Report of the Supervisory Board

Main 2014 activities

Review of the company’s strategy and actions including Business Area and functional updates.

Review and monitoring of the company’s sustainability performance.

The Supervisory Board visited Frankfurt in Germany, providing members with a first-hand view of the company’s operations in the European chemical industry and a comprehensive impression of European competitiveness relative to other regions.

Senior executive succession in the Board of Management and Executive Committee, resulting in Maëlys Castella’s nomination and election as Chief Financial Officer (CFO) for the company at an Extraordinary General Meeting of shareholders on October 8, 2014.

Revision of the Supervisory Board’s Rules of Procedure.

Revision of the Board of Management and Executive Committee Rules of Procedure.

Meetings

The Supervisory Board held ten meetings during 2014. Six were plenary sessions with the full Executive Committee present for all or part of the meetings. Two meetings were held without the full Executive Committee present; the Board of Management attended seven of the ten meetings. All Supervisory Board meetings except one were preceded or succeeded by an executive session of the Supervisory Board, with the Chief Executive Officer (CEO) in attendance. An attendance overview of the Supervisory Board and its committees can be seen on this page. The Chairman of the Supervisory Board prepared the meetings with the Corporate Secretary and discussed matters such as the agendas with the CEO.

Supervisory Board attendance record

The Supervisory Board is confident that the following table shows all members made adequate time available to give sufficient attention to the company. If Supervisory Board members are unable to attend a Supervisory Board or committee meeting, they inform the Chairman stating the reason. They also have the opportunity to discuss any agenda items with the Chairman of the Supervisory Board and the chairmen of the committees. Attendance is expressed as the number of meetings attended out of the number eligible to attend.

<table>
<thead>
<tr>
<th>Name</th>
<th>SB</th>
<th>AC</th>
<th>RC</th>
<th>NC</th>
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</thead>
<tbody>
<tr>
<td>Antony Burgmans</td>
<td>9/10</td>
<td></td>
<td>3/3</td>
<td>3/3</td>
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<tr>
<td>Sari Baldauf</td>
<td>10/10</td>
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<td>3/3</td>
<td>2/2</td>
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<tr>
<td>Dolf van den Brink</td>
<td>8/10</td>
<td>5/6</td>
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<td>Peggy Bruzelius</td>
<td>10/10</td>
<td>6/6</td>
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<td>Uwe-Ernst Bufe</td>
<td>9/10</td>
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<td>Byron E. Grote</td>
<td>7/7</td>
<td>4/4</td>
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<td>Louis Hughes</td>
<td>10/10</td>
<td>6/6</td>
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<tr>
<td>Ben Verwaayen</td>
<td>8/10</td>
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<td>2/3</td>
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The table indicates the meeting attendance for the Supervisory Board (SB), the Audit Committee (AC), the Remuneration Committee (RC) and the Nomination Committee (NC).
Supervisory Board activities

An important point of note in the Supervisory Board’s work during 2014 was the review of its Rules of Procedure, which brought about two broad changes. Firstly, the Supervisory Board specified that it shall review and approve financial information and disclosures from the business and the Board of Management on a quarterly basis. This adjustment formalizes the extent to which the Supervisory Board reviews and supervises the financial performance of the business.

Secondly, the Supervisory Board took the step of requiring in its Rules of Procedure that members of the Supervisory Board shall be submitted for re-election no more than two times, each time for a period not exceeding four years. This change sets out to reinforce the value that the Supervisory Board places in the independence of its members and their ability to act critically and independently of the Board of Management and the company.

During 2014, the Supervisory Board dealt with succession planning. In particular, the Supervisory Board Chairman Mr. Vuursteen reached the end of his tenure in 2014 and the Supervisory Board welcomed his successor Mr. Burgmans, who was appointed as of the Annual General Meeting of shareholders (AGM) 2014. A diligent and careful approach was adopted in order to identify, select and prepare Mr. Burgmans for his role as the new Chairman. At the end of the year, the Supervisory Board suffered the loss of one of its members when Mr. van den Brink passed away on December 22, 2014. His commitment and dedication to the company, his ten-year tenure as a Supervisory Board member and his role as Chairman of the Audit Committee reflect the scale of his legacy.

The Supervisory Board has continued to take an active role in reviewing and discussing the company’s strategy and strategic options together with the CEO, the CFO and the Executive Committee. In 2014, the Supervisory Board’s strategy review included a comprehensive Business Area analysis of forward-looking targets and detailed action plans.

Specific project-oriented reviews were also undertaken. In terms of functional aspects of the company’s work, strategy updates were provided from Human Resources, Global Business Services and Sustainability. These reviews were in addition to the Supervisory Board’s broad and high level review of strategy and risk for the group and its implementation of a performance-driven culture.

The Supervisory Board continued to review and monitor the company’s sustainability performance data in 2014, its performance indicators for safety performance, eco-efficiency improvement and employee engagement, including diversity and inclusion and talent management. Sustainability is a strategic focus area for AkzoNobel and the Supervisory Board, and represents a core principle and guideline for the way the business is run. The Supervisory Board recognized that AkzoNobel has, over the past decade, built a strong foundation for sustainability and is recognized as a leader in its industry, demonstrated by the company maintaining its number one position (for the third consecutive year) in the Materials industry group on the 2014 Dow Jones Sustainability Index. The Supervisory Board considers it of key importance that the company maintains and strengthens this leadership position. The Supervisory Board therefore supports the 2020 sustainability strategy and the Planet Possible concept, a next level approach to sustainability which is fully focused on creating more value from fewer resources and achievement of long-term sustainable business by continuing to live by our values.

In 2014, the outcome of enterprise risk management sessions were presented to the Supervisory Board for the purpose of identifying corrective actions to continue to address the top ten risks. Further details are included in the Risk management chapter and the Strategic performance section.

In September 2014, the Supervisory Board and the Executive Committee visited some of the company’s sites in Germany. This included meetings with major customers, local management and other stakeholders, as well as a visit to the Specialty Chemicals site in Frankfurt. The visit provided a detailed insight into the company’s activities, both in Germany and within the context of the wider European market. It involved, in particular, an overview of Specialty Chemicals’ businesses in the region and a clear outline of efficiency drivers for AkzoNobel’s wider internal support functions there. Overall, the trip established a useful snapshot of the competitiveness of the European market in comparison to other regions.

During the fourth quarter, it came to light that the company had been subject to an external fraud targeted at one of its subsidiaries located in Chicago (US). In response to the matter, independent legal counsel – assisted by an independent audit firm – was assigned to investigate. Every effort is being made to recover the funds and the company may be able to reduce the ultimate financial impact of the fraud. For more information, see the Risk management chapter.

The Supervisory Board continued to engage in training and evaluation of its performance. The Supervisory Board members participated in AkzoNobel’s online compliance training modules on an ongoing basis.

A thorough operational planning process was followed during the year, resulting in a 2015 budget and operational plan, which was reviewed and approved by the Supervisory Board.

The three Executive Committee members with Business Area responsibilities provided regular updates to inform the Supervisory Board on safety, competitive behavior, projects and year-to-date financials.
Financial statements and profit allocation

The financial statements of Akzo Nobel N.V. for the financial year 2014 were audited by KPMG Accountants N.V.. The Board of Management submitted the financial statements, together with the report of the Board of Management, the report and management letter of the external auditor to the Supervisory Board.

The financial statements, the report and management letter of the external auditor were discussed extensively with the auditors by the Audit Committee, in the presence of the CEO and CFO, and by the full Supervisory Board with the full Board of Management. Based on these discussions, the Supervisory Board is of the opinion that the 2014 financial statements of Akzo Nobel N.V. form a good basis to account for the supervision provided (see the Financial information section). The Audit Committee monitors the follow-up by management of the recommendations reported by the external auditor.

The Supervisory Board recommends that the AGM adopts the financial statements as presented in this Report 2014 and, as proposed by the Board of Management, approve the proposed total dividend for 2014 of €1.45 per common share outstanding. This is consistent with the company’s aim to provide a stable to rising dividend. It is proposed that this amount, less the interim dividend of €0.33 – which was paid in November 2014 – be made payable on May 19, 2015. The dividend will, at the shareholder’s discretion, be paid either in cash or in shares. In addition, we request that the AGM discharges the members of the Board of Management from their responsibility for the conduct of business in 2014 and the members of the Supervisory Board for their supervision in 2014.

Supervisory Board evaluation

Each year the Supervisory Board undertakes an assessment of its effectiveness. This is done through an internal evaluation of its performance, those of its individual members, its Remuneration Committee and Nomination Committee. Once every three years, instead of an internal assessment, the Supervisory Board undergoes an external assessment facilitated by a specialist firm.

The Supervisory Board will undergo this assessment of performance with regard to the year 2014. As the Supervisory Board believes that the external assessment is a vital tool for assessing its effectiveness, the assessment will be carried out in the first months of 2015.

Audit Committee

During 2014, the Audit Committee consisted of its chairman, Mr. van den Brink, and three other members – Mr. Hughes, Mrs. Bruzelius and Sir Peter Ellwood (who was replaced by Mr. Grote following the 2014 AGM) – all of whom have accounting and financial management expertise.

On December 22, 2014 Mr. Van den Brink sadly passed away. As a result, the chairmanship of the committee is being fulfilled on an interim basis by Mr. Hughes. The Audit Committee held six meetings during 2014. The attendance record of the members can be seen in the previous attendance chart. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings.

Main 2014 activities

- Review of the effectiveness of internal controls (including internal audit findings), in particular over financial reporting
- Review of external audit conclusions and the audit report
- Review of the 2014 annual report and financial statements
- Review of AkzoNobel’s dividend direction
- External auditor independence
- Internal Audit Plan 2015 and follow-up on Internal Audit Plan 2014
- Review of the external investigation of, and management response to, the external fraud in Chicago (US)
Results/financial statements
Before each announcement of the quarterly results and before the annual financial statements, the Audit Committee reviewed the financial results and was consulted on the reports and press releases to be published and those issues reviewed by the Disclosure Committee. Supervisory Board members were advised on such publications and disclosures by the Audit Committee and, as of September 2014, approval of the full Supervisory Board is required ahead of any quarterly or annual release of financial results.

The Audit Committee is updated regularly on IFRS developments and the anticipated impact on the financial statements, and was briefed on management assertions.

Governance, risk management and internal control systems
The Audit Committee reviewed AkzoNobel’s overall approach to governance, risk management and internal control systems, its processes, outcomes and disclosures. It also reflected on the weak market conditions in Europe, the impact of the restructuring and discussed contingency planning.

During 2014, the Audit Committee discussed:
- Risk management procedure and report
- Internal control assessment procedures and report
- Compliance with primary and secondary legislation (internal framework, monitoring and processes and compliance reports)
- Internal Audit planning and summary of findings
- HSE and sustainability audits planning and summary of findings
- Internal Audit statement on quality and effectiveness of the company’s risk management and internal control systems
- Post investment reviews
- Treasury strategy
- Tax strategy
- Litigation and claims
- Pension de-risking strategy
- Information management strategy

In addition, the Audit Committee reviewed the annual operational plan (including budget) and AkzoNobel’s dividend proposals. On fulfilling its oversight responsibilities in relation to governance, risk management and internal control systems, the Audit Committee met regularly with senior executives. The General Counsel reported to the Audit Committee on the company’s compliance framework and compliance activities, and on major litigation and liability exposure.

Internal audit function
The Internal Auditor reports directly to the Audit Committee and presents all main audit findings and reports directly to the committee. The Audit Committee reviewed the internal audit plan and strategy and agreed its budget and resource requirements. The mandatory external evaluation of the performance and quality of the Internal Audit function by the Dutch Institute of Internal Auditors was reviewed, with members being satisfied with the effectiveness of the function. The Audit Committee met independently with the Corporate Director of Internal Audit during the year and discussed the results of the audits performed.

External auditor
KPMG Accountants N.V., AkzoNobel’s external auditor, reported in depth to the Audit Committee on the scope and outcome of the annual audit of the financial statements, including the consolidated financial statements and the company financial statements.

The Audit Committee held independent meetings with the external auditor during the year and reviewed and challenged the external auditor’s approach to auditing the company, engagement letter, fees, risk assessment and audit plan. Other topics discussed included:
- Hard close (as part of making the year-end process more efficient, and in order to highlight important issues for the annual financial statements, as well as giving timely attention to important issues, AkzoNobel performed a hard close as of October 31, 2014. Aligned with this, the external auditor also performed certain procedures in respect of the financial outcomes as of the same date)
- The quality of external audit
- Impact of new IFRS rules

The Audit Committee performed the annual review of the services of the external auditor, and continues to closely monitor international discussions on auditor independence. Following the independence requirements, in April 2014, Mr. Van Leeuwen took over as lead partner from Mr. Weusten, who held this position since July 2007. The AGM in April 2014 decided to follow the proposed switch to a new audit firm as of the review of the 2016 financial statements. Further details on the external auditor can be found in the Corporate governance statement.

Evaluation
The annual evaluation of the Audit Committee is undertaken by the Audit Committee itself in conjunction with the Supervisory Board. Once every three years, the Audit Committee undergoes an external assessment of its performance. Results of the evaluation are subsequently reviewed both in the Audit Committee and through the invitation of the Audit Committee, at full Supervisory Board meetings.

The Audit Committee will undergo its triennial external assessment of performance with regard to the year 2014. This evaluation will be undertaken in the first months of 2015.
Remuneration Committee

The Remuneration Committee consists of three members and is chaired by Ms. Baldauf. Mr. Verwaayen and Mr. Burgmans are the other members of the committee. Mr. Vuursteen was a member of the committee until the end of his tenure at the 2014 AGM. The Remuneration Committee held three meetings in 2014. The attendance record of the members can be seen in the previous attendance chart.

Main 2014 activities
- Review of management performance and base salaries for 2014
- Review of changes to pension legislation in the Netherlands
- Review of changes to claw back legislation
- Review of long-term and short-term incentive plans
- Forward-looking assessment of targets for 2015

The Remuneration Committee reviewed the performance of the members of the Board of Management and the Executive Committee. Recommendations were made on the remuneration and personal targets for members of the Board of Management and the other members of the Executive Committee. Proposals for the remuneration of Executive Committee members were reviewed and discussed with the CEO. Along with this, the committee reviewed the remuneration of the members of the Supervisory Board and the pension plan of the Executive Committee.

Further details on the remuneration policy and its implementation for 2014 are outlined in the Remuneration report chapter in the Governance and compliance section. Information on the remuneration of the Board of Management and the Supervisory Board can be found in Note 22 of the Consolidated financial statements.

Nomination Committee

The Nomination Committee consists of three members and is chaired by Mr. Burgmans. The other two members are Ms. Baldauf and Mr. Verwaayen. The committee held three meetings in 2014. The attendance record of the members of the committee can be seen in the previous attendance chart.

Main 2014 activities
- Recommendation for the reduction of the number of Supervisory Board members
- Successful succession of the Chairman through the nomination and appointment of Mr. Burgmans
- Successful succession of Sir Peter Ellwood through the nomination and appointment of Mr. Grote
- Recommendation for the reappointment of Mr. Hughes
- Successful nomination and recruitment of Mrs. Castella to the Board of Management as new CFO
During 2014, the Nomination Committee dealt with succession planning in order to identify individuals for re-election and potential candidates for nomination. If external candidates are sourced by the Nomination Committee, it engages the services of an executive search agency that employs a rigorous search process after first gaining a thorough understanding of AkzoNobel’s strategic ambitions, the specific leadership roles and competencies needed to meet those ambitions and the culture of our organization.

In the course of 2014, the Nomination Committee considered and recommended the reduction of the number of Supervisory Board members. The Nomination Committee made several recommendations on successions. These included, following his identification in 2013, the recommendation to appoint Mr. Grote as a member of the Supervisory Board in succession of Sir Peter Ellwood, who reached the end of his tenure in 2014.

During 2014, Mr. Vuursteen reached the end of his 12-year tenure and retired as Chairman at the 2014 AGM. The Nomination Committee recommended the appointment of Mr. Burgmans to the role of Chairman of the Supervisory Board as of the 2014 AGM. Mr. Burgmans had no involvement in discussions regarding his nomination as Chairman of the Supervisory Board.

During 2014, the Nomination Committee advised on the reappointment of Mr. Hughes at the 2014 AGM. The Supervisory Board reviewed, supported and approved the recommendations made by the committee.

Together with the CEO, the committee devoted considerable time to senior executive succession planning. After a thorough selection process, with the assistance of an executive search agency and the consideration of both external and internal candidates, a recommendation was made by the Nomination Committee – following proposal by the CEO – for the appointment of Mrs. Castella as CFO and member of the Board of Management and the Executive Committee. This was supported by the Supervisory Board and her nomination was approved at an Extraordinary General Meeting of shareholders held on October 8, 2014.

As part of the Nomination Committee’s forward-looking succession planning, they have engaged the services of an executive search agency to assist with the succession of Mr. Uwe-Ernst Bufe, and of Mr. Dolf van den Brink, who sadly passed away during the year.

Additional remarks

All members of the Supervisory Board would like to express their gratitude to the Board of Management and the other members of the Executive Committee, as well as all employees around the world, for their dedication and hard work for the company in 2014.

The Supervisory Board would like to remember the commitment and dedication of one of its own members, Mr. Dolf van den Brink, whose presence will be sadly missed.

Amsterdam, February 11, 2015
The Supervisory Board

In memoriam

Dolf van den Brink
1948-2014