

Rules on External Auditor Independence and selection

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Owner	Internal Audit Function, Head of Internal Audit
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Purpose

The purpose of these Rules is to:

- Establish a process for assessing external auditor independence
- Provide a framework for decision-making concerning which services the external auditor is or is not entitled to provide
- Establish a process for selecting and evaluating the external auditor
- Confirm the role and responsibilities of the Audit Committee and external auditor in these processes

By following the Rules as set out in this document we ensure the independence of our external auditor in line with the respective laws, regulations and other international rules.

1 Introduction

The following definitions are important in relation to these Rules:

- External auditor*: audit firm which is engaged by a public interest entity to perform the statutory audit(s) in accordance with applicable laws and regulations on the annual financial statements
- Public interest entity* (OOB; Organisatie van Openbaar Belang): a legal entity with registered offices in the Netherlands and incorporated in accordance with Dutch law, the shares of which have been admitted to trading in a regulated market as referred to in Book 1, Section 1 of the Financial Supervision Act

These Rules require the external Auditor of AkzoNobel N.V, which qualifies as a Public Interest Entity, to be independent in accordance with the applicable laws and regulations being:

- Audit Firms Supervision Act, art 24 Wta (Wet Toezicht Accountantsorganisaties), lastly amended November 2016
- Dutch Audit Profession Act (Wet op het accountantsberoep), December 2012
- Standards of the Auditing Profession (Beroepstandaarden), no. 240, 260 and 265
- Code of Ethics for Professional Accountants - Assurance Engagements, ViO (Verordening inzake de onafhankelijkheid van Accountants bij assurance opdrachten)
- European rules and regulations, Regulation (EU) no 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of Public Interest Entities

These Rules are based on the principle that an external auditor must be independent of the company, both in fact and in appearance, to ensure that the external auditor is capable of exercising objective and impartial judgment on all issues covered by the audit engagement. The external auditor is not independent if they, directly or indirectly, maintain a financial, employment or business relationship with AkzoNobel or provides a service which:

- Creates a mutuality of interest
- Places the auditor in a position to audit their own work
- Results in the auditor acting as an AkzoNobel manager or AkzoNobel employee or
- Puts the auditor in the role of advocate for AkzoNobel.

Gifts

As a matter of principle, providing gifts or personal hospitality (personal expression) does not fit in a relationship between the external auditor and the (auditee). Therefore, in line with Article 27 of ViO, gifts or hospitality that are not business-related should not be exchanged. Gifts with a negligible or insignificant value (generally less than EUR 100) are allowed.

A reporting procedure for a potential conflict of interest of the external auditor is included in article I.15.5 of the Rules of Procedure of the Supervisory Board Akzo Nobel N.V. Any independence issues or conflicts of interests will be communicated immediately to the Authority for the Financial Markets (AFM; *Authoriteit Financiële Markten*) and any other regulatory body as may be legally required.

2 Role of the Audit Committee

The Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities regarding the external auditor's qualifications, performance and independence.

The Audit Committee is also involved in the selection and appointment of the external auditor and decides on compensation for audit and audit-related services. Furthermore, the Audit Committee pre-approves audit, audit-related and permitted tax compliance services for non-Dutch subsidiaries. The Audit Committee performs these functions in accordance with the requirements laid down in these Rules.

Pursuant to the Rules of Procedure of the Supervisory Board, any financial reporting related disagreements between management and the external auditor will be brought to the attention of and resolved by the Audit Committee.

3 Appointment of the External Auditor

According to applicable laws and regulations, the external auditor is appointed by the Annual General Meeting of shareholders. The external auditor is appointed for a minimum period of one and maximum period of ten fiscal years (with a cooling off period of 4 years). The Audit Committee will conduct a full assessment of the external auditor's services every year (refer also section 7 below).

In case the Supervisory Board proposes to discontinue the appointment of the existing external auditor, or in time before the maximum period of ten years has been reached, a tender process will be started to select a new external auditor.

For the selection of a new external auditor, the Board of Management shall advise the Audit Committee, which in turn will advise the Supervisory Board. The Supervisory Board shall then select and propose a new external auditor. This selected external auditor will be recommended to the Annual General Meeting of shareholders in accordance with the Articles of Association, which will decide on the appointment. The AFM will be informed according to and in time with their requirements on external auditor replacement.

4 Services provided by the External Auditor

Audit services are determined in the yearly engagement letter of the external auditor which is signed by the Board of Management and Audit Committee. Services other than those determined in the yearly engagement letter may be required from the external auditor in accordance with these Rules. In all these cases, Internal Audit must be consulted for compliance purposes before rendering these additional services.

The external auditor can only provide AkzoNobel with the Audit Services listed and defined below. "Audit Services" are defined as:

- Statutory audit of the company and the company's consolidated financial statements
- Audit or review of (interim) financial statements (including carve-out and special purpose financial statements)
- Providing assurance regarding other aspects of annual reporting, such as corporate governance, risk management and corporate social responsibility
- Providing assurance and reporting on research results for fact justifications for regulatory bodies and /or tax authorities
- Any other statutory task related to audit which is imposed by law on the external auditor or the audit firm (e.g. grant statements)
- Provision of assurance and report of factual findings requested by third parties (e.g. comfort letters)

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And, only when requested by the Supervisory Board, and as part of their regular activities:

- Providing assurance and report of factual findings (e.g. in the fields of internal control, mergers and acquisitions, tax position and structures, and fraud).

In addition to these Audit Services, the external auditors' foreign local affiliates can provide audit and tax compliance related services for non-Dutch subsidiaries, provided these services comply with local laws and regulations mandated by the local statutory auditor.

The external auditor and/or its affiliates should never provide other services to the Company including:

- Services that involve playing any part in management or decision-making
- Bookkeeping and preparing accounting records and financial statements
- Design and Implementation services related to financial information technology systems and internal control or risk management procedures related to the preparation and/or control, of financial information

5 Audit Committee pre-approval of services

The Audit Committee should pre-approve the engagement of the external auditor and/or its affiliates for all the above-mentioned services. The Corporate Director of Internal Audit can provide clarification whether requested services from the external auditor and/or its affiliates fall under the above categories.

The Audit Committee has delegated the Procedures for auditor independence monitoring to Internal Audit. As such, the approval responsibilities will not be delegated to management. The Audit Committee will be informed by Internal Audit on a quarterly basis of all services provided by the external auditor and/or its affiliates.

6 Rotation of Audit Partners

AkzoNobel requires its external auditor to provide an appropriate balance between going concern (effectiveness and efficiency, e.g. audit costs), risk management, independence and credibility. Rotation of the lead (signing) partner of the AkzoNobel audit engagement is required after a maximum period of five fiscal years from their date of appointment. For other audit Partners and key members of the audit team, the rotation period is seven years. None of these partners may rotate to a different position within the AkzoNobel audit team for a period of three years.

For audit partners on statutory audits of AkzoNobel entities (non-PIE), the local regulations would apply on auditor rotation.

7 Audit Committee's assessment of the external auditor's independence and effectiveness

Every year, the Audit Committee will formally review the external auditor's independence in line with these Rules and document its position on this matter.

This review includes the Audit Committee's consideration of the:

- Effectiveness of the external auditor, including whether and why continuing the selected external auditor is in the best interest of the Company and its shareholders
- Independence of the external auditor, including any breaches that have occurred since the prior review and how they have been mitigated
- Type and extent of tax compliance services being provided by the external auditor and why the audit committee concluded that it was appropriate to obtain these from the auditor
- Fees paid to the external auditor for audit and tax compliance services and whether they are appropriate

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- Length of external auditor's continued tenure, the date of the last tender, and whether the external audit function should be put out for tender
- Audit Committee's involvement in the selection of the auditor's lead engagement partner and any other information about how they manage audit partner rotation

8 Responsibility of the External Auditor

The external auditor will maintain a quality control system which provides assurance that its independence will not be impaired. The external auditor will report annually to the Audit Committee on all aspects concerning independence, including possible conflicts with this policy, if any. The external auditor will annually confirm its independence in writing.

The external auditor will ensure that its firm remains registered at the AFM. Any material changes in this registration will be reported immediately in writing to the Audit Committee.

9 Hiring arrangements

AkzoNobel and the external auditor agree to a restricted hiring policy:

- AkzoNobel will not hire partners and key employees of the external auditor involved in the AkzoNobel audit engagement within the last two years without the external audit firm's consent
- The external auditor will not hire senior management from AkzoNobel for involvement in the AkzoNobel audit engagement within two years after termination of their employment with AkzoNobel.

10 Local Statutory Auditors

The Rules around external auditor independence as included in this document are also applicable to local statutory auditors who are responsible for the statutory only audits of non-Dutch / non-PIE entities. The pre-approval Procedure will also be applied for services provided by the local statutory auditors.

11 Related documents

- Rules of Procedure of the Supervisory Board Akzo Nobel N.V.
- Procedure on Auditor Independence
- Pre-approval Form Group Auditor
- Pre-approval Form other audit firms
- Internal Audit Sharepoint site