 2021 (retro-actively). The Policy will remain effective until a new Policy is approved, which will be proposed to shareholders no later than at the AGM in 2025.

## STRATEGIC CONTEXT OF THE POLICY

AkzoNobel is building its future on a long and proud heritage of more than 200 years, our core behaviors and our values of safety, integrity and sustainability. The Company 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. We strive to outperform our competitors, to deliver a solid return to our shareholders and to achieve sustainable value creation over the long term for all our stakeholders.

Our strategy *Grow & Deliver* is aimed at growth at least in line with our relevant markets while delivering further profitability improvement. Revenue growth, EBITDA, and return on investment are the prime success indicators of this balanced approach. The Supervisory Board monitors realization of the strategy closely, regularly discusses progress with the Board of Management and will make judgements calls if necessary. Any deviation from this policy will be fully accounted for.

## REMUNERATION OBJECTIVES

To realize our strategy and the sustainable, long-term value we aim for, the Policy is designed to attract and retain high caliber Board of Management Members. As a 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. To this end the remuneration offered should be highly competitive within its talent pool, a European context.

The Policy is designed to incentivize the Board of Management to achieve the Company’s objectives, while balancing the perspectives of shareholders and other key stakeholders. For the short-term incentive, the Supervisory Board sets operational targets over a 1-year period that are crucial to the Company and are a precondition to value creation. A large portion of the Board of Management remuneration packages consists of a long-term incentive that is directly aimed at the strategic priorities over the long term. Targets for this long-term incentive are directly derived from the strategy to contribute to sustainable long-term value creation.

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.

## CONSIDERATIONS IN DRAFTING THIS POLICY

The Supervisory Board has considered:

- The interest of all stakeholders
- The identity, mission and values of AkzoNobel
- The experience with and evaluation of the Remuneration Policy that was last approved by the AGM in 2018 and amendment in 2020

- Feedback on the current and proposed Policy and its implementation received in shareholder consultations
- Guidelines of major institutional shareholder advisory bodies
- The pay and employment conditions of employees of the company, seeking alignment in remuneration levels, instruments and arrangements
- 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).

The Supervisory Board follows closely the public debate on executive remuneration and has incorporated broadly shared insights in the revision of the policy. The Supervisory Board has sought independent external advice on a fitting remuneration level within the European context. Following shareholder consultations, the Supervisory Board took comments into account and made a number of changes to the proposed policy.

## CHANGES IN POLICY

The changes compared to the previous policy can be summarized as follows:

1. Despite operating in a global environment, the labor market peer group is updated to align with institutional investor guidelines and will only include EU peers. As AkzoNobel seeks to outperform its sector peers and aims to attract high caliber Members of the Board of Management, a competitive reference point for total remuneration is set between median and third quartile of the European peer group: median for base salary and STI and between median and third quartile for LTI. Remuneration increases above the median market level are reserved for Management Board members who consistently prove to outperform their targets.
2. In favor of transparency and alignment with the strategic plan, the list of STI metrics to be chosen from each year is replaced by specific STI metrics which will be applicable throughout the effective period of the Policy. Metrics for the STI and LTI are directly derived from the strategic plan and have been updated compared to the previous policy.
3. In order to reach the competitive total compensation level, and in line with market practice, the at-target value of the variable remuneration is adjusted. For the CFO, the at-target short-term incentive (STI) level is increased from 65% to 80% of base salary. For the CEO, the LTI is increased from 150% to 200% of base salary, emphasizing the long-term focus of the pay-for-performance relationship.
4. Since the Performance Incentive Plan is concluded in 2020, from 2021 onwards, the temporary suspension of the share matching plan is lifted as planned, to reiterate the importance of share ownership that underpins alignment over the long term. The share matching plan is simplified by removing the link between the allowed investment and share matching level and the fulfillment of the Share Ownership Requirement (SOR).

## SETTING REMUNERATION LEVELS

An external reference point is found in a labor market peer group that includes industry peers and a range of companies that are of similar scale, complexity and geographic reach to AkzoNobel. To reflect local pay practices, only companies headquartered in Europe are included. The reference point for a competitive remuneration package that will attract and retain high caliber members of the Board of Management is set at a total compensation level between the median and third quartile of this reference group.

The labor market peer group against which remuneration levels are compared consists of the following companies:

*Dutch*

- ASML
- DSM
- Philips
- Randstad
- RELX
- Signify
- Wolters Kluwer

*European*

- Air Liquide
- Arkema
- Clariant
- Covestro
- Evonik Industries
- Givaudan
- Henkel
- Lafarge Holcim
- Sika
- Solvay

When developments in the market or at peer companies distort proper representation, e.g. due to (de)mergers or acquisitions, the Supervisory Board may adjust the composition of the labor market peer group.

When setting and reviewing remuneration levels, internal consistency is also considered. Base salary and variable remuneration should rise in line with increasing responsibility. A consistent build-up of remuneration from layer to layer supports talent development and a solid succession pipeline within the Company.

## COMPOSITION REMUNERATION PACKAGE

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

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

### Base salary

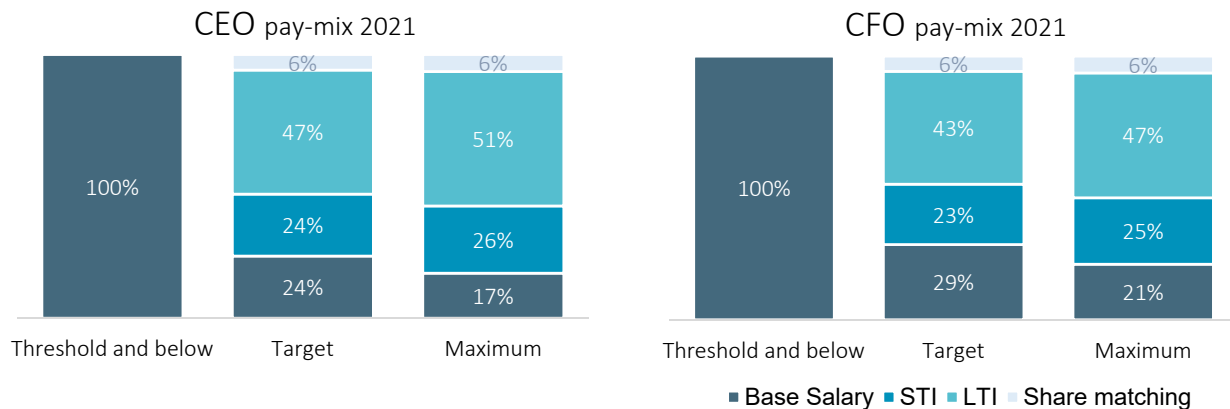
Salaries are set by the Remuneration Committee at market median level. Salary levels are usually reviewed annually, without any commitment to increase. When reviewing the salary, the Remuneration Committee considers factors such as personal- and Company performance, the internal consistency (for example salary increases throughout the Company) and external competitiveness referenced against the labor market peer group.

### Variable remuneration

The Remuneration Policy is designed to put a high portion 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 is reduced as higher performance is delivered.

The Supervisory Board annually sets performance targets on a level it considers both realistic and sufficiently stretching. As these target levels are considered competition-sensitive they are not disclosed ex-ante, but they will be fully disclosed and accounted for ex-post.

The charts below show how performance may affect the structure and relative value of the Board of Management’s remuneration elements under various performance scenarios.



Share-price developments are not taken into account. The possible financial outcomes including share-price movements have been tested in scenario analyses and have been found equitable.

The variable remuneration structure promotes long-term share ownership of Members of the Board of Management, by granting long-term incentives in shares, by inviting them to invest in the share matching plan and by setting specific shareholding requirements.

### Short-term incentive (STI)

The STI is designed to focus on a range of strategically important annual objectives derived from our operational plans that are collectively vital to creating value in the long term, without incentivizing undue risk taking or other behaviors which are contrary to the Company’s interests.

The target STI is set at market median and is 100% of base salary for the CEO and 80% of base salary for the CFO. The short-term performance is measured for 70% on financial objectives that reflect the profitable growth the strategy aims for and for 30% on quantifiable non-financial objectives, including sustainability and people-related targets, that are vital preconditions to achieving our strategic aims. Performance is incentivized through the following metrics, which are measured over a one-year period:

Performance Metric	Weight
Adjusted operating income	40%
Operating cash flow	30%
Non-financial objectives	30%
<b>Total</b>	<b>100%</b>

The applied 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 threshold level at which 0% of target is paid out and below which no payouts are made; (ii) The performance level at which 100% of target payout is made; and (iii) The performance level at which the maximum payout of 150% of target payout is made. In aggregate, STI awards will not exceed 150% of base salary for the CEO and 120% of base salary for the CFO.

STI awards are paid in cash when performance over the previous year has been assessed.

### Share Matching Plan (SMP)

To further promote share ownership and the alignment with the Company and its shareholders that it fosters, a Share Matching Plan is in place. The Plan awards shares to members for shares they have invested in from their STI-proceeds and held over a three-year period.

Board members are required to invest 25% of their STI proceeds (net after tax and other deductions) in AkzoNobel shares and may invest a second 25% of their STI proceeds. When they retain these shares for three years, the Company will match such shares one on one, subject to continued employment. The matching shares must be retained for a further two years as long as the minimum shareholding requirement has not been fulfilled.

### Long-term incentive (LTI)

The Policy's LTI is designed to give focus to the strategic priorities that will contribute to building sustainable long-term value creation and is set between market median and third quartile. By making awards in equity of the Company, alignment over the long term is created between the Board of Management, the Company and its shareholders.

The vehicle through which long-term performance is incentivized is the performance-related share plan. Under this plan, shares are conditionally granted to the members of the Board of Management on an annual basis, following approval from the Remuneration Committee. The grant level is 200% of base salary for the CEO and 150% of base salary for the CFO. Performance is incentivized through the following metrics, which are measured over a three-year period:

Performance Metric	Weight
Adjusted EBITDA <sup>1</sup>	40%
ROI <sup>1</sup>	20%
Revenue growth <sup>1</sup>	20%
Environmental, Social & Governance (ESG)	20%
<b>Total</b>	<b>100%</b>

The Remuneration Committee determines the targets and target ranges that comprise each metric. At 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 the minimum level of performance is not achieved.

Once the performance period has ended, the Remuneration Committee will assess the extent to which the targets have been met. The number of shares to vest is adjusted for dividends that were paid to shareholders over the three-year performance period. In total, the performance share plan covers at least five financial years, as any vested shares must be retained by the Board of Management member for a further two financial years and beyond, in case the minimum shareholding requirement has not been fulfilled.

### Shareholding requirements

Share ownership promotes alignment to the long-term interests of the Company and its shareholders. 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

<sup>1</sup> Excludes impact of acquisitions individually representing more than 2% AkzoNobel revenue

over five years from the date of their appointment to the Board of Management. The holding requirements are expressed as a percentage of the annual gross base salary as follows:

- CEO 3x
- CFO 1.5x

### *Value adjustment and clawback*

As AkzoNobel operates in an industry that is subject to volatility, the Supervisory Board has a duty to review the fairness of variable compensation payout in view of performance delivered. If and when the result as calculated under the Policy is not reasonable or fair under the prevailing circumstances, the Supervisory Board will use its discretionary authority to adjust payouts up- or downward. The discretionary authority will never be used to retroactively adjust targets. Neither will a performance outcome below target be adjusted to arrive at a pay-out above target and vice versa.

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

Any value adjustment or clawback 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 when performance can no longer be measured according to the pre-set targets, the vesting of awards made under the performance share plan will be 100% of all shares conditionally granted.

### **Post-contract and other benefits**

Members of the Board of Management receive a contribution towards pension and similar retirement benefits, as determined by the Supervisory Board, understanding market practice and relevant legal or tax considerations. The same applies for other benefits — such as a company car.

## **EMPLOYMENT AGREEMENTS**

Each of the members of the Board of Management enters into a – in principle four-year – service contract with the Company, the terms of which are disclosed in the explanatory notice for the General Meeting of Shareholders at which the Board of Management member is appointed. Service contracts may be terminated by the Company with a notice period of six months and by the member of Board of Management with a notice period of six months. The service contract will terminate in any event when the applicable statutory pension age is reached.

As part of a service contract of a member of the Board of Management from outside the Company, a one-off sign on arrangement may be granted to compensate for actual remuneration rights the new member foregoes by resigning from his previous position. Any such arrangements and the conditions attached will be submitted to the General Meeting of Shareholders on approval of the appointment.

### **Severance arrangements**

The Supervisory Board will determine the appropriate severance payment for members of the Board of Management. The severance payment will not exceed a sum equivalent to one-time annual base salary. This also applies in a situation of severance due to a change in control.

## Loans

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

## DEROGATION OF THE POLICY

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.