



SUSTAINABILITY STATEMENTS

This section explains our sustainability performance in more detail. It outlines our approach to creating shared value and shows our performance on key economic, environmental and social indicators.

Our approach to sustainability	154
Value selling	155
Note 1: Sustainable products	155
Note 2: Customer value	156
Resource productivity	159
Note 3: Operational excellence	159
Note 4: Employees	162
Note 5: Climate change and the circular economy	163
Note 6: Supplier engagement	164
Note 7: Safety	168
Note 8: Human rights	171
Note 9: Programs	174
Managing sustainability	176
Independent assurance report	178
Sustainability performance summary	180



For additional information, visit:

www.akzonobel.com/sustainability

This Sustainability statements section of the Report 2018 is separate from, and does not in any way form part of, the company's annual financial reporting as defined in article 5:25c of the Dutch Financial Markets Supervision Act. This section contains summarized key performance indicators (KPIs) relating to sustainability performance.

Creating the right bond with customers

Wood adhesives just got smarter. It's all down to a new way of helping customers become more efficient, which has been developed by our Industrial Coatings business.

Known as intelliCURE, the novel system involves bundling actual products, software and machinery into a single solution for manufacturers of glued wooden parts. So as well as supplying the adhesives, we can also provide the machinery – which dispenses the product onto the wooden parts being bonded – and the software – which dynamically optimizes the amount being applied.

It's a flexible solution, which helps customers to run their lines as efficiently as possible. They can use it all, or just parts of it, depending on their individual needs.

woodadhesives.akzonobel.com

OUR APPROACH TO SUSTAINABILITY

For AkzoNobel, sustainability means creating shared value for all our stakeholders. It underpins our core principles and our employee value proposition, and is our driver for growth, innovation and productivity.

We continue to develop business opportunities in alignment with the UN Sustainable Development Goals that are most relevant for us. We're focused on creating more shared value from fewer resources and turning societal concerns and environmental challenges into product innovations for our customers.

The separation of Specialty Chemicals has allowed us to create a clearer sustainability agenda for a focused paints and coatings company. We reviewed our sustainability agenda to assess where we can have the biggest impact on accelerating our strategy while delivering the biggest social and environmental benefits. All data reported excludes Specialty Chemicals, unless otherwise stated.

We equip our employees to ensure they can contribute to making us more sustainable. This responsibility is included in the personal objectives and incentives of all employees, and is linked to our business imperatives:

- **Value selling** – we're innovating to give our customers choice and competitive advantage through product portfolios designed to bring tangible benefits and deliver positive social and environmental impact
- **Resource productivity** – we're creating a culture of care for all materials used, eliminating waste and reducing variable cost. Increased resource productivity in our operations and supply chain makes us more competitive and sustainable



Our high performance aerospace coatings have been used to help deliver a global message to save the world's coral reefs. We supplied products for a Mirpuri Foundation initiative which involved painting a Hi Fly aircraft with striking coral-themed livery. One side represents a pristine ocean with healthy marine life, the other shows a destroyed coral environment. We created 19 custom-made colors for the design, which helps drive home the global message that our coral ecosystems will disappear by 2050 if no action is taken.

Delivery priorities have been set for 2020, with explicit value objectives:

2020 performance delivery priorities

Resource productivity	> €100 million annually recurring benefit potential
Value selling	20% eco-premium solutions

We aim to maintain eco-premium solutions at a sustainable 20% of revenue through 2020 by constantly innovating. Looking beyond 2020, we are creating long-term value with our startup challenge, known as Paint the Future. It's focused on finding new solutions that will help to make our operations, products and entire value chain even more sustainable.

We have significant potential to deliver sustainability benefits in our marketing, sales, technology and innovation activities. We use this to get the best out of our existing value proposition through our eco-premium and eco-performer solutions. These solutions deliver clear benefits for our customers in terms of economic, environmental and social performance, as well as keeping us ahead of the competition. They accelerate our business agenda by meeting societal needs and consistently demonstrate higher growth than more traditional products.

We take great pride in the fact that innovation in our company results in effective and sustainable product solutions that create value for our customers and society.

VALUE FOR CUSTOMERS

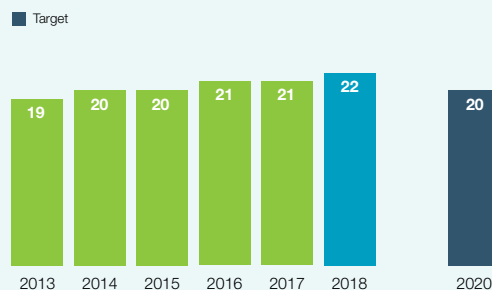
Our passion for paint means we strive to be the reference for innovation and quality, and that requires investment. Our value selling agenda is strengthened continuously, and is one of the main drivers for further improving the sustainability of our portfolio. This helps to accelerate market penetration and margin growth and drive progress towards our Winning together: 15 by 20 strategy.

SUSTAINABLE PORTFOLIOS

Our portfolio approach promotes the use of safer and more sustainable products in all stages of the value chain. We translate societal developments into product offers. We take action to manage harmful substances in advance of legislation, future-proofing our products against changes in regulations. We constantly review our existing offer in close alignment with our strategic focus. This ensures the delivery of products and solutions that are fit-for-purpose in the markets we want to lead.

Since 2012, we have measured the eco-premium part of our product portfolio – those solutions with clear sustainability benefits that outperform the market.

Eco-premium solutions with customer benefits
in % of revenue



In 2018, sales for this segment totaled 22% of our revenue. Eco-premium solutions present a moving target because we measure our performance against the market reference, which is continuously evolving. By constantly innovating, our aim is to maintain eco-premium solutions at a sustainable 20% of revenue through 2020, which will help to drive margin improvement and revenue growth.

Another significant portion of our portfolio fits into the eco-performer category. These are solutions offering clear sustainability benefits, but are overall on a par with other offers. Initial assessments indicate that eco-performers are 20% of sales, making total sales of sustainable solutions 42%.

Products classed in the performer category meet the needs of our customers and are comparable to mainstream alternatives.

The transitioner and priority categories contain substances highlighted as being of concern by some stakeholders, such as governments, NGOs, customers and public groups. We manage hazardous substances through our priority substance program, which promotes the use of more sustainable and safer products.

Portfolio assessment

- Eco-premium** ■ Better than mainstream solutions
- Eco-performer** ■ Mainstream with sustainable features
- Performer** ■ Equivalent to mainstream
- Transitioner** ■ Potential future risks are anticipated
- Priority** ■ Current risks are known and managed

Our priority substance program takes a systematic approach to the identification, expert review and management of all hazardous substances used in our products. Only when safe use of a priority substance is demonstrated can it remain in use for AkzoNobel products. The process includes reduction, restriction and phase-out (when they can be substituted with safer and sustainable alternatives). The priority category includes products containing hazardous substances with phase-out dates (see Priority substance management in Note 7).

VOC IN PRODUCTS

Our ambition to move towards zero VOC (volatile organic compounds) in products is ongoing. We continue to focus on developing products with significantly reduced VOC content. This transformation has both environmental and health benefits and allows us to remain ahead of legislation.

Our Decorative Paints organization is running a multi-year strategic program called “Waterway”. It’s designed to lead the market to water-based trim and woodcare product ranges. In 2018, this switch gained further momentum. The distinctive benefits of water-based products have been included in several marketing campaigns. The sales volume and value of water-based woodcare and trim paints increased in line with the ambitious targets for 2018. Our innovation plans form a solid foundation to improve year on year towards lower VOC emissions.

In Performance Coatings, we also strive to develop and offer lower VOC products to meet changing market requirements and stay ahead of upcoming legislation. Over the years, we have developed lower VOC products in all our business units and are focused on linking this to our sustainable portfolio via the eco-premium and eco-performer solutions.

SHORT-TERM INCENTIVES (STI)

We want to strengthen the link between our people, our strategic priorities and the various initiatives across our businesses. We therefore cascaded the relevant metrics into the sales, marketing and technical teams.

From 2018 onwards, specific targets on value selling have been included in the personal objectives and incentives of all employees. This will help us to deliver more sustainable portfolios, reflecting not only our current product offers, but also ensuring a well-stocked technology and innovation pipeline.

CUSTOMER VALUE

We pay close attention to the service we deliver to our customers and their perception of it. Having established a clear focus on our Winning together: 15 by 20 strategy, we began to develop and deploy several initiatives to enable our teams to deliver on this. As a focused paints and coatings company, we can target our efforts on bringing the commercial teams onto common platforms in terms of systems, processes and capability development.

This has already been set in motion with the introduction of Integrated Business Planning (IBP), designed to create more clarity across the organization. It’s a company-wide initiative which aims to achieve optimized processes by 2020.

In the future, the implementation of IBP will enable us to unleash even more of our potential and achieve higher customer satisfaction through improved service levels.

A company-wide sales force excellence program is focused on strengthening our sales teams and driving stronger engagement with our customers.

The program – based on a detailed understanding of AkzoNobel’s different ways to go to market – consists of multiple modules. The first core module is focused on increasing the effectiveness of our sales people, helping them to free up time from their daily routines and devote this to customer centric activities. A second key element is targeted at improving the structure of our sales organization so that decision-making becomes faster, the capability of our teams is strengthened and processes run more smoothly. To enable this change, we are further harmonizing our sales incentives, linking them directly to sales activity.

Finally, the program also includes a significant investment in order to deliver a single Customer Relationship Management (CRM) system. Ultimately, the overall

program aims to achieve more customer intimacy and stronger customer relationships.

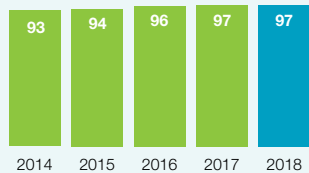
To help us measure the impact of the program and fully understand how our customers value us, we are designing a single customer satisfaction survey, configured through the go-to-market models we have in place. The initiative will also deliver a better understanding of customer needs to help build improved product offers and solutions to our customers.

DELIVERY

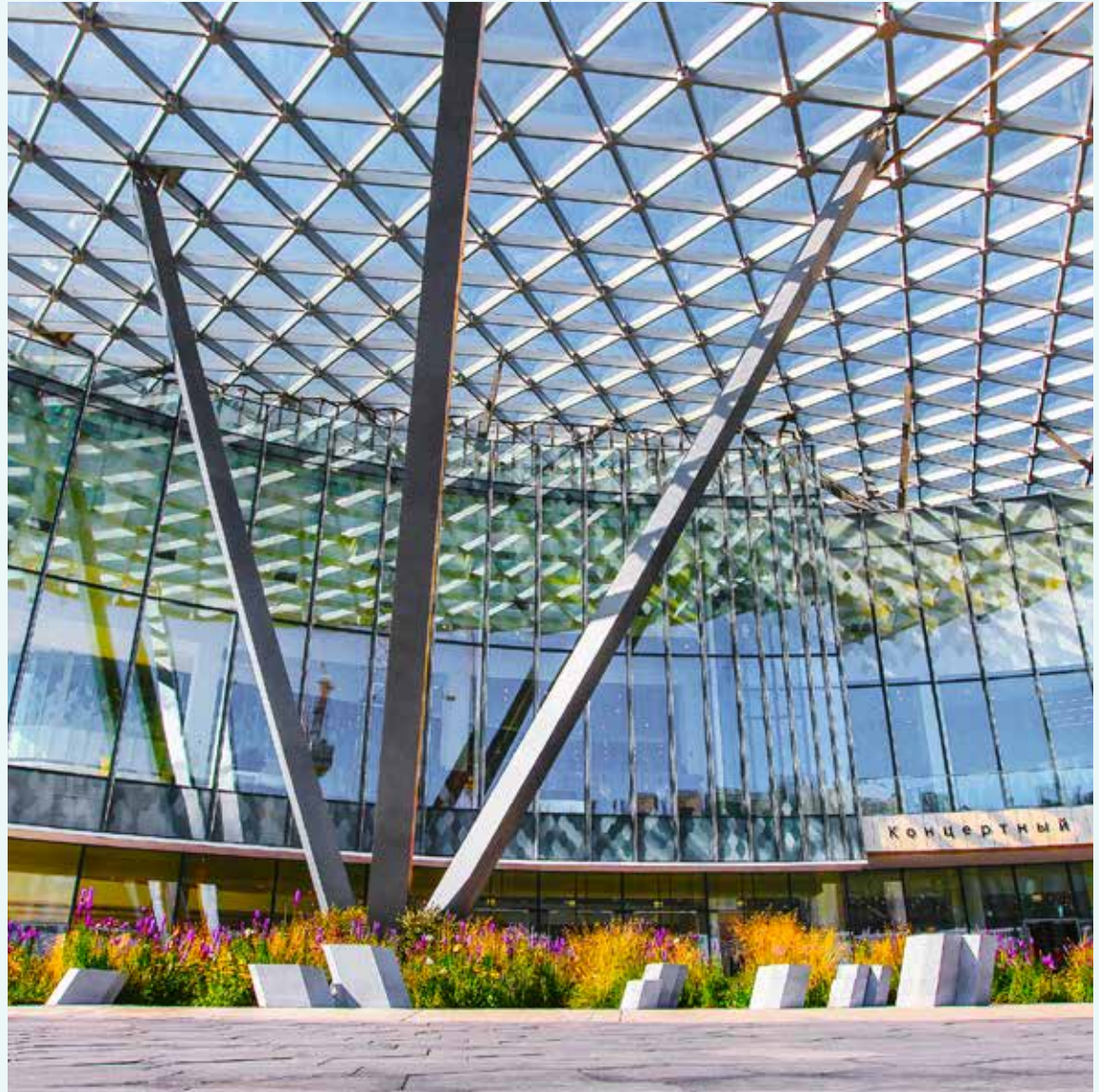
We monitor our service reliability in terms of timely delivery to customer premises, aiming to be consistently higher than 95%. In 2018, service performance was 97%.

Delivery Efficiency Index

in %



It's a feast for the eyes – and the ears. This is Moscow's new Zaryadye Concert Hall near Red Square. It features 11,200 liters of our paints and coatings, including our Dulux, Sikkens and Interpon brands.



A MORE SUSTAINABLE FUTURE FOR ALL

Introduced in 2015, the Sustainable Development Goals (SDGs) developed by the United Nations are a blueprint for achieving a better and more sustainable future. They're a universal call to action to end poverty, protect the planet and address global challenges, so that all people can enjoy peace and prosperity.



Around 40,000 kilograms of our superdurable (and highly sustainable) Interpon powder coatings have been used during the ongoing construction of Istanbul's impressive new Atatürk Airport in Turkey. Our powder coatings continue to make a major contribution to the increasing demand for more sustainable buildings all over the world. Photo: IGA

We believe the SDGs set a clear direction for a more sustainable society – and they have our full support. They provide a clear compass for business growth and development and are in line with our own agenda of creating shared value.

Strongly embraced by the business world, the SDGs are now an integral part of the global development agenda and form the accepted framework for public and private collaboration. And while they're universal, we recognize that different countries have different priorities in terms of development needs. So we base our marketing and

innovation decisions on our understanding of the development needs of the markets where we operate – using local insight to tailor the solutions we offer.

For example, the SDGs help guide the innovation roadmaps we develop. Because in order to understand and identify technology requirements, we must know more about future societal development needs. It's all about making informed innovation choices – and the SDGs provide a unique perspective on the future.

As a company, we continue to focus on those SDGs where we can have the biggest positive impact. This approach builds on our core principles of sustainability, safety and integrity, including respect for human rights. We're convinced that our sustainability agenda – which is now focused purely on our paints and coatings activities – is a key driver for business development, innovation and growth. The SDGs will therefore continue to help us take our industry forward and ensure that sustainability remains firmly at the heart of all we do.

We can have the biggest positive impact on the following SDGs:



11 Sustainable cities and communities:

The majority of our products are used in the buildings and infrastructure sector. Our focus on helping to create green buildings means we can have a major positive impact on cities and communities. This includes improving the energy efficiency of buildings through the use of heat-reflective coatings, as well as interior wall paint which can improve the health and well-being of residents.

12 Responsible consumption and production:

There are huge opportunities in applying the principle of circularity across our entire value chain. For example, when sourcing

raw materials, we can join forces with our suppliers to increase the share of bio-based materials and recycled content. We must learn to make better use of these materials.

We could also offer technologies and solutions to our customers that enable them to reduce their own emissions and material use. For example, by lowering curing temperatures and supplying more products with low or zero solvents.

But above all, it's about better performance, durability and long-term protection of the underlying substrate, be it wood or metal. This can include coatings that reflect heat, lower fuel use, lessen friction or create insulating capacity. It's also about solutions being non-hazardous, enabling furniture, transport or building materials to be reused and recyclable. Coatings should be an enabler to preventing products becoming waste.

17 Partnerships for the goals:

We must collaborate to scale up action across the SDGs. With other leading companies and the World Business Council for Sustainable Development (WBCSD), we developed a roadmap for the chemical sector's contribution to the SDGs. Other partnership examples include our collaboration with The Ocean Cleanup; Black Bear to generate carbon black from old tires; and joint research with Dutch universities as part of the Chemical Building Block Consortium to develop bio-based resins from crustaceans and wood.

RESOURCE PRODUCTIVITY

3 Operational excellence

We launched the Resource Productivity program as a key accelerator to deliver on our sustainability objectives and contribute to the company's Winning together: 15 by 20 strategy.

The program aims to maximize raw material and process efficiency, eliminate waste and drive energy, carbon footprint and VOC reduction across the whole integrated supply chain (ISC).

As well as reducing the environmental footprint of our activities, resource productivity contributes to business performance by driving continuous improvement and reducing operating costs.

We use our company-wide continuous improvement program ALPS (AkzoNobel Leading Performance System) to drive the environmental agenda. We continuously measure and report our performance on a range of environmental and financial indicators. The three key indicators are: waste, energy use and VOC emissions, for which targets are set. We deliver on our targets thanks to a wide range of improvement projects introduced as part of the Resource Productivity program. These projects (currently more than 500) are monitored monthly to assess progress with regard to environmental impact and financial benefits. Savings achieved total more than €20 million.

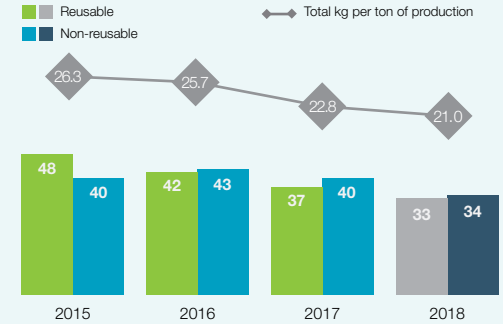
We've increased our focus on material efficiency and are maximizing the conversion of raw materials into final product by optimizing raw material use and solving the root cause of material losses, reducing the amount of waste and waste water generated, as well as reducing the carbon footprint. It also contributes to reduced manufacturing costs.

WASTE

Total waste volume and waste per ton of production generated were down by 12% and 8% respectively in 2018, which meets the reduction target of 5% per ton of production from 2017. Waste reduction is one of our main environmental indicators. Zero waste to landfill is one of our company ambitions. Our first priority is to eliminate hazardous waste to landfill.

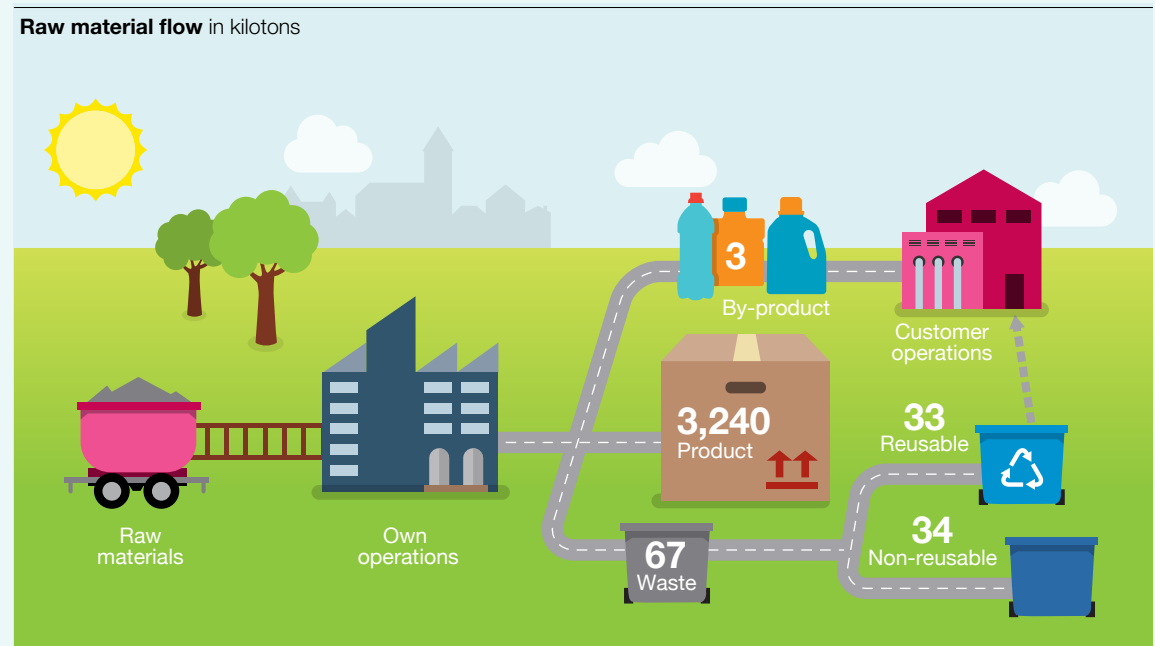
Hazardous waste per ton of production decreased by 6%. A large number of sites around the world contributed to the significant reduction in waste generation during the year. Examples of our waste reduction projects include solvent recovery, reducing packaging waste by moving

Total waste in kilotons

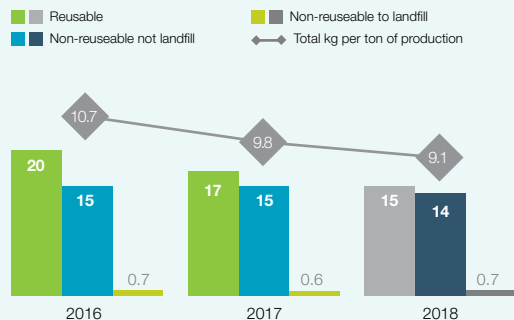


Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard.

Raw material flow in kilotons



Hazardous waste in kilotons



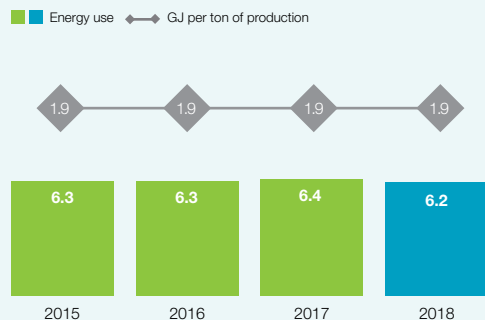
Hazardous waste is waste that is classified and regulated as such, according to the national, state or local legislation in place.

from smaller paper bags or metal drums to bulk deliveries of raw materials and reworking obsolete finished goods.

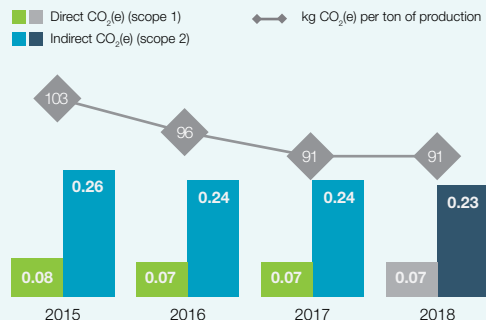
ENERGY AND GREENHOUSE GAS EMISSIONS

Energy use is another key environmental indicator included in our Resource Productivity program.

Energy use in 1000 TJ



Greenhouse gas emissions in million tons



Total greenhouse gas emissions made up of direct emissions from processes and combustion at our facilities and indirect emissions from purchased energy.

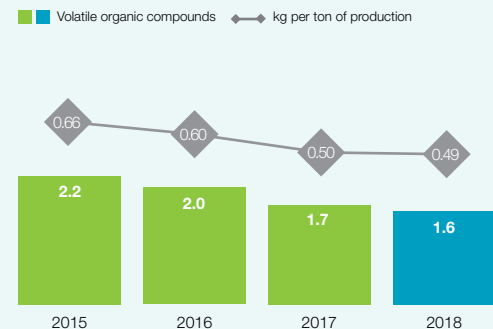
Energy use per ton of production flattened, while absolute energy consumption in 2018 was down 3% compared with 2017, in line with a change in product mix and volume changes. Our reduction target was 3% (per ton, from 2017). In 2018, 51% (62 out of 122) of our sites improved their relative footprint with regard to energy use compared with 2017. In total, 17 sites use 100% renewable electricity. Our total share of renewable energy use is 31%.

Greenhouse gas (GHG) emissions from our facilities are primarily related to electricity consumption and fuel used for heating. The total GHG emissions per ton of product increased by 1%, with absolute GHG emissions decreasing 4%.

VOLATILE ORGANIC COMPOUNDS (VOC)

Air emissions generated from our operations are primarily volatile organic compounds (VOC). The reduction target for VOC emissions was 10% per ton of production in 2018 (compared with 2017). The reduction was delivered via product design, driven by R&D (see Note 1), good management practices and environmental controls at our

Volatile organic compounds in kilotons



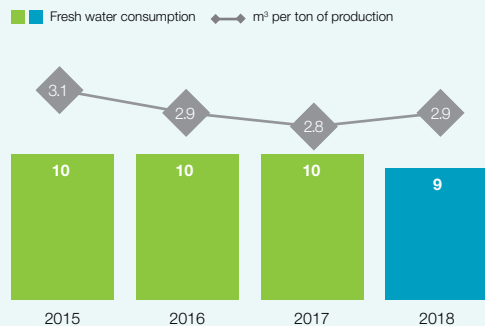
We measure halogenated and non-halogenated organic compounds discharged to air.

manufacturing sites. In 2018, VOC emissions per ton of product and our total VOC emissions decreased by 4% and 8% respectively.



Some of our employees joined in a series of beach clean-ups around the world as part of the company's involvement in the Volvo Ocean Race. AkzoNobel was one of the main partners of the race's sustainability program.

Fresh water use in million m³



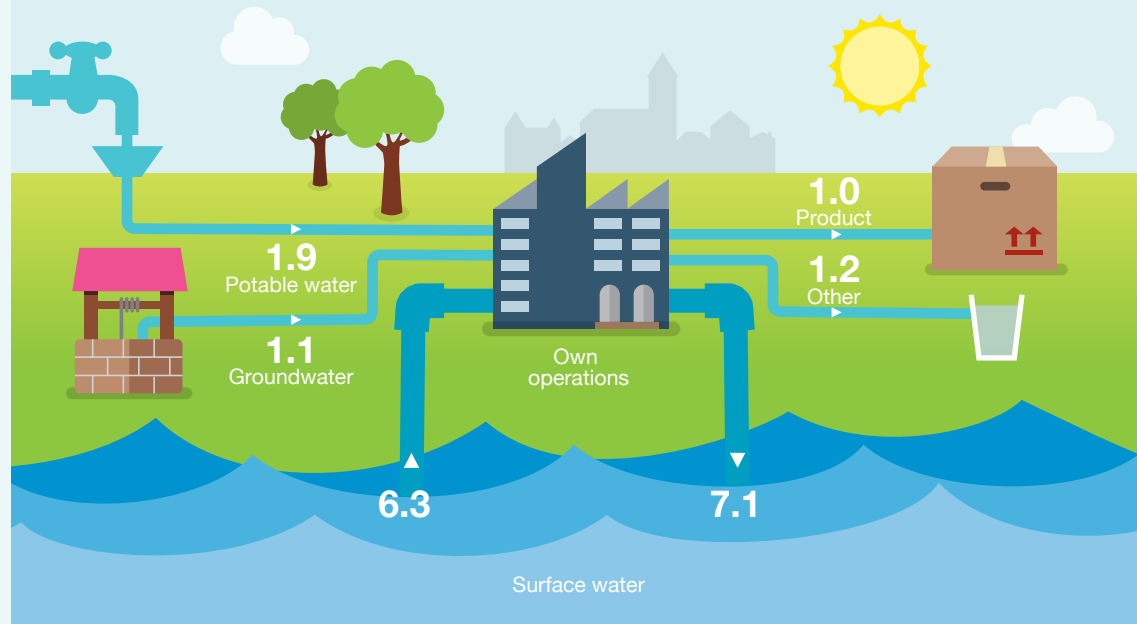
Fresh water use is the sum of the intake of groundwater, surface water and potable water.

WATER AND WASTE WATER

Sustainable water supply is essential to life and the sustainability of our business. We rely on water for, among others, raw material production, product formulation and manufacturing, power generation, cooling, cleaning and transportation. Currently, 68% of our fresh water intake is from surface water, from which 76% is used for cooling purposes. Our net water use decreased by 4% in 2018.

Our locations process their waste water in an on-site waste water treatment plant, or via third party waste water treatment. The total amount of chemical oxygen demand (COD) emissions in 2018 was 27 tons (2017: 27 tons).

Water flow in million m³



SOIL AND GROUNDWATER REMEDIATION

We periodically review sites with historic contamination, taking remedial action when required, and have procedures to prevent new contamination.

Mandatory annual environmental liability reviews are conducted to evaluate risks associated with historical soil and groundwater contamination. We monitor progress in resolving liabilities and assess changes in company exposure.

A group of legal and environmental experts assess, manage and resolve environmental liabilities. In line with IFRS accounting rules, we make provisions for environmental remediation costs when it's probable that a liability will materialize and the cost can be reasonably estimated. We have set aside €91 million, which we believe is sufficient for the sites where we have ownership or responsibility. (See Note 18 of the Consolidated financial statements).

Our sustainability agenda is integral to our employee value proposition. By focusing on the success and sustainability of our business, we attract, retain and motivate our employees. Sustainability is one of our core principles, defining who we are and what we stand for.

Our talent and development programs are a vital investment in our human capital – the skills and knowledge of employees – to ensure that we're equipped to drive the company's growth and profitability. In 2018, our human capital return on investment was 1.33 (1.43 in 2017), meaning that for every euro invested in AkzoNobel's workforce, €1.33 was returned. Improving our human capital return on investment is achieved through a combined effort in improving revenue, efficiencies in non-employee costs, controlling our FTE numbers and aligning our employee cost and remuneration structure to our business performance goals.

PEOPLE AGENDA AND HR ANNUAL OPERATING PLAN

In 2018, we launched a new people agenda and HR annual operating plan process across all our businesses and functions. This process is based on external best practices, as well as internal practices and business needs. It translates business strategy into a people agenda covering a three-year timeframe, which is in turn translated into an annual operating plan implemented by different parts of the HR organization. As part of this process, staffing planning is also conducted to set the basis for our budgeting, talent acquisition, talent management and learning and development processes.

ATTRACTING, DEVELOPING AND RETAINING TALENT

We're proud of our continued recognition as a leading employer in many of our key countries, including Brazil, China, the UK and Sweden.

During 2018, there were concentrated efforts in defining career paths and building capabilities in functions such as marketing and manufacturing that directly benefit the company strategy. We also put significant effort into creating a sustainable pipeline of future leaders, particularly in our business units and corporate functions. As part of the process, we identified critical roles and focused on the succession planning of these roles to ensure business continuity. This resulted in a balanced approach to promote our future senior leaders from within the organization, while continuously enriching our pipeline from external markets. The outcome was that we filled 54% of our executive roles internally.

In 2018, overall employee turnover was 14% (2017: 12%), while the voluntary turnover was 8% (2017: 6%). Although increasing from 2017, both are still in line with the top of the industry benchmark. High potential employee turnover totaled 8%, an increase from previous years as a result of continuous organizational transformation. This trend is expected to slow down in 2019 based on the closure of many transformation programs. At the same time, changes will be made to our performance, talent and career management processes to better service the changing needs of our employees.

CAPABILITY BUILDING

We're focused on building the capabilities of our people in order to meet our strategic ambitions and ensure we drive a performance culture where our people learn quickly, grow and proudly deliver on their commitments. During 2018, we focused on providing learning and development

Human capital ambitions

	2015	2016	2017	2018	Ambition 2020
Organizational health score				58	(77) ³
Female executives (in %) ¹	19	19	19	20	25
Female executive potential pool (in %) ¹	25	30	28	31	30
Executive vacancies filled internally (in %) ¹	58	61	74	54	60 ²
High potential turnover (in %) ¹	6	4	5	8	<5

¹ 2015-2017 data includes discontinued operations.

² Previously communicated 70.

³ Top quartile.

programs that particularly support the company's strategy. Key focus areas included sales and marketing, integrated business planning (IBP) and leadership development that enables a high performance culture. To support our strategy with relevant learning offerings, we continued to update our competency frameworks in sales and marketing, as well as various supporting areas of the business, to reflect the changes in our organization needs.

DIVERSITY AND INCLUSION

AkzoNobel is developing an increasingly engaged, diverse and capable workforce to deliver our strategy. We believe it's also important that our management teams reflect the diversity of our overall workforce, because inclusive and diverse teams are better able to understand customer needs and innovate to meet their requirements.

In 2018, we launched an informal women leader network to further promote our gender diversity at all levels in the organization, and to provide peer support to our female leaders in advancing their career ambitions at AkzoNobel.

ENGAGED EMPLOYEES

We've embarked on an ambitious transformation journey to become the reference in our industry. The cultural shift we aspire to achieve is substantial. A good balance between performance and organizational health will be required to ensure our transformation creates sustainable impact. We therefore decided to launch a new internal survey which goes beyond measuring people engagement and focuses more on measuring our wider organizational health. This measurement is achieved by surveying the effectiveness of our organization in combination with the actions and behaviors that take place. In 2018, the survey was conducted three times for all AkzoNobel employees, resulting in a current score of 58.

The results show that we have an engaged workforce. In total, 86% of our employees indicated they really care about the company, while 84% are willing to put in a great deal of effort – beyond what's normally expected – in order to help AkzoNobel be successful.

The insights from the survey also show that the company needs a continued focus on four specific areas: employee involvement, inspirational leaders, rewards and recognition, and talent development.

As part of our transformation journey, we need to be able to check our progress on a regular basis. It is therefore an absolute necessity that we carry out quarterly health checks. The outcomes are reflected in action plans (overall, per business and per function), as well as helping to steer our culture and organizational change management agenda. The culture and transformation teams, as well as initiatives such as the AkzoNobel Network (a network of colleagues who can be a sounding board for senior leadership) will help to drive the roll-out of the agenda.

As a focused paints and coatings company, the priorities of our sustainability agenda have shifted to reflect the strategic direction of AkzoNobel and focus on those areas where we can have the biggest impact.

Following the separation of Specialty Chemicals, carbon emissions from our operations dropped 90% to 300 kilotons worldwide. We continue to set targets on emissions under our resource productivity agenda (see Note 3).

More than 98% of our carbon footprint stems from our suppliers (upstream) and our customers (downstream). In 2018, our value chain emissions were 5% lower than in 2017.

Upstream, our biggest impact is from emissions of the raw materials we buy, such as pigments, resins and solvents. In our raw material sourcing, we need to join forces with our suppliers to greatly increase the share of bio-based materials, recycled content or raw materials produced with renewable energy. In addition, we must learn to make better use of raw materials (see Note 6).

Downstream, the applications we provide to consumers also generate emissions when used, for example from solvents and curing temperatures. We continue to offer our customers technologies and solutions that enable them to reduce their own emissions and material use, for example through lower curing temperatures, low or zero solvents, water-based solutions and using fewer layers of paint.

Following the principles of the circular economy – the use of bio-based and recycled raw materials combined with improved solutions for our customers – has the potential to be our biggest contributor to the Paris agreement. Building on our track record of renewable energy, we will now also focus on reducing carbon emissions through renewable raw materials. Currently, approximately 5% of organic raw materials are from renewable sources.

The paints and coatings industry is at an early stage, but as a leading company we are at the forefront and working with partners, big suppliers and universities to develop more innovative products. Examples include high quality coatings with 25% recycled content, creating pigments from the carbon black harvested from used tires in a collaboration with Black Bear, and joint research with Dutch universities as part of the Chemical Building Block Consortium, which aims to develop bio-based resins from crustaceans and wood. We have gone through trials and pilot testing and are now at the stage where we will accelerate our pathway to resource productivity and circular economy. One of our Paint the Future startup challenge areas (see page 14) focuses on identifying circular solutions, allowing us to benefit from technologies and innovations to further our ambitions towards a circular economy.

We continue to support the recommendations of the Financial Stability Board (FSB) Task Force on Climate related Financial Disclosures (TCFD). Risks and opportunities related to climate change and the transition towards a circular economy are assessed via our risk management process. We manage those risks and opportunities by working with suppliers and customers. Governance is integrated into our management cycle as described later in this section under Managing sustainability. We are partnering with industry peers and the World Business Council for Sustainable Development (WBCSD) to further implement the TCFD recommendations as they apply to our company.

In line with both our sustainability agenda, and the supplier management process which forms part of the company's ALPS continuous improvement program, we aim to use resources as effectively as possible. To make the most productive use of resources – specifically raw materials – we work closely with our suppliers. Together, we strive to identify and minimize supply chain risks, create value through continuous improvement and seek out collaboration and joint development opportunities in order to ensure a secure and sustainable supply of our products.

SUPPLIER SUSTAINABILITY FRAMEWORK

Our supplier sustainability framework (see diagram) drives continuous improvement and supports the delivery of our sustainability objectives. The foundation of the framework is the company's Business Partner Code of Conduct and includes processes for risk management and supplier performance.

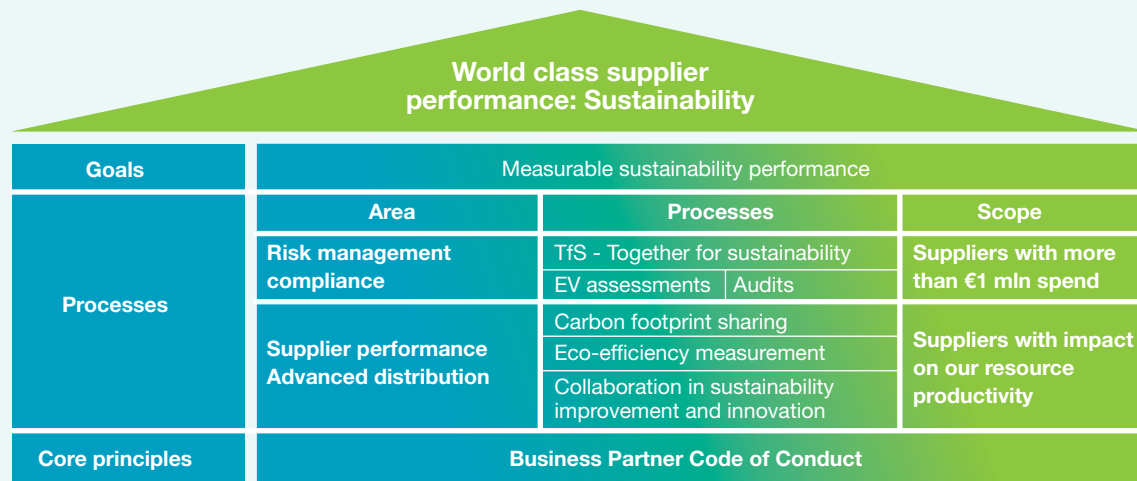
Business Partner Code of Conduct

Our business partners are expected to follow the company's core principles of safety, integrity and sustainability. The Business Partner Code of Conduct explains these core principles and specifies what we expect from our business partners. The code is available in 32 languages.

Suppliers sign the code to confirm their compliance with environmental, social, human rights and governance requirements. Signatories cover 98% of the product related (PR) spend and 83% of the non-product related (NPR) spend.

Together for Sustainability (TfS)

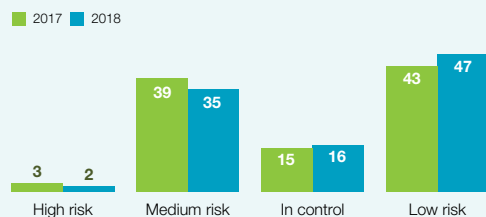
TfS online assessments (conducted by EcoVadis, a partner of TfS) and TfS on-site audits facilitate proactive supplier risk management in the chemical industry. AkzoNobel verifies its own activities against industry best practice



and (for the fourth time overall) achieved the EcoVadis Gold recognition level in 2018.

TfS assessments of our suppliers covered 65% of spend in 2018. We use the EcoVadis score to determine the risk levels of our suppliers. In 2018, we included the EcoVadis sub-theme score on labor and human rights. Despite this stricter consideration of our risks, we have managed to increase the number of low risk suppliers, as shown in the diagram below.

Risk developments in % of suppliers



While suppliers for the TfS online assessment are selected on global spend of more than €1 million, the selection criteria for the on-site audits includes the location of our supplier's site (risk region) and the type of product (risk material) they are delivering to AkzoNobel. In 2018, we initiated 37 TfS audits.

The results of our TfS assessments and audits allow us to identify improvement activities with our suppliers. Out of 761 suppliers re-assessed by 2018 (cumulative), 489 improved their EcoVadis scores.

The TfS program is used for existing suppliers. New suppliers with an expected spend value greater than €100,000 are required to take part in an evaluation program, as described in our Supplier Selection process as part of ALPS. This program includes elements on sustainability (labor and human rights, environment, compliance and responsible procurement).

Supplier performance management

Our supplier performance management process includes suppliers who have a contractual relationship with us and/or have an impact on our value selling and resource productivity. The sustainability performance of suppliers in this group is measured using our Supplier Sustainability Balanced Scorecard (SSBS).

In 2018, we strengthened the compliance element of the SSBS by adding the EcoVadis sub-score on labor and human rights, and by monitoring the human rights controversies reported by the EcoVadis 360° report. In addition, our updated SSBS now includes specific measures on our suppliers' eco-efficiency performance, including water and waste, greenhouse gases (GHG), energy use and circular economy.

From 2018 onwards, since we have reached our objectives in terms of SSBS deployed (100 suppliers), we report on supplier improvements. The SSBS score is used in the supplier management process which forms part of our ALPS continuous improvement program, in addition to measuring quality, delivery, cost and innovation performance.

High risk raw materials

In 2017, we initiated a due diligence program of several raw materials in our supply chain identified as high risk raw materials impacting human rights, more specifically in terms of health and safety, working conditions and modern slavery. The raw materials in scope (which we mostly procure indirectly) are barite, cobalt, copper, cotton linters, mica minerals, palm oil, talc and tin. These raw materials have been identified using information provided by NGOs. In 2018, we prioritized cobalt, copper, mica minerals and tin (contained in our raw materials) and have started to request that suppliers delivering these materials (directly or indirectly) provide traceability/transparency of the raw materials back to the origin – smelter, refinery or mine. In 2019, we will pursue our due diligence program and continue to assess whether our materials are sourced in a sustainable manner.



Every year, millions of liters of perfectly good paint are thrown away. Our Community RePaint initiative works across the Netherlands, Belgium and the UK, collecting left-over reusable paint and re-distributing it to communities, charities and people in need. In 2018, our Dulux brand celebrated 25 years of sponsoring Community RePaint schemes across the UK – benefiting more than five million people.

Key performance indicators – supplier management

	2014	2015	2016	2017	2018
PR ¹ suppliers signed Business Partner CoC ^{2,7} (% of spend)	98	98	99	97	98
NPR ³ suppliers signed Business Partner CoC ^{2,7} (% of spend)	80	81	86	86	83
Third party online sustainability assessments (TfS) ⁴	534	722	875	950	953
Third party on-site sustainability audits (TfS) ⁵	15	54	131	219	270
SSBS ⁶ improvement in % against baseline	–	–	–	–	11

¹ PR = Product related (raw materials and packaging).

² CoC = Code of Conduct.

³ NPR = Non-product related.

⁴ Includes TfS shared assessments, cumulative.

⁵ Includes TfS shared audits, cumulative.

⁶ SSBS = Supplier Sustainability Balanced Scorecard. Baseline is 2018 (new KPI).

⁷ 2014-2017 data include discontinued operations.

A RECORD-BREAKING JOURNEY TO BE PROUD OF

When we became the first team to enter the 2017-18 Volvo Ocean Race, we knew we were in for an incredible ride. In the end, our campaign was more remarkable than we could have ever imagined.

We finished fourth overall, while also helping to increase global understanding of ocean health. But that hardly tells the full story. On the way, we achieved five podium finishes in the space of six legs (including a leg win), as well as making Volvo Ocean Race history by setting a new 24-hour distance record. As the official supplier of coatings for the seven teams, our products also made a huge contribution during every thrilling

maneuver of the 83,000-kilometer race around the world.

Given our long association with the sea, it was fitting that AkzoNobel not only took part, but also became one of the main partners of the race's sustainability program. We supplied more than 7,000 liters of our International and Awlgrip products during the course of the competition, having developed custom colors for all the competing teams. We even launched a new Awlgrip product during the stopover in Itajaí, Brazil. On a company level, we welcomed 2,000 guests (including 1,500 customers) to the race villages and generated over €74 million of media value.

Team AkzoNobel was also one of two boats (along with Turn the Tide on Plastic) to be fitted with additional specialist equipment designed to measure the state of the world's oceans. It was all part of a dedicated science program which has since gone on to win several awards. Between them, the two boats took 86 samples, and scientists found that 93% contained levels of microplastics. The aim of the research was to further our understanding of the extent to which microplastic pollution has now touched even our remotest oceans.

Unsurprisingly, our sailors were in big demand when they weren't out on the water. They took part in two beach clean-

ups with our employees, visited some of our sites and took part in a number of community projects. And, as the race progressed, they became a genuine source of inspiration as they showed the true value of teamwork and winning together.

"It's very special to compete at this level and it was a privilege to have been part of team AkzoNobel," said watch captain and now six-time Volvo Ocean Race veteran, Chris Nicholson. "One of the most rewarding aspects of the race is to see people challenged and work together as a team to overcome those obstacles and achieve amazing things. We showed the ability to learn and improve and not allow setbacks to check our progress. Everyone involved has a lot to be proud of."



"One of the most rewarding aspects of the race is to see people challenged and work together as a team to overcome those obstacles and achieve amazing things"

Top three finishes

6

Total amount of International and Awlgrip paint used during the race

7,000+ liters

Number of custom made colors developed for the race by AkzoNobel

26

Leg wins

1

AWLGRIP

International



Photo © Ian and Blake Volvo Ocean Race



Photo © James Beckett Volvo Ocean Race

RECORD BREAKERS!

602.51 nautical miles in 24 hours

Volvo Ocean Race leg nine,
May 28, 2018

watch
video



Photo © Team AkzoNobel Volvo Ocean Race

AkzoNobel strives to deliver leading performance in health, safety, environment and security (HSE&S) with a vision to deliver zero injuries, waste and harm through operational excellence.

Our strategic HSE&S priorities are aligned with the company's Winning together: 15 by 20 strategy and are focused on driving:

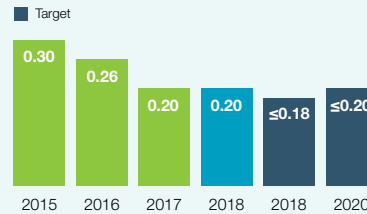
- Continuous improvement of HSE&S processes to achieve leading maturity levels
- The implementation of an integrated HSE&S management system to drive continuous improvement and maintain best-in-class performance
- A commitment-based HSE&S culture and embedding operational excellence to achieve our vision of zero injuries, waste and harm

PEOPLE SAFETY

In 2018, the number of reportable injuries reduced by 5% compared with 2017, while the injury rate is already at the target level set for 2020 (0.20). In total, 66% of our manufacturing locations have been reportable injury-free for more than a year. The overall downward trend in reportable injuries is in line with the increased maturity level in the implementation of our company safety programs, including the Life-Saving Rules, the continued implementation of the AkzoNobel HSE&S Common Platform programs and the drive for a commitment-based safety culture, promoting employee engagement and recognition.

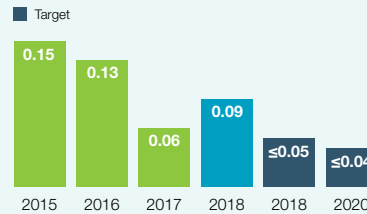
However, the lost time injury rate increased versus the 2017 performance. So although the total number of reportable injuries decreased in 2018, there was an increase in the severity of this year's cases compared with 2017. Incident analysis of recent years has indicated that in 70% of all injuries, one of the root causes appeared to be people positioning themselves in the so-called line of fire (LoF), where either energy or substances

Employee total reportable injuries injury rate



The total reportable injury rate (TRR) is the number of injuries resulting in a medical treatment case, restricted work case, lost time case or fatality, per 200,000 hours worked. In line with OSHA guidelines, temporary workers are reported with employees, since day-to-day management is by AkzoNobel.

Employee lost time injuries injury rate

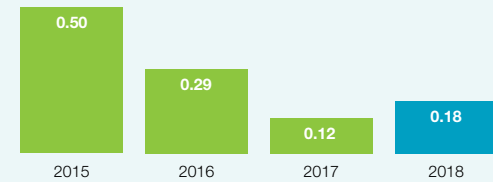


The lost time injury rate (LTIR) is the number of injuries resulting in a lost time injury per 200,000 hours worked. Temporary workers are reported together with employees, since day-to-day management is by AkzoNobel.

were unexpectedly released. In response to this, a LoF awareness program was held for all employees in April. LoF was also the theme of our annual global Safety Day, when we introduced a LoF awareness game and, for the first time, used virtual reality for HSE&S training purposes.

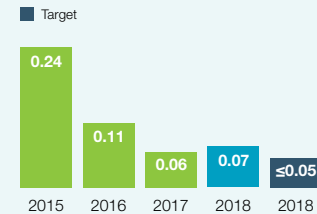
Additional initiatives designed to further prevent injuries and reduce their severity include the implementation of Life Critical Procedures, a forklift safety "call to action" and a continued focus on embedding injury and illness case management. The objective of the latter is to proactively manage injury cases at an early stage, contribute to reducing the impact for the injured employee, promote return to work programs and, as a result, further reduce the lost time injury rate.

Contractors total reportable injuries injury rate



The contractors total reportable rate (TRR) is the number of contractor injuries, resulting in medical treatment cases, restricted work cases, lost time injuries or fatalities, per 200,000 hours worked.

Contractors lost time injuries injury rate



The contractors lost time injury rate (LTIR) is the number of contractor injuries resulting in a lost time case, per 200,000 hours worked.

The focus on contractor safety was further increased in 2018 with the introduction of standardized practices for safe working throughout the company, as well as standardized contractor management and evaluation procedures. Although the reportable injuries for contractors remained at the same level and lost time injuries decreased by 25%, the rates did not improve due to fewer hours being worked by contractors in 2018, compared with 2017 (-36%).

PROCESS SAFETY

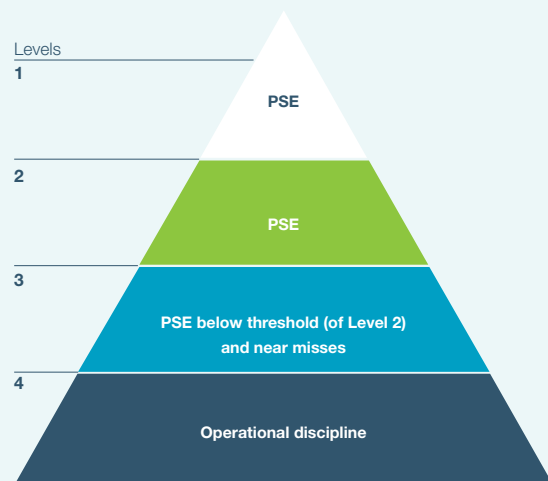
We have developed a process safety management (PSM) framework for all our operations, following industry standards and best practices.

The PSM framework implementation was phased according to inherent risk, with the introduction at site level starting in 2014. In 2018, the remaining 48 sites completed their PSM improvement plans according to schedule and were validated.

A new management of change (MOC) procedure was introduced at our company globally. This process has now been digitized to allow an efficient, comprehensive approach.

Process safety performance indicators are aligned with international best practice. Loss of primary containment (LoPC) is the main process safety indicator at manufacturing sites, distinguishing between two levels of severity. As a leading indicator, sites also measure process safety events (PSEs), which are minor leaks or occurrences that could lead to more severe events.

Process safety events (PSE) pyramid



Process safety events

	2017	2018
Loss of primary containment Level 1	5	6
Loss of primary containment Level 2	43	63
Process safety event Level 3	1,200	1,583

In 2018, we raised awareness and improved reporting of the process safety indicators. The total number of LoPC Level 1 and 2 increased by 44% in 2018, compared with 2017. The increase was partly due to increased awareness and improved reporting. During 2018, initiatives intended to improve working practices were introduced, such as a LoPC pocket card. This is also part of the Process Confirmation in the ALPS Leader Standard Work (LSW) process.

The number of LoPCs classified as Level 1 (highest severity) in 2018 slightly increased to six (2017: five). The number of PSE Level 3 (minor spills and leaks, which are readily controlled on site and have no regulatory notification requirement) increased, which demonstrates improved reporting discipline. All incidents are investigated to determine potential trends and to implement preventive controls.

PRODUCT STEWARDSHIP

Product stewardship is our approach to ensure that product safety and sustainability are considered throughout the value chain – from raw material extraction, R&D, manufacturing, transport, marketing and application all the way through to end-of-life. We aim to deliver value to AkzoNobel and our customers by ensuring regulatory compliance in every region where we operate, and to continually develop safer and more sustainable solutions for the market through our pro-active approach.

Continuous improvement

Our Product Stewardship Continuous Improvement Tool (PSCIT) is used to drive continuous improvement in product stewardship through collaboration at all levels. During 2018, we realigned the PSCIT to fit the new organization. The 2018 assessment will form the benchmark going forward for measuring the maturity of our business units on the eight key elements of product stewardship, following the principles of Coatings Care®.

Priority substance management

Our industry-leading and multiple award-winning priority substance program is a proactive approach to the review and management of hazardous substances in our products and processes. The program reached a key milestone in 2018 when we completed our review of all substances identified in the final project phase for risk assessment. We screened thousands of raw materials for review as part of the program, resulting in detailed analysis of 269 substances – 97 of which are now prohibited, while 172 have restricted use within our products.

The program is now considered to be fully embedded in the company, forming part of normal operational activities in the key functions that control raw materials used in our formulations. This was highlighted during 2018 when a prohibited substance was identified in products from a newly acquired business. In such cases, the program demands that a replacement is put in place within 12 months. Thanks to strong collaboration between our R&D and procurement teams, this was successfully achieved and the use of the prohibited substance has now ceased.

HEALTH

As well as ensuring a safe working environment, healthy working conditions and managing illness-related absenteeism, we also foster employee health and well-being as part of our health strategy and occupational

Employee health

	2015	2016	2017	2018
Occupational illness rate	0.06	0.06	0.05	0.05
New Wellness Check-point participants	800	795	465	446

Occupational illness frequency rate (OIFR) is the total number of reportable occupational illness cases for the reporting period, per 1,000,000 hours worked. This parameter is reportable for employees and temporary workers.

health program. Examples include industrial hygiene (IH) programs and training at site level. During 2018, more than 130 site and regional HSE&S managers were trained on IH awareness.

The Wellness Checkpoint, our online health risk appraisal tool, is being used by an increasing number of employees and their families.

SECURITY

Security at AkzoNobel is focused on securing people, information, assets and critical business processes against willful security risks on-site and while traveling. The level of standardization of procedures, processes and training for employees dealing with security at all of our facilities will continue to increase.

A central security committee with functional representatives coordinates the main pillars of security: personnel security, facilities, information management (IM) security, travel security and intellectual property. The readiness of our security processes is assured via internal assessments, internal audits and security drills. In 2017, the definitions of security incidents were improved and

We helped airBaltic fly the flag to celebrate Latvia's 100th anniversary after one of its new A220-300 aircraft was given a unique livery using our aerospace coatings. The special project was carried out in Magnetic MRO's paint hangar in Tallinn, Estonia, before the eye-catching artwork was gifted to the nation during an official ceremony at Riga Airport. It took 15 professional painters 1,000 hours to create the one-off livery, which honors Latvia's red and white flag.

communicated throughout the organization. In 2018, 168 security incidents were reported globally, an increase of more than 100% compared with 2017 (69). Theft and vandalism at AkzoNobel stores represented the highest event sub-type (similar to normal society).

HSE&S MANAGEMENT

AkzoNobel has a leading HSE&S management system driving continuous improvement through operational excellence in all aspects of HSE&S management. This includes procedures, regular performance reviews, training, self-assessments, annual improvement planning, independent internal audit and root cause analyses

of incidents, as well as promoting learning across the organization, including best practice sharing. Our common processes require each site and business unit to develop their own safety improvement plan annually. Sites that are lagging in performance receive additional support from the central HSE&S organization.

During 2018, new supporting software for the AkzoNobel HSE&S management system was implemented: the HSE&S suite. This has been designed as an intuitive and user-friendly platform where the core HSE&S processes are digitized and through which available data can be analyzed and utilized for learning. The HSE&S suite will drive operational HSE&S excellence and will be further expanded during the coming years.



At AkzoNobel, we understand that through our roles as employer, manufacturer, business partner and member of many communities, we can potentially both directly and indirectly impact the lives of millions of people. While we're committed to making a positive impact through our products and programs, we are also aware of the potential negative impact we may cause, contribute to or be linked to. We recognize our responsibility to respect the human rights of all stakeholders across our value chain and are committed to actively and systematically assessing (potential) human rights impacts, taking action where needed to ensure that any impact on people's lives is as positive as possible.

COMMITMENT

As part of our core principles of safety, integrity and sustainability – and in line with the United Nations Guiding Principles on Business and Human Rights (UNGPs) – we are committed in our operations and across our value chains to respecting all internationally recognized human rights, as set out in the International Bill of Human Rights (consisting of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights) and in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

We support the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises and we are a member of the UN Global Compact. We expect all our business partners to respect human rights and apply equivalent principles, seeking to support them actively in their implementation where needed.



For full details and progress information on our human rights framework, please visit: www.akzonobel.com/humanrights

GOVERNANCE

Our commitment is led from the top. The Executive Committee is responsible for ensuring that the company operates in line with our core principles of safety, integrity and sustainability. Since 2016, a cross-functional Human Rights Committee (reporting directly to the Executive Committee) has been in place, with responsibility for implementing and maintaining the company's human rights framework. The Compliance function oversees day-to-day human rights compliance and due diligence.

SALIENT HUMAN RIGHTS ISSUES

While we respect all human rights equally and take all human rights impacts seriously, we have prioritized (potential) human rights impacts in accordance with the UNGPs. These are the so-called salient human rights issues; the human rights that are potentially at risk of the most severe negative impact through our activities or business relationships. After an internal and external stakeholder consultation process, we identified four salient issues on which our human rights due diligence is focused (listed below). Our salient human rights issues have not changed following the sale of our Specialty Chemicals business.

In 2017, we developed a "human rights indicator dashboard", which reflects multiple indicators – based on data available internally – that are relevant to our salient human rights issues. This dashboard helps us monitor whether we are achieving our targets, or if we need to make interventions.

1. Health and safety in our value chain and connected communities

Being a manufacturing company, we have made the health and safety of people one of our core principles. We strive to deliver leading performance in health, safety, environment and security (HSE&S) with a

vision to deliver zero injuries, waste and harm through operational excellence.

Based on our human rights risk assessment, we were aware that we needed to conduct further due diligence into our products. Due to the nature of our products, we acknowledge there is an inherent risk of impacting the human rights of end-users. In 2018, we reached a milestone with our Priority Substance Program by completing 100% of priority substances identified (269 substances), screening thousands of raw materials in the process. Our Priority Substance Program has kept us ahead of chemical legislation and helped us make our portfolios safer and more sustainable (see Note 7). For example, we were the first major paint company to stop adding lead-based pigments and drying agents to paint.

We've also conducted due diligence into the possible impact on communities surrounding our production sites, as part of the audits and self-assessments used in our HSE&S management system. We've analyzed the results on community engagement of our production sites and interviewed our regional manufacturing directors. This information helped us identify locations where we could run a higher risk in terms of impacting surrounding communities. We will continue this due diligence in 2019 and conduct in-depth reviews of these locations.

2. Working conditions for our employees

As an employer, we believe that people are crucial to the success of our company. We won't achieve leading performance unless employees believe AkzoNobel is a great place to work, are engaged and feel valued (see Note 4). We must therefore offer decent working conditions, including fair working hours, reasonable salaries and appropriate bathroom and restaurant facilities.

To emphasize our commitment, we've signed the Safe Water, Sanitation and Hygiene Pledge (WASH) of the World Business Council for Sustainable Development (WBCSD).

In 2018, we continued due diligence into the sanitary conditions of our locations, using the WASH Pledge implementation material. The results of our 2018 assessments showed an average satisfactory score of 1.8 out of a possible score of 2.0 – meaning that 90% of the sites scored satisfactory. The 2018 assessment results reflect the same score as 2017. This assessment is now integrated into our processes and will be monitored and acted upon accordingly.

With respect to working hours, we conducted an International Labour Organization (ILO) gap analysis of working hours in the countries where we're active. ILO statistics on countries with long working hours was included in this assessment. It identified several countries where we run a higher risk of excessive working hours, possibly impacting the health or safety of our workforce. We also assessed the working hours of our locations in those countries against the ILO standards on working hours. Based on these results, the Human Rights Committee has decided that global guidance and rules on working hours are necessary to ensure proper working hours at our sites. In 2019, these will be developed.

We've conducted due diligence into fair wages in our own operations. First, we assessed the legal minimum wages – if in place – of the countries where we're active against the three international poverty lines of the World Bank. We also took into account national poverty lines and the percentage of the populations under the poverty lines. This analysis has provided us a list of countries we should take a closer look at. Human Resources colleagues in those countries provided (anonymized) salary information on the lowest paid employees and assessed those against public available living wages.



We carried this out as an initial analysis. In parallel, we engaged with two organizations that are experts in the field of living wages, to learn more about the methodology behind the comparison between salaries and living wages. This work will continue in 2019.

3. Discrimination and harassment in our operations

At AkzoNobel, we strive to foster a culture of dignity and respect, free of any kind of harassment or discrimination. Currently, 26.5% of the reports received through our grievance mechanism (SpeakUp!) relate to some form of discrimination and/or harassment. While this category of case is typically large for other companies, it is also a reason for us to do more. In 2018, we took multiple actions, including the improvement of our current anti-discrimination and anti-harassment directive; development of new rules that clarify what's expected from employees and managers; development and testing of a dilemma-based training; and optimizing a coaching framework. This work will continue in 2019.

4. Modern slavery in our supply chain

We believe that modern slavery should be eradicated from a moral, political, logical and economic point of view. We therefore have zero tolerance for modern slavery of any kind and feel highly motivated to combat it. As an outcome of the human rights risk assessment which resulted in our salient issues, we recognize

Our annual Safety Day was a big success once again in 2018. An important event in our calendar, it's an opportunity to celebrate our achievements while reminding us to stay focused and vigilant. The theme this year was "Beware the line of fire". Our sites around the world marked the event in various ways. In the Netherlands, for example, the AkzoNobel Center in Amsterdam offered free bicycle safety checks to all employees.

there is an inherent risk of modern slavery in global supply chains, including our own, particularly in the case of indirect suppliers. Definitions of modern slavery often vary, but at AkzoNobel, we have defined modern slavery as child labor, debt bondage, forced labor, human trafficking, servitude, slavery and slavery-like practices.

In 2017, we initiated a due diligence program for several raw materials in our supply chain identified as high risk materials impacting human rights, and forms of modern slavery in particular. These materials are prioritized and brought in scope using information provided by NGOs. We continue to work on this due diligence program. In addition, we carried out awareness training on sustainability including human rights for 60% of our buyers, which will be completed in early 2019.

We also strengthened our Supplier Sustainability Framework in terms of human rights due diligence by including the EcoVadis sub-theme score on labor and human rights in the determination of the risk levels of our current suppliers. In addition, during 2018, we improved the compliance element of the Supplier Sustainability Balanced Scorecard by adding the EcoVadis sub-score on labor and human rights, and by monitoring the human rights controversies reported by the EcoVadis 360° report. New suppliers also now have to take part in an evaluation program, as described in our Supplier Selection process under ALPS. This program includes elements on labor and human rights (see Note 6).

STAKEHOLDER ENGAGEMENT

We understand that identifying salient human rights issues is an ongoing process. While undertaking due diligence – and providing remedies where needed – on the salient human rights issues, we continue to analyze and monitor our potential impact on human rights across our



Twelve artists volunteered their talent to create a series of 3D frescoes in Vietnam as part of an event organized through our global "Let's Colour" initiative. We teamed up with the International Union for Conservation of Nature and the Ly Son Marine Reserve to stage the project on tiny Ly Son Island. The project – designed to highlight the importance of preserving the marine environment around the island – used more than 7,000 liters of our Dulux Weathershield exterior paint.

value chain, paying extra attention to vulnerable groups. We continuously engage with both internal and external stakeholders, such as employees, human rights experts, NGOs and society at large, and use feedback to align our initiatives. Frank and open dialog with all our stakeholders enables us to go further and faster than we could alone.

GRIEVANCE MECHANISM

We promote a feedback culture through communication and training. An open atmosphere helps to identify issues, including concerns relating to respect for human rights. The SpeakUp! grievance mechanism offers our

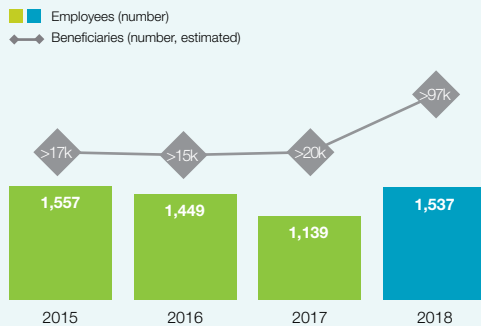
employees, business partners and the general public a confidential environment in which they can raise concerns relating to breaches of our Code of Conduct, including the human rights reflected therein. The results are reported annually (see Compliance and integrity management).

COMMUNITY PROGRAM

Connecting with the communities close to our locations and supporting their development is an essential part of the identity of our company. We revitalized our Community Program during 2018 to better reflect our passion for paint and proud people. The new-look program works with common global criteria and guidance to make it easier to set up and run projects, which bring combined benefits to our communities, our employees and our brands.

In 2018, 49 Community Program projects took place in 29 locations across 16 countries, with a 35% increase in employee participation and almost five times higher community outreach than in 2017.

Community Program



Our Coral brand in Brazil helped revitalize the lives of 100 families in Recife by painting their local neighborhood as part of the Mais Vida nos Morros project. It was just one of the many community activities we completed in 2018 through our global "Let's Colour" program.

LET'S COLOUR

We believe in the power of paint to transform lives by uplifting communities and making spaces more fun, liveable and enjoyable. Our global "Let's Colour" program continues to develop and support projects which add color to people's lives. In 2018, we carried out 65 "Let's Colour" projects across 23 countries, which involved nearly 1,500 AkzoNobel volunteers. We donated 192,000 liters of paint for the renovation of community living spaces, benefiting millions of people.

We continued to be a strategic partner of SOS Children's Villages and, as part of their YouthCan! platform, we helped to create more employment opportunities for young people at risk around the world. Through our "Let's Colour" programs and professional painter academies, we gave training to almost 1,000 young people in various aspects of painting, entrepreneurship and soft skills. We also activated "Let's Colour" SOS Children's Villages programs across ten countries, and expect to include up to 15 countries in 2019.



A MEMORABLE YEAR FOR OUR ART FOUNDATION

In 2018, the AkzoNobel Art Foundation and its Art Space in Amsterdam became part of the company's heartbeat more than ever before. Located at the AkzoNobel Center, the Art Space has welcomed over 120,000 visitors, celebrating its diversity both internally and externally.

The year's main highlight was the launch of the current Common Ground exhibition, which was officially opened by the Dutch Minister of Education, Culture and Science, Ingrid van Engelshoven. The event was hosted by AkzoNobel CEO and Chairman of the Art Foundation, Thierry Vanlancker.

Other memorable moments this year included the Oso Couture Fashion Show, the premiere of the Common Ground documentary and various sustainability and educational programs for national and international schools and universities – including the Gerrit Rietveld Academie and the Barlaeus Gymnasium.

"We're looking forward to 2019," says Hester Alberdingk Thijm, Director of the AkzoNobel Art Foundation. "We plan to continue setting up exhibitions, contributing to worthwhile multidisciplinary projects and, above all, remaining a visible and inspiring presence for AkzoNobel and the outside world. We are grateful for the opportunity to let the art speak its universal language and show the genuine passion for paint we've had at the Art Foundation since 1995!"



Robert Zandvliet,
Untitled, 2007, tempera
on canvas

Guido van der Werve,
Nummer acht –
Everything is going
to be alright, 2007,
16mm film transferred
to video (color, sound).
Courtesy Rabobank Art
Collection

Photo:
Martin van Welzen



Damien Hirst, Untitled, 1992, eight-color silk
screen, matte varnish
Isaac Julien, Stones Against Diamonds, 2016,
premier photograph

Photo: Martin van Welzen

Hans Op de Beeck, Tatiana (Butterfly),
2017, polyester, polyamide, copper,
coating, wood

MANAGING SUSTAINABILITY

MANAGEMENT ACCOUNTABILITY

The Executive Committee has responsibility for incorporating the sustainability agenda in the company strategy and monitoring the performance of each business through the Operational Control Cycle.

The Sustainability Council advises the Executive Committee on new developments, performance and the integration of sustainability into management processes.

The council, which meets quarterly, is chaired by the CEO and includes the Chief Corporate Development Officer, Chief Operating Officer, Chief Supply Chain Officer, Chief Human Resources Officer and representative business and functional directors. The Corporate Director of Sustainability reports to the Executive Committee.

MONITORING PROGRESS

We use key indicators to track our progress in delivering on the sustainable business imperatives and drive continuous improvement processes in every function, supported by external benchmarks.

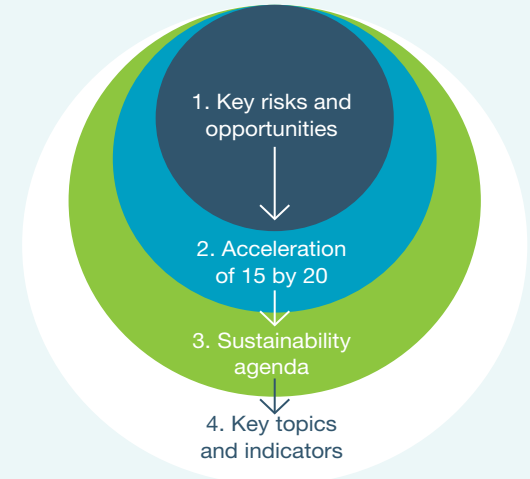
We included sustainability in the personal objectives and incentives of all employees from 2018 onwards, tailored to each employee's role in the organization and linked to our sustainability value drivers. For employees in operations and supply chain management, objectives are linked to resource productivity. For those in innovation, marketing and sales, they are linked to value selling.

MATERIALITY ASSESSMENT

Significant sustainability aspects material to the company are reviewed annually, with input from internal and external stakeholders. We focus on those topics that have the biggest impact in terms of accelerating our strategy of creating

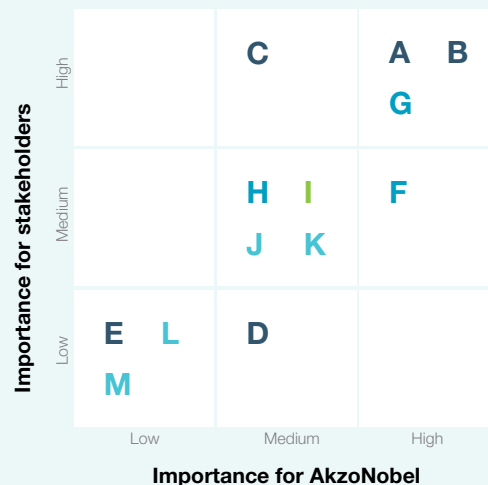
shared value, building on our core principles of sustainability, safety and integrity, including respect for human rights. The assessment focuses on four key areas of risk and opportunity: operations, markets, remaining ahead of legislation and identity.

The materiality assessment is based on key risks and opportunities for the company as they relate to the acceleration of our business strategy and the role of the sustainability agenda. This leads to the key topics and non-financial indicators that are most material for the company. Results of the assessment are validated with internal and external stakeholders.



Materiality matrix

■ Operations ■ Markets ■ Remaining ahead of regulation ■ Identity



Topic	Section of the report
A Resource productivity	Resource productivity (p159) Note 3: Operational excellence
B Employee development	Note 4: Employees
C Safety	Note 7: Safety
D Circular economy	Note 5: Circular economy and climate
E Supplier engagement	Note 6: Supplier engagement
F Customer satisfaction	Note 2: Customer value
G Innovation & sustainable portfolios	Value selling (p155) Note 1: Sustainable products
H Climate strategy	Note 5: Circular economy and climate
I Product safety	Note 7: Safety
J Integrity	Compliance and integrity management
K Human rights	Note 8: Human rights
L Community involvement	Note 9: Programs
M Fair taxes	Financial information Note 8: Income tax

STAKEHOLDER ENGAGEMENT

We engage proactively with our stakeholders to identify opportunities to create shared value and collaborate. The focus of the key external stakeholder groups assessed is as follows.

Signatories and memberships

We have been a signatory of the UN Global Compact since 2004 and annually disclose our “communication of progress”. We subscribe to the UN Universal Declaration of Human Rights, the key conventions of the International Labour Organization and the OECD Guidelines for Multinational Enterprises, and we adhere to Coatings Care® Global and the CEO Water Mandate. We are a member of organizations such as the World Business Council for Sustainable Development (WBCSD) and the World Green Building Council.

The UN Sustainable Development Goals (SDGs)

We contribute to the global development agenda by focusing on those SDGs where we can have the biggest impact, in line with the SDG Compass guide for business. After the divestment of Specialty Chemicals, we reassessed our impact. We focus mainly on SDGs 11, 12 and 17 (see page 158). Our sustainability agenda remains built on our core principles of sustainability, safety and integrity, including respect for human rights. Within the WBCSD, we co-led the development of a road map for the chemicals sector to contribute to the realization of the SDGs.

Investors and benchmarks

Our sustainability performance is recognized by external benchmarks, rating agencies and indices (see AkzoNobel and the capital markets). We recognize that there’s an increasing variety of indices, so we need to focus on those that fit our type of business best and create the most value for us and our stakeholders. We reviewed which benchmarks are best suited for AkzoNobel as a focused paints and coatings company.

United Nations Sustainable Development Goals

Assessment of AkzoNobel contribution

● Main ● Intermediate ● Minor

	Operations	Markets	Remain ahead of legislation	Identity
1 No poverty				●
2 Zero hunger				●
3 Good health and well-being	●	●		
4 Quality education	●			●
5 Gender equality	●			
6 Clean water and sanitation	●			
7 Affordable and clean energy	●	●		
8 Decent work and economic growth	●			●
9 Industry, innovation and infrastructure	●	●		
10 Reduced inequalities				●
11 Sustainable cities and communities		●		●
12 Responsible consumption and production	●	●	●	
13 Climate action	●	●		
14 Life below water		●		
15 Life on land	●	●		
16 Peace, justice and strong institutions				●
17 Partnerships for the goals	●	●		●

After more than a decade of top ten rankings on the Dow Jones Sustainability Index (DJSI), we are now focusing fully on further real-life sustainability performance improvements. Going forward, we’ll prioritize our active participation in benchmarks that help us drive continuous improvement and rely mostly on publicly available information. This means we will no longer actively participate in benchmarks that put a significant additional reporting need on the organization, above and beyond what we already disclose externally, such as the DJSI.

We’ll continue to set our own ambitious targets on topics material to our company, embed those targets into the relevant functions and businesses, and report transparently on progress. This approach will allow us to focus on driving improvement, rather than additional reporting.

Reporting principles

Our reporting principles are based on the Global Reporting Initiative (GRI) standards, complemented by internally developed guidelines. Our complete reporting principles can be found on our website, as well as an index of the GRI indicators.

ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: Supervisory Board and Board of Management of Akzo Nobel N.V.
Assurance report on the sustainability information included in the Annual Report 2018

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe the sustainability information included in the Report 2018 of Akzo Nobel N.V. does not present, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to corporate social responsibility
- The thereto related events and achievements for the year ended December 31, 2018, in accordance with the Reporting Principles 2018, developed by the company as included in the section “Reporting criteria”

Our opinion

In our opinion, the paragraphs “Monitoring progress” and “Management accountability” in the section “Managing sustainability” are prepared, in all material respects, in accordance with the applied reporting criteria developed by AkzoNobel.

What we are assuring

We have reviewed the sustainability information included in the annual report for the year ended 2018, as included in the following sections in the Report 2018 (hereafter: “the sustainability information”):

- Compliance and integrity management
- Sustainability statements

This review is aimed at obtaining a limited level of assurance. Additionally, we have audited the paragraphs “Monitoring progress” and “Management accountability” in the section “Managing sustainability”. The sustainability information comprises a representation of the policy and business operations of Akzo Nobel N.V. Amsterdam (hereafter: “AkzoNobel”) with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended December 31, 2018.

The basis for our conclusion and opinion

We conducted our assurance engagement in accordance with Dutch law, which includes the Dutch Standard 3810N “Assurance-opdrachten inzake maatschappelijke verslagen” (Assurance engagements on corporate social responsibility reports), which is a specified Dutch Standard based on the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information. This assurance engagement is aimed at providing a combination of limited assurance on the sustainability information and reasonable assurance on the “Monitoring progress” and “Management accountability” paragraphs in the “Managing sustainability” section. Our responsibilities under this standard are further described in the section “Our responsibilities for the review of the sustainability information” of this assurance report. We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

Independence and quality control

We are independent of AkzoNobel in accordance with the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the (“Verordening gedrags- en beroepsregels accountants”(VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

We apply the “Nadere voorschriften kwaliteitssystemen” (NVKS – Detailed rules for quality systems) and accordingly maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

Reporting criteria

The sustainability information in scope needs to be read and understood in conjunction with the reporting criteria. The Board of Management of AkzoNobel is responsible for selecting and applying these reporting criteria, taking into account applicable laws and regulations related to reporting. The reporting criteria used for the preparation of the sustainability information are the applied reporting criteria developed by the company, as disclosed in the Reporting Principles 2018. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Inherent limitations

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information. The links to external sources or websites in the sustainability information are not part of the sustainability information reviewed by us. We do not provide assurance over information outside of this Report 2018.

Responsibilities for the sustainability information and the assurance engagement

Responsibilities of the Board of Management and Supervisory Board

The Board of Management of AkzoNobel is responsible for the preparation of the sustainability information in accordance with the reporting criteria as included in the section “Reporting criteria”, including the identification of stakeholders and the definition of material matters. The choices made by the Board of Management regarding the scope of the sustainability information and the

reporting policy are summarized in the section “Managing sustainability”. The Board of Directors is responsible for determining that the applicable reporting criteria are acceptable in the circumstances. The Board of Management is also responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance information to provide a basis for our conclusion and opinion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements. The procedures to support our opinion on the “Monitoring progress” and “Management accountability” paragraphs in the “Managing sustainability” section of the sustainability information have been performed with a high, but not absolute level, of assurance. This means we may not have detected all material misstatements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion and opinion.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the review,

in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included among others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues and the characteristics of the company
 - Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders’ dialog and the reasonableness of estimates made by the Board of Management
 - Obtaining and understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review
 - Obtaining an understanding of the procedures performed by the Internal Audit department
 - Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or error.
- Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted, among others, of:
- Interviewing management (and/or relevant staff) at corporate (and business/division/cluster/local) level responsible for the sustainability strategy, policy and results
 - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in, the sustainability information
 - Determining the nature and extent of the review procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. The visit to sites is aimed at, on a local level, validating source data and evaluating the design and implementation of internal controls and validation procedures

- Obtaining assurance information that the sustainability information reconciles with underlying records of the company
- Reviewing, on a limited test basis, relevant internal and external documentation
- Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review
- Evaluating the presentation, structure and content of the sustainability information
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used
- Joining internal audit of Health, Safety and Environment management at the production site in Stowmarket, UK
- Reviewing relevant work of the Internal Audit function

In addition to the above, we performed the following assurance procedures on the paragraphs “Monitoring progress” and “Management accountability” in the section “Managing sustainability” of the sustainability information:

- Corroborating information disclosed in this note through multiple interviews with selected staff from the company
- Testing operating effectiveness of key controls related to how AkzoNobel manages its sustainability agenda
- Corroborating supporting documentation to determine whether the information in this note is substantiated adequately, such as management meeting agendas and minutes and internal management information

Amsterdam, February 12, 2019

PricewaterhouseCoopers Accountants N.V.
Original has been signed by R. Dekkers RA

SUSTAINABILITY PERFORMANCE SUMMARY

Economic

Area	Unit	2014	2015	2016	2017	2018	Ambition 2020
Product/service							
Eco-premium solutions with customer benefits	% of revenue	20	20	21	21	22	20
Customer delivery efficiency index	% service performance	93	94	96	97	97	>95 (2018)
Supplier management							
PR [®] suppliers signed Business Partner CoC ^{1,7}	% of spend	98	98	99	97	98	–
NPR [®] suppliers signed Business Partner CoC ^{1,7}	% of spend	80	81	86	86	83	–
Third party online sustainability assessments (TfS) ⁵	number	534	722	875	950	953	–
Third party on-site sustainability audits (TfS) ⁶	number	15	54	131	219	270	–
SSBS ³ improvement against baseline	%	–	–	–	–	11	–

Social

		2014	2015	2016	2017	2018	Ambition 2020
Employees							
Organizational health score	score					58	Top quartile (77)
Female executives ¹	%	17	19	19	19	20	25
Female executive potential pool ¹	%	24	25	30	28	31	30
Executive vacancies filled internally ¹	%	68	58	61	74	54	60 ²
High potential turnover ¹	%	–	6	4	5	8	<5
People, process and product safety							
Fatalities employees	number	0	0	0	0	0	0
Total reportable injury rate employees/temporary workers	/200,000 hours	0.34	0.30	0.26	0.20	0.20	≤0.20
Lost time injury rate employees/temporary workers	/200,000 hours	0.18	0.15	0.13	0.06	0.09	–
Occupational illness rate employees	/1,000,000 hours	0.22	0.07	0.07	0.06	0.06	–
Total illness absence rate employees	%	1.07	1.90	1.84	1.92	1.98	–
Fatalities contractors (temporary workers plus independent)	number	0	0	0	1	0	0
Total reportable injury rate contractors	/200,000 hours	0.47	0.50	0.29	0.12	0.18	–
Distribution incidents	number	33	25	23	16	21	–
Loss of primary containment (Level 1) ⁴	number	2	1	5	5	6	–
Regulatory actions (Level 4)	number	0	0	0	0	1	0
Priority substances with management plan	%	82	100	33	67	100	100
HSE management							
Safety incidents (Level 3)	number	0	0	0	1	0	–
Safety incidents (Level 1, 2, 3)	number	11	8	0	2	3	–
Management audits plus reassurance audits	number	41	27	34	32	25	–
Social programs							
Community Program, employees	number	–	1,577	1,449	1,139	1,537	–
Community Program, beneficiaries	number (estimated)	–	>17,000	>15,000	>20,000	>97,000	–

Environmental

Area	Unit	2014	2015	2016	2017	2018	Ambition 2020
Maintain natural resources/fresh air							
Total energy consumption	1000TJ	6.37	6.29	6.32	6.39	6.20	–
per ton of production	GJ/ton	1.86	1.91	1.91	1.88	1.91	1.81
Renewable energy (own operations)	%	22	22	27	30	31	–
Direct CO ₂ (e) emissions (scope 1)	kiloton	83.99	80.45	72.72	69.66	70.16	–
per ton of production	kg/ton	24.51	24.47	21.96	20.53	21.66	–
Indirect CO ₂ (e) emissions (scope 2)	kiloton	269.1	258.9	244.3	237.8	226.0	–
per ton of production	kg/ton	78.54	78.73	73.78	70.11	69.77	–
VOC emissions	kiloton	2.14	2.18	2.00	1.71	1.57	–
per ton of production	kg/ton	0.63	0.66	0.60	0.50	0.49	0.45
NOx emissions	kiloton	0.07	0.07	0.07	0.07	0.06	–
per ton of production	kg/ton	0.02	0.02	0.02	0.02	0.02	–
SOx emissions	kiloton	0.03	0.04	0.03	0.03	0.02	–
per ton of production	kg/ton	0.01	0.01	0.01	0.01	0.01	–
Fresh water use	million m ³	10.69	10.09	9.61	9.62	9.27	–
per ton of production	m ³ /ton	3.12	3.07	2.90	2.84	2.86	–
COD emissions	kiloton	0.20	0.20	0.04	0.03	0.03	–
per ton of production	kg/ton	0.06	0.06	0.01	0.01	0.01	–
Raw material efficiency							
Total waste	kiloton	89	87	85	77	67	–
per ton of production	kg/ton	25.89	26.38	25.65	22.77	20.97	21.50
Total non-reusable waste	kiloton	39	39	43	40	34	–
per ton of production	kg/ton	11.52	11.88	12.92	11.90	10.63	–
Hazardous waste total	kiloton	37	35	35	33	30	–
per ton of production	kg/ton	10.72	10.74	10.72	9.76	9.13	–
Hazardous waste non-reusable	kiloton	11	12	15	16	15	–
per ton of production	kg/ton	3.29	3.68	4.62	4.64	4.59	–
Hazardous waste to landfill	kiloton	1.3	1.5	0.7	0.6	0.69	–
per ton of production	kg/ton	0.39	0.46	0.20	0.17	0.21	–
Value chain							
Total CO ₂ (e) emissions (cradle-to-grave)	million tons	17.5	15.9	15.3	16.3	15.5	–
Renewable raw materials	% organic RM	7	6	6	5	5	–

¹ 2014-2017 data includes discontinued operations.

² Previously communicated 70.

³ SSBS = Supplier Sustainability Balanced Scorecard. Baseline is 2018 (new KPI).

⁴ Definition change 2016.

⁵ Includes TIS shared assessments, cumulative.

⁶ Includes TIS shared audits, cumulative.

⁷ CoC = Code of Conduct.

⁸ NPR = Non-product related.

⁹ PR = Product related (raw materials and packaging).