5.02.1 Rules on External auditor independence and selection

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<td>Executive Committee, Audit Committee</td>
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<td>Date</td>
<td>November 22, 2013, December 4, 2013</td>
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<td>Effective Date</td>
<td>January 1, 2014</td>
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**Purpose**

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

**Scope and definitions**

These Rules apply as follows: Akzo Nobel N.V., including all its consolidated subsidiaries, ("AkzoNobel" or the "Company") will only use the appointed external auditor to provide the Audit Services outlined and defined below (see table of contents section 4). Non-Dutch based consolidated subsidiaries will only use the appointed external auditor’s local affiliates to provide other services in cases where these services are required by local legislation and do not conflict with the auditor’s independence.

"External auditor" in the context of these Rules, relates to either the audit firm or person(s) that are engaged as group or affiliated firm external auditors.
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Rules

1. Introduction
These Rules require the AkzoNobel external auditor, which qualifies as a Public Interest Company (OOB: Organisatie van Openbaar Belang), to be independent in accordance with:
- Dutch law, art 24 Wta (Wet Toezicht Accountantsorganisaties) as amended December 11, 2012
- International Federation of Accountants (IFAC)/ International Ethics Standards Board for Accountants (IESBA) requirements on Statutory Auditor Independence (issued 2011)
- European rules and regulations.

These Rules are based on the principle that an external auditor must be independent of the company, both in fact and in appearance, to ensure that the external auditor is capable of exercising objective and impartial judgment on all issues covered by his engagement. The external auditor is not independent if they, directly or indirectly, maintain a financial, employment or business relationship with AkzoNobel or provides a service which:
- Creates a mutuality of interest
- Places the auditor in a position to audit their own work
- Results in the auditor acting as an AkzoNobel manager or AkzoNobel employee or
- Puts the auditor in the role of advocate for AkzoNobel.

A reporting procedure for a potential conflict of interest of the external auditor is included in article I.15.5 of the Rules of Procedure of the Supervisory Board Akzo Nobel N.V.

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

The Audit Committee shall determine the Rules for Auditor independence and selection. It will propose external auditors for shareholder approval in accordance with the Articles of Association. Every four years, the Audit Committee shall evaluate and, where appropriate, recommend replacement of the external auditors. The external auditor’s independence will be reviewed annually.

The Audit Committee is also involved in the selection and appointment of the external auditor and decides on compensation for audit and audit-related services, as per Directive 5.2 External audit. Furthermore, the Audit Committee pre-approves audit, audit-related and permitted tax compliance services for non-Dutch subsidiaries. The Audit Committee performs these functions in accordance with the requirements laid down in these Rules.

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

3. Appointment of the external auditor
The external auditor is appointed for a maximum period of eight fiscal years.

The Audit Committee will conduct a full assessment of the external auditor’s services (see section 7) every four fiscal years, with interim annual assessments. The Audit Committee will advise the Supervisory Board, who will communicate the assessment results to AkzoNobel’s Annual General Meeting of shareholders.

In case the Supervisory Board proposes to discontinue the appointment of the existing external auditor, or in time before the maximum period of eight years has been reached, a tender process will be started to select a new external auditor.
For the selection of a new external auditor, the Board of Management shall advise the Audit Committee, which in turn will advise the Supervisory Board. The Supervisory Board shall then select and propose a new external auditor. This selected external auditor will be recommended to the Annual General Meeting of shareholders, which will decide on the appointment.

The Netherlands Authority for the Financial Markets (AFM; Autoriteit Financiële Markten) will be informed according to and in time with their requirements on external auditor replacement.

4. Services provided by external auditor
The external auditor can only provide AkzoNobel with the Audit Services listed and defined below. “Audit Services” are defined as:
- Statutory audit of the company and the company’s consolidated financial statements
- Audit or review of (interim) financial statements (including carve-out and special purpose financial statements)
- Providing assurance with regard to other aspects of annual reporting, such as corporate governance, risk management and corporate social responsibility
- Providing assurance and reporting on research results for fact justifications for regulatory bodies and /or tax authorities
- Any other statutory task related to audit which is imposed by law on the external auditor or the audit firm (e.g. grant statements)
- Provision of assurance and report of factual findings requested by third parties (e.g. comfort letters)

And, only if and when requested by the Supervisory Board, and as part of their regular activities:
- Providing assurance and report of factual findings (e.g. in the fields of internal control, mergers and acquisitions, tax position and structures, and fraud).

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

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

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

The Audit Committee has established pre-approval Guidelines. As such, the approval responsibilities will not be delegated to management. The procedure will provide the Audit Committee with timely information regarding each service by the external auditor. The Audit Committee will be informed on a quarterly basis of all services provided by the external auditor and/or its affiliates.

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

Other key audit partners, -either at the AkzoNobel group level or partners signing-off audit opinions of material AkzoNobel entities-, are supposed to rotate from their position after a period of six fiscal years, in line with a predefined rotation schedule.

6. Audit Committee’s assessment of the external auditor’s independence and effectiveness
Each year, the Audit Committee will formally review the external auditor’s independence in line with these Rules and document its position on this matter. Every four years, the Audit Committee will conduct a robust assessment of the auditor’s independence and objectivity. This assessment includes the Audit Committee’s consideration of the:
- Effectiveness of the external auditor, including whether and why continuing the selected external auditor is in the best interest of the Company and its shareholders
- Independence of the external auditor, including any breaches that have occurred since the prior review and how they have been mitigated
- Type and extent of tax compliance services being provided by the external auditor and why the audit committee concluded that it was appropriate to obtain these from the auditor
- Fees paid to the external auditor for audit and tax compliance services and whether they are appropriate
- Length of external auditor’s continued tenure, the date of the last tender, and whether the external audit function should be put out for tender
- Audit Committee’s involvement in the selection of the auditor’s lead engagement partner and any other information about how they manage audit partner rotation

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

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

8. Hiring arrangements
AkzoNobel and the external auditor agree to a restricted hiring policy:
- AkzoNobel will not hire partners and professional employees of the external auditor involved in the AkzoNobel audit within the last two years without the external audit firm’s consent
- The external auditor will not hire senior management from AkzoNobel for involvement in the AkzoNobel audit within two years after termination of their employment with AkzoNobel.

9. Maintenance of these Rules
The Audit Committee will update these rules if the situation so requires. Any independence issues or conflicts of interests will be communicated immediately to the AFM, relevant Exchange Commissions and any other regulatory body as may be legally required.

10. Communication
AkzoNobel will communicate its Rules on Auditor Independence and Selection to its stakeholders.

11. Date of effectiveness
In line with Dutch law, special provisions are made for the appointment of a new audit firm. A new external auditor for the audit services commencing in the Fiscal Year 2016 has been appointed by the
Annual General Meeting of shareholders in April 2014.

These Rules were effective from May 6, 2003, onwards and adapted on June 13, 2007, December 6, 2007, and were fully revised on December 4, 2013.