



## AkzoNobel Report 2011



**AkzoNobel**  
Tomorrow's Answers Today

## Performance at a glance

### Statement of income

**Revenue** ▲  
in € millions

2010	14,640	
<b>2011</b>	<b>15,697</b>	<b>+7%</b>

**EBITDA** ▼  
in € millions

2010	1,964	
<b>2011</b>	<b>1,796</b>	<b>-9%</b>

**EBITDA margin** ▼  
% of revenue

2010	13.4	
<b>2011</b>	<b>11.4</b>	<b>-2.0</b>

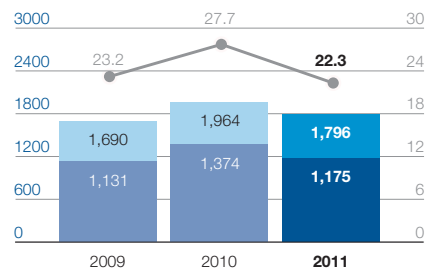
**EBIT** ▼  
in € millions

2010	1,374	
<b>2011</b>	<b>1,175</b>	<b>-14%</b>

### EBIT and EBITDA

in € millions

■ EBIT  
■ EBITDA  
● Operating ROI



### Dividend and earnings per share

**Adjusted earnings per share** ▼  
in €

2010	3.71	
<b>2011</b>	<b>2.91</b>	<b>-22%</b>

**Dividend per share** ▲  
in €

2010	1.40	
<b>2011</b>	<b>1.45</b>	<b>+4%</b>

**Net income attributable to shareholders** ▼  
in € millions

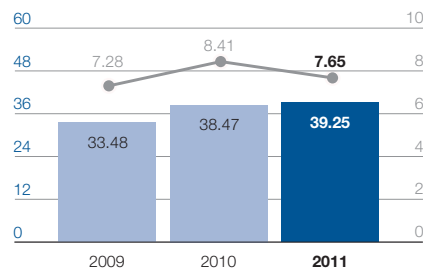
2010	754	
<b>2011</b>	<b>477</b>	

**Earnings per share from continuing operations** ▼  
in €

2010	2.85	
<b>2011</b>	<b>2.01</b>	

### Shareholders' equity and EBITDA per common share

■ Shareholders' equity per common share  
● EBITDA per common share



### Cash flows

**Net debt** ▲  
in € millions

2010	936	
<b>2011</b>	<b>1,895</b>	<b>+102%</b>

**Operating working capital** ▲  
% of revenue

2010	13.9	
<b>2011</b>	<b>14.4</b>	<b>+0.5</b>

**Net cash from operating activities** ▼  
in € millions

2010	519	
<b>2011</b>	<b>325</b>	<b>-37%</b>

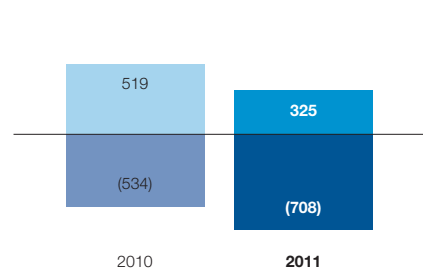
**Capital expenditures** ▲  
in € millions

2010	534	
<b>2011</b>	<b>708</b>	<b>+33%</b>

### Operating cash flows

in € millions

■ Net capital expenditure  
■ Operating cash flows



### Ratios

**Moving average ROI** ▼  
in %

2010	10.8	
<b>2011</b>	<b>8.9</b>	<b>-1.9</b>

**Operating ROI** ▼  
% of revenue

2010	27.7	
<b>2011</b>	<b>22.3</b>	<b>-5.4</b>

**Research and development expenses** ▲  
in € millions

2010	334	
<b>2011</b>	<b>356</b>	<b>+7%</b>

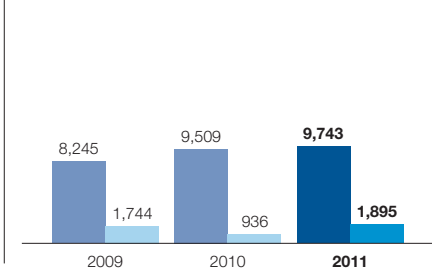
**Research and development major projects** ▲  
% of R&D expenses

2010	46	
<b>2011</b>	<b>49</b>	<b>+3</b>

### Net debt and group equity

in € millions

■ Group equity  
■ Net debt



## Sustainability

### Executives from high growth markets ▲

in %

2010	12	+1
2011	13	

### Sustainable fresh water management ▲

in % manufacturing sites

2010	48	+26
2011	74	

### Key value chains carbon ▲

footprint assessment (over three-year period)

2010	286	+15%
2011	330	

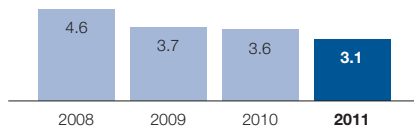
### Total waste ▼

in kilotons

2010	258	-16%
2011	217	

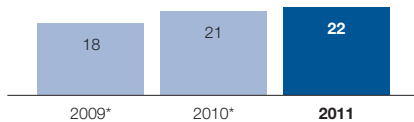
### Total reportable rate of injuries

per million hours



### Eco-premium solutions

% of revenue



\*Restated numbers  
see Note 14 in the Sustainability facts and figures section

## Specialty Chemicals

### Revenue ▲

in € millions

2010	4,943	+8%
2011	5,335	

### EBITDA ▼

in € millions

2010	939	-4%
2011	906	

### EBITDA margin ▼

% of revenue

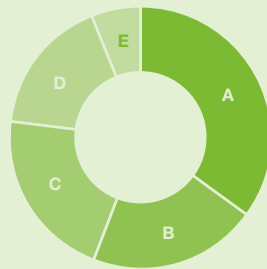
2010	19.0	-2.0
2011	17.0	

### Total reportable rate of injuries ▼

per million hours

2010	3.5	-0.7
2011	2.8	

### Revenue breakdown in %



A Functional Chemicals	35
B Industrial Chemicals	21
C Pulp and Paper Chemicals	21
D Surface Chemistry	17
E Chemicals Pakistan	6

### Total revenue high growth markets vs mature



## Performance Coatings

### Revenue ▲

in € millions

2010	4,786	+8%
2011	5,170	

### EBITDA ▼

in € millions

2010	647	-6%
2011	611	

### EBITDA margin ▼

% of revenue

2010	13.5	-1.7
2011	11.8	

### Total reportable rate of injuries ▼

per million hours

2010	3.3	-0.5
2011	2.8	

### Revenue breakdown in %



A Marine and Protective Coatings	27
B Automotive and Aerospace Coatings	20
C Industrial Coatings	20
D Powder Coatings	18
E Wood Finishes and Adhesives	15

### Total revenue high growth markets vs mature



## Decorative Paints

### Revenue ▲

in € millions

2010	4,968	+7%
2011	5,296	

### EBITDA ▼

in € millions

2010	548	-20%
2011	440	

### EBITDA margin ▼

% of revenue

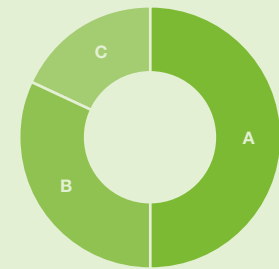
2010	11.0	-2.7
2011	8.3	

### Total reportable rate of injuries ▼

per million hours

2010	4.0	-0.5
2011	3.5	

### Revenue breakdown in %



A Europe	50
B Americas	32
C Asia Pacific	18

### Total revenue high growth markets vs mature



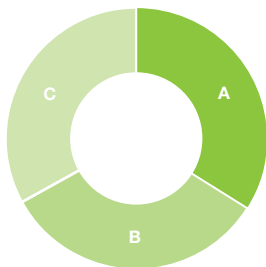
# AkzoNobel at a glance in 2011

Revenue (in € billions)

## €15.7

Revenue by Business Area

A Specialty Chemicals	34%
B Performance Coatings	33%
C Decorative Paints	33%

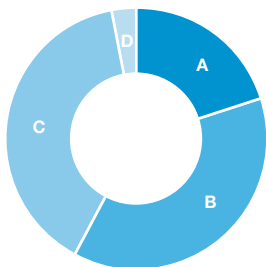


Employees

## 57,200

Employees by Business Area

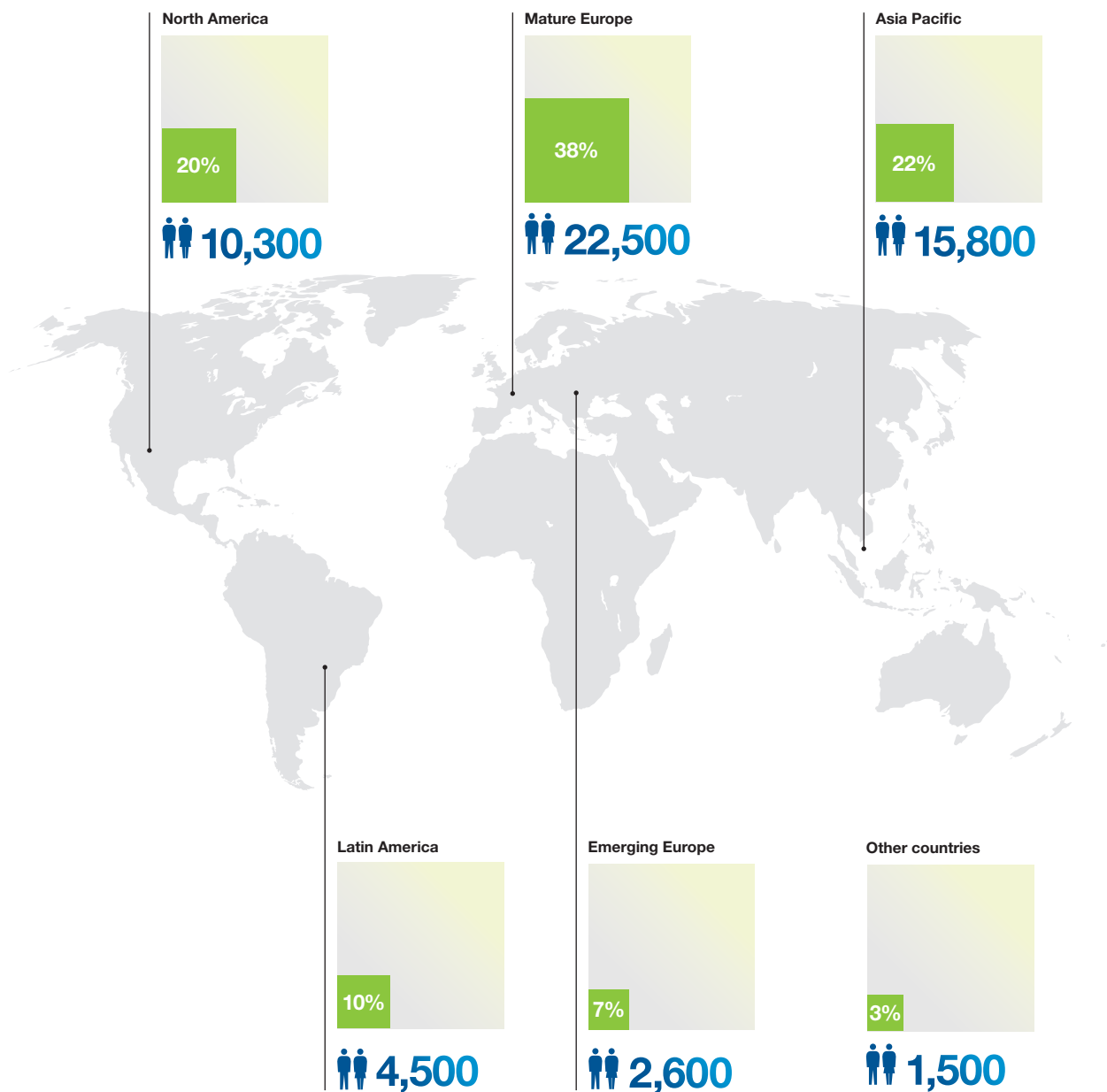
A Specialty Chemicals	20%
B Performance Coatings	38%
C Decorative Paints	39%
D Other	3%



Our geo-mix (revenue) and employees (by region)

Geo-mix revenue  
by destination

Employees  
by region



# Tomorrow's Answers Today

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2011 was a challenging year for AkzoNobel, the world's largest coatings and specialty chemicals company. The economic climate was difficult, but we were very active, stayed true to our strategy and introduced a major performance improvement program, while continuing to invest in our global activities. More information on all these developments can be found in this Report 2011, which takes a detailed look at how we are continuing to deliver Tomorrow's Answers Today.



**AkzoNobel**

# Our brands

How well do you know AkzoNobel?  
 Our Decorative Paints, Performance Coatings and Specialty Chemicals businesses supply hundreds of trusted brands and products to industries and markets all over the world.

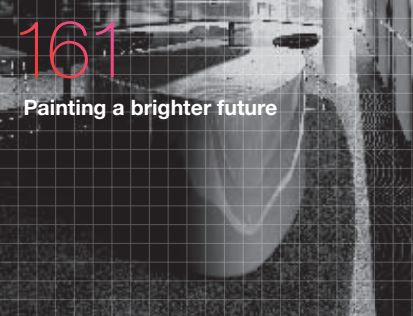
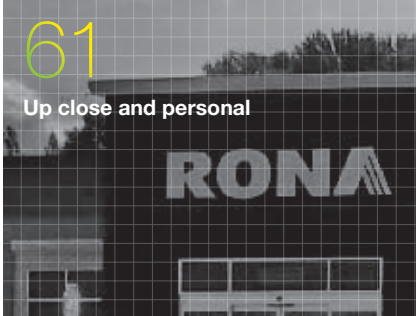
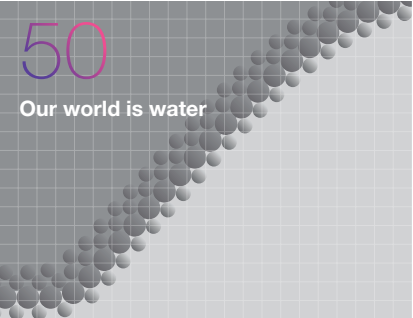
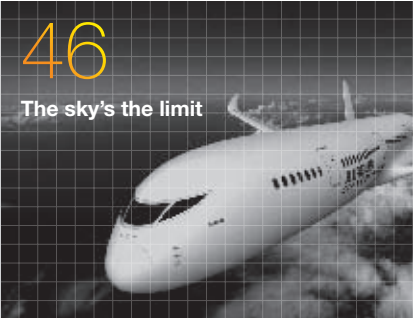
On this spread you will find a selection of the many brands we produce. Some of them are household names, others are more specialist products. But everything we make is likely to play some part in your daily routine.





# Case studies

Throughout our Report 2011 you will find various case studies highlighting just part of our contribution to the world around us.





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# Strategy

This section provides an overview of our strategic priorities, highlights key performance areas and gives details of the medium-term ambitions to which we aspire. You will also find the Chairman's statement and the Report of the Board of Management.

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# Chairman's statement

Without any doubt, 2011 has been a challenging year. After a satisfying first quarter, in which we continued to show profitable growth in line with 2010 trends, we began to experience increasing headwinds.

Raw materials was chief among them. A massive wave of unprecedented price increases hit us, which resulted in our total procurement bill for 2011 rocketing by approximately €1 billion, which we had mostly offset by the end of the year. Secondly, but no less significantly, the potent combination of the effects of the euro crisis, ongoing stagnation of the North American housing and construction markets and the gradual cooling off of the world economy had a negative impact on volumes and mix, particularly at – but not limited to – our Decorative Paints business. We were able to grow the company's topline by 7 percent, but were disappointed that EBITDA fell 9 percent.

While much of our energy was focused on combating the pressure on our margins, we stuck to our Value and Values strategy and did not lose sight of the importance of investing in the future. I'd like to begin by highlighting a number of significant deals and transactions which we made during the year. Let's start in India, where we opened our new Industrial Coatings plant in Bangalore in early 2011. We also announced our biggest ever investment in Latin America. Work has already begun on the €90 million Chemical Island, which will supply the world's largest pulp mill in Brazil. In addition, we committed €140 million to upgrade our chlorine plant in Frankfurt to the latest membrane technology. This will not only improve our competitive position, but also significantly reduce our carbon footprint. In China, we earmarked €60 million to expand our Asian Automotive and Aerospace Coatings business, and we also acquired Schramm Holding AG and the coatings activities of its related SSCP business in Korea, which gives us a global leadership position in specialty

plastic coatings. As the year ended, we finalized the Boxing Oleochemicals deal (which was completed in January 2012), gaining a leading position in the specialty surfactant sector in Asia.

But 2011 was not only about investing and acquiring. It was also about innovation, which is key to delivering Tomorrow's Answers Today. There are a few examples I'd like to mention in particular. In Powder Coatings, we achieved an important breakthrough when Interpon became the first ever full body monocoat powder coating to be used on a passenger vehicle in Europe. Meanwhile, Decorative Paints launched their low cost, high quality Discovery tinting machine. This technology will allow us to build our distribution faster and in a more competitive way, especially in high growth regions. More great innovation took place at our Surface Chemistry business, where we developed a new, highly versatile hybrid polymer technology platform which can produce a range of sustainable, biodegradable polymers.

Turning to the Values pillar of our strategic roadmap, we have made significant progress. We once again achieved a number two position in the SAM benchmark, illustrating that year-on-year we have a leading position in the chemicals industry when it comes to sustainability. Major advances have also been made with our Diversity and Inclusion program and we increased the proportion of executives who are either female or from the high growth markets.

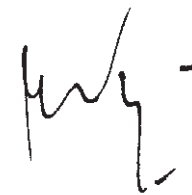
However, the satisfaction we can take from progress made on the Values side of our strategy does not make up for our disappointment regarding the drop in profitability and the limited progress we've made in terms of reducing operating working capital. We are determined to improve – even in a challenging world – our ability to generate more free cash and grow our profitability. We realize this is essential if we want to continue investing in growth.

We have launched a performance improvement program to strengthen our competitiveness, enhance our ability to grow, simplify our support structures and reduce our cost

base. This simplification and standardization of our support structures implies a significant change in our operating model and business culture. The program, which we announced in October 2011, is a comprehensive three-year plan to improve our performance and deliver €500 million EBITDA by 2014. We already expect to realize €200 million in 2012, when delivering on the program will be a central focus of our efforts.

All signs indicate that 2012 will be another difficult and volatile year. The world economy continues to slow down, there is ongoing uncertainty in the eurozone and raw material prices are still increasing for titanium dioxide. However, we will face all these challenges from a position of strength. We have solid fundamentals and one of the strongest business portfolios in our industry. We also have one of the best regional spreads in our industry, a strong balance sheet and an ambitious performance improvement program. That is why our medium-term strategic ambitions are unchanged.

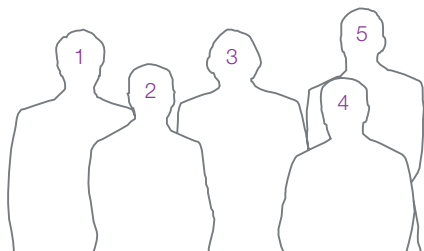
I'd like to end by saying that it was almost ten years ago when I joined AkzoNobel, becoming CEO in 2003. At the 2012 Annual General Meeting of shareholders, I will be stepping down and, subject to shareholder approval, my successor will be Ton Büchner. It has been a fantastic privilege to lead this company through a period of major transformation. I would like to thank all my colleagues across the globe for their continued support and I wish them every success in the future, under the leadership of Ton and the other members of the Executive Committee.



Hans Wijers  
CEO and Chairman of the Board of Management



# Our Board of Management



## **Leif Darner (1)**

**Board member responsible for Performance Coatings**  
(1952, Swedish)

After graduating from Gothenburg University, Leif Darner held several management positions before being appointed General Manager of Powder Coatings Scandinavia at Courtaulds in 1985.

In 1993, he was appointed Chief Executive of Coatings Northern Europe. Then in 1997 he served as Worldwide Director of Yacht Paint and Protective Coatings. In 1998, Courtaulds became part of AkzoNobel and Darner was appointed Business Unit Manager of AkzoNobel Marine and Protective Coatings, a post he held from 1999 until 2004, when he was appointed to the Board of Management of AkzoNobel as the member responsible for Chemicals, a position he held until April 2008.

He is a Board member of the Swedish Chamber of Commerce in the Netherlands and CEPE (European Confederation of Paint and Inks) Brussels.

## **Tex Gunning (2)**

**Board member responsible for Decorative Paints**  
(1950, Dutch)

Tex Gunning holds a degree in economics from the Erasmus University Rotterdam. His business career has included more than 25 years at Unilever, where his final position was as Business Group President Asia Foods.

In September 2007, he was appointed CEO of Vedior, a global company in HRM services. After a successful merger with Randstad, he joined AkzoNobel in 2008 as Managing Director of Decorative Paints. He is a Supervisory Board member at TNT Express and Friesland Campina.

## **Hans Wijers (3)**

**Chief Executive Officer and Chairman of the Board of Management**  
(1951, Dutch)

Hans Wijers is a former Minister for Economic Affairs in the Dutch government—a position he held for four years—while prior to joining AkzoNobel in 2002 he was Senior Partner with the Boston Consulting Group and Chairman of BCG's Dutch office.

He is a non-executive director at Royal Dutch Shell, a member of the European Roundtable of Industrialists and a Trustee of various charities.

## **Keith Nichols (4)**

**Chief Financial Officer**  
(1960, British)

Keith Nichols joined AkzoNobel in December 2005 from Corus Group plc, where he held the position of Group Treasurer. Prior to joining Corus in 2004, he held a number of senior finance positions within TNT N.V.

Nichols played a key senior role in the sale of Organon BioSciences to Schering Plough and in the structuring, financing and completion of the acquisition of ICI. He is a member of the Association of Corporate Treasurers and holds the MCT Advanced Diploma.

## **Rob Frohn (5)**

**Board member responsible for Specialty Chemicals**  
(1960, Dutch)

Rob Frohn joined AkzoNobel as a business analyst in 1984. Following several General Manager positions, in 2004 he was appointed CFO and member of the Board of Management of AkzoNobel. Frohn assumed responsibility within the Board of Management for Specialty Chemicals as of May 1, 2008.

He is a non-executive director at Nutreco N.V. and Delta N.V.; and a Board member of CEFIC (European Chemical Industry Council) and the Hogeschool van Arnhem en Nijmegen (HAN).



# Report of the Board of Management

2011 revenue up 7 percent driven by pricing actions to offset raw material cost inflation

Weaker end markets and cost inflation impacted results

2011 EBITDA 9 percent lower at €1,796 million (2010: €1,964 million)

Net income from continuing operations €469 million (2010: €664 million)

Adjusted EPS €2.91 (2010: €3.71)

Total dividend for 2011: increase to €1.45 proposed (2010: €1.40)

Performance improvement program on track

The economic environment and certain raw materials remain our principal sensitivities in 2012

## Financial highlights

### Continuing operations before incidentals

In € millions	2010	2011	Δ%
Revenue	14,640	15,697	7
EBITDA	1,964	1,796	(9)
EBITDA margin (in %)	13.4	11.4	
EBIT	1,374	1,175	(14)
EBIT margin (in %)	9.4	7.5	
Moving average ROI (in %)	10.8	8.9	
Operating ROI (in %)	27.7	22.3	

### After incidentals

In € millions	2010	2011	Δ%
Operating income	1,219	1,042	(15)
Net income from continuing operations	664	469	
Net income from discontinued operations	90	8	
Net income total operations	754	477	
Earnings per share from continuing operations (in €)	2.85	2.01	
Earnings per share from total operations (in €)	3.23	2.04	
Capital expenditures	534	708	
Net cash from operating activities	519	325	
Interest coverage	6.4	4.3	
Invested capital	12,718	13,708	
Net debt	936	1,895	
Number of employees	55,590	57,240	



## Financial highlights

Revenue for the year 2011 was up 7 percent, mainly due to pricing actions to offset raw material cost inflation. However, weaker end markets and cost inflation adversely impacted our results in 2011. The performance improvement program to deliver €500 million EBITDA in 2014 is on track and we are confident that this will bring us in line with our medium-term ambitions.

## Performance improvement program

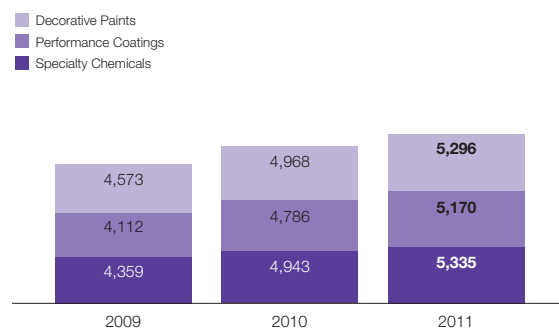
We have launched a performance improvement program to strengthen our competitiveness, enhance our ability to grow, simplify our support structures and reduce our cost base. This simplification and standardization of our support structures implies a significant change in our operating model and business culture. The program, which we announced in October 2011, is a comprehensive three-year plan to improve our performance and deliver €500 million EBITDA by 2014. The program includes business restructuring and is to deliver €200 million EBITDA in 2012. This implies higher restructuring cost for the coming year. The program is on track and the first update on progress and financial impact is due in our 2012 half-yearly report.

## Revenue

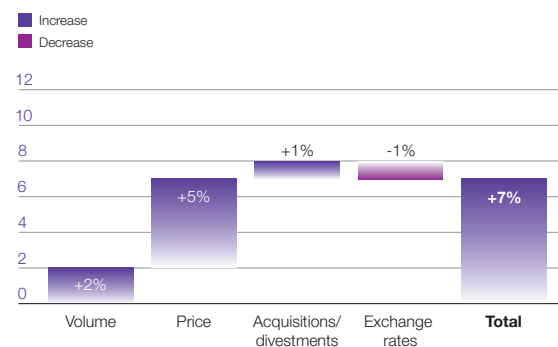
### Decorative Paints

In Decorative Paints, full-year revenue growth was 7 percent, with volumes up 5 percent, price increases up 3 percent and an adverse impact of currencies of 1 percent. Revenue in Asia and the Americas showed double digit growth in 2011, mainly driven by price increases and the new Walmart contract in the US. Demand declined in Europe, while growth rates achieved in China and South East Asia outpaced market growth. However, the pace of market growth slowed down in these markets in the second half of the year.

Revenue in € millions



Revenue development in % versus 2010



Revenue development in % versus 2010

	Volume	Price	Acquisitions/ divestments	Exchange rates	Total
Decorative Paints	5	3	-	(1)	7
Performance Coatings	2	5	2	(1)	8
Specialty Chemicals	1	7	-	-	8
<b>Total</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>(1)</b>	<b>7</b>

### Performance Coatings

Performance Coatings' 2011 revenue was up 8 percent, supported by volumes (2 percent), acquisitions (2 percent) and price (5 percent). Adverse currency impact was 1 percent. Industrial Coatings showed the largest volume increase, driven by good performances in Packaging and Coil Coatings, while Wood Finishes and Adhesives had lower volumes due to weaker demand in the housing market.

### Specialty Chemicals

Specialty Chemicals had a solid performance during 2011. Revenue grew over 2010 on price increases, with limited overall volume growth due to the economic slowdown and growth being hampered in some businesses due to capacity constraints. Volume growth was evident in market sectors for Surface Chemistry and Pulp and Paper Chemicals, where the demand remained strong.

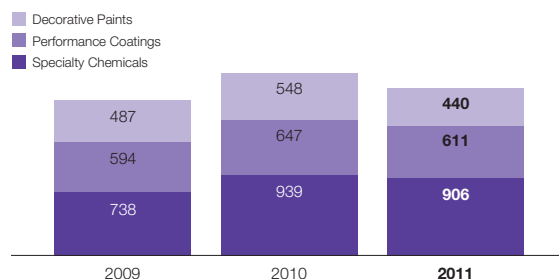
### Acquisitions and investments

In 2011 we made several acquisitions and significant investments:

- In Decorative Paints, we entered into a partnership in China with Quangxi CAVA Titanium Industry Co. Ltd. to help ensure supply of titanium dioxide (TiO<sub>2</sub>). In addition, we are investing €110 million in a replacement manufacturing facility in the North East of England
- In Performance Coatings, the acquisition of coatings manufacturer Schramm Holding AG closed in early October. This acquisition will enable us to strengthen our global leadership position in specialty plastic coatings. We are also investing €60 million to increase the production capacity of our Automotive and Aerospace Coatings business in China to meet rising demand
- In Specialty Chemicals, we finalized the acquisition of Boxing Oleochemicals (completed in January 2012). Boxing is the leading supplier of nitrile amines and derivatives in China and throughout Asia. We are investing €170 million in two new facilities being built in Brazil to supply two of the world's largest pulp mills. We are also investing €45 million in Ningbo, China, and €140 million to convert our chlorine plant in Frankfurt, Germany, to membrane electrolysis technology

We expect that our capital expenditures in 2012 will be in line with 2011.

EBITDA AkzoNobel 2009 – 2011 in € millions



### EBITDA

#### Decorative Paints

In Decorative Paints, EBITDA was 20 percent behind 2010 (19 percent in constant currencies), mainly driven by the increases in raw material prices (specifically TiO<sub>2</sub>) and unfavorable product mix effects including down trading. EBITDA margin ended at 8.3 percent in 2011 (2010: 11.0 percent). We started to restructure operations in Europe and announced restructuring activities in the US in 2012.

#### Performance Coatings

In Performance Coatings, raw material price increases had a negative impact on the full-year results in all businesses. Margin management programs – including selling price increases and restructuring efforts in mature markets – are ongoing and continue to support performance. Full-year EBITDA ended at €611 million (2010: 647 million), with an EBITDA margin of 11.8 percent (2010: 13.5 percent).

#### Specialty Chemicals

While most businesses in Specialty Chemicals recorded their best-ever profitability, Functional Chemicals saw its earnings

decrease after a very strong 2010 performance, due primarily to the ethylene amines product line. With effective margin management and cost control, unit margins remained at the 2010 level, offsetting significant raw material price increases and adverse currency impacts. The energy market in the Netherlands remained unattractive for energy producers as the difference between gas input costs versus electricity sales prices adversely impacted our results. The overall portfolio shows strong profitability in these difficult economic circumstances, with EBITDA at €906 million (2010: €939 million) and EBITDA margin at 17.0 percent (2010: 19.0 percent).

Costs for research and development in 2012 are expected to be in line with 2011, with 50 percent aimed at breakthrough innovations.

### Raw materials

Raw material price increases were a significant concern during 2011. Overall, the weighted average increase in our raw material prices for the year was 16 percent. The increase year-on-year for Q4 was just over 10 percent, which is at a lower level than in Q3, primarily due to a stabilization in all raw material groups, except TiO<sub>2</sub>, where we continue to see significant price increases. The absolute impact of increased raw material prices for the year is approximately €1 billion (including 2 percent volume increase), accounting for almost the entire increase in cost of sales.

### Incidental items included in operating income

Restructuring is mainly related to European businesses in Decorative Paints and Performance Coatings.

### Incidentals included in operating income

In € millions	2010	2011
Restructuring costs	(120)	(131)
Results related to major legal, antitrust and environmental cases	(49)	(9)
Results on acquisitions and divestments	33	10
Other incidental results	(19)	(3)
<b>Incidentals included in operating income</b>	<b>(155)</b>	<b>(133)</b>

### EBIT in "other"

Corporate costs ended in line with the previous year. Additional costs for functional excellence activities were offset by cost savings. The result of our captive insurance companies was in line with the previous year, although we had a higher number of claims in the fourth quarter. Other costs were lower due to cost savings and favorable non-recurring items.

### EBIT in "other"

In € millions	2010	2011
Corporate costs	(96)	(98)
Pensions	(7)	(14)
Insurances	2	1
Other	(87)	(64)
<b>EBIT in "other"</b>	<b>(188)</b>	<b>(175)</b>

### Tax

The year-to-date tax rate is 27 percent (2010: 19 percent). The tax rate benefits from several adjustments to previous years and tax-exempt gains, the main one being a release of an antitrust provision. The tax rate in 2010 was low because of several adjustments to previous years, partly related to settlements with tax authorities.

### Net financing expenses

Net financing charges for the year increased by €11 million from €327 million to €338 million. Significant items included:

- Net interest on debt which increased by €56 million to €245 million (2010: €189 million) due to the loss (€67 million) on the buy back of company bonds in December, partly offset by higher financing income
- Financing expenses on pensions which decreased by €41 million to €59 million (2010: €100 million) mainly due to lower discount rates
- A decrease in costs of €16 million on foreign currency results of hedged future interest cash flows

In December, we bought back a total nominal amount of €528 million of our 2014 and 2015 bonds and replaced them with bonds with lower interest rates. This transaction resulted in a loss of €67 million in the fourth quarter, which will be set off in later years by significantly lower interest costs. The transaction has improved our maturity profile.

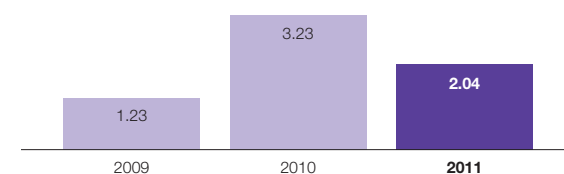
### Net financing expenses

In € millions	2010	2011
Financing income	51	57
Financing expenses	(240)	(302)
<b>Net interest on net debt</b>	<b>(189)</b>	<b>(245)</b>
Financing expenses related to pensions	(100)	(59)
Interest on provisions	(39)	(46)
Other items	1	12
<b>Net other financing expenses</b>	<b>(138)</b>	<b>(93)</b>
<b>Net financing expenses</b>	<b>(327)</b>	<b>(338)</b>

### Dividend proposal

We are aiming to pay a stable to rising dividend. We have introduced a stock dividend option with cash dividend as default. Given our strong fundamentals and as a signal of confidence in our ability to deliver the performance improvement program in challenging markets, we will propose a 2011 final dividend of €1.12 per share which would make a total 2011 dividend of €1.45 per share (2010: €1.40).

### Earnings per share total operations in €



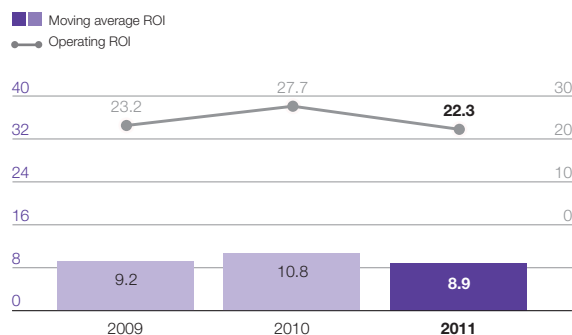
### Dividend in €



### Economic Value Added (EVA)

EVA is calculated by deducting from net operating profit after tax (NOPAT) a capital charge representing the cost of capital calculated on the basis of an average return investors expect. EVA for 2011 totaled a negative amount of €251 million (2010: €142 million negative).

#### Returns on invested capital in %



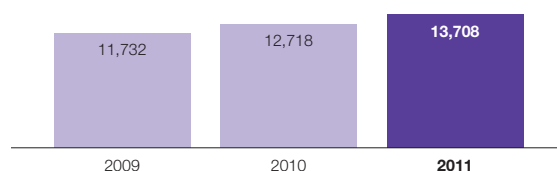
### Invested capital

Invested capital at year-end 2011 totaled €13.7 billion, €1.0 billion higher than at year-end 2010. Invested capital was impacted by the net effect of:

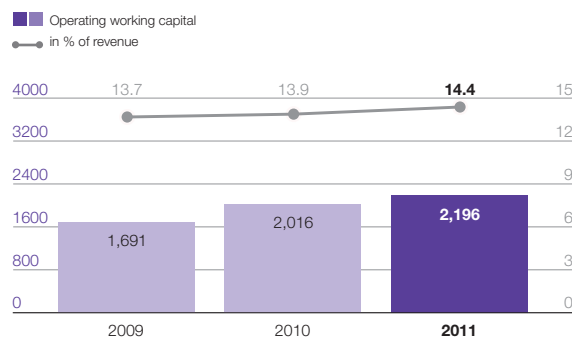
- An increase of €0.2 billion by the acquisition of coatings manufacturer Schramm Holding AG early October 2011
- An increase of €0.3 billion of long-term receivables related to pension funds in asset position

- An increase of operating working capital of €0.2 billion due to more expensive raw materials and actions to ensure supply of titanium dioxide. Expressed as a percentage of revenue, operating working capital was 14.4 percent (year-end 2010: 13.9 percent)
- Payments of accrued interest of €0.2 billion, including €31 million accrued interest on bonds which were paid back in December 2011, with regular coupon dates in the first quarter

#### Invested capital in € millions



#### Operating working capital in € millions



### Condensed consolidated balance sheet

In € millions	2010	2011
Intangible assets	7,308	7,392
Property, plant and equipment	3,384	3,705
Other financial non-current assets	1,977	2,198
<b>Total non-current assets</b>	<b>12,669</b>	<b>13,295</b>
Inventories	1,678	1,924
Trade and other receivables	2,788	2,917
Cash and cash equivalents	2,851	1,635
Other current assets	108	98
<b>Total current assets</b>	<b>7,425</b>	<b>6,574</b>
<b>Total assets</b>	<b>20,094</b>	<b>19,869</b>
Shareholders' equity	8,984	9,212
Non-controlling interests	525	531
<b>Total equity</b>	<b>9,509</b>	<b>9,743</b>
Provisions and deferred tax liabilities	2,444	2,284
Long-term borrowings	2,880	3,035
<b>Total non-current liabilities</b>	<b>5,324</b>	<b>5,319</b>
Short-term borrowings	907	494
Trade and other payables	3,305	3,349
<b>Other short-term liabilities</b>	<b>1,049</b>	<b>964</b>
<b>Total current liabilities</b>	<b>5,261</b>	<b>4,807</b>
<b>Total equity and liabilities</b>	<b>20,094</b>	<b>19,869</b>

### Net debt

Net debt increased from €936 million at year-end 2010 to €1,895 million at year-end 2011, mainly due to:

- Operating cash inflow of €325 million
- Capital expenditures of €708 million
- Net cash outflow for acquisitions and divestments of €138 million
- Payments of dividends of €362 million

In December, we bought back high interest bonds for a total nominal amount of €528 million and a total consideration of €633 million. This transaction resulted in a loss of €67 million. However, going forward this loss will be offset by the significantly reduced coupon on a new €800 million seven-year bond launched in the same month. As a result, our maturity profile has improved, with hardly any debt maturing in 2012.

### Shareholders' equity

Shareholders' equity at year-end 2011 increased to €9.2 billion, mainly due to the net effect of:

- Net income of €477 million
- Dividend payments of €304 million

### Pensions

The funded status of the pension plans at year-end 2011 was estimated to be a deficit of €0.5 billion (year-end 2010: €1.0 billion). The movement compared with year-end 2010 is due to:

- Top-up payments of €354 million into certain defined benefit pension plans
- Lower discount rates increasing the pension obligation
- Lower inflation in UK decreasing the pension obligation
- Higher asset returns

In January 2012, we concluded the triennial actuarial funding review of the ICI Pension Fund. We expect to have top-up payments over the remaining six years of the recovery plan that are £198 million lower in total than the sum of the current schedule. In 2012 and 2013, they will be £62 million per annum lower and in the last four years £19 million per annum lower. In addition, we have agreed to terminate a

contingent asset on our balance sheet in order to fund further de-risking activities and thereby reduce future demands on our cash flows.

### Workforce

At year-end 2011, we employed 57,240 people (year-end 2010: 55,590). The net increase was due to:

- An increase of 900 due to acquisitions and divestments, mainly from the Schramm acquisition (790 employees)
- A decrease of 1,050 employees due to ongoing restructuring
- An increase of 1,800 employees due to new hires in high growth markets

In 2012, we will see the impact of restructuring in mature markets. In the context of the performance improvement program, restructurings have started in Decorative Paints in Europe and the US.

### Cash flows

Operating activities in 2011 resulted in a cash inflow of €325 million (2010: €519 million). The change is mainly due to a net effect of:

- Lower profit from continuing operations
- Higher operating working capital
- Fair value changes and cash settlements for foreign currency hedging activities
- Lower payments related to provisions
- Lower payments for tax and interest

### Condensed consolidated cash flow statement

In € millions	2010	2011
<b>Cash and cash equivalents opening balance</b>	<b>1,919</b>	<b>2,683</b>
Profit for the period from continuing operations	747	533
Amortization, depreciation and impairments	640	633
Changes in working capital	(124)	(344)
Changes in provisions	(651)	(498)
Other changes	(93)	1
<b>Net cash from operating activities</b>	<b>519</b>	<b>325</b>
Capital expenditures	(534)	(708)
Acquisitions and divestments	2	(138)
Other changes	53	(2)
<b>Net cash from investing activities</b>	<b>(479)</b>	<b>(848)</b>
Changes from borrowings	(33)	(470)
Dividends	(403)	(362)
Other changes	(45)	7
<b>Net cash from financing activities</b>	<b>(481)</b>	<b>(825)</b>
<b>Net cash used from continuing operations</b>	<b>(441)</b>	<b>(1,348)</b>
Cash flows from discontinued operations	1,095	11
<b>Net change in cash and cash equivalents of total operations</b>	<b>654</b>	<b>(1,337)</b>
Effect of exchange rate changes on cash and cash equivalents	110	(11)
<b>Cash and cash equivalents at December 31</b>	<b>2,683</b>	<b>1,335</b>

# Statement of the Board of Management

## The Board of Management's statement on the financial statements, the management report and internal controls

We have prepared the AkzoNobel Report 2011 and the undertakings included in the consolidation taken as a whole in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and additional Dutch disclosure requirements for annual reports.

To the best of our knowledge:

- The financial statements in this AkzoNobel Report 2011 give a true and fair view of our assets and liabilities, our financial position at December 31, 2011, and of the result of our consolidated operations for the financial year 2011
- The management report in this AkzoNobel Report 2011 includes a fair review of the development and performance of the businesses and the position of AkzoNobel and the undertakings included in the consolidation taken as a whole, and describes the principal risks and uncertainties that we face

The Board of Management is responsible for the establishment and adequate functioning of internal controls in our company. Consequently, the Board of Management has implemented a broad range of processes and procedures designed to provide control by the Board of Management over the company's operations. These processes and procedures include measures regarding the general control environment, such as a Code of Conduct including business principles and a corporate complaints procedure (SpeakUp!), corporate directives and authority schedules, as well as specific measures, such as a risk management system, a system of controls and a system of letters of representation by responsible management at various levels within our company.

All these processes and procedures are aimed at a reasonable level of assurance that we have identified and managed the significant risks of our company and that we meet our operational and financial objectives in compliance with appli-

cable laws and regulations. The individual components of the above set of internal controls are in line with the COSO Enterprise Risk Management Framework. With respect to support to, and monitoring of, compliance with laws and regulations including our Business Principles, a Compliance Committee has been established. Internal Audit provides assurance to the Board of Management whether our internal risk management and control systems, as designed and represented by management, are adequate and effective.

While we routinely work towards continuous improvement of our processes and procedures regarding financial reporting, the Board of Management is of the opinion that, as regards financial reporting risks, the internal risk management and control systems:

- Provide a reasonable level of assurance that the financial reporting in this 2011 Report does not contain any errors of material importance
- Have worked properly during the year 2011

For a detailed description of the risk management system with regard to the strategic, operational and compliance risks and the principal risks identified, reference is made to the Risk management chapter in the Governance and compliance section. We have discussed the above opinion and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

## Medium-term ambitions and outlook

We have the aspiration to be the world's leading coatings and specialty chemicals company. Our medium-term ambitions are to grow to €20 billion revenue, increase EBITDA each year while maintaining a 13-15 percent margin, reduce OWC percent of revenue year-on-year by 0.5 percent towards a 12 percent level, and pay a stable to rising dividend.

The sustainability ambitions are to remain a top three leader in our industry, to be top quartile in our peer group in terms of safety performance, diversity, employee engagement and development, and eco-efficiency improvement rates.

For the year ahead we expect to see the full-year benefit of the price rises that we have been able to achieve, and which now have offset most of the raw material price increases. Currently we are experiencing greater price stability in most raw materials, with the exception of TiO<sub>2</sub>, which we anticipate will continue to rise in price, and for which we have plans in place to pass through further price rises in the future. In addition, we are moving ahead with the implementation of our performance improvement program, which should bring significant benefits in 2012 and beyond, underpinning our margins.

The major uncertainty remains the economic environment. Our concerns are focused on the risk of recession in Europe, delayed recovery of the US property market and the potential for a slowdown in China. Each of these can have a significant impact on our customers in these regions, that would in turn impact our sales volumes. These, together with certain raw materials, remain our principal sensitivities in 2012.

AkzoNobel has a strong portfolio of complementary businesses, with many leading market positions and exposure to growth markets. This, combined with our ongoing management actions, means that we are confident that we can deliver medium-term growth in line with our strategic ambitions.

Amsterdam, February 15, 2012

**The Board of Management**

Hans Wijers  
Leif Darnier  
Rob Frohn  
Tex Gunning  
Keith Nichols

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## Taking the lead

Building global leadership positions in core markets is a cornerstone of our strategic agenda. By focusing our activities on our key industrial sectors, we strengthen our businesses and underline our determination to accelerate sustainable growth. This was highlighted in 2011 by the acquisitions of coatings manufacturer Schramm Holding AG and the coatings business operated by Schramm's largest shareholder, Korean company SSCP.

The two deals made AkzoNobel the global leader in specialty plastic coatings for mobile devices, laptops and TVs. They also enhanced our position in the automotive industry with high-end, water-based technology for plastic and metal and will enable us to bring color and design to vehicle interiors. Significantly, more than half the combined revenues of Schramm and SSCP are in Asia – primarily China, Korea, Vietnam and Thailand – offering us a major opportunity to boost our Industrial Coatings activities, particularly in these regions. However, the Schramm deal also shows that we are investing globally in the right technologies when the opportunity comes along.

Based in Offenbach, Germany, with a 200-year history of innovative coatings developments, Schramm manufactures and markets coatings for plastics, metals and electrical insulation, as well as coil coatings. The transaction was notable for reinforcing AkzoNobel's position in the automotive interior sector in Germany. Peter Brenner – Managing Director of Schramm, who became Director of the combined specialty plastic coatings business – said he was delighted with the deal: “We are looking forward to working with our new colleagues and exploiting the exciting opportunities this integration offers to deliver a new portfolio of world class products and service to our customers.”



# Achieving our strategic ambitions

## Value Accelerated growth

### €20 billion in revenue (Delivering)

- Made progress with achieving our €20 billion target in all three Business Areas
- Introduced country organizations in high growth markets/regions (Brazil, India, China, Middle East) to support the achievement of specific, largely organic, growth targets
- Signed a major new deal for bleaching chemicals in Brazil
- Acquired:
  - Schramm Holding AG and the related SSCP business in Korea
  - Boxing Oleochemicals in China

### Growth in absolute EBITDA, in a 13–15 percent margin range (Improvement actions in progress)

- A combination of volume issues and a difficult raw material cost environment has created significant contribution margin and EBITDA margin pressure
- Continuing to take aggressive pricing actions as a result of raw material cost pressures; expecting full impact in 2012
- Started a performance improvement program to deliver €500 million EBITDA by 2014
- Implemented country organizations in key markets/regions to support delivery of back office synergy (e.g. HR shared service organization North America)

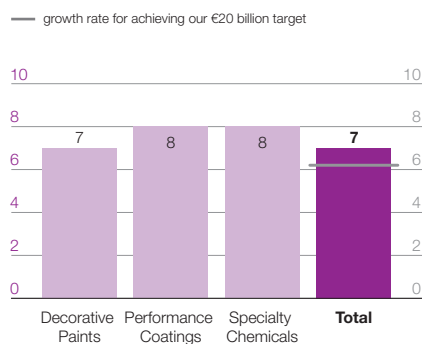
### Reduction in OWC of 0.5 p.a., towards a 12 percent target (Facing headwinds)

- Continued to make progress with regard to receivables and payables
- A challenging year in terms of inventory management – slower volume growth in the second half of the year and prudent management of raw material availability meant that we did not make planned progress
- Putting actions in place to regain momentum on inventories going forward

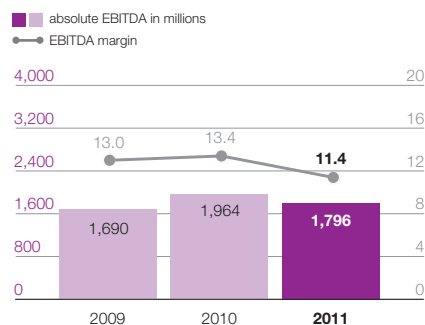
### Stable to rising dividend (Delivering)

- Intending to grow the 2011 total dividend by 4 percent to €1.45 per share
- Shareholders are offered an option to obtain a stock dividend

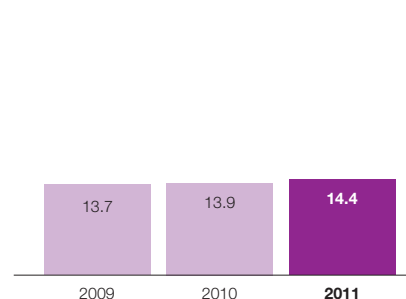
#### Revenue growth versus 2010 in %



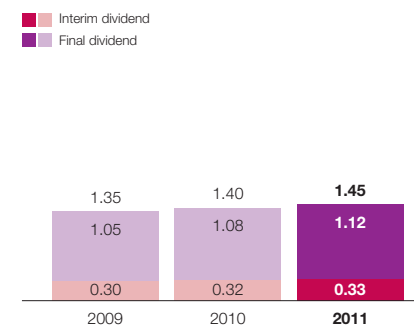
#### EBITDA



#### Operating working capital as a % of revenue



#### Dividend paid in € per share





# Values Sustainable growth

## Top quartile safety performance (Continued improvement)

- Continued to implement behavior based safety, safety leadership training and our global Safety Day concept
- Significantly improved the safety performance communication and best practice transfer to spread learning from the businesses where performance is already ahead of the 2015 ambition
- In process safety: continued to strengthen guidance and training to accelerate improvements

## Top quartile performance in diversity, employee engagement and talent development (Improving)

- 88 percent (49,000) of employees participated in our ViewPoint employee engagement survey; engagement score improved to 3.74, or 33rd percentile (2010: 3.56 or 23rd percentile)
- Began rolling out a number of diversity and inclusion tools to the organization
- Continued to focus on our talent management by increasing the number of participants in our management development programs and setting up the AkzoNobel Academy to improve skills capability training

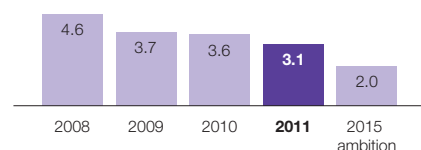
## Top quartile eco-efficiency improvement rate (Improving)

- Carbon emissions per unit of production in own operations improving
- Committed to a significant reduction target for VOC in our products and making progress in this area
- Sustainable fresh water assessments for manufacturing sites carried out for the second time
- Continued to develop our portfolio of eco-premium solutions for customers
- Beyond own operations, significant work underway, together with suppliers and/or customers, to reduce emissions and waste

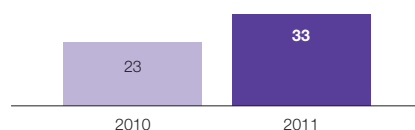
## Top three position in sustainability (Delivering)

- Ranked in the top three in the Sustainability Asset Management (SAM) benchmark for the Chemicals sector for the sixth consecutive year
- Improved our position in the Carbon Disclosure Project's investor and supply chain reporting

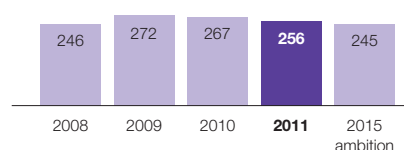
### Total reportable rate of injuries per million hours



### Employee engagement performance as percentile



### Greenhouse gas emissions in kg CO<sub>2</sub>(e) per ton of production



### SAM position Chemicals sector

2007	1st
2008	2nd
2009	2nd
2010	2nd
2011	2nd

# Our strategic agenda

## Overview of our strategic agenda

When we set our medium-term strategic ambitions in September 2010, we also announced a revised strategic agenda designed to support delivery of these ambitions.

- **Innovate more** in response to global mega-trends and deliver on solution promises
- **Accelerate profitable growth** through market share gain, margin management and industry consolidation, particularly in high growth regions
- Deliver business models that **serve the needs of the mid-markets**
- **Drive functional and operational excellence** with focus on RD&I, supply chain, finance and HR
- **Manage capital and cash** in a disciplined manner
- Build and leverage our industry-leading **Talent Factory**
- Live the AkzoNobel values by creating a **culture of confidence, cooperation and co-creation**

In creating this strategic agenda, we recognize that we must embed safety and sustainability in everything we do. For example, we recognize that one of the key drivers behind the first item on our agenda, innovation, is the need to develop products that make better use of the world's resources, whether this is within our own production scope or in the scope of our suppliers, customers or end users. In addition, in our definition, driving functional and operational excellence has as much to do with improving our safety performance as it does with reducing our cost base.

The following sections describe each of these agenda items in turn.

## Innovate more

We continue to develop an innovation portfolio which will deliver bigger and better innovations, faster. These projects are generally based on “solution promises” that address the global mega-trends of population growth, the need for improving the quality of life in the emerging economies, climate change and the increasing scarcity of natural resources.

Solution promises are conceptual responses to the challenges posed by these global mega-trends and they provide a framework which guides and energizes our innovation portfolio. We have defined five solution promises and each of these is described in more detail below.

**1. Serving the needs of the mid-market.** As global population increases and new economies are beginning to drive economic development, the number of households forming the so-called mid-markets will increase dramatically. This is such an important trend that we have defined an entire strategic agenda item around it, which is described later in this section.

**2. Developing products for well-being and identity.** We all strive to enhance the quality of our lives in terms of our happiness, health and well-being. At the same time, we are increasingly seeking to create our own identities and take a pro-active approach to personalizing our homes, cars and even our personal appearances. AkzoNobel addresses these aspirations in diverse ways, but good examples are:

- Biostyle and Structure Cel polymers and rheology modifiers produced by our Surface Chemistry business. These products are formulated into hair styling products that allow people to express themselves. The ingredients not only perform well, they also have the added benefit of being

- based on bio-polymers, which are, of course, renewable
- Development of intumescent coatings such as Marine and Protective Coatings' Interchar 1120, which helps to preserve the structural integrity of constructional steel for up to four hours, allowing people to escape from buildings before they collapse in the event of catastrophic fires
- Introduction of Functional Chemicals' Suprasel Loso OneGrain to help reduce individual sodium consumption by 50 percent without compromising on taste (see case study on page 26)

**3. Achieving zero footprint.** We aspire to achieve zero environmental footprint across the value chain with our products. To ensure that we move towards this goal, we are working hard to adopt lower footprint raw materials, develop cleaner manufacturing processes, produce products that have a better environmental footprint both inherently and in-use and ensure that there is an appropriate end-of-life. Five good examples of how we are doing this are:

- The European Ecolabel status granted to our Sikkens Ecosure range of low VOC and low embodied carbon paints recognizes the progress we're making in achieving the goal of zero footprint in Decorative Paints
- We also have products for reducing our customers' energy use. For example, the reflective properties of our Dulux Weathershield SunReflect and KeepCool exterior wall paints and our Cool Chemistry coil coatings are helping to reduce energy consumption in the cooling of homes in hotter climates
- In automotive refinishes, we have developed UV-based technologies that allow for rapid and ambient temperature curing. These products significantly reduce the energy consumption and costs of our automotive paint shop customers

- The Hybrid Polymers technology platform developed by our Surface Chemistry business replaces a substantial proportion of oil barrel-derived polymers with polymers derived from renewable carbohydrates. The hybrid polymers are being used in laundry cleaning, dishwashing and personal care applications and have the added advantage of being fully biodegradable
- We have comprehensive innovation programs around the reduction of a number of priority substances, such as lead, cobalt and chromates. For example, in 2011, we removed the last of the lead compounds from our global portfolio and are currently developing systems to ensure no lead-containing substances will be purchased within AkzoNobel. Furthermore, we have committed to extremely low impurity profiles for any substance containing lead as a by-product of a synthesis or impurity of a raw material

**4. Saving you time and effort.** Many of us have too much to do, and too little time in which to do it. This trend is only going to increase in the future, and as a company we see great opportunities to respond to the demands for time and effort-saving products and technologies. For example, we see the need for new and faster ways of applying coatings, as well as the development of self-cleaning and self-maintaining surfaces. In addition, there is a need for full-solution services in the area of color-matching paints within decorative paints applications, where we have recently launched Dulux Colour Click, a simple way of using your digital camera to achieve the perfect match. In the automotive refinish market, we have also introduced stickerfix as a quick and convenient way of repairing minor scratches using a color-matched, film-based system which takes just minutes to achieve a near-perfect repair.

**5. Creating new horizons in functionality.** Usually, products have one or two well-defined functions. For example, paints

and coatings protect and/or beautify surfaces. But we also see great opportunities for products that do much more. For example, we have developed:

- Dulux Sterishield, a decorative paint which not only beautifies and protects, but also keeps critical surfaces sterile, such as in hospital operating theaters
- A family of clearcoat paints for car refinishing, based on proprietary resin technology. The latest product, Autoclear LV Exclusive, has excellent scratch resistance and remarkable self-healing properties

To maximize our innovation opportunities and fulfill our solution promises, we recognize that we need to work with others who complement our own capabilities and can enable us to deliver innovations to the market faster. We call this open innovation. Two recent examples of open innovation are highlighted below:

- We recently entered into a strategic partnership with the Corrosion & Protection Centre at the University of Manchester in the UK. Its unrivalled position as the world's leading academic group with a primary focus on corrosion, and its in-depth knowledge of inhibition, will underpin the expertise of AkzoNobel's metal coatings businesses, as well as provide new business opportunities for our Functional Chemicals and Surface Chemistry businesses
- In 2010, we initiated a strategic partnership with BASF with the objective of using more innovative materials to deliver enhanced functionality in our paints and coatings and thereby create benefits for both companies. A novel binder developed by BASF has been formulated into a new addition to the Sikkens Cetol range of high performance and durable exterior wood coatings. We are

very positive about the opportunities for this product in this demanding segment

### Accelerate profitable growth

We continue to see growth opportunities in all segments in our business in both mature and high growth markets. To capture these opportunities, we continue to invest in both organic growth and acquisitions. Some examples include:

- 2011 was a year in which our Decorative Paints business continued to build on its relationship with Walmart in the US and strengthened its long-standing partnership with Canadian retailer RONA (see case study on page 61)
- We are also investing in growth in Decorative Paints by developing a consistent brand identity and approach. This allows us to leverage our scale across geographic boundaries and brands (see case study on page 56)
- In 2011, we continued to build our business organically through capacity expansions in high growth markets in Specialty Chemicals. This includes new capacity in our Functional Chemicals business in Bermocoll and organic peroxides in Ningbo, and in our Pulp and Paper Chemicals business in Brazil (see case study on page 30)
- Two bolt-on acquisitions completed in 2011 both demonstrate the breadth of growth opportunities in our markets. Firstly, we acquired coatings manufacturer Schramm Holding AG and the coatings activities operated by its largest shareholder, Korean company SSCP, to augment our position in specialty plastic coatings, with a particular emphasis on consumer electronics in Asia and other high growth markets (see case study on page 19). We also announced the acquisition of Boxing Oleochemicals in China to help build our position in Surface Chemistry, with particular emphasis on serving the growing Chinese mid-market (see case study on page 40)

- To facilitate growth in all segments in high growth regions, we have put in place new country and regional management structures. Specifically, we have appointed senior executives as Country Directors to lead the business in delivering revenue growth in the strategically important countries of Brazil, China and India. In addition, we have appointed a Middle East Regional Director with full profit and loss responsibility, with the objective of building our position

It is important to note that, regardless of the part of the world in which we are investing, we utilize the same standards for health, safety and the environment (HSE), as well as business principles, compliance and control. Furthermore, when we evaluate growth opportunities, we do so from a balanced perspective in terms of evaluating growth and synergy potential, as well as the impact on our portfolio in terms of eco-efficiency levels.

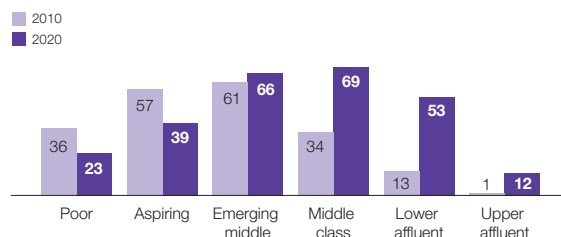
We also prioritize projects that have both market and sustainability impact. With this in mind, during 2011 we announced the conversion of our Frankfurt chlor-alkali plant to the use of membrane technology, which will allow us to improve our leadership positions in Europe in terms of the caustic lye and chloromethanes markets, while improving our environmental footprint.

### Serve the needs of the mid-markets

We continue to see a significant opportunity beyond our normal premium product and service level positioning in the mid-market. This is the fast-growing segment that is looking for a different price-value trade-off than we find in the premium segment.

In China, for example, the mid-market is expected to expand from about 120 million to 190 million households over the next ten years, introducing many tens of millions of new consumers in search of affordable, high quality goods and services as shown in the graph on this page.

**Growing mid-market households in China** in millions



Source: BCG. Data is adjusted for inflation.

In some cases, the approach to addressing the mid-markets successfully is through appropriate products. A good example of this is the introduction of the Dulux All Round Guard and Forest Breath ranges of “safe for me and my family” paints to the Chinese market. These ranges meet the needs of a growing population of discerning consumers entering the home decoration market. We also have locally appropriate decorative paints mid-market ranges in India (e.g. Dulux Promise) and Indonesia (e.g. Dulux Catylac), as well as in many other countries.

Differentiated product lines are not the only solution to the mid-markets. In some cases, the solution is to have different brands, distribution and/or sales force approaches. So, for example, we have a completely different business model for the mid-market in automotive refinishes than we have for our premium brands. This includes everything from brand name, to product formulation, to technical service levels to distribution channels, to price. Of course, both business models fully and completely adhere to the same standards and techniques in terms of business principles, safety and sustainability. It is also worth noting that, while mid-market business models are often initially developed for high growth markets, there are also mid-market opportunities in the more established markets.

### Drive functional and operational excellence

A key factor in the recent creation of our Executive Committee was the idea that, to deliver the next level of performance

and reach our vision of becoming the leader in coatings and specialty chemicals, we need to pursue excellence from a functional perspective. This new governance structure is providing the impetus that we need to develop plans to reach the next level of functional and operational excellence, resulting in our announcement in October 2011 of a performance improvement program to deliver €500 million EBITDA by 2014, as well as a step change in effectiveness.

This program is not optional; we must deliver higher levels of efficiency to ensure that, in future, we cover our cash requirements and generate free cash flow, while still investing in growth. In addition, higher efficiency levels are required to achieve our Values medium-term ambition of top quartile eco-efficiency improvement rate. Nor is the program optional from an effectiveness perspective. By improving our level of performance, we will be better positioned to achieve our medium-term ambitions regarding, for example, safety and employee engagement.

There are a number of workstreams included in this overall performance improvement program, which are outlined below.

### Integrated Supply Chain

We have a very ambitious program for functional and operational excellence in Integrated Supply Chain, which includes Sourcing/Procurement, Manufacturing/Operations and Distribution/Logistics. The program should generate substantial and simultaneous improvement in Value (e.g. in the form of cost and capital savings) and Values (e.g. in the form of improved people and process safety). In terms of activities, the program includes:

- **Improvement at manufacturing sites and distribution centers**

These improvement actions essentially take place at individual plant or distribution centers. They are based on standardized improvement methodologies such as Lean and Lean Six Sigma. The concept will be rolled out company-wide and the scope includes organizational effectiveness, overall equipment efficiency and the reduction of our environmental footprint

- **Improvements of operations and manufacturing network**

These are cross-business improvement plans that will further enhance the productivity and sustainability profile throughout the overall supply chain. They encompass opportunities for restructuring in some of our more established markets, as well as more efficient and effective pursuit of growth opportunities in high growth markets

- **Complexity reductions**

Integrated Supply Chain supports business-driven simplification efforts. The business simplification programs will lead to the use of fewer raw materials, fewer formulations and fewer stock keeping units, and simplified operations, thereby boosting overall productivity in the supply chain and lowering working capital levels

- **Stepping up safety efforts**

Helping us to achieve our top quartile ambitions when it comes to personal safety through standardized behavioral based improvement programs. We have also supplemented our process safety and asset integrity standards with guidance notes and best practices. Process safety awareness training sessions are being rolled out for site managers and new process safety specialists throughout the organization

### **Research, Development and Innovation (RD&I)**

To take advantage of our scale and ensure that we maximize the use of our extensive technical knowledge and know-how, we have established six global RD&I Centers. These are located in Deventer and Sassenheim in the Netherlands; Felling and Slough in the UK; Strongsville, Ohio, in the US; and Songjiang, near Shanghai, China. The six facilities house one or more of the company's Expert Capability Groups, all of which perform groundbreaking research. They are co-located with the principal RD&I laboratories of one or more AkzoNobel businesses, which develop the technology platforms for their respective activities. The global centers are complemented by around 140 smaller RD&I laboratories, which focus on the development and adaptation of products for local markets and technical support for manufacturing and customers.

In addition to ensuring that we make best use of our people capabilities, we also need to ensure that we leverage opportunities to improve efficiencies in our formulations. We are doing this by developing product architectures which can be used around the globe for both Decorative Paints and Performance Coatings. This allows us to create and market products that are optimized in terms of price-value trade-offs, as well as eco-efficiency in product, manufacturing and use. This project is key within our VOC reduction program, which will help us to deliver on a 25 percent reduction in VOCs per unit of product sold by 2015.

### **Human Resources (HR)**

Delivery of efficiency and effectiveness in our HR function is fundamental to delivery on our strategic ambitions. This includes, but is not limited to, delivery of our ambition to become top quartile in diversity, employee engagement and talent development. We are therefore stepping up our efforts to build a functionally excellent One HR organization.

Two important enabling initiatives to deliver a functionally excellent HR organization are country HR organizations and HR information systems. With regards to the former, we have made substantial progress. We have implemented HR organizations in most of our top ten countries, which provide shared services and recruitment expertise for all AkzoNobel businesses. With regard to the latter, we have now put in place a program to harmonize our IT systems in our top ten countries.

### **Finance and Information Management (IM)**

Similarly, we need to ensure that we improve efficiency in our Finance function and systems to both reduce costs through standardization and harmonization, while at the same time increasing our focus on business partnering and ensuring a continued high level of control. A series of specific projects in these workstreams will deliver simultaneous improvement, including implementing a global chart of accounts, consolidation of ERP systems and revamping several key processes such as purchase-to-pay. These initiatives will also support the creation of business shared service centers in the future.

### **Manage capital and cash**

We have not been generating sufficient free cash flow to ensure that we can sustainably invest in our growth plans. There are three options for how to change this situation – increasing our revenue stream, generating more earnings per unit of revenue and/or reducing capital requirements. Our first three strategic agenda items are aimed at increasing our revenue stream. Our performance improvement program is aimed at generating more earnings per unit of revenue. This strategic agenda item is aimed at controlling and/or reducing capital requirements.

First of all, we are managing underlying cash requirements created by pension costs, legacy payments and interest charges. To do this, we start from the perspective that we should employ conservative financial policies that safeguard a strong investment grade (BBB+/A-) credit rating profile throughout the business cycle. Within this framework, we manage cash in a manner which optimizes overall company value. Examples of how we do this are:

- Handling legacy claims in a responsible manner while also optimizing company cash use and interest costs
- Exploring options for how to spread pension fund top-up requirements over time while still ensuring that we deliver fully on our pension commitments
- Building cash management structures that allow for optimal company-wide cash use
- Endeavoring to reduce the risk profile of our liability position, for example by applying measures to improve cash impact predictability in legacy claims handling and the management of the AkzoNobel debt book through early refinancing of debt

Secondly, we are prioritizing and controlling our capital expenditures. In doing this, we examine all aspects of our investments to ensure we look at the impact of investment on our Value and Values ambitions, including growth potential, productivity impact and safety and eco-efficiency implications.

9g

Average daily adult salt consumption is above healthy levels



Suprasel Loso OneGrain



Looks, tastes and can be stored like regular salt



### A taste for innovation

Salt is something we know a lot about. In fact, our expertise with all forms of what is one of the most basic compounds goes back nearly 100 years. So when questions started being asked about healthy daily limits for human salt consumption, our Functional Chemicals organization's Salt Specialties business started to investigate. Their aim was to develop a low sodium product suitable for use by the food industry.

After researching various solutions, our scientists have developed the patent-pending OneGrain technology. Just in time too, because it's widely accepted that adults shouldn't consume more than six grams of salt a day in order to limit sodium intake. In fact, authorities in many countries are increasing pressure to reduce salt consumption, so manufacturers need solutions.

OneGrain incorporates multiple salt replacement ingredients into a single grain of salt. The result is a product we've called Suprasel Loso OneGrain, a great tasting like-for-like salt replacement which contains up to 50 percent less sodium. It grains like traditional salt and can be used and stored in exactly the same way. It also makes foods healthier without compromising on taste, which is crucial because food producers don't want to risk losing customers as they reduce sodium.

Several food manufacturers are already using Suprasel Loso OneGrain in their products and it could eventually be launched onto the retail market.

**-50%**

Suprasel Loso OneGrain contains up to 50 percent less sodium than normal salt

Thirdly, we are managing our operating working capital. This is particularly relevant when raw material cost fluctuations are significant and credit availability for customers can be an issue. Therefore, operating working capital management is a key component of our Integrated Supply Chain and Finance/IM functional excellence work and is helping us to make progress towards our 12 percent operating working capital as a percent of revenue ambition. Specifically:

- We will continue to make progress with regard to receivables and payables through:
  - Harmonization of payment terms and payment runs
  - Improved banking and collection systems
  - Improved credit control procedures and analyses
- We are also taking action to regain momentum on inventories going forward through:
  - Review of stock policies and disciplined setting of stock level targets
  - Reduction of process complexity and product line rationalization
  - Harmonizing processes and materials
  - More advanced global planning and analysis

It is worth noting that disciplined inventory management can also have important sustainability implications. For example, we have signed a contract with a process and distribution company which involves them purchasing, re-working and selling on our obsolete coatings and paints materials. These materials would otherwise be disposed of as waste. By selling them on instead, we reduce inventories, generate income and reduce waste (up to 1 percent of our total waste in 2012).

Going forward, we will further improve from a cash, costs and environmental footprint perspective by not manufacturing materials that will become obsolete and this is a clear objective in our Integrated Supply Chain work as part of functional and operational excellence efforts.

### **Talent Factory**

As a company, we have set ourselves a clear goal – to become the world’s leading coatings and specialty chemicals company. To do this, we need to build and leverage a Talent Factory because it is just as important for us to attract, develop and retain great people with strong leadership skills, as it is for us to develop, produce and distribute great products and services.

To support this, our HR function is striving to properly support our businesses with their activities by helping them to build a critical mass of the right people, from as wide a talent pool as possible. In a competitive market environment, we recognize the importance of being seen, internally and externally, as an employer of choice.

By differentiating our company from our competitors and clearly articulating the benefits of working for AkzoNobel, we will not only be in a stronger position to win the war for talent, but will also increase the engagement of current employees. A number of activities are ongoing to improve the perception of our employer brand, including the development of a clear employer value proposition, which will be rolled out in 2012. The employer value proposition activities will build on a number of key elements of the Talent Factory which are already in place.

### **Talent identification and management**

To ensure consistent capability building across the company, employees are regularly appraised and supported with their development through a process that we call Performance and Development Dialog (P&D Dialog). In 2011, we continued to improve the professionalism and consistency of assessing our employees’ performance and potential, on an individual basis, through the P&D Dialog process.

These individual assessments are then aggregated by Business Area and function. This information forms the basis of our annual Leadership Talent Review process, which is designed to review the health of our talent pipeline and identify future

leaders. Promising internal candidates can then be matched to available roles through “matching forums”.

### **Talent development**

To ensure that we develop a cadre of leaders appropriate for AkzoNobel in the future, including a balanced team which truly reflects the markets that we serve, we introduced our Global Management Trainee Program (GMTP) in 2011. The program lasts two years, during which participants receive comprehensive hands-on training and experience working in a variety of functions, locations and businesses. Under the guidance of a senior business manager, we expect the participants to be prepared to take on a management position early on in their career. In line with our accelerated growth and diversity and inclusion ambitions, recruitment for the GMTP is focused on high growth markets. In 2011, approximately 75 percent of our GMTP employees came from our high growth countries.

The GMTP is a new addition to our talent development curriculum. Two programs already in place are the Management Essentials Program (MEP) and the Advanced Management Program (AMP). The first is designed to give all managers the fundamental skills needed to manage their people properly. The AMP is designed to help more senior managers or middle managers become more proficient at leading larger or more complex organizations, develop leadership talent among their staff and create high-performing teams across various functional areas.

To underpin our operational and functional excellence ambitions and make a step change in capability across the company, we set up the AkzoNobel Academy in 2011. This ensures the availability of best-in-class courses, standards, processes and methodologies across the organization.

### **Culture of confidence, cooperation and co-creation**

To deliver on our medium-term ambitions, we must work together in a different way. While business units will remain the core of who we are and will continue to be responsible for focusing on our customers’ future first (one of AkzoNobel’s

five core values), both functions and countries/regions will have an important role to play in delivering on our strategic ambitions.

Specifically, functions will need to create centers of excellence, set targets and standards, transfer best practice and leverage our scale if we are to reach our EBITDA margin, operating working capital, safety, employee engagement and eco-efficiency ambitions. Countries/regions will need to help us deliver on our revenue targets, pursue synergies, represent AkzoNobel in the country/region to key stakeholders and be the “home” for all our employees.

Delivering simultaneously on business, functional and country/regional agendas will require us to behave differently. We must have confidence in the judgment and professionalism of others, both within and outside the company. Based on this confidence, we must cooperate to deliver on key initiatives. In some cases, we must go beyond this and actually work with others, again, both within and outside the company, to co-create better solutions. To do this, we are:

#### **Continuing to be clear about business principles**

At a very basic level, we must continue to be clear and completely consistent in what we stand for from a business principle (or Code of Conduct) perspective, regardless of the market segment, function or country in which we operate. We continue to mandate training in this area, including focused modules for competition law and anti-bribery aspects. In 2011, we expanded the training to include a new manual for export control.

#### **Creating a diverse and inclusive working environment**

To realize our growth ambitions, it's important that we draw from as wide a talent pool as possible and we create a working environment where differences are valued and everyone has the opportunity to develop their skills and talents. To achieve this, we have had a Diversity & Inclusion (D&I) program since 2008, which includes a dedicated global working team and steering committee. The goals of the program are to create awareness and engagement around diversity and inclusion

issues to embed the concept in the organization, to establish company-wide metrics and to make AkzoNobel a true reflection of the markets in which we operate.

We have made good progress with D&I in recent years. We have improved the proportion of our executives who are either women or come from high growth markets, our key metric in D&I. Since the start of 2009, the proportion of women in executive positions has increased from 10 percent to 13 percent of the total population. The presence of women in executive positions has been particularly strengthened in functional roles. With regard to executives in high growth markets, we have made less progress, although the proportion of executives coming from these markets is now 13 percent.

We do, however, recognize that we still have a long way to go. In particular, in 2012 we will need to redouble our efforts with regard to our two key issue areas. These are appointing women to general management, sales and/or marketing roles and appointing individuals from high growth countries to roles based in more established markets.

#### **Ensuring that our employees are fully engaged**

We need to ensure that all employees are knowledgeable about and engaged in the business, as well as the functional and country/regional strategy that is relevant to them, so that they are able to contribute fully to strategy implementation. We measure our progress in this area using the Gallup Q12 survey, with additional specific AkzoNobel questions. The results of the survey provide a comparison against a database of approximately 500 organizations. We made progress during 2011 in terms of our employee engagement scores, but more is clearly required in 2012 as we are a long way from reaching our top quartile ambition.

As engagement is typically highly dependent on creating successful teams within the overall organization, we have different approaches to strategy engagement in different parts of the company. For example, in our Decorative Paints business – where the strategy is to move from a “multi-local” to a global approach based on repeatable models – we have a program that we call Ignite the Spirit. In the last two years,

more than 10,000 of our Decorative Paints colleagues from all over the globe have participated in this initiative as a means of building a culture of confidence, cooperation and co-creation around achievement of the Decorative Paints strategy.

#### **Working with our stakeholders**

Beyond AkzoNobel, we need to work with our stakeholders to develop better solutions to business issues. This goes beyond the open innovation referred to earlier and encompasses involving stakeholders in setting and managing business targets and improvement processes. One area where we continue to proactively pursue stakeholder engagement is with the communities in which we are based. To do this, we continue to:

- Carry out excellent work through our Community Program, which entails small amounts of corporate financing for projects that also incorporate volunteer work from our employees
- Support our AkzoNobel Education Fund, which helps provide infrastructure and teacher training to improve the education of children in developing countries. To mark its 15th anniversary in 2011, we initiated projects in Vietnam, India and Brazil to help young people – in many cases girls – find decent and safe employment which offers them better long-term prospects
- Carry out major community projects as part of the Let's Colour campaign led by our Decorative Paints business

We are also developing partnerships with key non-governmental organizations. For example, following our partnership agreement in 2010 with the Forest Stewardship Council (FSC), we have set up a central fund to support the FSC's work in increasing the supply of FSC-certified products. We are also rolling out local partnership agreements between our consumer woodcare brands (e.g. Cetabever, Cuprinol, Pinotex, Xyladecor and Sparlack) and FSC's national offices to promote awareness of the FSC and the use of wood and paper from sustainably-managed forests. So far, we have seven active partnerships in the Netherlands, UK, Germany, Switzerland, the Czech Republic, Brazil and the Nordics.



While we are clearly very excited about collaborative efforts with the FSC and relevant parts of our business, we are also aware that we need to do more across the whole of AkzoNobel. With this in mind, we are in the process of developing some key next level relationships and hope to announce some exciting developments in this area in 2012.

If we do all of this right, we will be able to create a virtuous cycle in terms of achievement of our ambitions. By making much better use of our knowledge and potential, we – together with our partners and stakeholders – will deliver better solutions to the market and the communities in which we are based.

#### **Embedding safety and sustainability**

As indicated earlier in this section, we continue to make progress in terms of developing one, unified strategic agenda incorporating both Value and Values ambitions. By developing one, unified approach, we avoid the trap of making false trade-offs. For this reason, all of the strategic agenda items described above embed safety and sustainability and there is not a separate agenda item on this point.

We do, however, recognize that, given the cross-business, cross-functional, cross-country/regional aspect of the sustainability agenda, we must go beyond our “normal” business processes, which have historically been associated solely with financial performance. As a result, we have a Sustainability Council which advises the Executive Committee on the definition and appropriate implementation of the sustainability aspects of the strategic agenda.

The Council is chaired by the CEO. He is joined by Business Unit Managing Director representatives from each Business Area and Executive Committee members or corporate directors from the main relevant functions. The Sustainability Council meets quarterly.

The Council monitors our progress on our sustainability agenda through our strategy dashboard, which encompasses both leading and lagging indicators associated with each of our eight strategic ambitions. In addition, the Council oversees

development of new initiatives to support further improvement in the existing agenda, such as our integrated reporting initiative aimed at ensuring that we remain at the leading edge in terms of integrated Value and Values reporting. Beyond this, the Sustainability Council also takes a leadership position in developing our next generation sustainability initiatives, for example, around sustainable construction.

On a day-to-day basis, the Corporate Director for Sustainability takes the lead on ensuring that we manage our existing agenda and develop an agenda for the future. The Managing Director of each business is responsible for delivering on expectations with regard to both Value and Values ambitions. Progress is monitored through the strategy dashboard mentioned earlier.

## Building on our expertise

Early in 2011, we announced our biggest ever investment in Latin America. It was a clear signal of our strategic intent to accelerate growth and achieve our medium-term ambition of doubling revenue in Brazil to €1.5 billion. We have committed nearly €90 million, which will be used by our Pulp and Paper Chemicals business (Eka Chemicals) to build a new plant to supply the world's largest pulp mill.

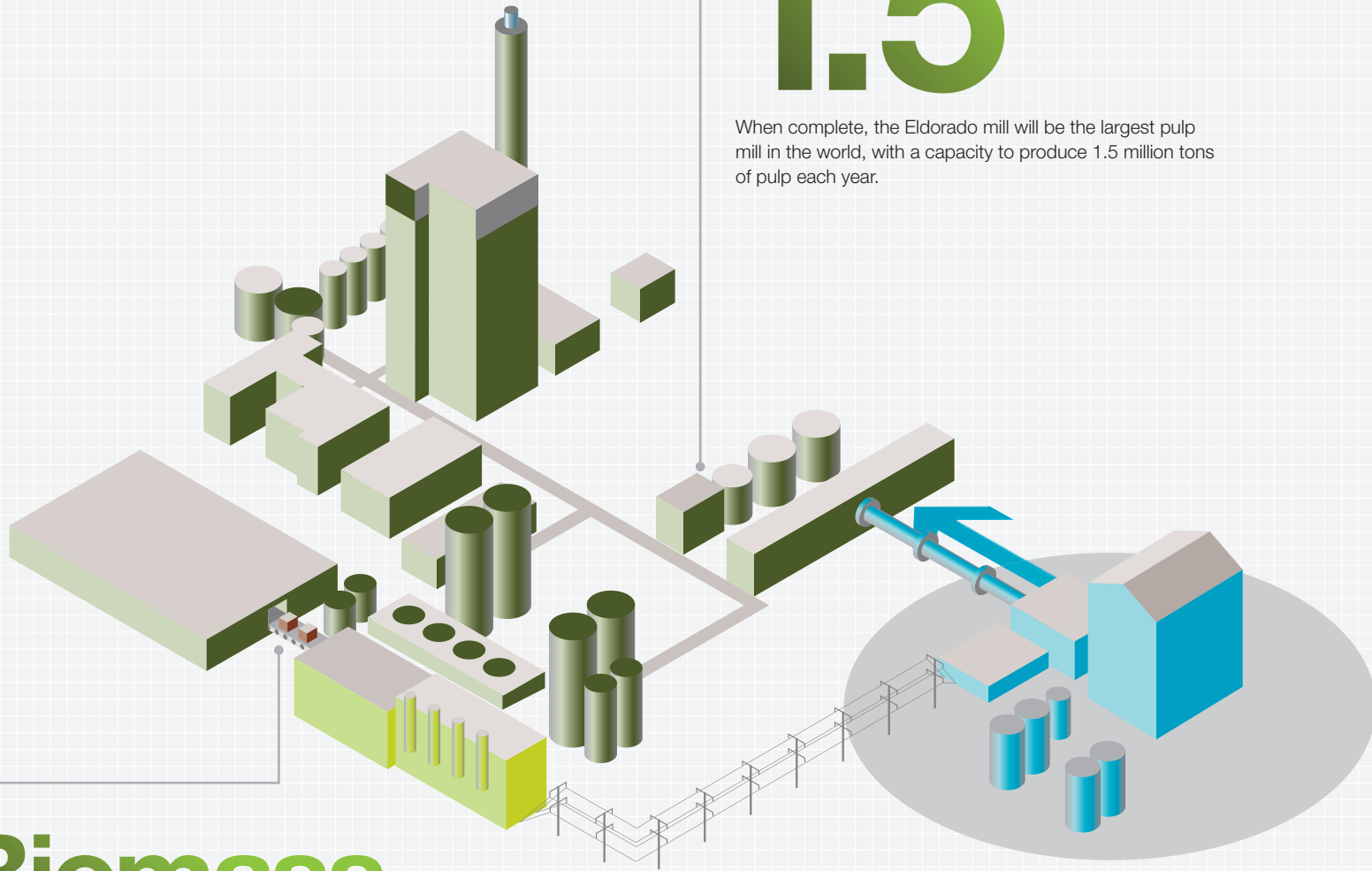
The agreement – with Eldorado Celulose e Papel – involves supplying, storing and handling all chemicals for the 1.5 million tons a year green field mill, which is being constructed in the northern part of Três Lagoas City. The mill is expected to come on stream in 2012 and the 15-year deal underlines the value AkzoNobel attaches to securing long-term partnerships with customers. “Building the world's largest pulp mill requires working with reliable partners who can provide the best technology,” explained Eldorado President, Rogerio D’Alcantara Peres. “AkzoNobel’s proven Chemical Island concept, together with the company’s world class expertise and strong commitment to sustainability, meant that they were a natural choice for this major project.”

Work on the new Pulp and Paper Chemicals facility – which will also supply other key customers in Brazil – is already well underway. It will expand on our well-established pulp and paper activities in the country, where Eka Chemicals already operates its sustainability focused Chemical Island concept at several mills, as well as running production units in Jacareí, Eunapolis, Três Lagoas, Rio de Janeiro and Jundiá. Future demand for pulp and paper chemicals in Latin America is projected to increase substantially over the next 15 years. The Eldorado agreement therefore represents an exciting opportunity for us to further expand in the region, as well as emphasizing the importance of Latin America to our growth ambitions.



# 1.5 million tons

When complete, the Eldorado mill will be the largest pulp mill in the world, with a capacity to produce 1.5 million tons of pulp each year.



## Biomass

Eucalyptus waste results from the production process. This biomass is then used to help power the Chemical Island, which means there will be a sustainable supply of renewable energy for the new facility.



# Our Executive Committee

At the beginning of 2011, we broadened our leadership team and established a nine-strong Executive Committee in order to accelerate sustainable growth and help us deliver on our strategic ambitions.

Comprised of the five Board of Management members and these four leaders with functional expertise, having this organizational set-up at the very top of the company means that we can better deliver functional and operational excellence, drive common agendas, build capabilities and develop a culture of confidence, cooperation and co-creation.

All members of the Executive Committee work together to define our strategic direction, establish policies and manage the company's day-to-day operations. The functions currently represented are HR & Organizational Development; Research, Development & Innovation; Supply Chain/Sourcing (including Health, Safety and Environment). In addition, our General Counsel is included to ensure strong governance and compliance.



**Graeme Armstrong**  
**Executive Committee member responsible**  
**for Research, Development & Innovation**  
(1962, British)

Mr. Armstrong joined AkzoNobel in 2008 following the acquisition of ICI, where he led the company's Research, Development & Innovation function. Prior to joining ICI, he spent 19 years in the detergents industry working for Unilever and JohnsonDiversey. He also served as Regional President for JohnsonDiversey in EMEA. He is a Chartered Chemist, a Fellow of the Royal Society of Chemistry and a member of their Science Policy Board. Chairman of Chemistry Innovation PLC and Chairman of the Chemistry Innovation Knowledge Transfer Network, and a former non-executive director of the UK government Technology Strategy Board.



**Sven Dumoulin**  
**Member of the Executive Committee  
and AkzoNobel General Counsel**  
(1970, Dutch)

Mr. Dumoulin joined AkzoNobel as General Counsel in 2010 and is responsible for legal, compliance, intellectual property and legacy management. Previously he worked as a lawyer and then Group Secretary for Unilever. From 2003 to 2007, he held professorships in company law at the Universities of Groningen and Tilburg in the Netherlands. Outside AkzoNobel, he is a member of various Legal Professional Associations in both the Netherlands and abroad.



**Marjan Oudeman**  
**Executive Committee member responsible  
for HR and Organizational Development**  
(1958, Dutch)

Mrs. Oudeman joined AkzoNobel in October 2010 from Corus Group, where she was a member of the Executive Committee, as well as being Divisional Director of Strip Products and a Board member of Corus Nederland B.V. and Corus UK Ltd. Prior to joining Corus in 2000, she held various roles at Hoogovens Group, including that of Managing Director. Among others, she is also a non-executive director of Nederlandse Spoorwegen and ABN Amro Group.



**Werner Fuhrmann**  
**Executive Committee member responsible  
for Supply Chain/Sourcing**  
(1953, German)

After graduating from Johannes Gutenberg University Mainz in Germany in 1979, Mr. Fuhrmann held various roles within the AkzoNobel Fibers division, and was Business Area Controller Chemicals, before being appointed General Manager of Chelates & Sulfur Products in 2000. He became Managing Director of AkzoNobel Industrial Chemicals in 2005. He is Chairman of the Dutch Chemicals Industry Association (VNCI).



# Business performance

The following chapter gives a detailed summary of how each of our Business Areas performed during 2011. Information on market characteristics, key brands and revenue comparisons is also provided.

AkzoNobel Specialty Chemicals	37
AkzoNobel Performance Coatings	47
AkzoNobel Decorative Paints	57



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### Putting customers first

Developing sustainable technology is at the forefront of our innovation. We're constantly striving to make breakthroughs that will offer real benefits to our customers. One such advance was made in 2011 by our Industrial Chemicals business, which was the culmination of eight years of collaborative research with Spanish company GRIT.

We've been working together to develop the recently launched DeMythe LDD, which is notable for being the most sustainable, cost-effective and environmentally-friendly degreasing and dehydrating technology available to the leather and protein processing industries. The solvent dimethylether (DME) is used in a closed process to degrease and remove water from animal skins. The DME is then separated from the grease and water and reused. This sustainable process makes the use of huge quantities of water and chemicals redundant. It also guarantees a process improvement and results in cleaner waste water.

Another significant development during the year was the signing of a license agreement with Koninklijke Hulshof in the Netherlands for the exclusive use of the patented DeMythe LDD technology. Under the terms of the agreement, Hulshof will build a facility which is expected to start operating in mid-2012. Commented director Herman Hulshof: "This innovative technology means that the original waste stream will be a source of income. The result is a more sustainable operation and a healthier future."

The DME will be produced at the AkzoNobel Industrial Chemicals facility in Rotterdam. The plant's capacity is currently being expanded to 45,000 tons per year.



# AkzoNobel Specialty Chemicals



“2011 was a year of solid achievement and we continued to make progress with our strategic ambitions”

**Rob Frohn**

Board member responsible for Specialty Chemicals

All things considered, 2011 turned out to be a good year, following on as it did from a record 2010. Economic volatility increased dramatically, so after a strong start our growth momentum was somewhat curtailed. The situation began to improve towards the end of the fourth quarter, but the slowdown had an impact on our performance and our overall results ended up slightly below the previous year. However, given the testing combination of lower visibility in customer demand patterns, currency headwinds and severe increases in raw material prices, we held up very well, maintained a good level of profitability and continued to grow in a number of key market segments and regions.

Industrial Chemicals was our strongest business in 2011, achieving a record performance. Apart from Energy, its activities had a very good year, with consistent demand ensuring that capacity utilization remained high. Surface Chemistry and Pulp

and Paper Chemicals reported record earnings. Functional Chemicals dropped back from its 2010 level, but overall delivered sound top line and bottom line results. Market conditions in Europe were relatively weak, while we performed well in North America, due mainly to solid demand and more favorable energy prices. Strong demand also ensured good results in Latin America, and in Asia – despite the region generally slowing down – we were able to make progress and achieve above average returns.

It proved to be a particularly important year in terms of making a number of critical investment decisions. Several projects were announced which will create more room for us to grow and consolidate our market leadership positions. These included adding capacity for our Expancel business in Stockvik, Sweden, and committing around €140 million to switch our chlorine production in Frankfurt, Germany, to more sustainable membrane technology and add capacity. In Brazil, we unveiled plans to build a €90 million Chemical Island to supply the world's largest pulp mill. In addition, we acquired Boxing Oleochemicals in China to help us expand our Surface Chemistry activities in Asia and give us a manufacturing foothold in one of the faster growing parts of the world. Meanwhile, further developments at our Ningbo multi-site in China underlined its growing status as an important hub for our Specialty Chemicals activities. This included the start-up of a Crosslinking Peroxides, Thermoset Chemicals and Polymer Additives plant, a groundbreaking ceremony for

a newly announced facility to add capacity for our Bermocol cellulose derivatives and an investment in a new factory for the production of dicumyl peroxide (DCP).

We also continued to invest in innovation and have a very interesting pipeline of products in various stages of development, some quite close to commercialization. As a technology and market leader in many of our segments, we invest to stay ahead of the competition and innovation is one way of achieving that. Looking at 2011's other noteworthy events, we announced our intentions regarding our holding in Pakistan. We disentangled the coatings business, which will be retained, but intend to divest the remaining activities – which includes several chemicals businesses – in 2012. This will align the portfolio with our strategy. Safety received a lot of attention and while some progress was made, we are committed to improving further to achieve best-in-class performance.

So while our business results didn't quite match what was a truly exceptional 2010 – there were too many headwinds for us to repeat that performance – 2011 was nevertheless a year of solid achievement and our employees deserve credit for their efforts. In a volatile environment, we were once again able to serve our customers well and we appreciate their business. We delivered a good level of profitability, continued to make progress with our strategic ambitions and made several important investments which will contribute to accelerated growth and new opportunities in all our businesses.

# Specialty chemicals market overview

We are a major supplier of specialty chemicals with leading positions in selected market segments.

## Market and business characteristics

The chemicals industry can be described as a value chain. Our businesses serve customers throughout the value chain with different products.

Our Industrial Chemicals business, for example, mines salt through vacuum extraction. It's used as a raw material for our own activities and the European chlorine industry, as well as being an end product found in grocery stores under brand names such as Jozo and Nezo (Functional Chemicals).

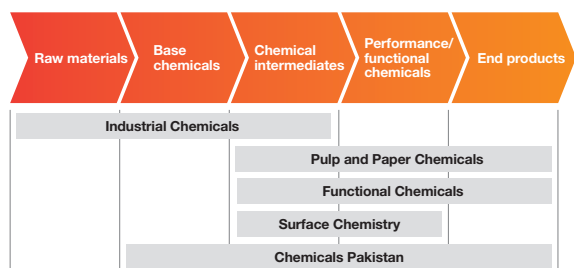
Base chemicals are chemicals produced from raw materials. For us, this means products such as chlorine (Industrial Chemicals). Derived from these base chemicals are chemical intermediates, such as ethylene amines (Functional Chemicals) or chlorate (Pulp and Paper Chemicals).

Performance chemicals offer specific functionality to a product or process, examples being the surfactants used in fabric care softeners (Surface Chemistry) and the Compozil retention systems (Pulp and Paper Chemicals) used to make paper. Few of the products we supply are actual end products, with salt being the most prominent.

The strategy for each of our businesses varies depending on where they are in the value chain and which customers they serve. For example, in terms of geographic focus, Industrial Chemicals is mainly focused on Western Europe, with an emphasis on operational effectiveness.

Pulp and Paper Chemicals is a global business, with a specific emphasis on serving one industry. Surface Chemistry and Functional Chemicals are also global businesses, and primarily pursue a customer intimacy model for each specific product group.

Chemicals Pakistan, on the other hand, is a national business with a broad product offering within areas such as chemicals, coatings, fibers and pharmaceuticals.



## Customers

Our products are used when producing a wide variety of everyday products such as ice cream, soups, disinfectants, plastics, soaps, detergents, cosmetics, paper and asphalt. There are more than 2,000 items in our portfolio.

## Global market drivers and developments

- Growing populations and GDP growth
- Infrastructure developments
- Building activities
- Global paper and board production
- Environmental regulations
- Sustainability

## High growth markets

Projected industry growth is strong, particularly in Asia Pacific and Brazil. More than 35 percent of revenue is in high growth markets.

## Innovations

- Biodegradable products, aqueous cleaning formulations reducing use of organic solvents
- Polymer-based chemicals on renewable feedstock, improving the efficiency of fabric softeners
- Green alternative to NTA, phosphonates and phosphates
- OneGrain technology – full salt replacement which brings pure NaCl and salt replacers into a single salt grain
- More sustainable anti-caking agent for salt
- Chemical Island concept for the pulp and paper industry
- Nanoparticle retention systems for high speed paper machines
- CiD technology to help increase PVC reactor capacity and safety
- Water treatment technology replacing traditional biocides

## Some key raw materials

- Salt
- Energy
- Ammonia and ethylene
- Acetic acid
- Polymers
- Sulfur

## Price drivers

- Energy, oil and other raw materials

## Market leadership positions

### Functional Chemicals

1st	Ethylene amines
	Sulfur products
	Chelates
	HPMO
	Salt specialties (North West Europe)
	Anti-fouling agents
	Organic peroxides
	Polysulfides
2nd	Cellulose derivatives
	Building material additives
	Metal alkyls
	Polymer additives
3rd	CMC

### Industrial Chemicals

1st	Caustic lye merchant (Europe)
	Chlorine merchant (Europe)
	Monochloroacetic acid (MCA)
	Salt (chemical transformation Europe)
	Chloromethanes merchant (Europe)

### Pulp and Paper Chemicals

1st	Bleaching chemicals
	Silica retention additives
	Expandable microspheres
	Colloidal silica dispersions

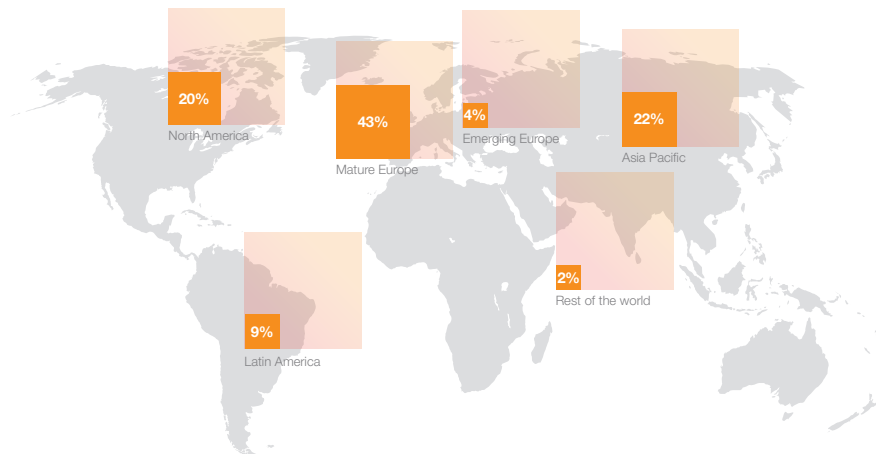
### Surface Chemistry

1st	Industrial applications
	Agricultural applications
3rd	Home and personal care

# Key developments 2011

- Record investment in Brazil for new Chemical Island
- Further expansion of Ningbo site in China (new facilities for our organic peroxides and Bermocoll cellulose derivatives)
- Largest ever investment at a single site in Europe (Frankfurt) to switch chlorine production to latest membrane technology
- Announced acquisition of Boxing Oleochemicals in China
- Acquired patented Zeta Fraction technology from Integrated Botanical Technologies in the US
- Invested in increased production capacity for Expancel in Sweden

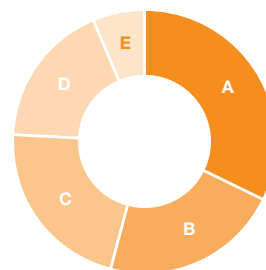
## Geo-mix revenue by destination



## Key figures in € millions

	2010	2011
Revenue	4,943	5,335
EBITDA	939	906
EBITDA margin (in %)	19.0	17.0
EBIT	679	625
EBIT margin (in %)	13.7	11.7
Operating income	604	622
Moving average ROI (in %)	19.9	17.8

## Revenue breakdown by business unit in %

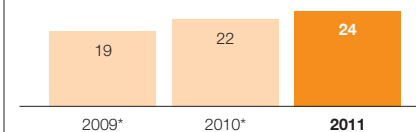


A Functional Chemicals	35
B Industrial Chemicals	21
C Pulp and Paper Chemicals	21
D Surface Chemistry	17
E Chemicals Pakistan	6

## Employees by region at year-end

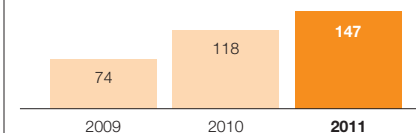
	2010	2011
US and Canada	1,700	1,800
Latin America	900	900
China	1,000	1,200
Other Asian countries	1,900	1,800
The Netherlands	1,900	2,100
Germany	1,000	1,000
Sweden	1,900	1,800
Other European countries	800	900
<b>Total</b>	<b>11,100</b>	<b>11,500</b>

## Eco-premium solutions % of revenue

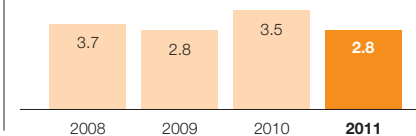


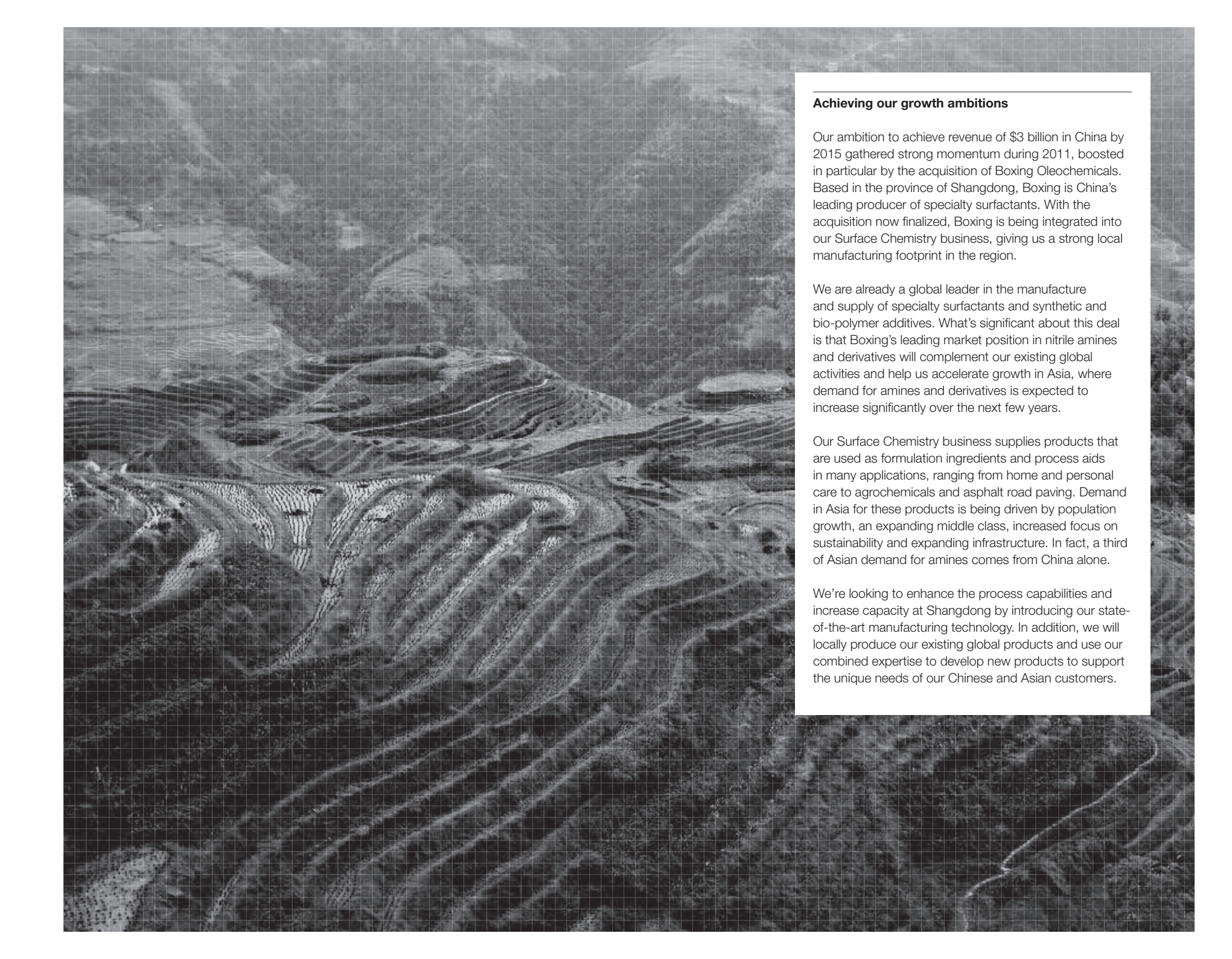
\*Restated numbers see Note 14 in the Sustainability facts and figures section

## Key value chains with carbon footprint assessment



## Total reportable rate of injuries per million hours



An aerial photograph of a terraced landscape, possibly a mountain range or a large-scale agricultural project, with a grid overlay. The terrain is rugged and shows signs of human intervention, such as terracing and roads. The grid is composed of small squares, creating a technical or analytical feel.

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### Achieving our growth ambitions

Our ambition to achieve revenue of \$3 billion in China by 2015 gathered strong momentum during 2011, boosted in particular by the acquisition of Boxing Oleochemicals. Based in the province of Shangdong, Boxing is China's leading producer of specialty surfactants. With the acquisition now finalized, Boxing is being integrated into our Surface Chemistry business, giving us a strong local manufacturing footprint in the region.

We are already a global leader in the manufacture and supply of specialty surfactants and synthetic and bio-polymer additives. What's significant about this deal is that Boxing's leading market position in nitrile amines and derivatives will complement our existing global activities and help us accelerate growth in Asia, where demand for amines and derivatives is expected to increase significantly over the next few years.

Our Surface Chemistry business supplies products that are used as formulation ingredients and process aids in many applications, ranging from home and personal care to agrochemicals and asphalt road paving. Demand in Asia for these products is being driven by population growth, an expanding middle class, increased focus on sustainability and expanding infrastructure. In fact, a third of Asian demand for amines comes from China alone.

We're looking to enhance the process capabilities and increase capacity at Shangdong by introducing our state-of-the-art manufacturing technology. In addition, we will locally produce our existing global products and use our combined expertise to develop new products to support the unique needs of our Chinese and Asian customers.

# AkzoNobel Functional Chemicals



“Our Ningbo site in China was the focus of much activity”

Jan Svärd  
Managing Director

## Overview

It was a year of continued solid performance, despite the fact that our businesses experienced mixed fortunes. We were heavily impacted by raw material price increases across all of our activities and margins were affected. Volumes in Ethylene Amines and Chelates increased due to the start-up of our Ningbo plant in China, but there was limited volume growth in our other activities during 2011.

## Analysis

While a few of our businesses, notably Sulfur Derivatives and High Polymers, were solid for the whole year, some were not able to overcome the difficult market conditions or pass on raw material price increases quite so successfully. Ethylene Amines – our star performer of 2010 – found the going particularly tough – mainly because of additional production capacity becoming available in the market – but also due to steep raw material price rises. Our Chelates activities started slowly but recovered as the year progressed. The stand-out, though, was our High Purity Metal Organics business, which performed extremely well and achieved solid growth. It’s a great example of being a big fish in a small pond – having a strong position in clearly defined global markets – and we have high expectations for its continued success.

## Highlights

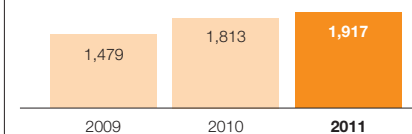
Our new plant in Ningbo, China, continues to go from strength to strength and was the focus of much activity during 2011. Ethylene amines production came fully on stream at the beginning of the year, while the Chelates facility was also completed, which means these activities are now fully operational and cost-competitive. In addition, a new organic perox-

ides plant started up in the fourth quarter and we announced two further investments in Ningbo. As well as committing €45 million to consolidate our organic peroxide production at the site, we broke ground on a new plant to add capacity for our Bermocoll cellulose derivatives (paint and building material thickeners). All of these activities will provide momentum for AkzoNobel’s accelerated growth strategy.

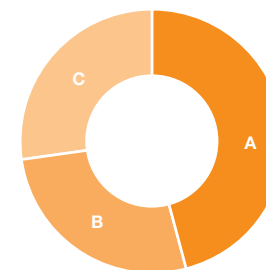
## Developments

We merged our Cellulosic Specialties and Elotex activities into one business. By combining our knowledge and expertise around cellulosics and polymer-based thickeners, we can now offer a unique concept to customers in the construction industry and present a joint offering to their markets. As part of the resulting efficiencies, we were able to effectively launch a new hydrophobically-modified thickener for paint, which was very well received and has quickly established itself as the benchmark quality for the industry. It was also a good year for our OneGrain lower sodium salt replacement (see case study on page 26), which is growing well and has now been commercialized, while our high purity pharmaceutical salt activities grew substantially. A disappointing aspect of 2011 was the spills at our Stenungsund site in Sweden. Some product was accidentally released into the sea on two occasions, which fortunately resulted in very limited environmental impact and no injuries. We worked swiftly and diligently – in close collaboration with the authorities – following both incidents, which served to heighten our focus on safety improvement, both in terms of behavior based safety and process safety.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	46
B Americas	27
C Asia Pacific	27

## Main products

- Cellulosic additives
- Chelates
- Additives for the mortar industry
- Ethylene amines
- Salt specialties
- Sulfur derivatives
- Polymer chemicals

## Key end-user markets

- Detergents
- Personal care
- Crop protection
- Micronutrients
- Building materials
- Paint
- Pharmaceutical
- Food

## Key brands





“We were able to clearly outperform our 2010 revenue and results”

**Knut Schwalenberg**  
Managing Director

## Overview

We had a very strong start to 2011, and although there was some slowdown in the final quarter, we were able to clearly outperform our 2010 revenue and results. Thanks to our market leadership positions in our key sectors, three of our four businesses achieved record results.

## Analysis

We achieved top and bottom line growth, driven by our robust Salt, Chlor-Alkali and MCA activities, which more than compensated for the difficult conditions experienced by our Energy business – brought about by high gas prices. In terms of volumes, we were sold out until August, with occupation rates falling slightly during the final quarter due to somewhat softer demand, caused by a weak construction sector and overall market nervousness. We clearly benefited from our leadership positions in Europe for Salt and Chlor-Alkali and globally for MCA. The chloromethane business gained significant market share in Europe, we strengthened our caustic position and Salt benefited from a continuous flow of revenue from the secondary use of caverns. Good cost and margin management also contributed to our results, while we began to reap the benefits of recently implemented efficiency measures, such as MCA debottlenecking at Delfzijl and Taixing and last year's Skoghall plant closure. The strong performance of the Chlor-Alkali business in Frankfurt – which we acquired in 2009 – was also important, along with the fact that we are at the beginning of the value chain, so we tend to feel less impact from raw material price increases.

## Highlights

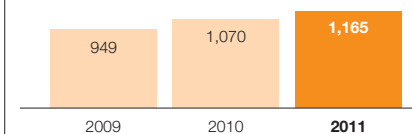
In June we announced a landmark €140 million investment at our Frankfurt site in Germany – the largest ever investment

by AkzoNobel in Europe at a single site. The project involves switching our chlorine production from mercury to the very latest membrane electrolysis technology, as well as modernizing and significantly expanding the facility. Annual production of chlorine at the location is expected to increase to 250 kilotons, up from today's 165 kilotons. It means that by the end of 2013, around 90 percent of Industrial Chemicals' chlorine production will be based on membrane technology, which is 30 percent less energy intensive than current mercury technology. So it represents a huge step in terms of improving our eco footprint. We also secured the first license for our sustainable degreasing technology for the protein processing industry (see case study on page 36), while our European market share for chemical transformation salt increased quite significantly thanks to the success of the mTA (meso-Tartrate) next generation anti-caking agent which we launched last year.

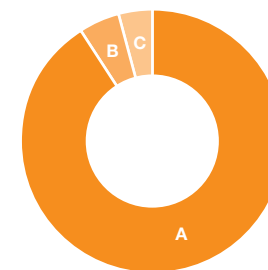
## Developments

The Lean Six Sigma operational excellence methodology we introduced in 2010 became further embedded into the organization. The first phase has been completed and we now have around 50 Black Belts and Green Belts throughout the organization dedicated to ensuring a sustainable and successful efficiency drive. We are confident it will prove to be an extremely powerful tool. We also continued to develop new initiatives to improve our eco footprint and make our products more sustainable. CO<sub>2</sub> reduction is a crucial issue for us and we will continue to launch significant projects in the near future, such as increasing our share of heat consumption from waste incineration. Another important development was the process safety pilot in Delfzijl, which we will roll out to other risk relevant areas of our activities. We will also be working harder to improve our overall safety performance.

## Revenue in € millions



## Geo-mix revenue by destination in %



<b>A</b> EMEA	91
<b>B</b> Americas	5
<b>C</b> Asia Pacific	4

## Main products

- Salt
- Energy
- Chlorine
- Caustic lye
- Monochloroacetic acid (MCA)
- Chloromethanes

## Key markets

- Chemical
- Detergent
- Construction
- Food
- Pulp and paper
- Plastic industries

## Key brand



# AkzoNobel Pulp and Paper Chemicals



“It was a year of growth and we achieved another record performance”

**Ruud Joosten**  
Managing Director

## Overview

It was a year of growth both in terms of volume and value. We were able to defend margins – despite dramatic raw material price increases – and achieved another record performance, building on the momentum we have been gathering since 2009.

## Analysis

Although there was a lot of pressure from increased raw material prices – up to 30 percent in some of our paper chemicals activities – and a significant, negative currency exchange impact, we were able to manage our margins effectively and benefit from strong growth, notably in Asia and South America. Our bleaching business achieved growth in all sub-business units, driven in particular by a strong paper market in Asia, while we were also boosted by the continued growth of the packaging and board industry in Europe and the Americas. This kept our facilities running at a very high capacity throughout the year. It was a more diverse picture in the paper segment, although growth continued in Asia and we increased our market share in the South American paper chemicals market, driven by very strong growth in Brazil. Our specialty products also performed well. The silica business – which supplies the paper industry and other markets such as electronics, pharmaceuticals and the building sector – had a very strong 2011, while Expancel achieved another record year. So while we certainly faced challenging conditions and there was a slight slowdown towards the end of the year, the diversity of our portfolio and demand for certain products meant that we were a little less vulnerable to the economic volatility.

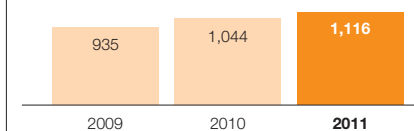
## Highlights

Early in the year we announced an investment of close to €90 million in a new facility being built in Brazil which will supply the world's largest pulp mill. The plant is being constructed in the northern part of Três Lagoas and is centered on further expanding Eka Chemicals' sustainability-focused Chemical Island concept (see case study on page 30). The mill, operated by Eldorado Celulose e Papel, is expected to come on stream in September 2012. Meanwhile, in April we started-up a new production plant for colloidal silica at our Guangzhou site in China. The facility will help meet rapidly growing local demand for our Compozil retention and dewatering system. These projects will consolidate our global market leadership positions and help to accelerate growth in key strategic regions. Another important investment – reflecting the success of Expancel – involved committing €32 million to increase production capacity in Sweden.

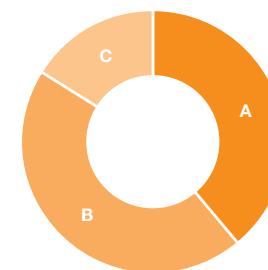
## Developments

We are continuously working to help customers increase their efficiency and we made very good progress on a high filler concept which looks extremely promising. Improving safety performance was another major priority and it was pleasing to see the business return to the very good trend we established a few years ago. Our zero incident mindset program is now in full swing and as the workshops and training continue and our employees around the world become more engaged, we're hopeful that we can strive for an even better result next year. One other achievement of note was the finalization of a completely integrated global SAP system which includes all our sites in all countries.

## Revenue in € millions



## Geo-mix revenue by destination in %



<b>A</b> EMEA	39
<b>B</b> Americas	45
<b>C</b> Asia Pacific	16

## Main products

- Bleaching chemicals
- Paper chemicals
- Separation products
- Expandable microspheres
- Colloidal silica dispersions for various applications

## Key markets

- Pulp and paper industry
- Pharmaceuticals industry
- Water treatment
- Colloidal silica dispersions for industrial use

## Key brands

**eka**   **Expancel**   **Kromasil**  
**Compozil**   **Levasil**   **Bindzil**

# AkzoNobel Surface Chemistry



“We had a strong 2011 and were sold out for most of the year”

**Bob Margevich**  
Managing Director

## Overview

We had a strong 2011 and were sold out for most of the year. We utilized our capacity in the most profitable way – supplying high value specialty niches – and combined this with robust margin management to offset major raw material price increases. As a result, we were able to improve on the previous year’s financial performance. Despite some softening in consumer-oriented sectors, we performed very well in industrial areas such as agrochemicals, mining and oilfield due to their dynamic, fast-growing markets and the demand for these types of specialty chemicals worldwide.

## Analysis

It was a good year, particularly for our agrochemicals activities, while high oil prices supported an active drilling market for our oilfield chemicals products. Sales to the mining market were very strong, leading to an excellent year for our separation products, especially in Canada, where they are used by the major fertilizer producers. But the asphalt road paving market stalled, mainly because governments overall did not invest as much as expected in infrastructure. Personal Care, along with our fabric and cleaning activities, experienced some early softness, but recovered later. We also felt pressure from significant increases in raw materials costs – which rose almost 30 percent in some cases – and had problems sourcing some of them. However, demand for our products remained buoyant, notably in Asia and Brazil, while our European business bounced back and achieved the most significant improvement, leading to a strong end to 2011 overall.

## Highlights

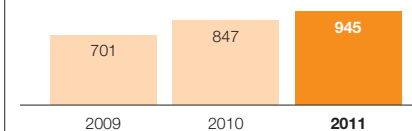
In July, we announced a major acquisition of Boxing Oleochemicals, the leading supplier of nitrile amines and deriv-

atives in China and Asia (see case study on page 40). The acquisition will consolidate our premier position in specialty surfactants and gives us a significant manufacturing base in Shandong Province, enabling us to source our products more effectively and cost efficiently. The deal also represents a fundamental milestone in our strategy, part of which is to expand capacity and increase our presence in Asia, while helping local customers to enhance and differentiate their products. In addition, we boosted our technology portfolio in sustainable chemistry by acquiring from Integrated Botanical Technologies its patented Zeta Fraction technology, which is transforming how plant-based chemistry is used. We are using the technology for personal care applications and investigating ways of using it elsewhere within AkzoNobel. In addition, our newest hybrid technology platform generated its first successful water-soluble bio-polymers: AlcoGuard H 5240 (used in automatic dishwasher and laundry detergents) and BioStyle CGP (used in hair styling products). Based on more than 60 percent renewable resources, our hybrid polymers are unique, plant-based alternatives to petrochemical-based polymers.

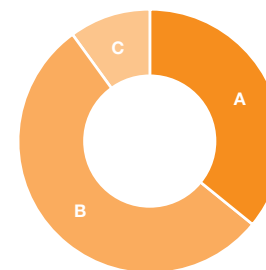
## Developments

Several other new products were launched, including Armid FPC, an environmentally-responsible solvent for water soluble agrochemical applications. We also introduced Armovis EHS, a thermally stable, self-breaking viscosity system for oilfield applications. Around 70 percent of our portfolio is based on products that provide eco-premium solutions and we continued to work hard on developing innovative, sustainable technologies to meet customers’ unmet needs. We also made significant progress toward our Diversity & Inclusion goals by increasing the number of female executives (17 percent) and high growth country executives (13 percent).

Revenue in € millions



Geo-mix revenue by destination in %



<b>A</b> EMEA	36
<b>B</b> Americas	54
<b>C</b> Asia Pacific	10

## Main products

- Surfactants
- Synthetic polymers
- Bio-polymers

## Key markets

- Agriculture
- Asphalt
- Home and personal care
- Oilfield chemicals
- Coating additives
- Lubes and fuels
- Water treatment
- Mining

## Key product lines

- Armeen
- Arquad
- Berol
- Adsee
- Ethomeen
- Naviance
- Alcoguard
- Witconate

## Key brands





# Chemicals Pakistan



“We achieved significant improvements in our environmental performance”

**Waqar A Malik**  
Chief Executive ICI Pakistan

## Overview

The business environment remained very tough due to severe energy shortages, devastating floods and security concerns. As a result, volumes were negatively affected in most businesses. However, we were still able to increase revenue by 8 percent over the previous year, mainly through better price management in all businesses and strong volume growth in our Life Sciences activities.

## Analysis

Customer intimacy, product quality and innovation and supply chain efficiencies – along with a strong market footprint – helped to grow our underlying margins, particularly in the Coatings, Life Sciences, Soda Ash and Chemicals businesses. However, the additional cost of approximately €7 million incurred for using expensive alternative fuel in place of natural gas due to supply shortages dragged down both margins and EBITDA.

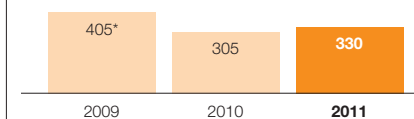
## Highlights

Thanks to our continued commitment to sustainability we achieved significant improvements in our environmental performance. One of the most notable initiatives was the launch of a coke briquetting project at our Soda Ash business. Designed to reduce waste, it involves converting coke dust into usable briquettes. We also reduced water intake through a number of water reuse projects and improved farm economics through the introduction of new products in our Life Sciences business. Our safety performance remains one of the best in the Business Area, with one of our manufacturing sites completing 15 million man hours and another 15 years without a lost time incident.

## Developments

Our employee engagement score for 2011 was the highest across the Business Area. This indicated a step change in employee engagement levels across all of our businesses in Pakistan. Extensive training was conducted to ensure that the employee engagement agenda is properly embedded throughout the organization.

## Revenue in € millions



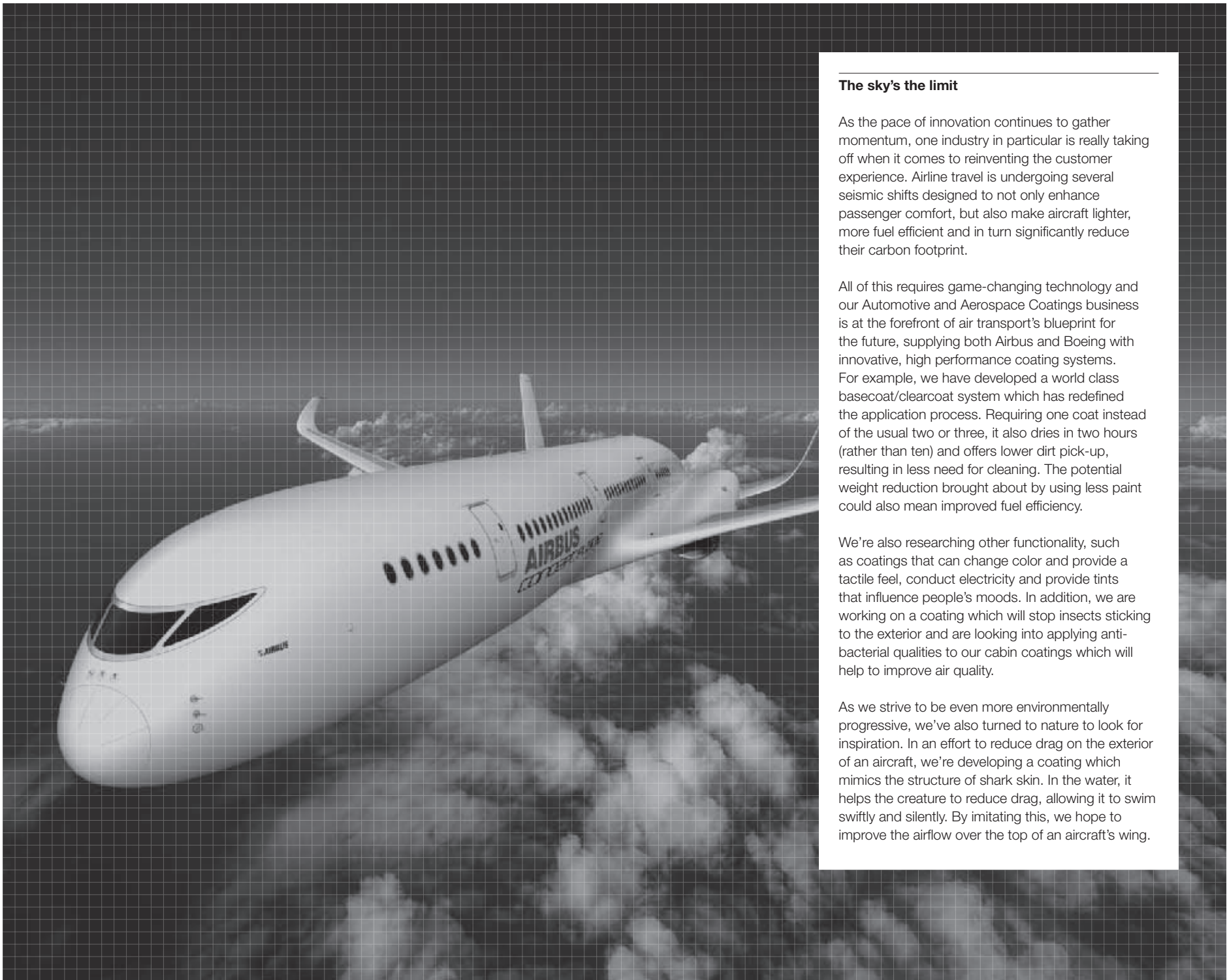
\*Includes sales from PTA, which was divested in September 2009

## Main products

- Polyester fiber
- Soda ash
- Life sciences
- Chemicals
- Paints

## Key brands





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## The sky's the limit

As the pace of innovation continues to gather momentum, one industry in particular is really taking off when it comes to reinventing the customer experience. Airline travel is undergoing several seismic shifts designed to not only enhance passenger comfort, but also make aircraft lighter, more fuel efficient and in turn significantly reduce their carbon footprint.

All of this requires game-changing technology and our Automotive and Aerospace Coatings business is at the forefront of air transport's blueprint for the future, supplying both Airbus and Boeing with innovative, high performance coating systems. For example, we have developed a world class basecoat/clearcoat system which has redefined the application process. Requiring one coat instead of the usual two or three, it also dries in two hours (rather than ten) and offers lower dirt pick-up, resulting in less need for cleaning. The potential weight reduction brought about by using less paint could also mean improved fuel efficiency.

We're also researching other functionality, such as coatings that can change color and provide a tactile feel, conduct electricity and provide tints that influence people's moods. In addition, we are working on a coating which will stop insects sticking to the exterior and are looking into applying anti-bacterial qualities to our cabin coatings which will help to improve air quality.

As we strive to be even more environmentally progressive, we've also turned to nature to look for inspiration. In an effort to reduce drag on the exterior of an aircraft, we're developing a coating which mimics the structure of shark skin. In the water, it helps the creature to reduce drag, allowing it to swim swiftly and silently. By imitating this, we hope to improve the airflow over the top of an aircraft's wing.

# AkzoNobel Performance Coatings



## “We continued to strengthen our market positions”

**Leif Darner**

Board member responsible for Performance Coatings

Coming off the back of a strong 2010, when growth kicked in following the earlier recession, 2011 proved to be more challenging than expected. The major hurdle we faced was an incredible increase in raw material costs, which had an impact on margins, even though we were able to push through price increases. Crucially, most of our businesses maintained good demand from customers – particularly in high growth regions – a positive reflection on the diversity of our portfolio, which sits in different cycles. As a result, we were able to continue growing, despite the volatility of the global economy.

The majority of this growth was achieved by the Packaging Coatings and Coil Coatings activities, along with our Powder and Protective Coatings businesses. It was a more testing year for Wood Finishes – due mainly to the depressed North American housing market – while Marine Coatings also encountered difficulties following a downturn in ship newbuild activity. From a geographical perspective, it was very much a story of two-speed progress. We performed very well in high

growth regions, notably China, where growth was achieved in all segments, with the exception of wood finishes. Turkey, where we have a strong footprint, was another highlight. We have been achieving excellent growth there and continued to invest, adding capacity for powder coatings while also benefiting from the Lindgens Metal Decorating Coatings and Inks acquisition we made in 2010. Our activities in Russia continued to do well and we are looking to further build our presence in the Middle East following the company’s strategic consolidation of its businesses in the region. Demand was weaker in North America and Europe – where we have had to respond with restructuring and cost reduction programs – but we are now able to look at where the pockets of opportunity do exist.

By way of underlining our strategy to capture accelerated growth, our key M&A activity during the year involved the acquisition of Schramm Holding AG and the coatings activities operated by Schramm’s largest shareholder, Korean company SSCP. Focused on consumer electronics and automotive plastic interior coatings, this deal gives us important global leadership positions and in particular will strengthen our fast-growing business in Asia. The year was also very much about integrating two of 2010’s major acquisitions – the Rohm & Haas powder coatings activities and the Changzhou Prime Automotive Paint Co. Ltd business, which opened up the

Chinese market for refinish products. We set ourselves ambitious targets on synergies and growth and that has been going very well. Further to the Prime deal, in October we announced an investment of around €60 million which will include constructing a new production facility in Changzhou. This will give us an important base of operations, enabling us to meet growing local demand and boost our market share.

Our efforts in the area of sustainable technology also intensified as we continued to invest in our research, development and innovation activities. Two new labs were opened in 2011, both in Felling in the UK. One is dedicated to developing and testing fire protection technology, while the other is a state-of-the-art powder resin polymer facility which has a special focus on resins for low temperature cure. Technology and performance is also at the heart of our successful partnership with the Vodafone McLaren Mercedes Formula 1™ team, which was further strengthened during the course of the year.

Absolute EBITDA margins were down, so 2011 proved to be a more challenging trading environment compared with the previous year. The combination of the significant increase in raw material costs and weaker demand in specific geographies impacted our results. We have been actively addressing these challenges, using our scale to manage profitability, while continuing to make progress with our strategic agenda.

# Performance coatings market overview

Our Performance Coatings business is represented in most market segments of this industry, holding many leading positions.

## Market and business characteristics

The size of the global market for performance coatings is around €40 billion.

### General industrial coatings

Metal and plastic coatings for a wide range of applications – from huge industrial equipment to the latest mobile phones and music players, computers, espresso machines and sporting goods.

### Protective coatings

Corrosion and fire protection across a range of industries including upstream and downstream oil and gas, high value infrastructure such as airports and stadia, power generation, mining and minerals and water and waste water.

### Vehicle refinishes

Recoating of automobile bodies when vehicles are repaired.

### Automotive OEM

Coatings for commercial vehicles (trucks and buses) and automotive plastic components.

### Aerospace coatings

Coatings for small and large aircraft, including products for exterior and interior finishes. Primers for structural components and coatings for high performance exterior and interior finishes.

### Powder coatings

Powder technology involves a coating being applied electrostatically. It is sprayed and then subsequently cured by applying heat, either in an oven or by using infrared or UV light irradiation.

### Wood finishes and adhesives

Wood coatings for home and office furniture, flooring, kitchen and bath cabinetry, windows and doors. Adhesives are the bonding agents for wood composites and laminates used in these applications.

### Marine coatings

Coatings for deep sea and inland marine vessels at new construction or for maintenance that protect against corrosion and abrasion and provide resistance to organic fouling.

### Yacht coatings

The most advanced coatings systems to protect and beautify leisure craft, from the smallest dinghy to the largest and most luxurious super yacht.

### Coil and extrusion coatings

Coil coatings are applied to coiled steel for heating, ventilation, air conditioning and appliances, and in commercial and residential construction to protect metal roofs and building components. Extrusion coatings give aluminum lasting beauty when used on metal building fascias and window frames and provide protection from the elements.

### Packaging coatings

Coatings for packaging which are applied to internal and external surfaces for food and drink cans, caps and closures and cardboard and plastic packaging.

### Customers

We serve a large range of customers including shipyards and yacht builders, architects, consumer electronics and appliance companies, can makers, steel manufacturers, the construction industry, furniture makers, aircraft, bus and truck producers and bodyshops.

### Global market drivers

- Growing populations and GDP growth
- Steel production
- Consumer confidence
- Infrastructure development
- Housing market activities

### High growth markets

Projected industry growth is strong, particularly in Asia Pacific. More than 45 percent of our Performance Coatings revenue is in high growth markets.

### Innovations

- Automobile scratch repair systems
- Low-bake powder coatings
- Self-repairing clearcoat
- Foul release coatings
- Waterborne coatings technology

### Some key raw materials

- Resins
- Titanium dioxide
- Pigments
- Solvents

### Price drivers

- Oil/energy prices
- Construction demand
- Metals, base chemical prices

### Market leadership positions

Marine and Protective Coatings

1st	Marine coatings
	Protective coatings
	Yacht coatings

Automotive and Aerospace Coatings

2nd	Aerospace coatings
3rd	Vehicle refinish
	Commercial vehicle OEM coatings
5th	Automotive plastic coatings

Industrial Coatings

1st	Coil and extrusion coatings
	Specialty plastics coatings
2nd	Packaging coatings

Powder Coatings

1st	Powder coatings
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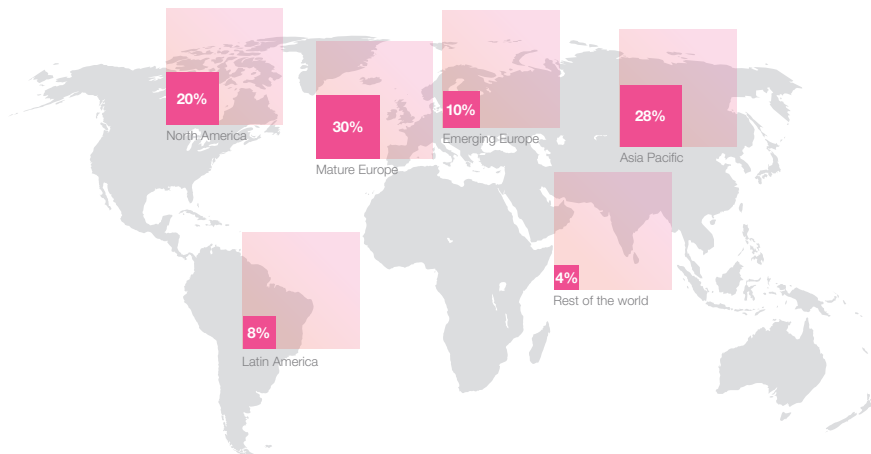
Wood Finishes and Adhesives

1st	Industrial wood finishes
2nd	Industrial wood adhesives

# Key developments 2011

- Began supplying the first mainstream passenger vehicle line in the world to use a powder monocoat
- Inaugurated new research laboratories for fire protection technology and powder resin polymer in Felling, UK
- Acquired Schramm Holding AG and the coatings activities operated by Schramm's largest shareholder, Korean company SSCP
- Announced investment in new Automotive and Aerospace Coatings facility in Changzhou, China
- Started up a new plant in Vietnam operated by our Wood Finishes and Adhesives business
- Opened a new Powder Coatings factory in Monterrey, Mexico, and expanded our powder plant in Izmir, Turkey

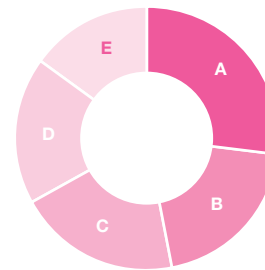
## Geo-mix revenue by destination



## Key figures in € millions

	2010	2011
Revenue	4,786	5,170
EBITDA	647	611
EBITDA margin (in %)	13.5	11.8
EBIT	540	495
EBIT margin (in %)	11.3	9.6
Operating income	487	458
Moving average ROI (in %)	26.5	22.0

## Revenue breakdown by business unit in %



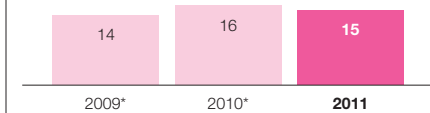
<b>A</b> Marine and Protective Coatings	27
<b>B</b> Automotive and Aerospace Coatings	20
<b>C</b> Industrial Coatings	20
<b>D</b> Powder Coatings	18
<b>E</b> Wood Finishes and Adhesives	15

## Employees by region at year-end

	2010	2011
US and Canada	3,300	3,100
Latin America	1,700	1,800
China	4,100	4,500
Other Asian countries	3,000	3,400
The Netherlands	1,000	1,100
Germany	1,200	1,400
Sweden	900	900
UK	1,500	1,600
Other European countries	3,200	3,000
Other regions	1,100	1,200
<b>Total</b>	<b>21,000</b>	<b>22,000</b>

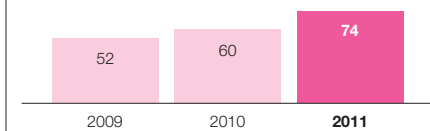
## Eco-premium solutions

% of revenue



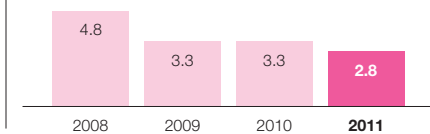
\*Restated numbers  
see Note 14 in the Sustainability facts and figures section

## Key value chains with carbon footprint assessment



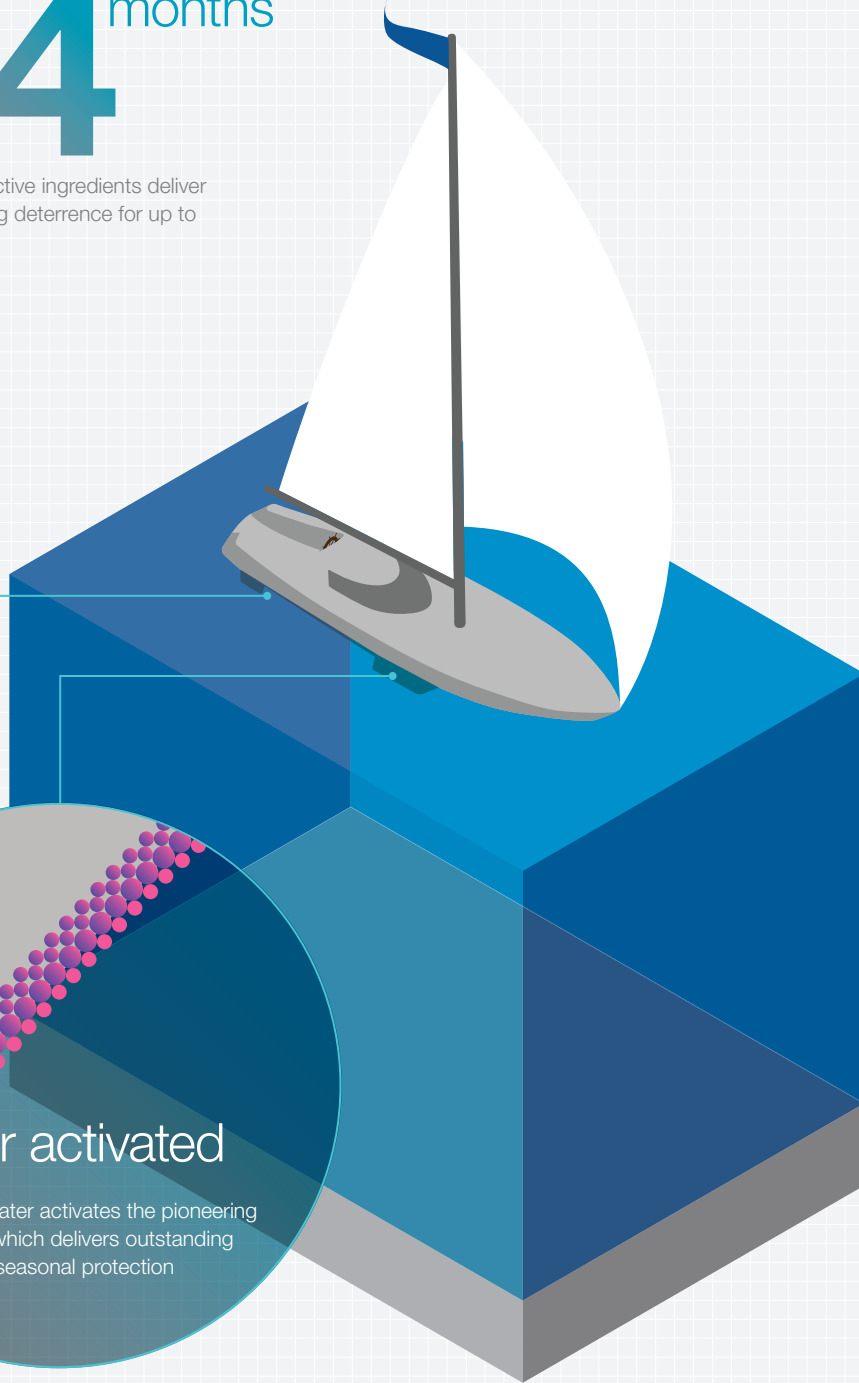
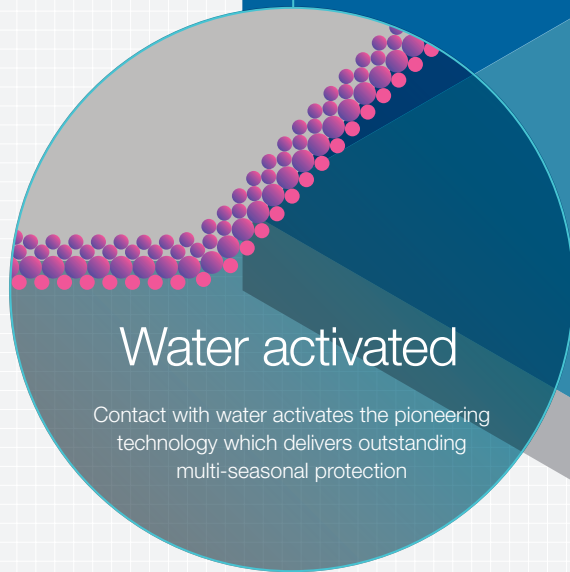
## Total reportable rate of injuries

per million hours



# 24 months

Micron WA's active ingredients deliver powerful fouling deterrence for up to two years.



## Our world is water

Unique technology can give manufacturers that all-important competitive edge, an advantage which becomes that bit sharper if you can also incorporate environmental considerations into your product. All these benefits are wrapped up in an exciting new antifouling developed for the yacht market by our Marine and Protective Coatings business.

Targeted for both retail and professional customers, Micron WA – part of the industry-leading International Paint range – uses pioneering water activated matrix technology to deliver outstanding multi-seasonal protection in high challenge areas, in all types of waters. It combines powerful antifouling performance with a very low VOC to provide the perfect solution for customers looking for a premium quality, brightly colored antifouling which can also reduce their environmental impact.

The product dries to a finish unlike a conventional antifouling and, before immersion, the color may even appear dull. But once immersed, a uniform finish and bright color develops as water filters through the matrix, saturating the pigments while at the same time efficiently releasing the active ingredients to deliver powerful fouling deterrence for up to 24 months. This extended in-service period means that owners can save money as the boat can stay in the water for longer.

Designed to be compliant with future legislation, Micron WA is scheduled for an initial launch in France, with a global rollout expected to follow. A patent application has been filed to help maintain technology leadership and promote this innovative new product.



# AkzoNobel Marine and Protective Coatings



“Conditions were difficult, but our results were very close to the previous year”

**Rob Molenaar**  
Managing Director

## Overview

It was a year of mixed performance, dominated by the economic climate and unprecedented raw material price rises. Some of our key market sectors experienced very difficult business conditions, which put pressure on volume and margins. But we worked hard to tackle the financial headwinds and achieved a 2011 result very close to the previous year.

## Analysis

Our three main businesses had contrasting fortunes. It was an excellent year for Protective Coatings, with strong growth being achieved – notably in the oil and gas sector – while a number of high profile contracts were also secured. In Yacht, a strong performer over many years, the economic downturn had a negative impact, but the business put in a very good bottom line performance, even though there was a clear fall off in orders for new boats. Our Marine activities endured the most testing conditions, confirming the downward cycle in the industry. Over-capacity, combined with a drop in newbuilds, had a major impact, although the increased size of the fleet meant there were opportunities in maintenance and repair, an area we will continue to concentrate on. From a regional perspective, we performed very well in the US and benefited from a renewed focus on Latin America, while the dominance of the marine industry in Asia meant the business climate in that part of the world was difficult.

## Highlights

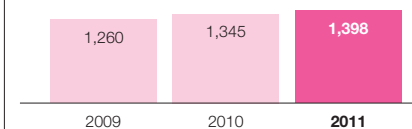
In June we opened a new testing laboratory for fire protection products at our Felling site in the UK. It's part of a major investment by our business in research, development and innovation at the location which has turned Felling into AkzoNobel's biggest research center in the world. We also

started supplying protective coatings for both the \$40 billion Gorgon gas project off the north west coast of Australia, and the London Array in the UK, a 1,000-megawatt wind farm in the Thames Estuary which is expected to become the world's largest offshore wind facility when it is completed in 2012. Another highlight was a partnership we formed with ship monitoring firm BMT ARGOS which could play a major role in improving the operational efficiency of the global shipping fleet. It involves using advanced measuring systems to monitor the performance of vessels using our fouling control coatings. The data obtained will provide complete transparency and evidence to owners and operators of the performance improvements our advanced hull coatings technology can deliver. In addition, we completed the supply of coatings to four of the stadia that will be used for the UEFA Euro 2012 soccer championship in Poland and Ukraine.

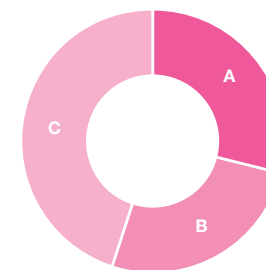
## Developments

We achieved the 12,000th application of our Intershield 300 anti-corrosion coating, which was joined in our market-leading portfolio by Interline 9001, a new bimodal epoxy for chemical tankers which simplifies the carriage of a wide range of liquid cargoes, optimizing vessel earning potential and bringing significant financial benefits to owners. Our Korean business celebrated coating its 2,000th newbuild vessel, and we also played a role in India's first Formula 1™ Grand Prix race in October, having supplied protective coatings for the grandstand at the Buddh International Circuit. Another important contract secured during 2011 involved supplying high performance protective coatings for the Chenab Bridge – the world's highest arch bridge – which will be part of a new railway line linking the Kashmir region with the rest of India.

## Revenue in € millions



## Geo-mix revenue by destination in %



<b>A</b> EMEA	29
<b>B</b> Americas	26
<b>C</b> Asia Pacific	45

## Main products

- Marine coatings
- Yacht paints
- Protective coatings

## Key markets

- Ship building
- Oil and gas facilities
- High value infrastructure (airports, stadia, bridges)
- Power generation installations
- Mining and minerals
- Yacht

## Key brands



# AkzoNobel Automotive and Aerospace Coatings



“We remain well positioned to further invest in building our business”

**Jim Rees**  
Managing Director

## Overview

Our strong growth across all regions and business segments continued during the first half of 2011, but we caught some headwind as the year progressed, mainly due to raw material price impact and macro economic issues. While this slowed our momentum, we were still able to improve on our 2010 revenue and remained well positioned to focus on our customers and further invest in building our business.

## Analysis

We achieved good growth in the high growth markets, especially China, India and Latin America, where volume improvements ranged from mid-single digits to low teens. Volumes in Europe and North America were basically flat, however, largely due to a significant decline in miles driven, which dramatically impacts collision rates and subsequently our end vehicle refinish markets. Our Automotive Plastic Coatings business had a very good year, with much of the growth coming from Asia – particularly China – while our Commercial Vehicle activities also performed well, notably in North America and Europe. Aerospace, meanwhile, had a record year. The aircraft manufacturers were busy and their order books were extended more than they have been in recent times. As market leader, we benefited from this, with most of the growth being realized in the commercial aviation sector, driven mainly by the megatrends in the world. Market forces meant that there was some need to manage our pricing, but in general the strength of our product portfolio and strong customer focus ensured that we continued to grow.

## Highlights

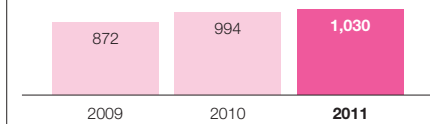
In October we announced an investment of around €60 million to increase production capacity in China. This will involve

constructing a new production facility in Changzhou, as well as related warehousing, quality control laboratories, support facilities and offices. The new facility will build on last year's acquisition of Changzhou Prime Automotive Paint Co. Ltd and will strengthen our leadership position in the country's automotive refinishes market. We owe it to our customers to be able to produce locally and supply them locally, so this will give us an important base of operations. Another notable transaction was the divestment of our company-owned distribution outlets in the US to LKQ Corporation. We decided that this would be in the best interests of our customers and it will help us to improve the capability of our distribution footprint in the region. We also bought out the minority interest in the vehicle refinish segment of our joint venture partner, Comex, in Mexico to boost our growth strategy. It means we now have full responsibility there for the marketing and distribution of our Sikkens, Lesonal, U-Tech and Wanda brands.

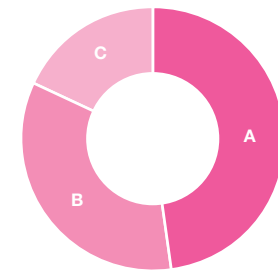
## Developments

Last year's rollout of our Wanda waterborne basecoat into the trade segment in North America really took off in 2011. The product has been a great success and we are gradually launching it across the globe, most recently in Indonesia and Australia. As a result of the strength of our Process Centered Environment solution, we won approval to supply Toyota Motors Europe, while our Aerospace business clinched an important contract with Air France and launched a new interior cabin coating. We continued to learn from our exciting partnership with Vodafone McLaren Mercedes and invested further in our commitment to getting color right first time for our customers by upgrading our vehicle refinish paint systems and introducing advanced color tools.

Revenue in € millions



Geo-mix revenue by destination in %



<b>A</b> EMEA	48
<b>B</b> Americas	34
<b>C</b> Asia Pacific	18

## Main products

- Primers, basecoats, topcoats and clearcoats for vehicle refinishes
- Automotive plastic coatings
- Customer service technology
- Aerospace coatings

## Key markets

- Collision repairers and commercial vehicle refinishers
- Bus, truck, specialty vehicle OEMs
- Automobile insurer networks
- Fleet owners and operators
- Automotive OEM aftermarkets
- Aircraft industry

## Key brands





# AkzoNobel Industrial Coatings



“It was a year of record earnings, achieved through a combination of strong revenue growth, acquisitions and margin management”

Conrad Keijzer  
Managing Director

## Overview

It was a year of record earnings, achieved through a combination of strong revenue growth, acquisitions and margin management, which continued the momentum we picked up in the latter part of 2009. Both Coil and Packaging Coatings grew revenue at double digit levels and reached all-time sales records in all key regions. Unexpectedly steep raw material price increases posed a significant challenge towards the middle of 2011, but we successfully compensated for these through margin management and higher sales.

## Analysis

We continued to recover well in Western Europe and North America and put in a strong performance in several high growth regions, particularly China. Most of the growth came through our Packaging and Coil Coatings businesses. Packaging in particular achieved solid results and gained market share in the beer and beverage segment, while Coil benefited from construction activity in Asia, Russia and Turkey and pockets of investment in North America. This highlighted the underlying strength of our core markets in metal packaging and steel coil coating. Specialty Plastics was essentially flat, due mainly to the impact of changes in end product mix in the wireless and IT segments, although the business had a good year in the automotive sector. We were able to pass on the bulk of the raw material price rises and we also offset their impact through higher revenue.

## Highlights

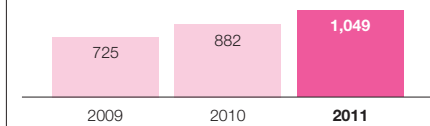
Our acquisitions of Schramm Holding AG and the coatings activities operated by Schramm's largest shareholder, Korean company SSCP, were important deals. They not only gave us a global market leadership position in specialty plastic coatings, but also added key technologies, an excellent customer

mix and brought recognized talent into our business, particularly in Asia. We now have a direct position in the Korean supply chain for plastics for consumer electronics and automotive components, and have reinforced our position in the automotive interior sector in Germany and China. The Korean mobile phone market is particularly exciting and we now have excellent capabilities to supply what is a dynamic, high profile industry. During 2011, we also completed the integration of the Lindgens Metal Decorating Coatings and Inks business acquired in 2010. Safety remained a priority and more than half our factories had an injury-free year, but we remain fully committed to achieving zero injuries.

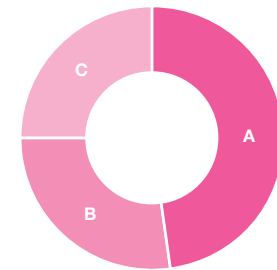
## Developments

We are already a leading supplier of soft-feel liquid coating technology to the automotive and consumer electronics markets, but during 2011 we launched a solvent-free, soft-touch paint film for the consumer electronics sector. Good progress was also made on the use of our EvCote technology – based on R-PET and introduced into the paper packaging market in 2010 – where the prospects in quick serve restaurant packaging are encouraging. In a joint partnership with DSM, we are developing coatings using resins with significantly improved carbon footprint. Elsewhere, we inaugurated our new production facility in Bangalore, India, for coil coatings and specialty plastics, while in Russia we further invested in our Lipetsk plant to support our continued growth in the country's coil coatings markets. We also expanded our Songjiang R&D campus in China to include development of coatings for the unique requirements posed by the local mid-tier coil and extrusion segments. In Damman, Saudi Arabia, we invested in local manufacturing for packaging coatings to support markets in the Middle East.

## Revenue in € millions



## Geo-mix revenue by destination in %



A EMEA	48
B Americas	27
C Asia Pacific	25

## Main products

- Beer, beverage and food can coatings
- Coatings for caps, closures and general line cans
- Coil and extrusion coatings
- Specialty plastics coatings

## Key markets

- Beer, beverage and food can markets
- Consumer electronics such as cell phones and laptops
- Construction industry

## Key brands



# AkzoNobel Powder Coatings



“Our performance in Western Europe was excellent, Asia grew steadily and we had a strong year in North America”

**AB Ghosh**  
Managing Director

## Overview

The major focus was on integrating the Rohm & Haas powder coatings activities we acquired in 2010. The first full reporting year of the combined business demonstrated record performance in both sales and EBITDA, while the projected synergies were also fully realized. The performance exceeded forecasts made at the time of the acquisition, and although changing trends in the global economy meant that 2011 was a year of two halves, we were still able to grow the overall business.

## Analysis

We had a good first six months, driven by a rebound in Western Europe and increased sales in high growth markets. The second half of 2011 told a different story. The worsening euro-zone crisis sparked a slowdown and we experienced a drop in demand, particularly in Southern Europe. Rocketing raw material prices – notably for titanium dioxide and polyester resin – created severe pressure on margins. Despite these challenges, we were still able to make good progress. Our performance in Western Europe was excellent, Asia grew steadily and we had a strong year in North America. Much of this success was down to the additional market strength we derived from the Rohm & Haas deal, coupled with careful margin management.

## Highlights

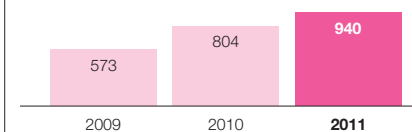
In April, we opened a state-of-the-art powder resin polymer lab at our Felling site in the UK. We are carrying out innovative work there to develop differentiated resins, with a special focus on resins for low temperature cure. The lab will feed our network of powder technology centers, which include facilities in China and the US, with another planned in Europe. This strategic investment in innovative research is designed to expand our market space and develop new platforms for future

growth. We also opened a new factory in Monterrey, Mexico, and expanded our plant in Izmir, Turkey, where we are concentrating our expertise in special effects products. Towards the end of the year, AkzoNobel Powder Coatings became the first coatings manufacturer in the world to receive global SMaRT® (Sustainable Materials and Rating Technology) certification. This is a world-leading, third party, independent certification which verifies that our whole process is sustainable. We achieved a platinum rating, which is the highest possible. In addition, we became a preferred global supplier to agricultural machinery manufacturers John Deere.

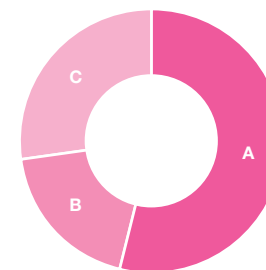
## Developments

Our Functional Powders business launched a new low temperature cure, single layer, pipeline product called Resicoat R-726LAT which can be used to coat joints in the field. It offers the same finish and performance as traditional three-layer systems, only it saves customers energy costs, as well as time and resources. We also introduced Interpon AM, which has been specifically designed for hygiene sensitive environments. It was developed in partnership with BioCote, a leading antimicrobial specialist, and is being used in facilities such as labs and hospitals. Another notable launch was our new low temperature cure primer for automotive wheels – Interpon A4700 – which enables customers to make energy savings, as well as offering line speed efficiencies. In India, we achieved a major breakthrough in automotive coatings with the use of an Interpon single layer powder topcoat on the Tata Iris mini-passenger vehicle (see case study on page 150). It was the first mainstream passenger vehicle production line in the world to use a powder monocoat. The Tata Iris is now in production and sales of powder coated vehicles are expected to rise to 50,000 per annum.

Revenue in € millions



Geo-mix revenue by destination in %



<b>A</b> EMEA	54
<b>B</b> Americas	19
<b>C</b> Asia Pacific	27

## Main products

- Powder coatings

## Key markets

- Appliances
- Architectural
- Automotive
- Furniture
- General industrial

## Key brands



# AkzoNobel Wood Finishes and Adhesives



“Despite unfavorable market conditions, we continue to align ourselves for growth”

**John Wolff**  
Managing Director

## Overview

It was a challenging year of stark contrasts. On the one hand we identified new opportunities in the world's high growth regions, while on the other we faced uncertainty stemming from the ongoing economic decline in the more mature markets. Lack of consumer confidence and weak housing markets adversely affected our business and rapidly increasing raw material prices caused an additional strain. Through a combination of stringent price increases and cost control methodologies, we were able to optimize revenue and profit outcomes for the year.

## Analysis

Our activities are closely linked to the world's housing markets and historically a significant segment of our business has been dependent upon the mature, developed parts of the world, such as Western Europe and North America. Those economies were essentially flat during 2011, and with raw material prices increasing dramatically, we faced extremely challenging business conditions. This situation prompted decisive action to cut costs through headcount reduction and rationalization projects. Margin management was attained through price increases in a very difficult commercial environment on a global basis. However, we did achieve growth in the high growth regions of Eastern Europe, Latin America and parts of Asia in both our Finishes and Adhesives businesses.

## Highlights

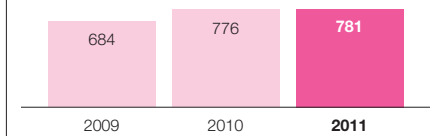
Despite unfavorable market conditions, we continue to align ourselves for growth. In Asia, for example, we are investing in strengthening and expanding our local teams focused on driving growth in the domestic industrial wood segments. They have made rapid progress in launching into new

domestic markets in Asia and are starting to supply a core range of products. We also teamed up with our Decorative Paints business in India to take advantage of their extensive distribution network to break into the country's industrial wood market. Another significant development was the start-up of our new plant in Vietnam, which supports our growth strategy in the Asian export and domestic markets. We've identified a number of new business opportunities and have already developed a new range of products for this region. In Eastern Europe, we continue to expand our business with large OEM customers while increasing our distribution channels for the custom workshop sector. Despite the difficult economic environment, we're very confident that these additional activities will provide us with a platform for accelerated growth moving forward.

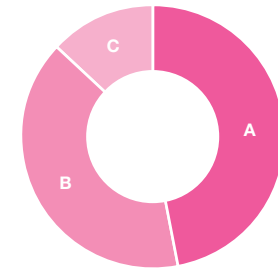
## Developments

The key focus of our business is to successfully grow with large OEM customer groups and drive further market penetration into the custom workshop market by providing value-added products, services and solutions delivered locally to our chosen customer base. This focused approach led to a number of exciting developments during 2011, including new sustainable waterborne and UV cure products. Among a series of product launches, we introduced VOC compliant coatings into our European and North American distribution lines, while our Adhesives business launched several new product ranges, including the GripLine system for wood construction and the LignuLine system for interior components. These developments are focused on improving and enhancing the sustainability and competitiveness of our customers, which in turn will contribute to a more sustainable AkzoNobel.

Revenue in € millions



Geo-mix revenue by destination in %



<b>A</b> EMEA	47
<b>B</b> Americas	40
<b>C</b> Asia Pacific	13

## Main products

- Wood coatings
- Wood adhesives and board resins

## Key markets

- Furniture
- Cabinets
- Flooring
- Windows
- Doors
- Building products

## Key brands



## Building the brand

Whatever the industry or market you're in, if you want to be successful, brand building is vital. A brand has to be distinctive and requires appropriate investment. It has to be recognizable and customers have to immediately connect with it.

So for our Decorative Paints business, one of the most significant developments of 2011 was the launch of a single global brand identity for its retail consumer paint range. Being rolled out worldwide, the introduction of the new strategy demonstrates our determination to further expand our global market share and strengthen our reputation as the world's leading decorative paints company.

Based around a colorful flourish, which embodies Decorative Paints' global Let's Colour campaign – and inspires and invites consumers to decorate their homes and surroundings – the new identity has already been launched in Canada, China, India, South East Asia Pacific and the Netherlands. Other countries and regions will soon follow. AkzoNobel company endorsement is also being introduced on the front of pack and in all advertisements, product websites and other relevant marketing materials.

The strategy involves streamlining our offering from dozens of brands to fewer, more impactful global brands, with the new identity eventually being deployed in close to 50 key markets. Creating the right degree of commonality and consistency, while maintaining a relevant local touch, will also help us to compete directly in regional and local markets and establish more leadership positions.

Adopting this single, global approach will also help consumers to better engage with the brand through touch points and in-store shopping experiences and enable us to more effectively promote our vast range of innovative and eco-premium products.



# AkzoNobel Decorative Paints



Absent: Jaap Kuiper

**“We are firmly convinced of our ability to compete and grow our business”**

**Tex Gunning**

Board member responsible for Decorative Paints

It has been a challenging year for our global Decorative Paints business. The worldwide financial crisis significantly impacted housing and construction markets, with newbuilds and sales of existing houses continuing to decline, particularly in Europe and North America.

Market conditions were made even more severe in 2011 by a 100 percent increase in the cost of titanium dioxide, an essential ingredient in our high quality products. Since our contractors around the world are competing for share in a stagnant or declining market, we also experienced down trading to cheaper products. We were unable to pass on all raw material cost increases during the year.

Despite these challenges, we continue to be optimistic about our industry and our ability to compete and grow our business. The successfully completed merger with ICI has created a global Decorative Paints business with a clear vision, strategy

and an effective organizational model which allows scale and scope advantages where it matters, while creating powerful local profit and loss responsibilities.

In both Europe and North America, we have established integrated businesses with the main purpose of improving productivity and margins, while also focusing on building our brands and penetration. The financial crisis had a significant adverse effect on our southern European businesses and resulted in minor growth in our north European countries. Our flagship businesses in the UK and Belgium weathered the storm well and we expect that this will be sustainable.

In the US, we successfully completed the introduction of our products into Walmart, although revenue for the year was below expectations. Our business with The Home Depot continues to strengthen after the successful relaunch of Glidden and a strongly improved cooperation. In Canada, our activities suffered from a sluggish market, but we were able to consolidate our long-standing relationship with major retailer RONA. Overall, however, our North American trading result was significantly impacted by raw material cost increases and write-offs of slow moving stocks.

Looking at the high growth markets of Asia, Latin America, Turkey and Eastern Europe, we continue to outpace our competitors and are strengthening our relative market share

positions. Our strategy in China to extend penetration in the mass market and the western Tier 2 and Tier 3 cities is paying dividends, while our business in India started to gain momentum following investment in our flagship Dulux brand, as well as increased penetration into the mass markets and rural cities. This follows similar investments in markets such as Indonesia, which continues to outgrow competitors. In Turkey, Brazil and Argentina, we gained market share through great customer programs and the successful Let's Colour brand activities.

During 2011, we continued to invest in our people, brands and capabilities. Our Ignite the Spirit program has been attended by more than 15,000 employees, creating a global community which is fully aligned to achieve our ambition of adding color to people's lives. We strengthened our top teams in Europe and the US and created a global brand identity which is currently being successfully rolled out, along with a brand campaign, under the Let's Colour invitation. In addition, the introduction of a dedicated Innovation Director alongside our R&D teams has enabled us to benefit from the heightened focus and we now have a healthy pipeline of new propositions that are globally aligned, in particular in the ever more important area of sustainability.

# Decorative paints market overview

Our Decorative Paints business supplies a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself (DIY) markets, including paints, lacquers and varnishes, as well as products for surface preparation (pre-deco products).

## Market and business characteristics

The size of the global market for decorative paints is around €30 billion.

## Architectural coatings

Interior and exterior wall paints and trim paints (lacquers) for consumers and professionals.

## Woodcare and specialty products

- Lacquers and varnishes for wood protection and decoration
- Specialty coatings for metal, concrete and other critical building materials

## Pre-deco products

Fillers, wall treatments, sealants and putties for consumers and professionals

## Building adhesives

- Tile and floor adhesives and floor leveling compounds used in the building and renovation industry
- Supplied for professional workers such as tile, floor and parquet layers, interior decorators and painters
- Direct sales to medium-sized enterprises, wholesalers, specialized retailers

## Customers

Our end-users can broadly be segmented into homeowners (either DIY or BIY – buy it yourself), professional painters serving homeowners and commercial contractors. They are

served through a variety of outlets ranging from big box chains such as The Home Depot, Walmart, B&Q and Leroy Merlin (serving mainly homeowners) to independent dealers (serving both homeowners and professionals) and company-owned stores focused on serving professionals.

## Global market drivers and developments

- Growing populations and GDP growth
- Activity of residential and commercial newbuild and home sales
- Global increase in importance of home and interior decoration
- Rise of middle class in high growth markets
- Legislative/regulatory pressures on environmental and health issues (VOC, REACH) driving innovation
- Increasing importance of large-scale outlets
- Growth of importance of women as decision-makers

## Drivers for buying decision

### Retailers

- Strong brands that attract customers
- Innovation that drives demand and basket spend
- Category management capability

### Trade customers

- Product quality, consistency and innovation
- Product availability and service
- Technical and business support
- Strong brands supporting loyalty

## Innovations

### Consumer market

- Dulux Weathershield Keep Cool – heat-reflective exterior paint with energy-saving properties
- Dulux All Round Guard – absorbs harmful elements from the air to create a safer home environment
- New Glidden Duo paint and primer – new product provides exceptional hiding power and adhesion properties
- Dulux Light & Space – highly light reflective, energy-saving wall paint

## Support professional painters with tailor-made products and services

- Sikkens object analysis, design support and marketing programs for painters
- The Dulux Trade Environmental Wash System and DDC (Dulux Decorator Centers) Paint Can Recycling – professional paint waste management systems
- Herbol Façade Certification Program
- Glidden SpeedWall – highly efficient interior wall paint with superior properties for the professional painter
- Dulux Trade Ecosure – water-based, high performance professional paint
- Sikkens Rubbol XD – VOC-reduced, ultra durable professional trimpaint

## Key raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

## Price drivers

- Energy, oil and raw material prices
- Steel prices

## Market leadership positions

### Europe

<b>1st</b>	<b>Continental Europe</b>
	<b>Northern and Eastern Europe</b>
	<b>UK, Ireland and South Africa</b>

### Americas

<b>1st</b>	<b>Canada</b>
<b>2nd</b>	United States
	Latin America

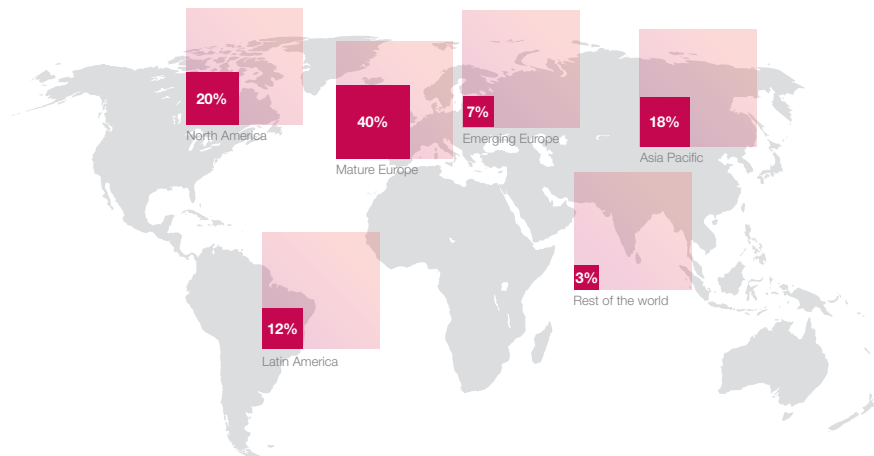
### Asia

<b>1st</b>	<b>South East Asia and Pacific</b>
<b>2nd</b>	China and North Asia
<b>3rd</b>	India and South Asia

# Key developments 2011

- Launch of the new global Dulux brand cluster identity
- Merger of our three European Decorative Paints businesses into one EMEA organization
- Completion of Walmart paint program in the US
- Opened and upgraded more than 720 stores in China
- State-of-the-art manufacturing facility commissioned in Hyderabad, India
- Zero waste production plant launched in South East Asia
- Coral confirmed as Brazil's leading paint brand
- Consolidated our long-standing relationship in Canada with major retailer RONA

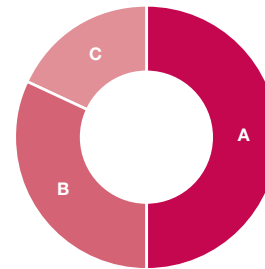
## Geo-mix revenue by destination



## Key figures in € millions

	2010	2011
Revenue	4,968	5,296
EBITDA	548	440
EBITDA margin (in %)	11.0	8.3
EBIT	343	230
EBIT margin (in %)	6.9	4.3
Operating income	275	137
Moving average ROI (in %)	5.2	3.5

## Revenue breakdown by business unit in %



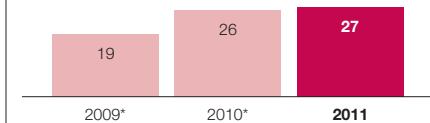
<b>A</b> Decorative Paints Europe	50
<b>B</b> Decorative Paints Americas	32
<b>C</b> Decorative Paints Asia	18

## Employees by region at year-end

	2010	2011
US and Canada	5,100	5,200
Latin America	1,800	1,800
China	1,500	1,700
Other Asian countries	2,200	2,400
The Netherlands	1,100	1,100
Germany	1,300	1,300
Sweden	600	600
UK	2,200	2,200
Other European countries	5,100	5,000
Other regions	1,100	1,000
<b>Total</b>	<b>22,000</b>	<b>22,300</b>

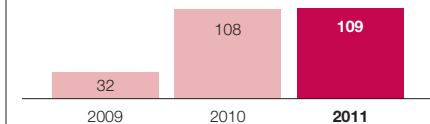
## Eco-premium solutions

% of revenue



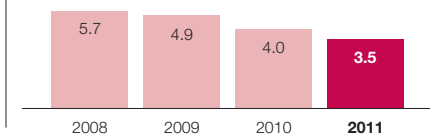
\*Restated numbers see Note 14 in the Sustainability facts and figures section

## Key value chains with carbon footprint assessment



## Total reportable rate of injuries

per million hours



# AkzoNobel Decorative Paints Europe



“In a difficult market environment, the business overall performed well”

Richard Stuckes  
Managing Director

## Overview

It was a challenging year, particularly during the second half, when the economic environment was heavily impacted by the uncertainty around the euro, government austerity measures and associated weakening in consumer confidence around Europe, in particular in the south European countries. Despite this, overall revenue and volume were still up, but with a slow-down in momentum in the fourth quarter. In addition, margins were impacted by significant variable cost inflation with a lag in terms of the impact of implemented price increases.

## Analysis

In a difficult market environment, the business overall performed well, with share gains in particular coming in key markets including Turkey, Russia and the Benelux. Gains were even achieved in areas impacted by the economic crisis, such as Greece. However, some parts of the business were impacted by weaker exterior paint sales due to weather conditions. We also saw adverse product and channel mix due to the weak economy in the more mature markets. Combined with higher variable cost inflation – in particular on the back of  $\text{TiO}_2$  – the business experienced pressure on contribution margins. In markets outside the eurozone, we experienced additional cost pressures due to weakening local currencies. As a result, despite continued restructuring benefits, profits for the year were down.

## Highlights

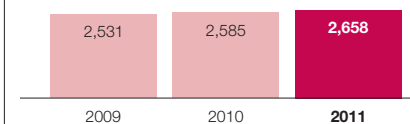
At the end of 2010 we announced the merger of three Decorative Paints businesses in Europe into one Decorative Paints EMEA business and we made good progress during the year in creating strategic clarity and establishing the new organization. It was a busy year in terms of securing and implementing contracts. For example, we announced that Dulux paint

is being used to help transform the Russian headquarters of the World Wildlife Fund, which will be a showcase for green construction. Our own sustainability efforts included an important breakthrough at our Prudhoe plant in the UK. An eco-efficient way of making paint – based on harvesting rain water – has been developed which could slash the site’s use of industrial water by 50 percent. Meanwhile, our Nordsjö and Sadolin brands became the first in the Nordic region to offer a filler accredited with the coveted Nordic Ecolabel. There were also positive improvements in safety performance and operational eco-efficiency metrics.

## Developments

There was a lot of brand activity throughout the region, including the rollout of the Herbol brand in Italy and the Vivechrom Express one coat concept in Greece, while Savdel Blue and Flasch were introduced in Morocco and Tunisia and the Dulux Let’s Colour campaign was launched in South Africa. Another important development was the launch of the Sikkens EcoSure range of interior and exterior wall paints, which offers the optimal balance between quality, low environmental impact and total lifecycle footprint. In addition, we relaunched our woodcare ranges in Poland (Sadolin) and Belgium (Xyladecor) with new livery, and in Germany we introduced Einflach Glatt, a ready mix filler with two unique tools to smooth walls quickly and easily. During 2011 we also sponsored the inaugural European Painting Skills Legacy workshop, in association with UNIEP. The prestigious event brought together experienced professionals with trainees from across the continent and was designed to allow trainee painting contractors to experience and learn from the latest developments in painting.

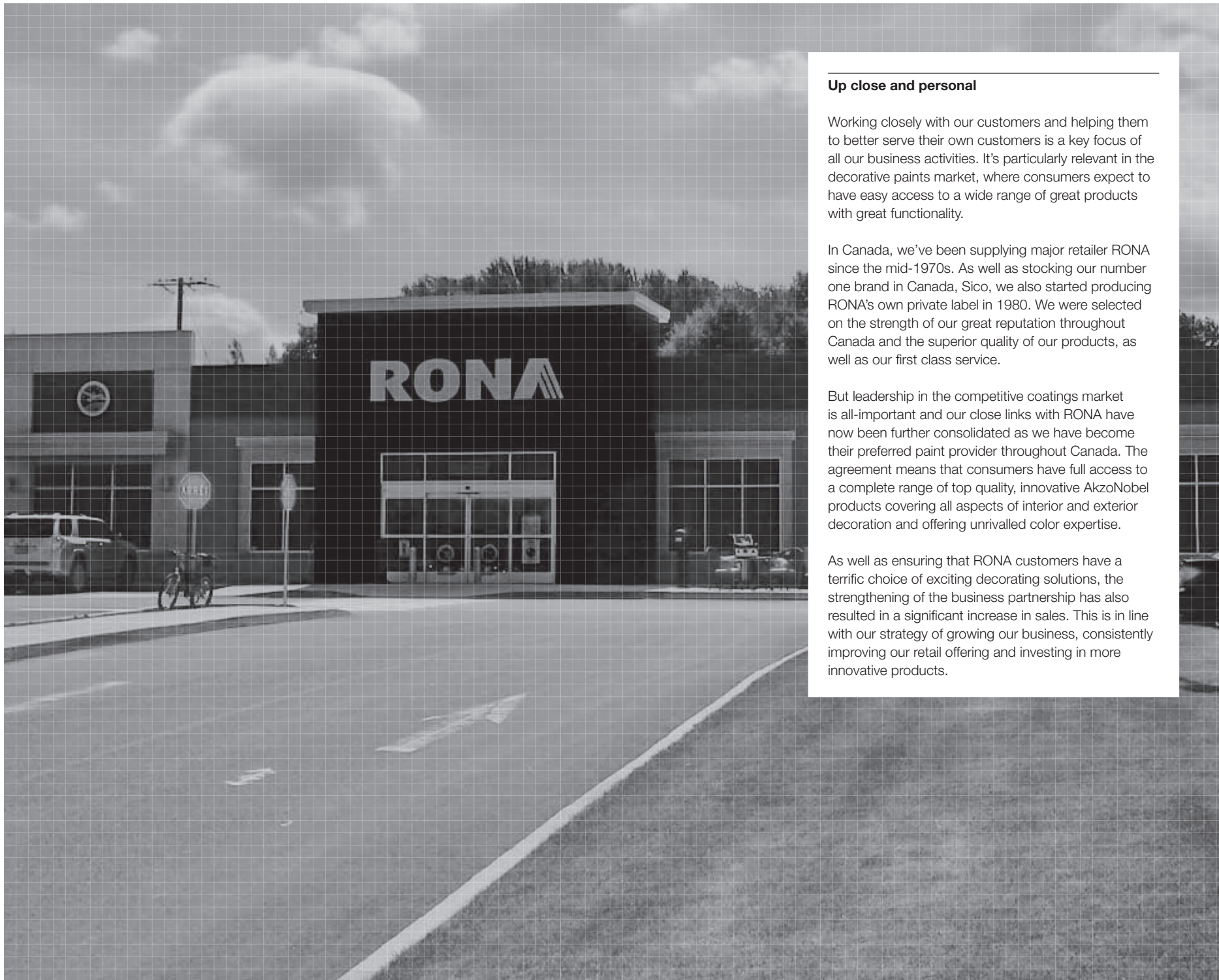
Revenue in € millions



## Key brands







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### **Up close and personal**

Working closely with our customers and helping them to better serve their own customers is a key focus of all our business activities. It's particularly relevant in the decorative paints market, where consumers expect to have easy access to a wide range of great products with great functionality.

In Canada, we've been supplying major retailer RONA since the mid-1970s. As well as stocking our number one brand in Canada, Sico, we also started producing RONA's own private label in 1980. We were selected on the strength of our great reputation throughout Canada and the superior quality of our products, as well as our first class service.

But leadership in the competitive coatings market is all-important and our close links with RONA have now been further consolidated as we have become their preferred paint provider throughout Canada. The agreement means that consumers have full access to a complete range of top quality, innovative AkzoNobel products covering all aspects of interior and exterior decoration and offering unrivalled color expertise.

As well as ensuring that RONA customers have a terrific choice of exciting decorating solutions, the strengthening of the business partnership has also resulted in a significant increase in sales. This is in line with our strategy of growing our business, consistently improving our retail offering and investing in more innovative products.

# AkzoNobel Decorative Paints Americas



From left to right:

**Bob Taylor**  
Managing Director  
North America

**Jaap Kuiper**  
Managing Director  
Latin America

## Overview

While adverse economic conditions and raw material price rises negatively impacted the performance in North America, there was more resistance to the slowdown in Latin America, notably in Brazil, where sales, profit and market share all increased.

## Analysis

Volume and revenue gains were realized in the US – primarily due to the new incremental Walmart business – but profitability was affected, despite multiple pricing actions, aggressive margin and cost management and continuous improvement initiatives during the year. Even with these challenging trading conditions, investment in the US paint business continued to yield positive results in terms of market share, quality and product innovation. In Canada, the do-it-yourself segment was much weaker than in 2010, but the professional sector held up reasonably well thanks to a mild recovery in work on large construction and renovation projects. Our Latin American business combated the tough economic climate by reinforcing brands, focusing on customer intimacy and launching unique marketing campaigns. This proved to be particularly successful in Brazil, where sales grew 15 percent and profit leapt 25 percent. Significantly, more than 30 percent of the volume in Brazil came from eco-premium products.

## Highlights

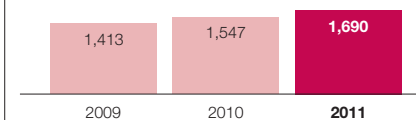
The launch of a comprehensive Walmart paint program was completed in the US, which means that all 3,500 stores have now been reset with the full range of AkzoNobel products. This is in addition to the 325 stores we already serve in Canada. Our sustained investment in the flagship US Glidden brand yielded a two-point year-on-year market share increase and it has now become the most widely available paint brand

in the country. Meanwhile, our new Glidden Trim & Door product was launched within The Home Depot nationwide. It features innovative Gel-Flow technology which allows it to fill and cover wood grain and minor surface imperfections to provide an exceptional high gloss, no brush mark finish. As part of our global Decorative Paints marketing strategy, all 235 company-owned and franchise stores in Canada were rebranded with the Dulux identity. This included 17 new stores opened in 2011 to expand the business' coverage for the professional market. In Brazil, Coral not only became the country's leading paint brand, but was also named brand of the year by customers. Other accolades included recognition as Brazil's green company of the year.

## Developments

Our efforts to promote the proper disposal of paint intensified in Canada, where we further expanded our industry-leading recycling program to 21 collection points in Quebec and Ontario. The initiative is designed to encourage professional paint contractors to recycle their leftover products in a safe and environmentally responsible way. Also in Canada, we introduced a new line of low VOC paint using alkyd-in-water technology under the Sico brand, which was subsequently expanded to our Dulux and CIL brands. Another notable development occurred in the US, where Glidden earned several important "best buy" designations, while our Sikkens wood care brand was also ranked number one. In Latin America, the Tudo de Cor Para Você program (All the Colors For You – part of the Let's Colour campaign) continued to be a huge success. The initiative – which involves painting deprived neighborhoods in order to add color to people's lives – received a further boost during 2011 when former tennis star Gustavo Kuerten became an ambassador for a major event staged in Florianópolis.

Revenue in € millions



## Key brands



# AkzoNobel Decorative Paints Asia



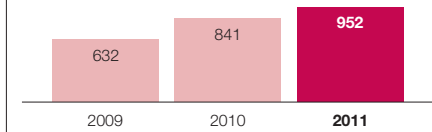
From left to right:

**Jeremy Rowe**  
Managing Director South  
East Asia & Pacific (SEAP)

**Amit Jain**  
Managing Director  
India and South Asia (ISA)

**Lin Liangqi**  
Managing Director  
China & North Asia

Revenue in € millions



Key brands



## Overview

Our Asian activities performed well during 2011 as the Decorative Paints business continued along its profitable growth path. Double digit revenue growth was achieved in South East Asia & Pacific – led by the Dulux brand – which further strengthened our leadership position in the region. India and South Asia grew by more than 20 percent to become the fastest-growing region globally. We grew ahead of the competition in Sri Lanka and gained two percentage points in market share, thus consolidating our strong leadership position. In China, we significantly outpaced a decelerating market, which was impacted by government measures to curb rising property prices.

## Analysis

Continued investment in our brands, such as the rollout of the new Dulux brand identity, was a key factor in helping to boost performance, in particular our mass market penetration. This resulted in underlying volume growth and market share increases. The major floods in Thailand and the slow-down in the Vietnam economy halted the momentum somewhat in South East Asia & Pacific towards the end of the year. Increasing raw material costs put a strain on margins at all businesses, but these were partly offset by pricing actions and, in some cases, long-term sourcing strategies with select vendors.

## Highlights

The rollout of the new Dulux brand identity was a major highlight which will help to further extend our color leadership and boost awareness for our products. Our continued strategic investment in brand building also included opening and upgrading more than 720 stores in China to accelerate

the expansion of our controlled distribution footprint. In India, signage was changed to the newly launched brand identity in more than 2,000 outlets. This coincided with the launch of the new Dulux campaign in India and the expanded availability of our product range, which involved entering over 200 new towns via a new distribution model. We also commissioned a state-of-the-art manufacturing facility at our Hyderabad site, which has enhanced capacity by nearly 30 percent. Meanwhile, in South East Asia and Pacific, we implemented our first production facility designed to produce zero waste to set a new standard for sustainable manufacturing.

## Developments

Several new products were launched throughout Asia, including mass market offering Dulux Promise, an exterior emulsion paint, and ICI Magik – an economy paint for interiors – which is available across all geographies in India. Dulux Promise is growing twice as fast as its category and ICI Magik, priced at the equivalent of €1, is growing four times as fast as the economy interior paint sector. In China, the launches of Dulux Forest Breath and a range of zero-VOC products highlighted our strong commitment to introducing both innovative and sustainable products to Chinese consumers. Also significant in China was the fact that our mass market range enjoyed the highest growth among all product segments. The emphasis on offering innovative new products continued in South East Asia & Pacific, where we introduced the next generation Weathershield range for exteriors, along with interior air-cleansing paint Dulux Pure. Our focus on sustainability was further underlined by the Thane site in India achieving an overall reduction in specific power use of 15 percent.



# Governance and compliance

In this section we introduce our Supervisory Board and present their Report for 2011, which provides a detailed overview of their activities during the year. Our corporate governance structure is also described, as well as our remuneration and risk management policies, along with information about compliance and integrity management and AkzoNobel on the capital market.

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Compliance and integrity management	90
AkzoNobel on the capital market	92

# Supervisory Board Chairman's statement

**2011 was the year in which the Supervisory Board found a successor to Hans Wijers. It was also the year we launched our groundbreaking performance improvement program.**

Identifying Hans' successor was challenging, given his significant contribution to transforming AkzoNobel into the largest coatings and specialty chemicals company. The Supervisory Board is, however, pleased to have identified Ton Büchner as his successor and is fully expecting his formal appointment as CEO to take place at the Annual General Meeting of shareholders in 2012.

In common with every year, the Supervisory Board held a full day strategy review. This followed on from the more detailed and operational three-day Executive Committee strategy review to guide the overall strategy development of the company, consistent with the medium-term ambitions announced in September 2010. To deliver on the promise created by the appointment of the Executive Committee and its introduction in January 2011, AkzoNobel announced a major performance improvement program designed to improve efficiency (with targeted improvements of €500 million by 2014) and effectiveness. Given the expected change in CEO leadership in 2012, the Supervisory Board took a more active role in the development and implementation of this program to ensure continuity during the leadership change.



**Karel Vuursteen**  
Chairman of the Supervisory Board



# Our Supervisory Board



**Karel Vuursteen**  
(1941, Dutch) Chairman  
**Initial appointment 2002**  
**Current term of office 2010–2014**

Former CEO of Heineken; Deputy Chairman and member of the Board of Directors of Heineken Holding N.V.; Chairman of the Supervisory Board of TOMTOM N.V.; member of the Supervisory Board of Henkel AG.

- Chairman of the Nomination Committee
- Member of the Remuneration Committee



**Uwe-Ernst Bufe**  
(1944, German) Deputy Chairman  
**Initial appointment 2003**  
**Current term of office 2011–2015**

Former CEO of Degussa AG; member of the Supervisory Board of Umicore SA and non-executive director of SunPower Inc.



**Virginia Bottomley**  
(1948, British)  
**Initial appointment 2000**  
**Current term of office 2008–2012**

Former Secretary of State for Health and member of the British Cabinet; former Secretary of State for National Heritage; non-executive director of BUPA; executive director of Odgers Berndtson.

- Member of the Remuneration Committee
- Member of the Nomination Committee



**Dolf van den Brink**  
(1948, Dutch)  
**Initial appointment 2004**  
**Current term of office 2008–2012**

Former member of the Managing Board of ABN AMRO Bank; Supervisory Director De Heus Nederland B.V.; Chairman of the Supervisory Boards of Arbo Unie B.V. and Nederlandse Waterschapsbank N.V.; Supervisory Director of Center Parcs Europe N.V. and Legal & General Nederland N.V.

- Chairman of the Audit Committee



**Peggy Bruzelius**  
(1949, Swedish)  
**Initial appointment 2007**  
**Current term of office 2011–2015**

Former CEO ABB Financial Services; former Executive Vice-President SEB; Vice-Chairman AB Electrolux; non-executive director of Axfood AB, Husqvarna AB, Syngenta AG and Diageo plc; Chairman of Lancelot Holding AB.

- Member of the Audit Committee



**Antony Burgmans**  
(1947, Dutch)  
**Initial appointment 2006**  
**Current term of office 2010–2014**

Former Chairman and CEO of Unilever N.V. and plc.; non-executive director of BP plc.; member of the Supervisory Boards of SHV Holdings N.V. and AEGON N.V.; Chairman of the Supervisory Board of TNT Express.

- Member of the Nomination Committee
- Chairman of the Remuneration Committee



**Peter Ellwood**  
(1943, British)  
**Initial appointment 2008**  
**Current term of office 2008–2012**

Former Chairman of ICI plc; former Group Chief Executive of Lloyds TSB Group; Chairman of Rexam plc.

- Member of the Remuneration Committee
- Member of the Nomination Committee



**Louis Hughes**  
(1949, American)  
**Initial appointment 2006**  
**Current term of office 2010–2014**

Former President and COO of Lockheed Martin; Former Executive Vice-President of General Motors; Chairman and CEO of In ZeroSystems LLC; member of the Boards of Directors of ABB Group and Alcatel-Lucent SA; executive advisor of Wind Point Partners.

- Member of the Audit Committee

# Report of the Supervisory Board

## Main 2011 activities

CEO succession

Performance improvement program

Strategic discussions at company, Business Area, business unit and country level

One Country organization model

Procurement and TiO<sub>2</sub> strategy

Sustainability strategy and performance

Talent development

Board visit to the US

**Consistent with the two-tier Board structure of the company, the Supervisory Board's role is differentiated from the role of the Board of Management. The Supervisory Board's main responsibility is to supervise the general conduct of the business of the company and to provide advice to the Board of Management.**

In 2011, the oversight role of the Supervisory Board was equally applied to the policies and conduct of the Executive Committee, which was established in 2011. The Supervisory Board is also responsible for overseeing the strategic development of the company and ensuring high caliber succession to the Board of Management positions.

### Financial statements and profit allocation

The Board of Management has submitted the financial statements of Akzo Nobel N.V. for the financial year 2011, together with the report of the Board of Management and the report of the external auditor of Akzo Nobel N.V. to the Supervisory Board. The 2011 financial statements were audited by KPMG Accountants N.V. and the Auditor's report appears on page 146. The financial statements were discussed extensively with the auditors by the Audit Committee, and in the presence of the Chairman of the Board of Management (CEO) and the Chief Financial Officer (CFO). In addition, the 2011 financial statements were discussed by the full Supervisory Board with the full Board of Management, in the presence of the auditors. Based on these discussions, the Supervisory Board is of the opinion that the 2011 financial statements of Akzo Nobel N.V. meet all requirements for correctness and transparency, and that they form a good basis to account for the supervision provided.

The Supervisory Board recommends that the Annual General Meeting of shareholders adopts the 2011 financial statements as presented in this 2011 Report, and, as proposed by the

Board of Management, allocates €340 million for the payment of dividend. This is consistent with our aim to provide a stable to rising dividend that is in line with sustainable earnings. The proposed total dividend for 2011 on each of the common shares outstanding is €1.45, and this amount, less the interim dividend of €0.33 – which was paid in November 2011 – is proposed to be made payable on May 24, 2012. The dividend will, at the shareholder's discretion, be paid either in cash or in shares. In addition, we request that the Annual General Meeting of shareholders discharges the members of the Board of Management of their responsibility for the conduct of business in 2011 and the members of the Supervisory Board for their supervision in 2011.

### Supervisory Board activities

The Supervisory Board held eight meetings during 2011, including a one-day meeting in June 2011 fully dedicated to the company's strategy. Seven meetings were plenary sessions with the full Board of Management present and one meeting was held via a conference call. Supervisory Board attendance percentage in 2011 was on average 87.5 percent. The Chairman of the Supervisory Board prepared the meetings with the Secretary and discussed matters, such as the agendas, with the CEO.

Regular agenda items included financial and operational performance, share price development, operational planning (budget) and the annual financing and investment plan. Business unit Managing Directors and Corporate Functional Directors were regularly invited to give presentations to the Supervisory Board. The Board of Management has kept the Supervisory Board regularly informed of intended organizational changes, appointments of senior managers and major contracts.



One of the main activities of the Supervisory Board in 2011 was the CEO succession. The Supervisory Board is pleased to have identified Ton Büchner as successor to Mr. Wijers and is fully intending to formally appoint Mr. Büchner as CEO following his appointment to the Board of Management by the Annual General Meeting of shareholders on April 23, 2012. The Supervisory Board believes that Mr. Büchner's international and operational experience will be a great asset to lead the company through the current volatile market conditions. For more details, see the Nomination Committee section in this report. Progress was also made in finding new candidates for appointment to the Supervisory Board and an announcement regarding two candidates is expected to be made when the agenda of the 2012 AGM is published on March 12.

The Supervisory Board devoted considerable time to discussing the company's strategy and reviewing strategic options with the Board of Management. In addition to the full day strategy review meeting held in June 2011, business unit and regional strategies were presented to the Supervisory Board following the strategic review sessions at company level with the Executive Committee.

In September 2011, the full Supervisory Board and Board of Management visited some of the company's businesses in the US. This included meetings with local management, customers and other stakeholders, as well as a visit to AkzoNobel's Surface Chemistry site in Houston. The trip provided an excellent opportunity for the Supervisory Board to liaise and engage with local management and for a comprehensive review of the businesses in the US.

The performance improvement program was discussed with the full Supervisory Board in three meetings. Three Supervisory Board members also held additional meetings with

the CEO and program director. In these additional meetings, the program design, process and progress was reviewed and discussed in detail. The results of these meetings were reported back to the full Supervisory Board. The performance improvement program presents a next step in the evolution of our company. By leveraging our scale via operational and functional excellence at lower costs, we will ensure delivery of medium-term profitability ambitions in a challenging market environment.

The activities related to the program included detailed discussions on functional and Business Area plans with objectives, associated risks and the mechanisms for controlling those (financial) risks. Furthermore, the Supervisory Board discussed sustainability on a number of occasions, in the broader sense, but also specifically in relation to the Values of the company's medium-term strategy (for example process and people safety) and the significant effort being put into people and talent development.

Other topics discussed and reviewed by the Supervisory Board included:

- One Country organizational model
- M&A processes, activities and priorities
- Business Area updates
- Governance of the company
- Risk management
- Middle East strategy
- Procurement and TiO<sub>2</sub> strategy
- Sustainability strategy and performance
- Real estate strategy
- Talent development
- Diversity and inclusion
- Remuneration policy

- Funding headroom
- Liability management
- Approval of major investments, acquisitions and divestments

#### Independence of the Supervisory Board

Each member of the Supervisory Board meets the independence requirements as stated in Dutch Corporate Governance Code provisions III.2.1 and III.2.2 and has completed an annual independence questionnaire addressing the relevant requirements for independence.

#### Audit Committee

The Audit Committee held six meetings during 2011. Discussions regularly focused on financial statements, internal control procedures, risk management, internal audit reports and planning, tax, pensions and the external auditor's performance and independence. Before each announcement of the company's quarterly results, the Audit Committee was informed of the figures and consulted on the reports and press releases to be published.

The Audit Committee also discussed topics including:

- The quality of internal and external audit
- Internal audit strategy
- The auditor's approach to auditing the company, engagement letter, fees, risk assessment and audit plan
- Information management governance and cyber crime
- Operating working capital management
- Compliance at the company
- Currency sensitivity analysis
- Impact of new IFRS rules
- Tax strategy
- Sustainability metrics and processes

Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings of this Board. The Audit Committee has performed the annual review of the adequacy of the Audit Committee charter. The Audit Committee also evaluated the services of the external auditor and an external fee benchmark has been performed. Both processes have been concluded and the Audit Committee has recommended to the Supervisory Board not to propose a change in the external auditor's appointment. The Audit Committee has decided to reconsider undertaking an external auditor selection process (full tender) towards the end of 2013, for submission and decision at the Annual General Meeting of shareholders in 2014.

#### Remuneration Committee

The Remuneration Committee held three meetings in 2011. Recommendations were made on the remuneration for members of the Board of Management and the other members of the Executive Committee, including personal targets. The remuneration of Mr. Büchner was also discussed. For a report of the committee work carried out in 2011, reference is made to the Remuneration report and Note 23 of the Financial statements, where information on the remuneration of the Board of Management and the Supervisory Board can also be found.

#### Nomination Committee

The Nomination Committee held five meetings in 2011. After a thorough and confidential selection process – which included the help of an executive search firm to facilitate the process – a proposal was made for the succession of Mr. Wijers. Interviews and introduction meetings were held with the members of the Nomination Committee and the Supervisory Board.

In addition, the Nomination Committee successfully identified a candidate to succeed Baroness Bottomley as a member of the Supervisory Board and made a proposal to expand the Supervisory Board to nine members instead of eight. An announcement regarding these two new appointments is expected to be made when the agenda of the 2012 Annual General Meeting of shareholders is published on March 12.

Based on the advice of the Nomination Committee, the Supervisory Board recommends the reappointment of all members of the Supervisory Board and the Board of Management who are up for reappointment at the Annual General Meeting of shareholders in 2012.

#### Board evaluation

The Supervisory Board carried out a performance evaluation of itself, its committees, the Chairman and the chairmen of the committees. The process consisted of Supervisory Board members and other participants of the meetings completing questionnaires designed by an external facilitator in conjunction with the Chairman and chairmen of the committees. The completed questionnaires were available to the facilitator only, who consequently prepared written reports for the Chairman, the Deputy Chairman and the chairmen of the Supervisory Board committees.

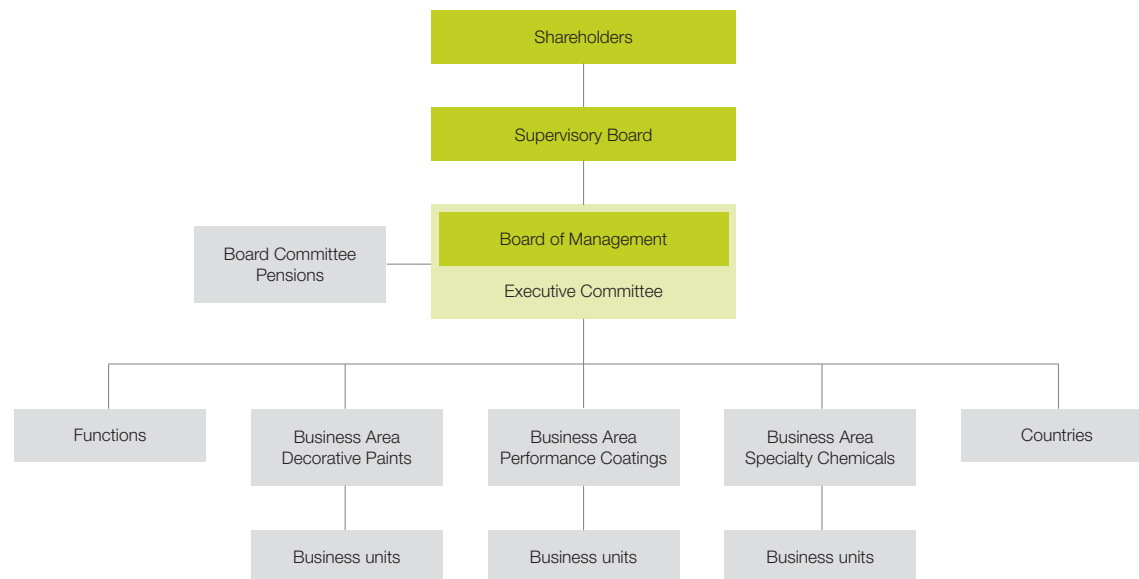
In separate meetings without the Board of Management, the full Supervisory Board and the Audit Committee discuss the results of the evaluation of the Supervisory Board and its committees. These discussions are minuted and the conclusions and actions are discussed and confirmed at the next meeting of the Supervisory Board and the Audit Committee. The evaluation of the Chairman is discussed by the full Supervisory Board in the Chairman's absence. It is the Supervisory Board's intention to use an external facilitator in the evaluation process every third year.

The Supervisory Board wishes to thank both Mr. Wijers and Baroness Bottomley in particular for their contributions to AkzoNobel during their time with the company.

All members of the Supervisory Board also extend 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 2011.

Amsterdam, February 15, 2012  
The Supervisory Board

# Corporate governance statement



## Major external regulations

- Dutch Civil Code
- Dutch Act on financial supervision
- NYSE Euronext listing rules
- Dutch Corporate Governance Code

## Major internal regulations

- Articles of Association
- Code of Conduct
- Rules of Procedure for the Supervisory Board
- Rules of Procedure for the Board of Management/Executive Committee
- Corporate directives and policies
- Authority schedules

Akzo Nobel N.V. is a public limited liability company (“Naamloze Vennootschap”) established under the laws of the Netherlands. Its common shares are listed on NYSE Euronext Amsterdam. The company’s management and supervision structure is organized in a so-called two-tier system, comprising a Board of Management, solely composed of executive directors, and a Supervisory Board, solely composed of non-executive directors. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders for the performance of their functions.

Our corporate governance structure is based on the requirements of the Dutch Civil Code, the company’s Articles of Association and the rules and regulations applicable to companies listed on the NYSE Euronext Amsterdam stock exchange, complemented by several internal procedures. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations.

This chapter describes AkzoNobel’s corporate governance. Over the last decade, we have been consistently enhancing and improving our corporate governance standards in accordance with applicable laws and regulations. Most notable were the Dutch Corporate Governance Code adopted in 2003 and amended in 2008 (the “Code”) and the US Sarbanes-Oxley Act of 2002 and its implementation rules. Although we have delisted from NASDAQ and deregistered from the SEC in 2007, we continue to build on the improvements we have been making to our corporate governance.

The Code contains principles and best practices for Dutch companies with listed shares. We agree with both the general approach and the vast majority of its principles and best practice provisions. Any deviations from the Code are explained, in accordance with the Code’s “apply or explain” principle.

The Board of Management and the Supervisory Board are of the opinion that the company’s corporate governance structure, as described in this chapter and which includes the introduction of an Executive Committee as per January 1, 2011, is

the most appropriate for AkzoNobel at this point in time. With the exception of those aspects of our governance structure which can only be amended with the approval of the Annual General Meeting of shareholders, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied as described below, if this is considered to be in the interest of the company. If adjustments are made, they will be published and reported in the annual report for the relevant year.

## Board of Management

### General

The Board of Management is entrusted with the management of the company. As of January 1, 2011, the Board of Management has operated in the context of an Executive Committee. The company has broadened its leadership team in order to accelerate sustainable growth. An Executive Committee has been established, which comprises the members of the Board of Management and leaders with functional expertise, allowing both the functions and the Business Areas to be represented at the highest levels in the company. The functions currently represented in the Executive Committee are HR & Organizational Development, Research, Development & Innovation, Legal and Supply Chain/Sourcing (including Health, Safety and Environment).

In performing its duties, the Executive Committee is guided by the interests of the company and its affiliated enterprise, taking into consideration the relevant interests of the company's stakeholders. Among other responsibilities, the members of the Executive Committee define the strategic direction, establish the policies and manage the company's day-to-day operations. Including functional leadership in the Executive Committee means that the functions are in a stronger position to support the business units in achieving their growth targets.

The members of the Board of Management remain jointly and individually accountable for all decisions made by the Executive Committee. All Executive Committee decisions require a positive vote of a majority of the members of the Board of Management. The Board of Management can decide to

reserve decisions for the Board of Management. The Board of Management is accountable for its performance to a separate and independent Supervisory Board. The Board of Management is also answerable to the shareholders of the company at the Annual General Meeting of shareholders. The Executive Committee members, who are not also a member of the Board of Management, report to the Chief Executive Officer (CEO). Executive Committee meetings are held once a fortnight.

The CEO leads the Executive Committee in its overall management of the company to achieve its performance goals and ambitions. He is the main point of liaison with the Supervisory Board. The Chief Financial Officer (CFO) is specifically responsible for the company's financial affairs and information management.

The company has organized its business into three Business Areas: Decorative Paints, Performance Coatings and Specialty Chemicals. The other three members of the Board of Management (not being the CEO and the CFO) have specific responsibilities for these Business Areas. To effectively steer the strategy of our businesses and their operations, the Executive Committee has established Business Area Boards for each of the Business Areas. The Business Area Boards consist of the Board of Management member responsible for the Business Area, assisted by staff officers. The Business Area Board meetings are held once a fortnight. The Business Area Boards provide a forum for a more in-depth discussion on all possible subjects relevant to that Business Area. In addition, a Board Committee Pensions oversees the general pension policies (to be) implemented in the various pension plans of the company. The CFO chairs the Board Committee Pensions. The authority of the Business Area Boards and the Board Committee Pensions is laid down in an internal authority schedule.

The company has also established a Sustainability Council, which advises the Executive Committee on strategy developments, monitors the integration of sustainability into management process and oversees the company's sustainability targets and overall performance.

The Managing Directors of our business units, and the Corporate Functional Directors in charge of the different functions, report to individual Executive Committee members with specific responsibility for their activities and performance. To safeguard consistency and coherence for the total organization, the Executive Committee has established corporate directives.

The company is strengthening its country and regional organizations, as they will be key in developing a more collaborative way of working across the company. They will play an important role in helping the company to achieve its growth ambitions. Country leadership teams have been introduced for, among others, Brazil, India and China, as well as the Middle East, under the directorship of an empowered Country Director. As well as being responsible for driving growth in these countries, the country leadership teams will be responsible for selecting, prioritizing and aligning functional activities, establishing centers of excellence and, where appropriate, improving efficiency levels. All Country Directors report to an Executive Committee member.

Following the increased importance of the functions and countries to achieving our Value and Values strategic ambitions, the authority schedule for the company was revised in 2011. The functions and country leadership teams have been awarded a more prominent role in submitting and advising on business proposals, following which the Executive Committee is in a stronger position to drive common agendas across the company and have fully informed discussions on proposals – whether submitted by functions, countries or business units.

Representative authority, including the signing of documents, is vested in at least two members of the Board of Management jointly. The Board of Management may appoint corporate agents. The list of authorized signatories is publicly available. The tasks and responsibilities, as well as internal procedural matters for the Executive Committee, are addressed in the Rules of Procedure for the Board of Management and Executive Committee. These Rules of Procedure have been reviewed and approved by the Supervisory Board and are available on our corporate website.

### **Appointment, conflicts of interest**

Board of Management members are appointed to, and removed from, office by the Annual General Meeting of shareholders. The remaining members of the Executive Committee are appointed by the CEO subject to the approval of the Supervisory Board.

As of 2004, members of the Board of Management are appointed for four-year terms (or less), with the possibility of reappointment at the expiry of each term. This is in line with the Code's provision II.1.1. However, the contract of Mr. Wijers – who was appointed before 2004 – was not renegotiated, as this was not felt to be in the interest of the company.

As Mr. Wijers will retire from his current role as member of the Board of Management and CEO of the company with effect from April 23, 2012, the Supervisory Board shall propose to the Annual General Meeting of shareholders to appoint Mr. Büchner as member of the Board of Management, with the Supervisory Board's intention being to appoint Mr. Büchner as CEO with effect from April 23, 2012. Mr. Büchner joined the company on December 1, 2011, and was appointed as a member of the Executive Committee as of January 1, 2012.

The Meeting of Holders of Priority Shares has the right to make binding nominations for the appointment of members of the Board of Management and the Supervisory Board. The priority shares are held by the Foundation Akzo Nobel. The Board of the Foundation Akzo Nobel consists of members of the Supervisory Board who are not members of the Audit Committee. In deviation of the Code (provision IV.1.1), the Articles of Association state that the Annual General Meeting of shareholders cannot cancel the binding nature of a nomination by the holders of priority shares for the appointment of members of the Supervisory Board or the Board of Management.

As the company subscribes to the Code's principles in general, members of the Supervisory Board and the Board of Management are, in normal circumstances, appointed on the basis of a non-binding nomination by the Supervisory Board.

The Board of the Foundation Akzo Nobel has confirmed its intention to use its binding nomination rights only in cases and circumstances it considers exceptional, such as in the event of a (threatened) hostile takeover. (Reference is made to the description of anti-takeover provisions and control, see page 77). In normal circumstances, resolutions to appoint a member of the Supervisory Board or Board of Management will therefore require a simple majority of the votes cast by shareholders. Shareholders meeting the requirements laid down in the Articles of Association are also entitled to nominate Supervisory Board or Board of Management members. According to the Articles of Association, such appointments will require a two-thirds majority, representing at least 50 percent of the outstanding share capital.

Although a deviation from provision IV.1.1 of the Code, the Supervisory Board and the Board of Management are of the opinion that these provisions will enhance the continuity of the company's management and policies.

As of January 1, 2011, members of the Executive Committee are not allowed to hold more than one supervisory board membership or non-executive directorship in another listed company. This is more stringent than the Code (provision II.1.8), which allows members of a board of management two such supervisory board memberships or non-executive directorships. The exception to this rule is that in the 18 months prior to their retirement, Executive Committee members are allowed to hold more than one supervisory board membership or non-executive directorship in order to allow them to prepare for retirement. But only if this does not interfere with the performance of their tasks as members of the Executive Committee. Furthermore, an exception can be made for an executive joining the Executive Committee. However, a maximum of two supervisory board memberships or non-executive directorships will apply. Acceptance of external supervisory board memberships or non-executive directorships in other listed companies by members of the Executive Committee is subject to approval of the Supervisory Board, with authority having been delegated to the Chairman of the Supervisory Board. With respect to

the members of the Board of Management, Mr. Wijers is a non-executive Board member of Royal Dutch Shell plc, while Mr. Frohn is a member of the Supervisory Board of Nutreco N.V. and Mr. Gunning is a member of the Supervisory Board of TNT Express N.V.

The handling of (potential) conflicts of interest between the company and members of the Board of Management or Executive Committee is governed by the Rules of Procedure for the Board of Management and Executive Committee. Decisions to enter into transactions under which Board of Management members have conflicts of interest that are of material significance to the company, and/or to the relevant Board of Management member, require the approval of the Supervisory Board. Any such decisions will be mentioned in the annual report for the relevant year. In 2011, no transactions were reported under which a member of the Board of Management has had a conflict of interest that is of material significance to the company.

### **Remuneration**

In line with the remuneration policy adopted by the Annual General Meeting of shareholders, the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. The Supervisory Board will also decide on the remuneration of the remaining members of the Executive Committee on the proposal of the CEO. The composition of the remuneration of Board of Management members, and the remuneration policy itself, are described in the Remuneration report and the Financial statements (see Note 23). The main elements of the employment contracts of Board of Management members are available on the company's corporate website. The maximum remuneration in the event of dismissal is in principle one year's base salary. In the event of the dismissal of Mr. Wijers, who was appointed before 2004 (and who will retire with effect from April 23, 2012), the Supervisory Board will determine a severance payment upon the advice of the Remuneration Committee. The contracts of the members of the Board of Management do not contain change of control provisions. Mr. Büchner's employment agreement is compliant with the

Dutch Corporate Governance Code, the most important elements of which will be disclosed in accordance therewith.

## Supervisory Board

### General

The Supervisory Board's overall responsibility is to supervise the policies adopted by the Board of Management and the Executive Committee and over the general conduct of the business of the company. This specifically includes supervision of the achievement of the company's operational and financial objectives, the corporate strategy designed to achieve the objectives, the design and effectiveness of the internal risk management and control systems, the main financial parameters, compliance with applicable laws and regulations and risk factors. The Supervisory Board also provides the Board of Management and Executive Committee with advice. In fulfilling their duties, members of the Supervisory Board are guided by the interests of the company and its affiliated enterprise, taking into consideration the relevant interests of the company's stakeholders. Major investments, acquisitions and functional initiatives are subject to Supervisory Board approval. The Supervisory Board is governed by its Rules of Procedure, which are available on the company's corporate website. The Rules of Procedure include the profile and the Charters of the Committees and sets out the tasks and responsibilities of the Supervisory Board.

### Composition

The composition of the Supervisory Board is such that the Supervisory Board members are able to act critically and independently of one another and of the Board of Management and the Executive Committee. Each Supervisory Board member is capable of assessing the broad outline of the overall strategy of the company and its businesses. The composition of the Supervisory Board is such that it is able to carry out its duties properly. The Supervisory Board – which currently consists of eight members – is constituted in a balanced manner to reflect the nature and variety of the company's businesses, their international spread and the desirability to have available expertise in fields such as finance, economic, societal and legal aspects of international business, government and

public administration. Consequently, the current members have a diverse and appropriate mix of knowledge and experience of the markets in which AkzoNobel operates, as well as insights from different markets and non-operational areas. A further aim of the Supervisory Board – which its members believe is currently being met – is that at least one-third of the members should meet the diversity criteria of gender (female) and/or nationality (outside of the European Union). This is in compliance with provision III.3.1 of the Dutch Corporate Governance Code, which ensures that its composition better reflects both society at large and the markets in which the company operates.

The Chairman of the Supervisory Board determines the agenda, chairs the meetings of the Supervisory Board, monitors the proper functioning of the Supervisory Board and its committees, arranges for the adequate provision of information to its members and acts on behalf of the Supervisory Board as the main contact for the Board of Management. He also initiates the evaluation of the functioning of the Supervisory Board and the Board of Management and chairs the Annual General Meeting of shareholders. The Chairman of the Supervisory Board is Mr. Vuursteen.

The Supervisory Board is assisted by the Secretary. All members have access to the advice and services of the Secretary, who is responsible for ensuring that procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations under the Articles of Association.

### Appointment

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures which are the same as those previously outlined for the members of the Board of Management (see page 73). As a general rule, based on the rotation schedule, a Supervisory Board member's tenure is four years. In principle, members are eligible for re-election twice, each time for a period not to exceed four years. However, in deviation from the Code (provision III.3.5), a member can be nominated for re-election more often if, in specific circumstances, including but not limited to reasons of

succession planning, this is considered to be in the company's interest. Members may be requested to step down prior to the end of their term.

Board appointments 2011:

- Mr. Bufe was reappointed as a member of the Supervisory Board
- Mrs. Bruzelius was reappointed as a member of the Supervisory Board

### Conflict of interest

The Rules of Procedure include detailed provisions on how to deal with conflicts of interest and potential conflicts of interest between members of the Supervisory Board and the company. In 2011, no transactions were reported under which a member had a conflict of interest which was of material significance to the company.

### Remuneration

Supervisory Board members receive a fixed annual remuneration and attendance fee, which is determined by the Annual General Meeting of shareholders. More information on the remuneration of the members of the Supervisory Board can be found in Note 23 in the Financial statements.

### Committees

The Supervisory Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. Each committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Supervisory Board Rules of Procedure, published on the company's corporate website. The committees report on their deliberations and findings to the full Supervisory Board.

The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of the accounting, auditing, reporting and risk management practices of the company, as well as the company's compliance with legal and regulatory

requirements, the qualifications, performance and independence of the external auditor and the performance of the internal audit function. The Chairman of the Audit Committee is Mr. Van den Brink. The Audit Committee consists of three members – Mr. Hughes, Mrs. Bruzelius and Mr. Van den Brink. As a rule, the CEO, the CFO, the Corporate Director Control, the internal auditor and the lead partner of the external auditor, KPMG, attend all regular meetings. After every Audit Committee meeting, the three members hold a separate meeting with only the internal auditor present, and a separate meeting with only the external auditor present.

The Nomination Committee focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members. The committee assesses the size and composition of both Boards, evaluates the functioning of the individual members, makes proposals for appointments and reappointments and supervises the Board of Management on the selection of senior management. The committee also considers nominations of Executive Committee members who are not also a member of the Board of Management. When selecting candidates for appointment to the Supervisory Board, account is taken of the need for a balanced representation of knowledge of the markets in which the company operates, as well as the need for insight from different markets and non-operational areas. Higher female and diversity representation are also actively being pursued. The Nomination Committee consists of four members and is chaired by Mr. Vuursteen. Baroness Bottomley and Messrs. Vuursteen, Burgmans and Ellwood are members of the Nomination Committee.

The Remuneration Committee is responsible for drafting proposals to the Supervisory Board on the remuneration policy for the Board of Management, for overseeing the remuneration of its individual members, the remaining members of the Executive Committee and for the remuneration schemes for AkzoNobel executives involving the company's shares. The committee also prepares Supervisory Board proposals to the Annual General Meeting of shareholders concerning the remuneration of the members of the Supervisory Board. The

Remuneration Committee consists of four members and is chaired by Mr. Burgmans. Baroness Bottomley and Messrs. Vuursteen, Burgmans and Ellwood are members of the Remuneration Committee.

### Auditors

The external auditor is appointed by the Annual General Meeting of shareholders on the proposal of the Supervisory Board. The appointment is for an indefinite period of time and is reviewed every four years by the Audit Committee. The same committee advises the Supervisory Board, which communicates the results of this assessment to the Annual General Meeting of shareholders. During 2011, besides the annual internal quality review on services provided by the external auditor, an external fee benchmark was performed. Both processes have been concluded and the Audit Committee has recommended to the Supervisory Board not to propose a change in the external auditor's appointment. The Audit Committee and the Board of Management annually report their dealings with the external auditor to the Supervisory Board and discuss the auditor's independence. The lead auditor in charge of the AkzoNobel account is changed every seven years. KPMG's current lead partner, Mr. Weusten, has held this position since July 2007. The lead auditor is present at the Annual General Meeting of shareholders and may be questioned with regard to his statement on the fairness of the financial statements. The external auditor attends all meetings of the Audit Committee, as well as the meeting of the Supervisory Board at which the financial statements are approved. He receives the financial information and underlying reports of the quarterly figures and is given the opportunity to respond to this information.

One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and monitoring of the auditors and the services they provide to the company. The auditors are prohibited from providing the company with certain non-audit services. In order to anchor this in our procedures, the Supervisory Board adopted the "AkzoNobel Auditors Independence Policy" and

the related "AkzoNobel Audit Committee Pre-approval Procedure on Audit, Audit-Related and Non-Audit Services". All these documents and policies are available on the company's corporate website.

### Risk management and (financial) reporting

Internal risk management and control systems are in place. Our risk management system is explained in more detail in the Risk management chapter in this section.

We have strict procedures for internal and disclosure controls and auditor independence. The Disclosure Committee monitors the procedures established by the company and advises the Executive Committee to ensure adequate and timely disclosure of material financial and non-financial information.

A separate internal control function is operational to secure compliance with the company's internal control requirements. An area of special focus in 2011 has been to re-emphasize the control standards for our IT systems and to make more use of automated controls in these systems. The company-wide internal control self-assessment was strengthened and a new company-wide process was put in place to discuss and monitor progress with respect to compliance related issues.

Reference is made to the Report of the Board of Management in the Strategy section for the statements in respect of the internal risk management and control systems.

### Code of Conduct, Code on Insider Trading and complaints procedure

A comprehensive Code of Conduct, followed by officers and employees committed to individual and corporate integrity, is one of the critical foundations of good corporate governance. AkzoNobel's Code of Conduct, which incorporates our Business Principles, sets out the company's position. It guides all our employees in their daily work. We have established several procedures to arrange for company-wide dissemination of the Code of Conduct and training. We have also established procedures and a Compliance Committee to monitor compliance with the code in general, and certain of

its provisions in particular, and to provide for its enforcement. A complaints procedure enables employees to file complaints concerning practices that violate any internal or external rules or regulations. This so-called SpeakUp! procedure ensures that employees have the opportunity to report alleged irregularities without jeopardizing their legal position. Our compliance and integrity management system is explained in more detail in the Compliance and integrity management chapter.

Members of the Board of Management, Executive Committee and Supervisory Board and certain designated employees are subject to the AkzoNobel Code on Insider Trading, which limits their opportunities to trade in AkzoNobel – and in certain circumstances – other company shares. Transactions in AkzoNobel shares carried out by Board of Management (and, as required, other members of the Executive Committee) and Supervisory Board members are notified to the Dutch Authority for Financial Markets in accordance with Dutch law and, if necessary, to other relevant authorities.

The AkzoNobel Code on Insider Trading states that carrying out transactions in AkzoNobel securities – as well as securities other than AkzoNobel securities – is prohibited if the person concerned has inside information regarding such securities. Furthermore, the Compliance Officer may determine that Board of Management, Executive Committee and Supervisory Board members, and certain designated employees, may not carry out transactions in AkzoNobel securities, or other securities, both during and outside a closed period. Shares in the company and the options of Board of Management and the other Executive Committee members, as well as certain senior executives, may be held in an account administered by the “Stichting Executive Management Beheer”. This foundation acts as an independent portfolio manager for the relevant AkzoNobel participants.

### Relations with shareholders and other investors

The company attaches great value to shareholder relations. In line with relevant laws and regulations, the company provides all shareholders and other parties in the financial markets with equal and simultaneous information about matters that could

have a significant influence on the price of our listed securities, thereby taking into account possible exceptions permitted by those laws and regulations. This information can be found on the company's corporate website, to the extent required by law.

The company actively communicates its strategy and the developments of its businesses to the financial markets. Members of the Board of Management and business managers regularly attend analyst meetings in Europe and the US. The quarterly results, press conferences and the analysts' conference calls – as well as the presentations at analyst meetings organized by the company – are all announced in advance and are available as webcasts and accessible online. Presentations to (institutional) investors are held at regular intervals and, in principle, are announced on the company's corporate website or via press releases. Other meetings with analysts or investors are not normally announced in advance, nor can they be followed by webcast or any other means. Discussions at such meetings are always limited to information which is already in the public domain. This is in line with the requirement to ensure that all shareholders and other parties in the financial market have equal and simultaneous access to information that may influence the share price. In this respect, the company complies with applicable laws and regulations. In principle, analyst meetings, presentations to (institutional) investors and direct meetings with investors are not held shortly before the publication of our quarterly or annual results. AkzoNobel's outline policy on general and bilateral contacts with shareholders can be found on the company's corporate website.

General Meetings of shareholders are held at least once a year. The Annual General Meeting of shareholders is convened by public notice. The agenda, the notes to the agenda and the procedure for attendance – including the record date and the procedure for granting a proxy to a third party – are published in advance and posted on the company's corporate website. The company uses the Shareholders' Communication Channel to distribute the agenda and to allow shareholders who hold their shares through an associated bank participation in the proxy voting at the meeting.

Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the Annual General Meeting of shareholders, notwithstanding the subsequent sale of shares thereafter. The notes to the agenda contain all relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the “one share, one vote” principle. All resolutions are adopted by absolute majority, unless the law or the company's Articles of Association stipulate otherwise.

The Annual General Meeting of shareholders reviews the annual report and decides on adoption of the financial statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Board of Management. Holders of common shares in aggregate representing at least 1 percent of the total issued capital may submit proposals for the agenda of the Annual General Meeting of shareholders. These proposals must be adequately substantiated and must be submitted in writing, or electronically, to the company's head office in Amsterdam at least 60 calendar days in advance of the meeting. The minutes of the Annual General Meeting of shareholders (in Dutch) are made available on the company's corporate website within three months of the meeting date.

The Annual General Meeting of shareholders approves or adopts, as the case may be, among other matters:

- The financial statements
- Dividends (not interim dividends)
- The election of members of the Board of Management and the Supervisory Board
- Material changes to the remuneration policy of the Board of Management
- Other important matters such as major acquisitions or the sale of a substantial part of the company
- The issuance of new shares

AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock



exchange. Common shares are also traded over-the-counter on OTCQX (organized by Pink Sheets) in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2011, a total of 234,688,341 common shares and 48 priority shares had been issued. By December 31, 2011, AkzoNobel had been notified by Massachusetts Financial Services Company and Paulson & Co that their participation in the company's share capital was more than 5 percent.

The priority shares are held by the Foundation Akzo Nobel. The Foundation's Board consists of members of AkzoNobel's Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the nomination rights for the appointments of members of the Board of Management and of the Supervisory Board (see page 73) and the right to approve amendments to the Articles of Association of the company. No cumulative preferred shares have been issued to date. It has been communicated that the cumulative preferred shares merely have a financing function, which means that if necessary, and possible, they will be issued at or near to the prevailing quoted price for common shares.

The Annual General Meeting of shareholders held on April 27, 2011, authorized the Board of Management for a period of 18 months after that date – subject to approval from the Supervisory Board – to issue shares in the capital of the company up to a maximum of 10 percent of the issued share capital (or 20 percent in case of a merger or acquisition) and to restrict or exclude the pre-emption rights for existing shareholders for those shares. At the same meeting, the Board of Management was given a mandate to acquire up to a maximum of 10 percent of the issued share capital of the company.

#### **Anti-takeover provisions and control**

According to provision IV.3.11 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used. The priority shares may be

considered to constitute a form of anti-takeover measure. In relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board, the Foundation Akzo Nobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company's management and policies is at stake. This may be the case if a public bid for the common shares of the company has been announced, or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the company.

The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued common shares of the company without making an offer. Or if, in the opinion of the Board of the Foundation Akzo Nobel, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases, the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders.

The Board of the Foundation Akzo Nobel has reserved the right to make use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances. In the event of a hostile takeover bid, or other action, which the Board of Management and Supervisory Board consider to be adverse to the company's interests, the two Boards reserve the right to use all available powers (including the right to invoke a response time in accordance with provisions IV.4.4 and II.1.9 of the Code), while taking into account the relevant interests of the company and its affiliate enterprise and stakeholders.

# Remuneration report

This report describes our remuneration policy and the remuneration paid to individual members of the Board of Management in 2011.

The remuneration policy and the individual contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy, as adopted by the Annual General Meeting of shareholders in 2005 and most recently amended in 2011. Our remuneration policy, including all structures and policies related to the remuneration and employment contracts of the Board of Management, is in line with the Dutch Corporate Governance Code. In valuing our incentive plans, we are assisted by independent external advisors.

## Remuneration policy

Our remuneration policy has the objective to provide remuneration in a form which will attract, retain and motivate the members of the Board of Management as top managers of a major international company, while protecting and promoting the company's objectives. The remuneration policy is aligned to the Value and Values strategy of the company (see the Strategy section of this Report 2011).

Both the policy itself, and the checks and balances that are applied in its execution, are designed to avoid incidents where members of the Board of Management – and senior executives for whom similar incentive plans apply – act in their own interest, take risks that are not in line with our strategy and risk appetite, or where remuneration levels cannot be justified in any given circumstance.

To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on the short and long-term performance of the individual Board member and the company. The Supervisory Board ensures that performance targets are realistic and sufficiently stretching and that – particularly in respect of the variable remuneration components – the relationship

between the chosen performance criteria and the strategic objectives applied, as well as the relationship between remuneration and performance, are properly reviewed and accounted for, both ex-ante and ex-post.

In accordance with the requirements of the Dutch Corporate Governance Code, the Remuneration Committee, before setting the targets to be proposed for approval by the Supervisory Board, carried out a scenario analysis of the possible financial outcome of meeting target levels, as well as maximum performance levels.

It is our policy to maintain overall remuneration levels that are at the median level of the external market. For benchmarking purposes, the peer group consists of the following companies:

- Clariant
- Heineken
- Royal Philips
- Randstad
- Reed Elsevier
- Royal Ahold
- Royal DSM
- Royal KPN
- Solvay
- Wolters Kluwer

Rhodia and TNT N.V. no longer feature in the peer group. Rhodia has been acquired by Solvay, while TNT N.V. was removed following the split of the company. The peer group will be reviewed further during 2012.

The Remuneration Committee of the Supervisory Board consults professional independent remuneration experts to ensure an appropriate comparison. It further reviews the impact on pay differentials within the company when the overall remuneration is determined.

### Remuneration elements

The total remuneration package of the members of the Board of Management consists of:

- Base salary
- Performance-related short-term incentive (with share matching opportunity)
- Performance-related long-term incentive (shares)
- Pensions

#### CEO in %

A Base salary	36
B Variable compensation	64



#### Board members in %

A Base salary	42
B Variable compensation	58



Furthermore, all members of the Board of Management are entitled to other benefits – such as a company car and representation allowance – which are needed for carrying out their duties and which are in line with market norms.

For communication purposes, the table on page 80 presents a summarizing overview of the remuneration of the current members of the Board of Management. Reference is made to Note 23 of the Financial statements for more details.

In 2011, the value of fixed and variable cash components at target levels breaks down as indicated in the graphs on the left.

#### Base salary

The objective of the base salary is to enable recruitment and retention of top managers of a major international company. The base salaries of members of the Board of Management increased by 3 percent in 2011.

#### Short-term incentive (annual bonus)

The objectives of the short-term incentive are to reward economic value creation (EVA) and EBITDA growth for our shareholders and other stakeholders, to measure individual and collective performance and to encourage progress in the achievement of long-term strategic objectives.

The performance-related short-term incentive is linked to the company's EVA and EBITDA and the individual and qualitative targets of the members of the Board of Management. More specifically, 35 percent of the short-term incentive opportunity is linked to EVA, 35 percent is linked to EBITDA and the remaining 30 percent is linked to individual and qualitative targets, including non-financial targets. EVA and EBITDA are based on the company's financial results in constant currencies.

On the outcome of the three short-term incentive elements (EVA, EBITDA and personal targets), the Supervisory Board applies an overall rating based on the principles of the Performance and Development Dialog, AkzoNobel's appraisal system. For the Board of Management, the rating includes a reasonableness test, in which the Supervisory Board critically assesses the actual ambition level of the performance targets in light of the assumptions made at the beginning of the year. It also includes an assessment of the progress made with the strategic objectives under current market conditions. This method for short-term incentive determination is also the basis of the compensation framework for other executives in the company.

The EVA performance measure is used in order to encourage the Board of Management to create long-term value for the company's shareholders and other stakeholders. EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital calculated on the basis of an average return investors expect.

The EVA and EBITDA elements of the short-term incentive have a performance threshold level of 80 percent and a maximum performance level of 120 percent of the targeted EVA and EBITDA respectively. The target EVA and EBITDA are determined annually by the Supervisory Board. The pay-out of the short-term incentive will never exceed 100 percent of base salary for members of the Board of Management and 150 percent of base salary for the CEO. Qualitative targets are set in the context of the medium-term objectives of the company and qualify as commercially sensitive information. AkzoNobel will not disclose all the targets. However, the targets for 2011 included goals set with respect to operational and functional excellence, delivering on the strategic plans and talent development.

## Compensation overview members of the Board of Management 2009 – 2011

in €	Hans Wijers Chief Executive Officer			Leif Darner Board member Performance Coatings			Rob Frohn Board member Specialty Chemicals			Tex Gunning <sup>4</sup> Board member Decorative Paints			Keith Nichols <sup>5</sup> Chief Financial Officer		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Base salary	760,000	765,700	788,700	570,000	574,300	591,500	570,000	574,300	591,500	380,000	574,300	591,500	570,000	574,300	591,500
Short-term incentive <sup>1</sup>	464,000	1,284,200	423,500	339,300	513,000	206,400	339,300	513,000	206,400	226,200	513,000	206,400	339,300	513,000	206,400
Share awards <sup>2</sup>	678,400	981,900	1,132,100	481,500	724,500	848,500	481,500	724,500	848,500	277,600	628,700	848,500	382,500	704,200	848,500
Option awards <sup>2</sup>	99,200	25,100	–	65,100	16,500	–	65,100	16,500	–	–	–	–	18,200	4,800	–
Pension premium paid	458,400	722,500	482,900	208,600	272,200	217,900	146,000	206,900	185,800	88,900	277,200	240,800	124,700	204,400	198,200
Other emoluments	4,100	4,400	4,900	4,100	4,400	4,900	6,900	7,100	7,400	2,700	4,400	4,900	112,700	162,200	187,800
Other compensation <sup>3</sup>	–	–	–	147,800	147,400	149,300	47,500	–	–	–	–	–	58,700	51,100	51,100
<b>Total remuneration</b>	<b>2,464,100</b>	<b>3,783,800</b>	<b>2,832,100</b>	<b>1,816,400</b>	<b>2,252,300</b>	<b>2,018,500</b>	<b>1,656,300</b>	<b>2,042,300</b>	<b>1,839,600</b>	<b>975,400</b>	<b>1,997,600</b>	<b>1,892,100</b>	<b>1,606,100</b>	<b>2,214,000</b>	<b>2,083,500</b>

<sup>1</sup> Actual short-term incentive disclosed for 2010 relates to the performance in the financial year and the deferred payments over 2009 (50 percent for the CEO and 25 percent for the other members).

<sup>2</sup> Costs are non-cash and relate to the expenses following IFRS2.

<sup>3</sup> Other compensation refers to costs of support benefits of stay in the Netherlands for executives residing outside the Netherlands.

<sup>4</sup> As from May 1, 2009.

<sup>5</sup> Other emoluments refers to social security cost. For Mr. Nichols, this refers to the employer's contribution in the UK.

Please see the Report of the Board of Management chapter in the Strategy section for the actual 2011 EVA and EBITDA performance used in the short-term incentive. The EVA of the sum of the business units is used as the basis for calculating the EVA element of the short-term incentive for the Board of Management. In 2011, the minimum threshold for pay-out regarding the EVA target was not met, whereas for EBITDA the performance outcome was above the threshold. Upon its ex-post review of the relationship between the chosen performance criteria and the strategic objectives applied, and of the relationship between remuneration and performance, the Supervisory Board, given the importance of the link between the variable remuneration and the company's strategic ambitions, decided not to make any upward correction and (hence) no payments were made to members of the Board of Management in respect of the EVA component of the short-term incentive, whereas the EBITDA component paid out at 68 percent of target.

In order to stimulate share ownership, the members of the Board of Management have the opportunity to invest part

of the net pay-out of their short-term incentive in AkzoNobel shares. This is further addressed in the paragraph regarding share holding requirements and share matching.

### Long-term incentives

The objectives of our long-term incentive plan are to encourage long-term sustainable economic and shareholder value creation – both absolute and relative to our competitors – to align the interests of the Board of Management with those of shareholders and to ensure retention of the members of the Board of Management. The long-term incentive plan consists of performance-related shares. The stock option plan was discontinued as of January 1, 2008. Performance-related shares are considered to provide a stronger alignment with shareholders' interests.

### Stock option plan

Stock options were conditionally granted for the last time in 2007 and vested for the last time in 2010. As the total option term is seven years, the last stock options that vested under the stock option plan can be exercised until 2014.

The exercise price of the stock options is the NYSE Euronext Amsterdam opening price on the first day after the Annual General Meeting of shareholders that the AkzoNobel share is quoted ex-dividend in the year in which the options were conditionally granted.

### Performance share plan

Under the performance share plan, shares are conditionally granted to the members of the Board of Management. Vesting of these shares is conditional on the achievement of certain performance targets during a three-year period and a continuation of employment. Achievement of the performance targets is determined by the Supervisory Board in the first quarter of the year following the three-year period. The number of vested shares is increased by the dividend paid over the three-year performance period (the so-called dividend shares). The retention period for the shares expires five years after the conditional grant.

Because sustainability is considered key to our long-term future, 50 percent of the conditional share grant is linked to AkzoNobel's relative sustainability performance. The 2011 Annual General Meeting of shareholders approved an amendment to the remuneration policy to change the basis on which the performance of the company is measured. For the 2011 grant and onwards, in order to increase transparency and robustness of the system applied, the sustainability performance is measured as AkzoNobel's average score in the SAM ranking during the three-year performance period. SAM is an organization that annually assesses around 2,000 of the world's largest companies covering the major indices and determines their respective sustainability scores. For the 2010 and 2009 grants, the average ranking of the company in the relevant Dow Jones Sustainability Index (DJSI) during the three-year performance period remains the sustainability performance measure. For all conditional grants, the vesting schedule has been determined by the Supervisory Board as follows:

#### Average position in DJSI/SAM<sup>1</sup> during performance period

	%	Number of vested shares (DJSI/SAM part)
1	150%	(= 75% of total conditional grant)
2	125%	(= 62.5% of total conditional grant)
3	100%	(= 50% of total conditional grant)
4 – 6	75%	(= 37.5% of total conditional grant)
7 – 10	50%	(= 25% of total conditional grant)
11 – 15	25%	(= 12.5% of total conditional grant)
Below 15	0%	

<sup>1</sup> For the 2011 grant and onwards, the sustainability performance is measured as AkzoNobel's average score in the Sustainable Asset Management (SAM) ranking. For the 2010 and 2009 grants the average ranking of the company in the relevant Dow Jones Sustainability Index (DJSI) remains the sustainability performance measure.

AkzoNobel ranked second in the relevant SAM and DJSI indices in 2011. As a result, AkzoNobel's sustainability performance over the period 2009 through 2011 resulted in an average second position within the ranking of the peer group companies. This results in a vesting of 125 percent for this part of the long-term incentive.

The remaining 50 percent of the conditional grant of shares is linked to AkzoNobel's relative Total Shareholder Return (TSR) performance compared with the companies in our peer group. Independent external specialists conduct an analysis to calculate the number of shares that will vest according to the TSR ranking. In order to adjust for changes in exchange rates, all local currencies are converted into euros.

The relative TSR performance is compared with the following peer group:

- Arkema group
- DuPont
- Kansai Paint
- Nippon Paint
- Solvay\*
- Kemira OYJ
- PPG Industries
- RPM Industrial
- Sherwin-Williams
- Valspar Corporation

\*This peer group is reviewed on a regular basis to ensure that the companies in the group remain appropriate peers. As Rhodia was acquired by Solvay, Rhodia was replaced by Solvay. Solvay (following the acquisition of Rhodia) seems the best comparable fit with the company. At the time of replacing Rhodia by Solvay, the replacement had no impact on our relative TSR ranking.

The following vesting scheme applies as of 2009 for the conditional grants:

#### Vesting scheme for the conditional grants

Rank	Vesting (as % of half of conditional grant)
1	150%
2	135%
3	120%
4	100%
5	75%
6	50%
7	25%
8 – 11	0%

AkzoNobel's TSR performance over the period 2009 through 2011 resulted in an 11th position within the ranking of the peer group companies. This ranking did not result in any vesting of shares for the TSR part of the share plan.

Based on AkzoNobel's combined sustainability and TSR performance, the final vesting percentage of the 2009 conditional grant after including the dividend yield at December 31, 2011, which was determined to be 11.68 percent, equaled 69.8 percent. This results in the following definitive grants of shares: CEO 25,547, other Board members 19,125. Upon its ex-post review of the relationship between the chosen performance criteria and the strategic objectives applied, and of the relationship between remuneration and performance, the Supervisory Board, given the importance of the link between the variable remuneration and the company's strategic ambitions, decided not to make any correction in respect of the definitive grant.

The number of performance-related shares conditionally granted in 2011 amounted to 24,800 for the CEO and 18,600 for the other members of the Board of Management.

In accordance with provision II.2.13d of the Dutch Corporate Governance Code, the schedule on page 83 sets out for 2006 onwards (i) the number of at target shares conditionally granted; (ii) the number of shares which have vested; (iii) the number of shares held by members of the Board of Management at the end of the lock up period; (iv) the face value at the conditional share grant, at vesting and at the end of the lock up period respectively.

In accordance with the company's Articles of Association, the Dutch Corporate Governance Code and the rules of the performance share plan, the number of shares to be conditionally granted to members of the Board of Management is determined by the Supervisory Board, within the limits of the remuneration policy and the maximum number of shares as adopted and respectively approved by the Annual General Meeting of shareholders.

#### Claw back and value adjustment

The 2010 Annual General Meeting of shareholders approved a claw back provision in the remuneration policy for the Board of Management. This provision provides the Supervisory Board with the option to claw back variable pay components

paid to members of the Board of Management in the event that such variable pay components were based on financial information which is shown within a certain period of time to be materially incorrect.

Pursuant to the rules of the performance share plan and provision II.2.10 of the Dutch Corporate Governance Code, the Supervisory Board has the power to adjust the vesting schedules if, given the circumstances, this would reflect a fairer measure of performance, provided that targets, in the opinion of the Supervisory Board, are not more easy or difficult to be satisfied.

The Supervisory Board has decided that where, in the event of a takeover, the pay-out under the performance share plan is between 100 percent and 150 percent, the Supervisory Board will, taking into account the performance of the company prior to the takeover bid, at its discretion decide whether the projected outcome is fair and may decide to adjust the pay upwards or downwards within the bandwidth mentioned. This does not affect the discretion the Supervisory Board has to correct the variable remuneration of the Board of Management upwards or downwards in exceptional circumstances. It is noted that a takeover would not influence the SAM or DJSI sustainability ranking of the company and therefore the Supervisory Board will in such event primarily take into account the company's TSR performance.

### Shareholding requirements and share matching

The 2011 Annual General Meeting of shareholders approved a second amendment to the remuneration policy consisting of the introduction of a minimum shareholding requirement and related matching scheme. As of 2011, the CEO and other members of the Board of Management will be required to build up, over a five-year period from the date of appointment, and then hold, at least three times respectively one time their gross base salary in AkzoNobel shares for the duration of their tenure as member of the Board of Management.

The CEO and other Board members are expected, for these purposes, to use both their long-term incentive and their short-term incentive in the manner set out below.

Board members who have not yet achieved this minimum holding requirement are required to invest one third of the short-term incentive they receive (net after tax and other deductions) in AkzoNobel shares. As further encouragement

to build up the minimum holding requirement, Board members who invest a second third of their short-term incentive in shares will have such shares matched by the company, one on one, after three years from the date of purchase of the shares (up to a maximum of one third of the short-term incentive), on the condition that the Board member still holds these shares and showed a sustained performance during the three-year period. The Supervisory Board will use its discretion to decide whether this last condition has been met.

Board members who continue to invest their short-term incentives in whole, or in part, in shares after the minimum holding requirement has been reached will have the opportunity to have such shares matched subject to the same conditions, except that such shares will be matched with one share to every two shares thus acquired, up to a maximum of two-thirds of the short-term incentive.

Shares under the performance share plan are taken into account for share ownership purposes as soon as they have become unconditional. This includes vested shares that are to be retained for another two years after vesting.

### Pensions

The pension plan for all members of the Board of Management is based on an income and age-related defined contribution plan. The available premium is invested with a pension fund. The pension payment at pension age depends on the premiums received and the investment results during the period. The premium percentages to be paid for the Board member concerned are determined by the Supervisory Board. The premiums are paid over the base salary in the current year and the short-term incentive of the previous year. The premiums will therefore vary depending on the performance during the previous year. External reference data can be used in determining market competitive levels of pension arrangements. If applicable, pension rights built up in the period preceding Board membership can be taken into account to limit the premiums to be paid to the relevant Board member.

### Employment agreements

Agreements for members of the Board of Management appointed in 2004 and subsequent years are concluded for a period not exceeding four years in accordance with the Dutch Corporate Governance Code. After the initial term, re-appointments may take place for consecutive periods of up to four years each. The notice period by the Board member is subject

to a term of three months; notice by the company shall be subject to a six-month term.

In case of termination prior to the expiration of a Board member's term, or if re-appointment does not take place and the agreement between the Board member concerned and Akzo Nobel N.V. is not continued, the Board member will be entitled to a severance payment, established in accordance with the Dutch Corporate Governance Code. The agreement for Mr. Wijers, who was appointed before 2004, has not been adjusted in this respect (see page 73). However, after Mr. Wijers has retired from his current role, all agreements between the Board members and Akzo Nobel N.V. will be in accordance with the relevant provisions of the Dutch Corporate Governance Code.

Members of the Board of Management normally retire in the year that they reach the age of 62. The employment agreements allow the Supervisory Board to request a Board member to resign between the age of 60 and the regular retirement age for effective succession planning within the Board. In such an exceptional situation, the Board member concerned will be entitled to fixed salary payments until the date of retirement.

As Mr. Wijers will retire from his current role as member of the Board of Management and CEO of the company with effect from April 23, 2012, it shall be proposed to the Annual General Meeting of shareholders to appoint Mr. Büchner as member of the Board Management. It is the Supervisory Board's intention to appoint Mr. Büchner as CEO with effect from April 23, 2012. Mr. Büchner joined the company on December 1, 2011. Mr. Büchner's employment agreement is compliant with the Dutch Corporate Governance Code, the most important elements of which will be disclosed in accordance therewith.

### Loans

The company does not grant any personal loans to its Board members.

## Valuation<sup>1</sup> shares Board of Management

### Unconditional shares, vested

Series 2006 – 2008	Conditional share grant		Number of vested shares		End of lock up period (2011)	
	Number	Value at grant in €	Number	Value at vesting in €	Number	Value in €
Number of shares						
Hans Wijers	23,000	900,450	17,536	516,260	8,656	402,417
Leif Darner	15,100	591,165	11,531	339,473	7,470	347,280
Rob Frohn	15,100	591,165	11,531	339,473	11,531	536,076
Keith Nichols	4,198	164,352	3,055	89,939	1,943	90,330

Series 2007 – 2009	Conditional share grant		Number of vested shares		End of lock up period (2012)	
	Number	Value at grant in €	Number	Value at vesting in €	Number	Value in €
Number of shares						
Hans Wijers	23,000	1,062,140	34,680	1,609,152	17,090	638,482
Leif Darner	15,100	697,318	22,768	1,056,435	14,689	548,781
Rob Frohn	15,100	697,318	22,768	1,056,435	11,220	419,179
Keith Nichols	4,250	196,265	6,408	297,331	3,626	135,467

Series 2008 – 2010	Conditional share grant		Number of vested shares	
	Number	Value at grant in €	Number	Value at vesting in €
Number of shares				
Hans Wijers	16,800	920,472	–	–
Leif Darner	11,600	635,564	–	–
Rob Frohn	11,600	635,564	–	–
Keith Nichols	8,733	478,481	–	–
Tex Gunning	3,867	211,873	–	–

Series 2009 – 2011	Conditional share grant		Number of vested shares	
	Number	Value at grant in €	Number	Value at vesting in €
Number of shares				
Hans Wijers	36,600	1,077,504	25,547	954,436
Leif Darner	27,400	806,656	19,125	714,510
Rob Frohn	27,400	806,656	19,125	714,510
Keith Nichols	27,400	806,656	19,125	714,510
Tex Gunning	27,400	806,656	19,125	714,510

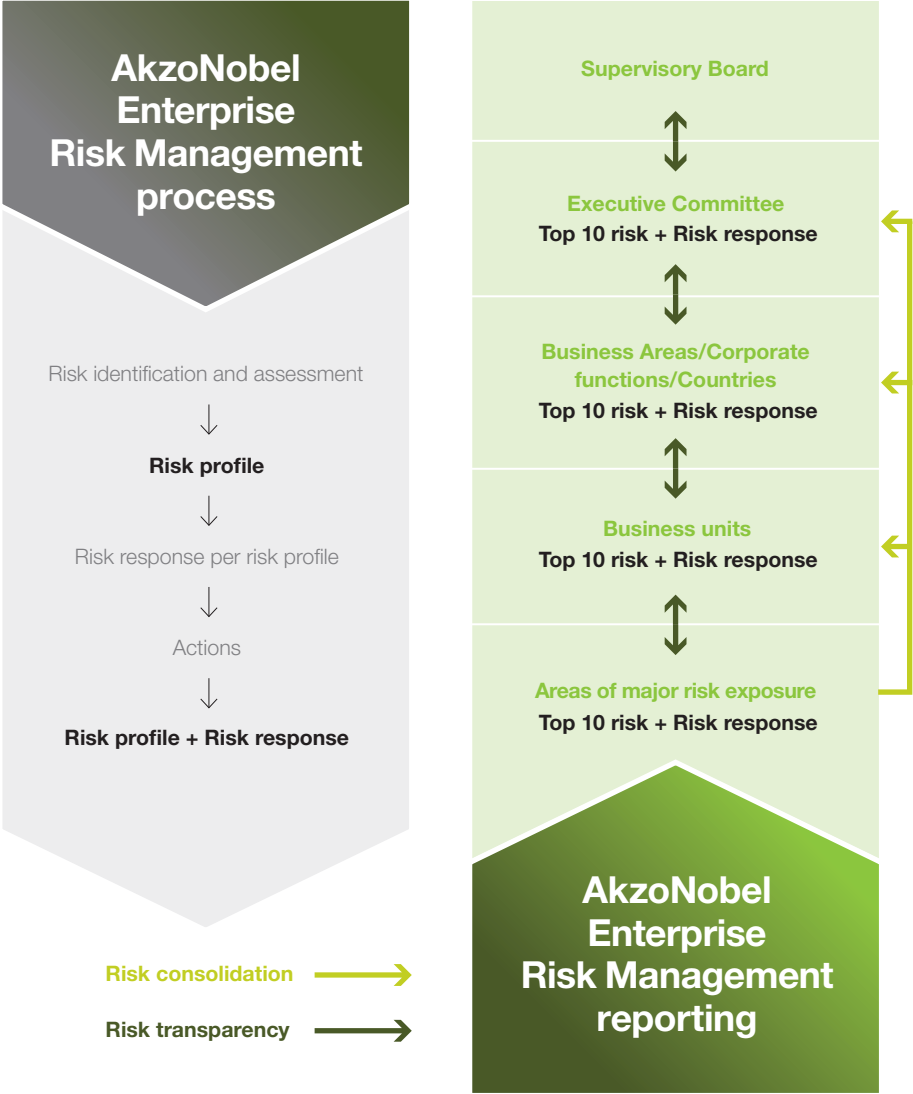
### Conditional shares, not vested

Series 2010 – 2012	Conditional share grant at target		Vesting at min performance	Vesting at max performance	Series 2011 – 2013	Conditional share grant at target		Vesting at min performance	Vesting at max performance
	Number	Value at grant in €	Number	Number		Number	Value at grant in €	Number	Number
Number of shares					Number of shares				
Hans Wijers	24,400	1,132,160	–	36,600	Hans Wijers	24,800	1,152,952	–	37,200
Leif Darner	18,300	849,120	–	27,450	Leif Darner	18,600	864,714	–	27,900
Rob Frohn	18,300	849,120	–	27,450	Rob Frohn	18,600	864,714	–	27,900
Keith Nichols	18,300	849,120	–	27,450	Keith Nichols	18,600	864,714	–	27,900
Tex Gunning	18,300	849,120	–	27,450	Tex Gunning	18,600	864,714	–	27,900

<sup>1</sup> Values based on the share price on January 1 of the relevant financial year (face value).

# Risk management

Doing business inherently involves taking risks, and by taking measured risks we strive to be a sustainable company. Risk management is a key strategic process and an essential element of our corporate governance.





We foster a high awareness of business risks and internal control, geared to safeguarding our risk appetite and providing transparency in our operations. The Board of Management is responsible for managing the risks associated with our activities and, hence, for the establishment and adequate functioning of appropriate risk management and control systems (see Statement of the Board of Management in the Strategy section).

### AkzoNobel risk management framework

Through our risk management framework, we want to provide reasonable assurance that our business objectives can be achieved and our obligations to customers, shareholders, employees and society can be met. Our risk management framework is in line with the Enterprise Risk Management – Integrated Framework of COSO and the Dutch Corporate Governance Code. The Executive Committee reviews our risk management and control systems and our major business risks, which are also discussed by the Supervisory Board.

### Risk appetite

Clarity on risk appetite and boundaries that determine the freedom of action or choice in terms of risk taking and risk acceptance is provided to all managers. Risk boundaries are set by our strategy, our Company Statement, Business Principles, Code of Conduct, company values, authority schedules, policies and corporate directives. Our risk appetite differs by objective area and type of risk:

- **Strategic:** In pursuing our strategic ambitions, we are prepared to take considerable risk related to growth, innovation and sustainability. Returns on investment in the development of innovative products and sustainable solutions are never certain. Yet considerable funds and efforts are spent on research, development and innovation, even in less certain economic circumstances. Candidates for acquisitions are carefully selected and investigated while making sure that the price to be paid is reasonable and affordable.

- **Operational:** With respect to operational risks, we continuously strive to minimize these risks. Our risk appetite is very limited, governed by our ambition to strive for top quartile safety performance, top quartile performance in diversity, employee engagement and talent development, top quartile eco-efficiency improvement rates and a top three position in the relevant Sustainable Asset Management (SAM) ranking.
- **Financial:** With respect to financial risks, we have a prudent financing strategy and a strict cash management policy and are committed to maintaining strong investment grade credit ratings. Our financial risk management and risk appetite for several financial risks are explained in more detail in Note 24 in the Financial statements.
- **Compliance:** We do not permit our employees to take any compliance risk and have a zero tolerance policy in relation to breaches of our Code of Conduct.

### Risk management in 2011

The Enterprise Risk Management process provides top-down coverage of the organization and ensures that we focus on what we consider to be the areas of major risk exposure. Therefore, scoping of our 2011 risk management activities was performed by the Executive Committee, business unit Managing Directors and Corporate Directors, in association with the risk management function. Besides the focus on coverage of our organization, emphasis is put on organizational changes, key strategic projects and high growth regions. In 2011, a new process was introduced to identify emerging risks (high impact–low likelihood scenarios) and their risk mitigation actions.

During 2011, we held more than 120 facilitated Enterprise Risk Management workshops. More than 5,000 risk scenarios were identified and prioritized by management teams and functional experts. In addition, in selected areas with low risk tolerance, dedicated risk assessments were performed to

safeguard our risk appetite. All major risks were responded to by the unit that identified them. The outcome of all risk assessments was reported to the next higher management level as part of our Business Planning & Review cycle. Risk profiles and trends were shared by managers across the company. In the bottom-up consolidation process, the risks were taken to the next management level, where they were re-assessed, either because of the materiality of the risk exposure and/or because of the accumulated effect.

The major risk factors for our company, identified through risk consolidation and the subsequent risk assessment by the Executive Committee, are presented in the following paragraph. One of the challenges we faced in 2011 was the weakening economic conditions. Raw material prices continued to rise and margin management efforts are ongoing. Principle uncertainties for our company are a further weakening of economic conditions and the threat of a European sovereign crisis, potentially affecting our growth ambitions. To adapt to these uncertain conditions, we are currently executing a comprehensive three-year plan to improve our performance, particularly in the areas of margin management, supply chain and sourcing.

### Major risk factors

Under the explicit understanding that this is not an exhaustive list, the major risk factors that may prevent full achievement of our strategic ambitions are listed in detail from the next page onwards. There may be current risks that the company has not fully assessed, or that are currently identified as not having a significant impact on the business, but which could at a later stage develop a material impact on our business. The company's risk management systems endeavor to ensure the timely discovery of such incidents.

An overview of our major risk factors is provided on the next page. The five risks that we currently assess as the most significant for the forthcoming five years are indicated.

We have identified major risk factors that may prevent full achievement of our strategic ambitions. These are explained in more detail over the following pages, with the top five risks highlighted.

**Major risk factors assessed by AkzoNobel**

**Internal**

**Strategic**

- Implementation of strategic agenda
- Identification of major transforming technologies

**Operational**

- **Attraction and retention of talent**
- Management of change
- Production process risks

**Financial**

**Compliance**

**External**

**Strategic**

- **Adapting to economic conditions**
- **International operations**
- Ensuring stakeholder support

**Operational**

- **Sourcing of raw materials**
- Energy pricing and emission trading rights
- Product liability
- Environmental liabilities

**Financial**

- **Cash flow**
- Contribution to pension funds
- Decline of asset values
- Fluctuations in exchange rates

**Compliance**

- Complying with laws and regulations

## Internal Strategic

### Implementation of strategic agenda

A failure to properly and fully implement our strategic agenda could adversely affect our company and its businesses. Our ability to grasp future opportunities might be hampered by the speed of the implementation of organizational changes and performance improvement programs.

#### Risk corrective actions

The appropriateness of our strategic agenda, our performance against this agenda and our governance structure is continuously monitored by the Executive Committee and the Supervisory Board. Specific attention is paid to areas such as macro-economic developments, general and financial market developments, competitive situation, performance improvement potential, sustainability, geographical spread, emerging markets, political risks and acquisition and divestment opportunities. Risks are minimized as we operate in attractive industries, have global leading positions and have strong executive leadership in place. As of January 2011, we strengthened our decision-making process and implementation monitoring by establishing an Executive Committee structure, which allows us to better manage the strategic agenda. Remuneration systems are tied to performance against key strategic agenda items. For example, our long-term executive remuneration is partly linked to the relevant Sustainable Asset Management (SAM) ranking (see Remuneration report in this section).

## Internal Operational

### Management of change

We undertake various restructuring, investment and performance improvement projects that require significant change management and project management expertise. Failure to manage these change projects appropriately, or to implement such projects, may lead to inability to achieve our strategic ambitions.

#### Risk corrective actions

Risk management is an integral part of project management excellence. Senior management is involved in all critical projects that are prioritized and supervised by the Executive Committee to ensure an aligned and integrated vision and thrust from the top for the company's change agenda. Major initiatives, such as the performance improvement projects, are under the direct supervision of dedicated Executive Committee members. Furthermore, we are prioritizing inclusion of the project management and change management curricula in our AkzoNobel Academy.

## Internal Strategic

### Identification of major transforming technologies

Our success depends on the sustainable growth of our business through research, development and innovation. If we are not able to identify major transforming technologies in a timely manner, this may lead to the loss of our leadership positions and adversely affect our business and results.

#### Risk corrective actions

Risk of missing relevant technology developments is mitigated in four ways.

1. We adequately support research and development. In 2011, our spend level was 2.3 percent of revenue (close to 50 percent was spent on major projects and technology developments).
2. Our key projects have detailed technology roadmaps which assess the most appropriate routes.
3. We are actively developing our open (external) innovation capability to identify and utilize the most promising external technologies.
4. We have created two Science Advisory Boards (SABs) to advise and guide the RD&I Corporate Director and the RD&I Leadership Team on diverse aspects of external research and the benchmarking of our own R&D capabilities.

## Internal Operational

### Production process risks

Risks in production processes can adversely affect our results. These risks concern areas such as personal health and safety, process safety, product safety and operational eco-efficiency. Unlikely scenarios can involve major incidents with a high impact for our organization, causing businesses continuing risks and reputational damage.

#### Risk corrective actions

We mitigate production risks by spreading out production and operating an adequate inventory policy. This is combined with business continuity planning and appropriate risk transfer arrangements (for example insurance). To achieve our operational eco-efficiency (OEE) ambitions, we have initiated improvement activities based on our 2010 review of waste management, water consumption, volatile organic compounds (VOCs) and energy. The next stage is to stimulate continuous improvement on OEE and initiate process and technology changes which will deliver step change improvements. To help realize our safety ambitions, we have defined clear KPIs and increased management attention on people safety, as well as implementing enhanced process safety – such as asset integrity and occupational health standards – and improving the HSE audit process.

## Internal Operational – Top five risk

### Attraction and retention of talent

Our ambitious growth plans may not be achieved if we fail to attract and retain the right people. We depend on the continued contribution of our employees.

#### Risk corrective actions

Growing our business calls for the need to grow our people. Therefore, AkzoNobel puts emphasis, not only on attracting and retaining employees, but also on their motivation, development and building capability. To strengthen these efforts, we have a dedicated Executive Committee member for the Human Resources function and have implemented an employee engagement program. The Human Resources function is also part of the comprehensive three-year performance improvement plan, launched in October 2011. HR instruments such as performance appraisals, the employee survey and leadership identification and review, as well as leadership development, are used to optimize support to our business. We provide clarity in the working environment through information and communication programs. Special focus is dedicated to high growth markets. Remuneration packages may include long and short-term incentives. However, the Executive Committee ensures that employees are not encouraged to act in their own interest and take risks that are not in keeping with the company's strategy and risk appetite.

## External Strategic – Top five risk

### Adapting to economic conditions

One of the principal uncertainties we face is the development of the global economy. Economic conditions remain weak and it is difficult to predict customer demand and raw material costs. Construction and housing markets may remain soft in mature markets and our Decorative Paints and Performance Coatings Business Areas in particular have been affected by market downturns. In addition, the European sovereign crisis continues to drive instability in the financial markets, which may further adversely impact the global, regional or national economies in markets where we operate. Failure to adapt adequately and in time can be harmful to our business and results.

#### Risk corrective actions

The Executive Committee has defined a comprehensive performance improvement program to deliver €500 million EBITDA by 2014, based on functional and operational excellence. Around 40 percent of the anticipated benefits will come from the Supply Chain and Sourcing programs, and a further 50 percent from margin management, research and development initiatives and business restructuring programs. These benefits will accrue across our Business Areas: more than 40 percent in Decorative Paints, over 30 percent in Performance Coatings and close to 25 percent in Specialty Chemicals. We continue to apply various scenarios for planning and budgeting to be best prepared for further changes in economic conditions.

## External Operational – Top five risk

### Sourcing of raw materials

We use significant amounts of various raw materials in manufacturing our products. Prices for some key raw materials can be volatile and are affected by economic conditions. We are, to some extent, able to pass on higher input prices to our customers, but this is, to a large extent, dependent on market conditions. We may also be impacted by inability to access sufficient raw materials, business interruption or product discontinuation at some of our key suppliers. Inability to access sufficient raw materials, growth in cost and expenses for raw materials and energy and changes in product mix may adversely affect future results and growth.

#### Risk corrective actions

We aim to use our purchasing power and long-term relationships with suppliers to acquire raw materials and safeguard their constant delivery in a sustainable manner, to secure volumes and to cooperate on innovation and sustainability. We have made an inventory of single and sole sourced raw materials and are actively pursuing plans to improve this situation. We have diversified contract length and our supplier base. Our strengthened global sourcing strategy enables us to bundle the purchasing power, both in product related and non-product related requirements. We continuously monitor the markets in which we operate for developments and opportunities and adapt our purchasing strategy accordingly.

## External Strategic – Top five risk

### International operations

We are a global business with operations in more than 80 countries. Therefore, we are exposed to a variety of risks, many of them beyond our control. Unfavorable political, social or economic developments and developments in laws, regulations and standards could adversely affect our business and results of operations. Our aspirations to fuel growth in high growth markets – double revenue in China, create a significant footprint in India, outgrow competition in Brazil and expand in the Middle East and sub-Saharan Africa – will further expose us to these risks.

#### Risk corrective actions

We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Political, economic and legislative conditions are carefully monitored. The Executive Committee decides on all significant investments and the countries and industry segments in which AkzoNobel conducts its business.

## External Operational

### Energy pricing and emission trading rights

The Specialty Chemicals business operates two energy-intensive businesses, Pulp and Paper Chemicals and Industrial Chemicals. A non-level playing field for energy and emission trading rights can affect the competitive position of these businesses.

#### Risk corrective actions

We are pro-actively managing energy usage and costs. We operate several cogeneration units which enable us to make efficient use of combined heat and power. We are implementing our Carbon Policy, working on energy efficiency programs and investing in energy from waste and biomass. Carbon management plans are closely monitored and strategically managed. We have policies for energy contracts and have long-term purchase contracts in place (see Note 24 in the Financial statements).

## External Strategic

### Ensuring stakeholder support

Failure to maintain the support of our stakeholders for our strategy and its execution could adversely affect our company and its businesses.

#### Risk corrective actions

We endeavor to define and implement a clear strategy and continuously seek dialog with stakeholders. As an organization, we are committed to helping our customers make their business a success, enhancing relationships with our suppliers, providing competitive returns to our investors by paying a stable to rising dividend, creating an attractive working environment for our people and conducting all our activities in the most socially responsible manner.

## External Operational

### Product liability

Product liability claims could adversely affect our company's business and results of operations. Unlikely long-term implications with a high impact for our organization could follow from usage of new technologies and compounds.

#### Risk corrective actions

Currently, we are involved in a number of product liability cases. However, we believe that any unexpected costs and liabilities will not have a material adverse effect on our consolidated financial position. We have a central policy to optimize insurance coverage.

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## External Operational

### Environmental liabilities

We use, and have used in the past, hazardous materials and biological compounds in several product development programs and manufacturing processes, including waste thereof. We have been, and can be, exposed to risks of accidental contamination or past practices that give rise to current liabilities. We could be exposed to events of non-compliance with environmental laws, regulatory enforcement, property damage, possible personal injury and any resulting claims for damage. Regulations and standards are becoming increasingly stringent.

#### Risk corrective actions

We are committed to conducting all our activities in the safest and most responsible manner. We have a specialist group managing these issues. Contingency plans and assignment arrangements are in place to mitigate known risks and regular reviews are conducted to monitor progress and assess financial and reputational exposure. Our policy is to accrue and charge against earnings environmental clean-up costs, damages or indemnifications when it is probable that a liability has materialized and an amount can be estimated (see Note 21 in the Financial statements).

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## External Financial

### Decline of asset values

Impairments and book losses could adversely affect our financial results. In view of the current financial market conditions, asset value decline offers both opportunities and threats to our company. We are actively participating in industry consolidation. As such, we may decide to make selective acquisitions and may hold assets for sale.

#### Risk corrective actions

Acquisition and divestment opportunities and the management of assets held for sale are continuously monitored by the Executive Committee. We do impairment tests for intangibles with indefinite lives (goodwill, some brands) every year and whenever an impairment trigger exists. For tangibles and other fixed assets, we do impairment tests whenever an impairment trigger exists (see Note 1 in the Financial statements).

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## External Financial – Top five risk

### Cash flow

Potentially worsening economic conditions, the threat of a European sovereign crisis, potential raw material price increases and potential exposure to funding of pension schemes may lead to insufficient free cash flow generation to support funding for the implementation of our strategic agenda.

#### Risk corrective actions

Our balance sheet and debt profile are strong. We are committed to maintaining strong investment grade credit ratings. Ratings at year-end were Standard & Poor's BBB+ (stable outlook) and Moody's Baa1 (stable outlook). We have launched a comprehensive performance improvement program to deliver €500 million EBITDA by 2014. We have a prudent financing strategy and a strict cash management policy, which are managed by our centralized treasury function (see Note 24 in the Financial statements).

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## External Financial

### Fluctuations in exchange rates

Exchange rate fluctuations can have a harmful impact on our financial results. We have operations in more than 80 countries and report in euros. We are particularly sensitive to the relation between the euro and US dollar, pound sterling, Swedish krona and Latin American and Asian currencies.

#### Risk corrective actions

We have centralized treasury and a hedging policy is in place for certain currency exchange rate risks (see Note 24 in the Financial statements). At a more operational level, risks are reduced by the prevalence of local-for-local production, which is the norm in many of our businesses.

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## External Financial

### Contributions to pension funds

Various external developments may affect assets and liabilities of pension funds, causing higher post-retirement charges and pension premiums payable. We are at risk from potential shortfalls in the funding of defined benefit pension schemes.

#### Risk corrective actions

We practice pro-active pension risk management. Our pension policy is to offer defined contribution schemes to new employees and, where appropriate, to existing employees. Our largest defined benefit schemes have been closed to new entrants since 2001 for ICI, and 2004 for AkzoNobel. We measure and monitor our pension risks frequently and adopt investment strategies designed to reduce financial risks. In 2011, cash pension top-ups were €354 million. In January 2012, we concluded the triennial actuarial funding review of the ICI Pension Fund. We expect to have top-up payments over the remaining six years of the recovery plan that are £198 million lower in total than the sum of the current schedule. We are committed to further de-risking over time. Pension activities are overseen by the Board Committee Pensions (see Notes 17 and 22 in the Financial statements).

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## External Compliance

### Complying with laws and regulations

We may be held responsible for any liabilities arising out of non-compliance with laws and regulations. For example, we are involved in investigations by antitrust authorities into alleged violations of the antitrust laws and we are engaged in court proceedings and civil litigation resulting from (alleged) involvement in anti-competitive behavior in the past (see Note 21 in the Financial statements).

#### Risk corrective actions

We are monitoring and adapting to significant and rapid changes in the legal systems, regulatory controls and customs and practices in the countries in which we operate. These affect a wide range of areas. We are dedicated to minimizing such risks with special emphasis on the application of our Code of Conduct. We operate under a comprehensive Competition Law compliance program including training, monitoring and assessment. We advertise the use of our company-wide complaints procedure called SpeakUp!, which enables all our employees to report irregularities in relation to our Code of Conduct (see Compliance and integrity management in this section).

# Compliance and integrity management

## Compliance framework

Tools		Areas		
Code of Conduct	Corporate directives	Competition law	Bribery	Export control
SpeakUp!	Online training program	HSE&S	Treatment of employees	Human rights
Code on Insider Trading	Monitoring	Information security	Fraud	Privacy

## Integrity management

### Compliance framework

Integrity and responsibility in our actions is one of the core values on which the AkzoNobel compliance framework is built. This framework helps us to remain successful as a company. We aim for the highest standards of performance and behavior in all our operations. There is also company-wide awareness on compliance.

Our values and Business Principles are reflected in our Code of Conduct. Compliance is embedded in our businesses and there are clear monitoring and reporting lines. We have an open dialog with employees worldwide and keep them updated on the latest standards through training programs and regular meetings on the focus areas.

### Key performance indicators – integrity

	2009	2010	2011
Code of Conduct trained (% online employees)	95	95	95
Competition Law certification (number of employees)	10,000	13,000	14,400

### Organizational structure

A Corporate Compliance Committee monitors the process and makes sure that compliance is embedded and enforced in our business processes. Members include the General Counsel, Secretary to the Executive Committee, and Corporate Directors of Compliance, Internal Audit, Control and HR. The Corporate Compliance Committee reports to the Executive Committee. The Executive Committee compliance reports are presented to the Audit Committee. In 2011, 24 cases were handled at the level of the Corporate Compliance Committee (2010: 23). Of these, five are still under review.

We have set up Compliance Committees in each of our businesses. Compliance is a responsibility of the business unit management team. A Compliance Officer assesses the main risks, improves and monitors compliance and its effectiveness, and trains employees. At the request of the Corporate Compliance function, the Compliance Officers investigate and report on alleged breaches of the Code of Conduct.

#### Specific compliance areas

Within the compliance framework, specific compliance areas are addressed by specific programs. These include, among others, programs for export control, anti-bribery regulations and competition law. A new Export Control Directive and Manual were issued in 2011, supported by online training modules and face-to-face training. As part of this rollout, a Global Export Control Team was formed and each business has appointed an Export Control Officer. In addition, our Anti-Bribery Directive, Manual and detailed training materials for employees were reviewed and will be brought in line with the UK Anti-Bribery Act, which has been in force since July 2011. A full evaluation of our Competition Law program was performed and led to the conclusion that the program, including training for specifically targeted employees, is mature.

#### Communication

We are aware that effective communication and training is pivotal to strengthening our compliance framework. Communication on the Code of Conduct starts for new employees from the moment they join AkzoNobel and includes online or classroom training. By the end of 2011, we had invited all online employees to complete the Code of Conduct training module. Completion rates (at 95 percent in 2011) are monitored monthly and form an element of the annual Performance and Development Dialog discussion.

The compliance framework includes a declaration program overseen by the Corporate Compliance Committee. Those employees most exposed to competition law issues completed an annual declaration to confirm adherence to the Competition Law Compliance Manual. In 2011, 14,400 employees signed this declaration. Furthermore, each operational manager confirms adherence to the AkzoNobel standards at business unit level during the annual non-Financial Letter of Representation process (NFL). The outcome of the NFL process, in combination with the internal control self-assessment process, forms the basis for the Statement of the Board of Management in this Report 2011.

#### Code of Conduct complaints procedure (SpeakUp!)

We introduced a whistle blower procedure in 2009 called SpeakUp!, an internal system which encourages employees to report alleged breaches of the Code of Conduct. An effective internal reporting system serves as the backbone for the Code of Conduct and assists in protecting the company and its employees against economic and reputational harm. An evaluation of the effectiveness of this procedure was undertaken in 2011 and led to recommendations for an improved SpeakUp! procedure. This is due to be introduced in 2012.

In 2011, a total of 245 alleged breaches of the Code of Conduct were reported. Most of the cases related to business integrity and treatment of employees. Company-wide, we had 99 dismissals on grounds related to breaches of the Code of Conduct (2010: 118). Although the issues reported were not material for AkzoNobel, we are conscious of the need to continue to conduct root cause analysis and take appropriate actions. The outcome of the reports and the root cause analysis are put in a broader perspective to determine what lessons can be learned. The results are addressed in the NFL process and in online training programs.

#### Code of Conduct

	2009	2010	2011
Number of complaints reported	198	260	245
Health & safety	22	22	18
Business integrity	72	122	112
Treatment of employees	103	113	112
Other	1	3	3
Number of dismissals	69	118	99

# AkzoNobel on the capital market

Proposed dividend of €1.45 per share, a 4 percent increase

Capital Markets Day on Decorative Paints staged

## Close dialog with the capital markets

We attach great value to maintaining an open dialog with the financial community in order to promote transparency. Management gave presentations at a number of industry conferences, as well as during meetings with investors and analysts. In 2011, we organized one Capital Market Day. In December, we held a Teach-in on Decorative Paints.

In the Netherlands, AkzoNobel uses the Shareholders' Communication Channel to distribute the agenda of the Annual General Meeting of shareholders and to allow shareholders who hold their shares through an associated bank to participate in proxy voting at the AGM.

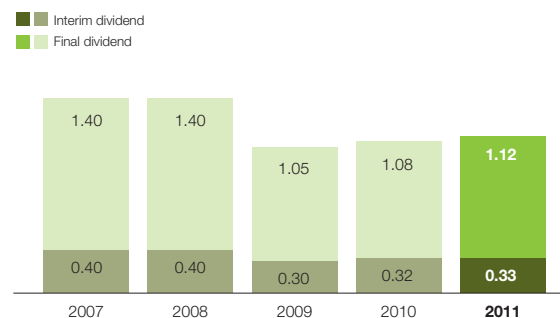
## Dividend policy

AkzoNobel's dividend policy is to pay a stable to rising dividend each year, following our expected growth in cash generation. Cash dividend is default, stock dividend is optional.

## Proposed dividend of €1.45 per share

The Board of Management proposes a dividend of €1.45 per common share. AkzoNobel's shares will be trading ex-dividend as of April 25, 2012. In compliance with the listing requirements of Euronext Amsterdam, the record date will be April 27, 2012. The dividend as proposed to the 2012 Annual General Meeting of shareholders will be payable as of May 24, 2012. The dividend paid over the last five years is shown in the graph on this page.

Dividend paid in € per share



## Share price performance

Our share price decreased 19.6 percent in 2011, underperforming both the DJ Stoxx Chemicals and AEX indices. The share price performance relative to these indices for a one-year and a five-year period is shown in the graphs on the opposite page.

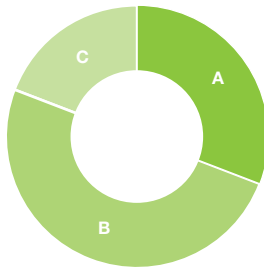
## Analyst recommendations

At year-end 2011, AkzoNobel was covered by 32 equity brokers and the following analyst recommendations were applicable (see diagram on next page):



### Analyst recommendations in %

A Buy	31
B Hold	50
C Sell	19



### Listings

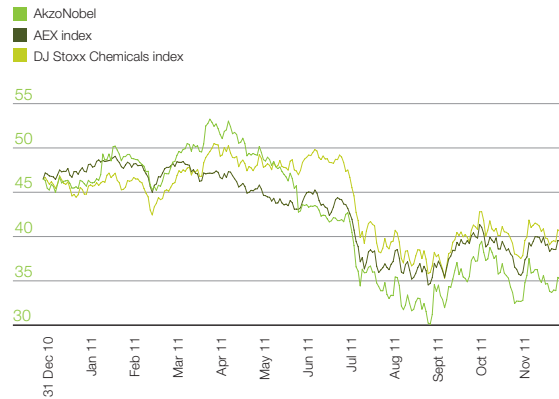
AkzoNobel's common shares are listed on the stock exchange of Euronext Amsterdam. AkzoNobel is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 3.42 percent at year-end 2011. In 2011, 290 million AkzoNobel shares were traded on Euronext Amsterdam (2010: 311 million). AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US. The 3:1 ratio (ADR:ORD) became effective from January 2, 2012 onwards.

See the table below for stock codes and ticker symbols:

Euronext ticker symbol	AKZA
ISIN common share	NL0000009132
OTC ticker symbol	AKZOY
ISIN ADR	US0101993055
Sedol code	5458314

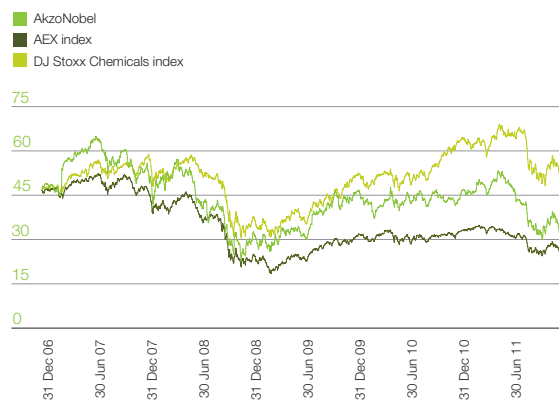
### Share price performance 2011

AkzoNobel share price in €



### Share price performance 2007 – 2011

AkzoNobel share price in €



### Key share data

	2009	2010	2011
Year-end (share price in €)	46.40	46.49	37.36
Year-high (share price in €)	46.52	47.70	53.74
Year-low (share price in €)	26.01	37.18	29.25
Year-average (share price in €)	35.92	43.39	42.20
Average daily trade (in € millions)	43.4	52.1	47.5
Average daily trade (in millions of shares)	1.2	1.2	1.1
Number of shares outstanding at year-end (in millions)	232.2	233.5	234.7
Market capitalization at year-end (in € billions)	10.8	10.9	8.8
Net income per share (in €)	1.23	3.23	2.04
Dividend per share (in €)	1.35	1.40	1.45
Dividend yield (in %)	3.8	3.2	3.4
Price-earnings ratio (P/E ratio)	37.7	14.4	18.3

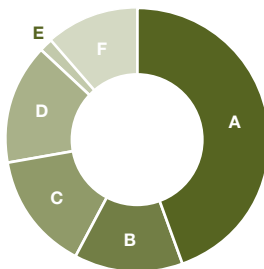
### Distribution of shares 2010 at year-end in %

<b>A</b> North America	45.4
<b>B</b> UK/Ireland	17.2
<b>C</b> The Netherlands	11.9
<b>D</b> Rest of Europe	10.6
<b>E</b> Rest of world	1.2
<b>F</b> Undisclosed	13.7



### Distribution of shares 2011 at year-end in %

<b>A</b> North America	44.7
<b>B</b> UK/Ireland	13.2
<b>C</b> The Netherlands	14.5
<b>D</b> Rest of Europe	14.8
<b>E</b> Rest of world	1.6
<b>F</b> Undisclosed	11.2



### AkzoNobel in key sustainability indices

For the sixth year in succession, AkzoNobel was included in the Dow Jones Sustainability World Index (DJSI World). We received particular recognition for our risk and crisis management, Code of Conduct, innovation management and environmental policy and management system. We were also again represented in the Carbon Disclosure Project, with an improved rating for transparency of reporting and performance. The Carbon Disclosure Project represents more than 500 institutional investors, with over \$60 trillion in assets under management.

### Broad base of international shareholders

AkzoNobel, which has a 100 percent free float, has a broad base of international shareholders. An analysis of the shareholder structure carried out in January 2011 showed that at 45 percent, the US and Canada make up the largest regional group of investors. Investors from the UK and Ireland held 13 percent. Shareholders from the Netherlands hold 15 percent of AkzoNobel shares, while a further 15 percent are held by investors from the rest of Europe. Around 9 percent of the company's share capital is held by private investors, most of whom are resident in the Netherlands.

Sustainability is becoming more important for our investors. Around 42 percent of our shares are held by institutions that are signatories of the UN PRI (United Nations Principles for Responsible Investment). The sum of holdings by institutions that focus on ESG (Environmental, Social & Governance) issues in some capacity is around 28 percent.

### Major shareholders

According to the Authority for the Financial Markets (AFM), both Paulson & Co. and Massachusetts Financial Services Company held more than 5 percent of the issued shares in Akzo Nobel N.V. by December 31, 2011. This information was provided in line with the Netherlands Financial Markets Supervision Act ("Wet op het financieel toezicht"). The most recent information can be found on the website of the AFM under notifications substantial holdings. The Financial Markets Supervision Act imposes a duty to disclose percentage holdings in the capital and/or voting rights in the company when such holding reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent. Such disclosure must be made to the AFM without delay, who then notify the company.

### Credit rating and outlook

AkzoNobel is committed to maintaining a strong investment grade rating. Regular review meetings are held between rating agencies and AkzoNobel senior management. See table for present rating and outlook.

Rating agency	Long-term rating	Outlook
Moody's <sup>1</sup>	Baa <sup>1</sup>	Stable
Standard & Poor's <sup>2</sup>	BBB+	Stable

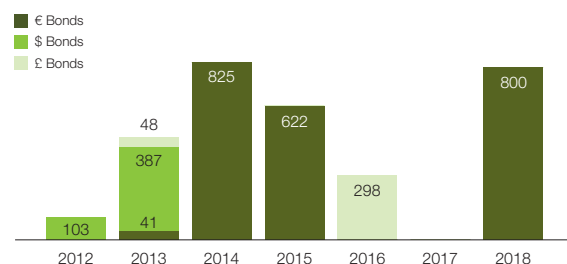
<sup>1</sup> Rating affirmed on April 21, 2011

<sup>2</sup> Rating affirmed on April 8, 2011

### Bonds

During 2011, we issued an €800 million bond and made a tender offer for €528 million. For a full overview of our bonds, please visit the Bond & Credit Information in the Investors section of our corporate website.

### Debt maturity in millions



### Investor relations policy

We provide shareholders and other parties in the financial markets with equal and simultaneous information about matters that may influence our share price. The contacts between the Board of Management on the one hand, and investors and analysts on the other, are carefully handled and structured, and the company will not engage in any acts that compromise the independence of analysts in relation to the company or vice-versa.

AkzoNobel communicates with its investors and analysts by organizing or attending meetings such as the Annual General Meetings of shareholders, its Capital Market Days, roadshows and broker conferences. More information on these meetings, as well as the presentation materials, can be found on our corporate website. Furthermore, AkzoNobel publishes an annual report, quarterly reports, the AkzoNobel Fact File and press releases, which are also available on the company's corporate website.

Briefings are given to update the market after each quarterly announcement via group meetings or teleconferences, and are accessible by telephone or via the corporate website. Meetings with investors (bilateral and general) are held to ensure that the investment community receives a balanced and complete view of the company's performance and the issues faced by the business, while always observing applicable rules concerning selective disclosure, equal treatment of shareholders and insider trading.

In the period preceding the publication of the results of that quarter, AkzoNobel will be in a so-called "closed period". During this time, we will not hold meetings with analysts or investors, make presentations at broker conferences, or hold discussions/conference calls with investors and analysts. These "closed periods" are published in our event calendar available on [www.akzonobel.com/investor\\_relations](http://www.akzonobel.com/investor_relations)

Analysts' reports and valuations are not assessed, commented upon or corrected, other than factually, by the company. AkzoNobel does not pay any fee(s) to parties for carrying out research for analysts' reports, or for the production or publication of analysts' reports, with the exception of credit rating agencies. Contacts with the capital markets are dealt with by the members of the Board of Management, AkzoNobel's investor relations professionals and, from time to time, other AkzoNobel personnel specially mandated by the Board of Management.

### Contact information

If you have questions or comments about investor relations matters, please contact us:

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# Financial statements

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## Consolidated statement of income

In € millions	Note	2010	2011
<b>Continuing operations</b>			
Revenue		14,640	15,697
Cost of sales		(8,672)	(9,670)
<b>Gross profit</b>		<b>5,968</b>	<b>6,027</b>
Selling expenses		(3,341)	(3,407)
General and administrative expenses		(1,103)	(1,229)
Research and development expenses		(334)	(356)
Other operating income/(expenses)	4	29	7
		<b>(4,749)</b>	<b>(4,985)</b>
<b>Operating income</b>		<b>1,219</b>	<b>1,042</b>
Financing income	5	51	57
Financing expenses related to pensions	5	(100)	(59)
Other financing expenses	5	(278)	(336)
Results from associates and joint ventures	11	25	23
<b>Profit before tax</b>		<b>917</b>	<b>727</b>
Income tax	6	(170)	(194)
<b>Profit from continuing operations</b>		<b>747</b>	<b>533</b>
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	7	90	8
<b>Profit for the period</b>		<b>837</b>	<b>541</b>
<b>Attributable to</b>			
Shareholders of the company		754	477
Non-controlling interests		83	64
<b>Profit for the period</b>		<b>837</b>	<b>541</b>
<b>Earnings per share, in €</b>			
Continuing operations			
Basic	16	2.85	2.01
Diluted	16	2.83	1.99
Discontinued operations			
Basic	16	0.38	0.03
Diluted	16	0.38	0.03
Total operations			
Basic	16	3.23	2.04
Diluted	16	3.21	2.02

## Consolidated statement of comprehensive income

In € millions	2010	2011
<b>Profit for the period</b>	<b>837</b>	<b>541</b>
<b>Other comprehensive income</b>		
Exchange differences arising on translation of foreign operations	827	55
Cash flow hedges	50	(55)
Income tax relating to other comprehensive income	(35)	9
Other comprehensive income for the period (net of tax)	842	9
<b>Comprehensive income for the period</b>	<b>1,679</b>	<b>550</b>
<b>Comprehensive income attributable to</b>		
Shareholders of the company	1,523	486
Non-controlling interests	156	64
<b>Comprehensive income for the period</b>	<b>1,679</b>	<b>550</b>

## Consolidated balance sheet at year-end, before allocation of profit

In € millions	Note	2010	2011
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	9	7,308	7,392
Property, plant and equipment	10	3,384	3,705
Deferred tax assets	6	794	813
Investment in associates and joint ventures	11	175	198
Other financial non-current assets	12	1,008	1,187
<b>Total non-current assets</b>		<b>12,669</b>	<b>13,295</b>
<b>Current assets</b>			
Inventories	13	1,678	1,924
Current tax assets		108	98
Trade and other receivables	14	2,788	2,917
Cash and cash equivalents	15	2,851	1,635
<b>Total current assets</b>		<b>7,425</b>	<b>6,574</b>
<b>Total assets</b>		<b>20,094</b>	<b>19,869</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Shareholders' equity	16	8,984	9,212
Non-controlling interests		525	531
<b>Total equity</b>		<b>9,509</b>	<b>9,743</b>
<b>Non-current liabilities</b>			
Provisions	17	1,855	1,717
Deferred tax liabilities	6	589	567
Long-term borrowings	18	2,880	3,035
<b>Total non-current liabilities</b>		<b>5,324</b>	<b>5,319</b>
<b>Current liabilities</b>			
Short-term borrowings	19	907	494
Current tax liabilities		456	413
Trade and other payables	20	3,305	3,349
Current portion of provisions	17	593	551
<b>Total current liabilities</b>		<b>5,261</b>	<b>4,807</b>
<b>Total equity and liabilities</b>		<b>20,094</b>	<b>19,869</b>

## Consolidated statement of cash flows

In € millions	2010	2011
Profit for the period	837	541
Income from discontinued operations	(90)	(8)
<b>Adjustments to reconcile earnings to cash generated from operating activities</b>		
Amortization/depreciation	590	621
Impairment losses	50	12
Financing income and expenses	327	338
Results from associates and joint ventures	(25)	(23)
Pre-tax result on divestments	(52)	(23)
Income tax	170	194
Changes in working capital <sup>1</sup>	(124)	(344)
Changes in provisions	(651)	(498)
Interest paid	(265)	(282)
Income tax paid	(277)	(227)
Other	29	24
<b>Net cash from operating activities</b>	<b>519</b>	<b>325</b>
Capital expenditures	(534)	(708)
Interest received	81	39
Dividends from associates and joint ventures	19	10
Acquisition of consolidated companies	(143)	(204)
Proceeds from sale of interests	145	66
Other changes	(47)	(51)
<b>Net cash from investing activities</b>	<b>(479)</b>	<b>(848)</b>
Proceeds from borrowings	179	911
Borrowings repaid	(212)	(1,381)
Acquisition of non-controlling interests	(54)	(8)
Issue of shares for stock option plan	9	15
Dividends	(403)	(362)
<b>Net cash from financing activities</b>	<b>(481)</b>	<b>(825)</b>
<b>Net cash used for continuing operations</b>	<b>(441)</b>	<b>(1,348)</b>
Cash flows from discontinued operations	1,095	11
<b>Net change in cash and cash equivalents of continued and discontinued operations</b>	<b>654</b>	<b>(1,337)</b>
Cash and cash equivalents at January 1	1,919	2,683
Effect of exchange rate changes on cash and cash equivalents	110	(11)
<b>Cash and cash equivalents<sup>2</sup></b>	<b>2,683</b>	<b>1,335</b>

<sup>1</sup> Comprises an increase of €182 million in trade and other receivables (2010: increase of €216 million), an increase of €216 million in inventories (2010: increase €256 million) and an increase of €54 million in trade and other payables (2010: increase of €348 million).

<sup>2</sup> Consists of €1,635 million cash and cash equivalents (2010: €2,851 million) and €300 million debt to credit institutions (2010: €168 million).



## Consolidated statement of changes in equity

### Attributable to shareholders of the company

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Cumulative translation reserve	Other (statutory) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Total equity
<b>Balance at January 1, 2010</b>	465	2	(6)	(777)	8,091	7,775	470	8,245
Profit for the period	–	–	–	–	754	754	83	837
Other comprehensive income	–	–	47	774	–	821	73	894
Tax on other comprehensive income	–	–	(15)	(20)	–	(35)	–	(35)
Reclassification into the statement of income	–	–	3	(20)	–	(17)	–	(17)
<b>Comprehensive income</b>	–	–	35	734	754	1,523	156	1,679
Dividend paid	–	–	–	–	(320)	(320)	(83)	(403)
Equity-settled transactions	–	–	–	–	27	27	–	27
Issue of common shares	2	7	–	–	–	9	–	9
Acquisitions and divestments	–	–	–	–	(30)	(30)	(18)	(48)
<b>Balance at December 31, 2010</b>	467	9	29	(43)	8,522	8,984	525	9,509
Profit for the period	–	–	–	–	477	477	64	541
Other comprehensive income	–	–	(54)	55	–	1	–	1
Tax on other comprehensive income	–	–	17	(8)	–	9	–	9
Reclassification into the statement of income	–	–	(1)	–	–	(1)	–	(1)
<b>Comprehensive income</b>	–	–	(38)	47	477	486	64	550
Dividend paid	1	24	–	–	(329)	(304)	(58)	(362)
Equity-settled transactions	–	–	–	–	32	32	–	32
Issue of common shares	1	14	–	–	–	15	–	15
Acquisitions and divestments	–	–	–	–	(1)	(1)	–	(1)
<b>Balance at December 31, 2011</b>	469	47	(9)	4	8,701	9,212	531	9,743

## Segment information

Our Decorative Paints businesses supply a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself markets. Our Performance Coatings businesses are represented in most markets of this industry and we serve a large range of customers including ship and yacht builders and architects, consumer electronics

and appliance companies, steel manufacturers, the construction industry, furniture makers, aircraft, bus and truck producers, can makers and bodyshops. Our Specialty Chemicals products are used in a wide variety of everyday products such as ice cream, soups, disinfectants, plastics, soaps, detergents, cosmetics, paper and asphalt.

### Information per Business Area

In € millions	Revenue from third parties		Group revenue		EBITDA <sup>1</sup>		Amortization and depreciation		Incidentals		Operating income	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Decorative Paints	4,931	5,252	4,968	5,296	548	440	(205)	(210)	(68)	(93)	275	137
Performance Coatings	4,752	5,129	4,786	5,170	647	611	(107)	(116)	(53)	(37)	487	458
Specialty Chemicals	4,915	5,303	4,943	5,335	939	906	(260)	(281)	(75)	(3)	604	622
Corporate and other	42	13	(57)	(104)	(170)	(161)	(18)	(14)	41	–	(147)	(175)
<b>Total</b>	<b>14,640</b>	<b>15,697</b>	<b>14,640</b>	<b>15,697</b>	<b>1,964</b>	<b>1,796</b>	<b>(590)</b>	<b>(621)</b>	<b>(155)</b>	<b>(133)</b>	<b>1,219</b>	<b>1,042</b>

In € millions	Invested capital		Total assets		Total liabilities		Capital expenditures		Impairment	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Decorative Paints	6,404	6,749	8,167	8,400	2,222	2,169	154	204	(19)	(5)
Performance Coatings	2,122	2,351	3,550	3,910	1,242	1,551	87	116	(5)	(5)
Specialty Chemicals	3,457	3,620	4,618	4,778	1,110	1,163	273	366	(16)	(1)
Corporate and other	735	988	3,759	2,781	6,011	5,243	20	22	(10)	(1)
<b>Total</b>	<b>12,718</b>	<b>13,708</b>	<b>20,094</b>	<b>19,869</b>	<b>10,585</b>	<b>10,126</b>	<b>534</b>	<b>708</b>	<b>(50)</b>	<b>(12)</b>

### Regional information

In € millions	Revenue by region of destination		Intangible assets and property, plant and equipment		Capital expenditures	
	2010	2011	2010	2011	2010	2011
The Netherlands	803	694	1,035	1,105	84	144
Germany	1,160	1,284	710	777	22	31
Sweden	468	515	461	463	19	54
UK	798	841	1,250	1,257	28	27
Other European countries	3,398	3,702	2,290	2,275	83	98
US and Canada	2,954	3,141	1,993	2,035	63	117
Latin America	1,394	1,558	778	745	30	67
China	1,249	1,376	1,238	1,469	147	96
Other Asian countries	1,780	1,918	821	860	48	63
Other regions	636	668	116	111	10	11
<b>Total</b>	<b>14,640</b>	<b>15,697</b>	<b>10,692</b>	<b>11,097</b>	<b>534</b>	<b>708</b>

<sup>1</sup> EBITDA is operating income before incidentals and amortization/depreciation.

### General information

Akzo Nobel N.V. is a company headquartered in the Netherlands. The address of our registered office is Strawinskylaan 2555, Amsterdam. We have filed a list of subsidiaries and associated companies, drawn up in conformity with sections 379 and 414 of Book 2 of the Netherlands Civil Code, with the Trade Registry of Amsterdam.

We have prepared the consolidated financial statements of Akzo Nobel N.V. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. They also comply with the financial reporting requirements included in Section 9 of Book 2 of the Netherlands Civil Code, as far as applicable.

On February 15, 2012, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to the adoption by the Annual General Meeting of shareholders.

### Consolidation

The consolidated financial statements include the accounts of Akzo Nobel N.V. and its subsidiaries. Subsidiaries are companies over which Akzo Nobel N.V. has directly and/or indirectly the power to control the financial and operating policies so as to obtain benefits. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Non-controlling interests in equity and in results are presented separately. Transactions between consolidated companies and intercompany balances are eliminated. Accounting policies, as set out below, have been applied consistently for all periods presented in these consolidated financial statements and by all subsidiaries.

### Change in accounting policies

For 2011 several new accounting pronouncements became effective, which had no material impact on our consolidated financial statements. This includes IASB's annual improvements project 2010, the amendment to IAS 24,

"Related Party Disclosures", the amendment to IFRIC 14, "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" and IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments".

### Discontinued operations (Note 7)

A discontinued operation is a component of our business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of income and statement of cash flows are reclassified as if the operation had been discontinued from the start of the comparative period.

Assets and liabilities are classified as held for sale if it is highly probable that the carrying value will be recovered through a sale transaction within one year rather than through continuing use. When reclassifying assets and liabilities as held for sale, we recognize the assets and liabilities at the lower of their carrying value or fair value less selling costs. Assets held for sale are not depreciated but tested for impairment. Impairment losses on assets and liabilities held for sale are recognized in the statement of income.

### Use of estimates

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the revision period and future periods, if the changed estimates affect both current and future periods.

The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation are described below. Changes in the assumptions and estimates as described could result in significantly different results than those recorded in the financial statements.

### **Business combinations (Note 2)**

In business combinations, identifiable assets and liabilities, and contingent liabilities are recognized at their fair values at the acquisition date. Determining the fair value requires significant judgments on future cash flows to be generated. The fair value of brands, patents and customer lists acquired in a business combination is estimated on generally accepted valuation methods. These include the relief-from-royalty method, the incremental cash flow method and the multi-period excess earnings method. The fair value of property, plant and equipment acquired in a business combination is based on estimated market values. The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin, based on the effort required to complete and sell the inventories.

### **Impairment of intangible assets and property, plant and equipment (Notes 9, 10)**

We assess whether the carrying values of intangible assets and property, plant and equipment are recoverable. In this assessment, we make significant judgments and estimates to determine if the future cash flows expected to be generated by those assets (value in use) are less than their carrying value. The data necessary for the impairment tests are based on our strategic plans and our estimates of future cash flows, which require estimating revenue growth rates and profit margins. The estimated cash flows are discounted using a net present value technique with business-specific discount rates.

### **Accounting for income tax (Note 6)**

As part of the process of preparing consolidated financial statements, we estimate income tax in each of the jurisdictions in which we operate. This process involves

estimating actual current tax expense and temporary differences between carrying amounts of assets and liabilities for tax and financial reporting purposes.

Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. We assess the likelihood that deferred tax assets will be recovered from future taxable income.

In determining the amount of current and deferred tax we also take into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events and consideration of many factors, including interpretations of tax law and prior experience.

### **Provisions (Note 17)**

By their nature, provisions and contingent liabilities are dependent upon estimates and assessments as to whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean-up. The provisions for antitrust cases are based on an estimate of the costs, fines and civil damages, taking into account legal advice and the current facts and circumstances. Provisions for other litigation are also based on an estimate of the costs, taking into account legal advice and information currently available. Provisions for termination benefits and exit costs also involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs.

### **Accounting for pensions and other post-retirement benefits (Note 17)**

Post-retirement benefits represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets. The accounting requires us to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates and future healthcare costs. Periodically, we consult with external actuaries regarding these assumptions. Changes in key assumptions can have

a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred.

### **Statement of cash flows**

We have used the indirect method to prepare the statement of cash flows. Cash flows in foreign currencies have been translated at transaction rates. Exchange rate differences affecting cash items are presented separately in the statement of cash flows. Receipts and payments with respect to income tax are included in cash from operating activities. Interest payments are included in cash from operating activities, while interest receipts are included in cash from investing activities. The costs of acquisition of subsidiaries, associates and joint ventures, and other investments, as long as paid in cash, are included in cash from investing activities. Acquisitions or divestments of subsidiaries are presented net of cash and cash equivalents acquired or disposed of, respectively. Acquisitions of non-controlling interests are reported in cash from financing activities. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged items.

### **Earnings per share**

We present basic and diluted earnings per share (EPS) for our common shares. Basic EPS is calculated by dividing the profit or loss attributable to holders of our common shares by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to shareholders of common shares by the weighted average number of common shares outstanding, including the effects for potentially dilutive common shares, which comprise of stock options and performance-related shares granted to employees.

### **Operating segments**

We determine and present operating segments ("Business Areas") on the information that internally is provided to the Executive Committee, the body that was our chief operating decision maker during 2011. A Business Area is a component that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with

other Business Areas within the company. Operating results of a Business Area have been reviewed regularly by the Executive Committee to make decisions about resources to be allocated to the Business Area and assess its performance, and for which discrete financial information is available. Business Area results reported to the Executive Committee include items directly attributable to a Business Area as well as those items that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and corporate costs and are reported in Business Area “Corporate and other”.

### Translation of foreign currencies

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate at transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the balance sheet date. Resulting foreign currency differences are included in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at acquisition date.

The assets and liabilities of entities with other functional currencies are translated into the functional currency of the parent entity, using the exchange rates at the balance sheet date. The income and expenses of entities with other functional currencies are translated into the functional currency, using the exchange rates at transaction date. Foreign exchange differences resulting from translation into the functional currency of investments in subsidiaries and of intercompany loans of a permanent nature with other functional currencies are recorded as a separate component (cumulative translation reserves) within other comprehensive income. These cumulative translation adjustments are reclassified (either fully or partly) to the statement of income upon disposal (either fully or partly) or liquidation of the foreign subsidiary to which the investment or the intercompany loan with a permanent nature relates to. Before being consolidated, the financial statements of subsidiaries established in hyperinflationary countries are adjusted for the effects of changing prices of the local currency.

Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in the cumulative translation reserves (in other comprehensive income), to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged part of a net investment is disposed of, the associated cumulative amount in other comprehensive income is reclassified to the statement of income as an adjustment to the transaction result.

### Exchange rates of key currencies

The principal exchange rates against the euro used in preparing the balance sheet and the statement of income are:

	Balance sheet		Statement of income	
	2010	2011	2010	2011
US dollar	1.333	1.291	1.328	1.392
Pound sterling	0.861	0.838	0.858	0.868
Swedish krona	8.972	8.944	9.537	9.030
Chinese yuan	8.785	8.127	8.982	9.001

### Revenue recognition

Revenue is defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts and similar allowances, and net of sales tax. Revenue is recognized when the significant risks and rewards have been transferred to a third party, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. For revenue from sales of goods these conditions are generally met at the time the product is shipped and delivered to the customer, depending on the delivery conditions. Service revenue is generally recognized as services are rendered.

### Pensions and other post-retirement benefits (Note 17)

Contributions to defined contribution plans are recognized in the statement of income as incurred. Most of our defined benefit pension plans are funded with plan assets

that have been segregated in a trust or foundation. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected pension benefits based on employee service during the year and the interest on this obligation with respect to employee service in previous years, net of the expected return on plan assets. The discount rate used in determining the present value of the obligations is the yield at reporting date of AA corporate bonds that have maturity dates approximating the terms of our obligations.

When the calculation results in a benefit to AkzoNobel, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan. An economic benefit is available if it is realizable during the life of the plan, or on the settlement of the plan liabilities.

In certain countries we also provide post-retirement benefits other than pensions to our employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs related to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation with reference to employee service in previous years.

Actuarial gains and losses that arise in calculating our obligation with reference to a plan, are recognized to the extent that any cumulative unrecognized actuarial gain or loss exceed 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets. That portion of the actuarial gains and losses is recognized in the statement of income over the expected average remaining working lives of the employees participating in the plan. When the benefits of a plan

improve, the portion of the increased benefits related to past service by employees is recognized as an expense in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the statement of income.

We recognize gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognized. Interest on the defined benefit obligation for both pensions and other post-retirement benefits net of the expected return on plan assets is included in financing expenses related to pensions. Other charges and benefits recognized are reported in operating income.

#### **Other long-term employee benefits (Note 17)**

Other long-term employee benefits include long-service or sabbatical leave, jubilee or other long-service benefits, and other employee benefits payable more than 12 months after the related service is rendered. These provisions are measured at present value, using actuarial assumptions. The discount rate is the yield at reporting date of AA corporate bonds that have maturity dates approximating the terms of our obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

An accrual is recognized for the amounts expected to be paid under short-term bonus or profit sharing plans if a present legal or constructive obligation as a result of past services provided exists and the obligation can be estimated reliably.

#### **Share-based compensation (Note 8)**

We have a performance-related share plan, under which shares are conditionally granted to certain employees. These performance-related shares vest in three years.

The number of shares which the employees will receive depends on our relative Total Shareholder Return (TSR) performance over a three-year period compared with the peer group. As from 2009, the conditional grant of shares is linked 50 percent to the ranking of the company in the Sustainability Asset Management (SAM) benchmark and 50 percent to the relative TSR performance of the company.

The fair value of the performance-related shares granted is recognized as an expense with a corresponding increase in shareholders' equity. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the performance-related shares. The fair value for the TSR-linked vesting condition is measured using the Monte Carlo simulation model. The fair value of the performance-related shares for which vesting is based on the company's SAM ranking, is the value of the Akzo Nobel N.V. common share on the date of the grant. This Monte Carlo model takes into account expected dividends, as well as the market conditions expected to impact our TSR performance in relation to selected peers. The amount recognized as an expense is adjusted to reflect the actual number of performance-related shares that vest, except when forfeiture or extra vesting of performance-related shares is due to a TSR performance that differs from the performance anticipated at the grant of the performance-related shares, because this is a market performance condition.

#### **Income tax (Note 6)**

Income tax expense comprises both current and deferred tax, including effects of changes in tax rates. In determining the amount of current and deferred tax we also take into account the impact of uncertain tax positions and whether additional taxes and interest may be due.

Income tax is recognized in the statement of income, unless it relates to items recognized in equity. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

In the balance sheet, current tax includes the expected tax payable and receivable on the taxable income for the

year, using tax rates enacted or substantially enacted at reporting date, as well as any adjustments to tax payable and receivable with respect to previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for taxation purposes. We do not recognize deferred tax for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The nature of the evidence supporting the recognition of the deferred tax assets is the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

Current and deferred tax assets and liabilities have been offset in cases where there is a legally enforceable right for such set off and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities which intend either to settle current tax on a net basis or their tax assets and liabilities will be realized simultaneously.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed. Non-refundable dividend tax is taken into account in the determination of deferred tax liabilities to the extent of earnings expected to be distributed by subsidiaries in the foreseeable future. If separate tax rates exist for distributed and undistributed profit, the current and deferred taxes are measured at the tax rate applicable to undistributed profit. Deferred tax is not discounted.

### Research cost and preparation and start-up expenses

Research cost and preparation and start-up expenses are charged to the statement of income as incurred.

### Government grants

Government grants related to costs are deducted from the relevant cost to be compensated in the same period. Emission rights granted by the government are recorded at cost. A provision is recorded if the actual emission is higher than the emission rights granted. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

### Intangible assets (Note 9)

Intangible assets are valued at cost less accumulated amortization and impairment charges. All intangibles assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. In addition, intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually.

Goodwill in a business combination represents the excess of the consideration paid over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. For acquisitions before January 1, 2010, the cost of an acquisition also included expenses directly attributable to the acquisition. Contingent consideration was recognized only if the company had a present obligation and the economic outflow was probable and a reliable estimate was determinable. For acquisitions made on or after January 1, 2010, acquisition related costs are expensed as incidental items on the line other operating income/ (expenses) in the statement of income. Any contingent consideration to be transferred will be recognized at fair value at the acquisition date.

If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income. The

effects of all transactions with non-controlling interests are recorded in equity if there is no change in control; these transactions will no longer result in goodwill. Goodwill related to an investment in associates and joint ventures is included in the carrying value of that investment.

Intangible assets with a finite useful life, such as certain licenses, know-how and brands, customer relationships and intellectual property rights, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets, which generally ranges from 10 to 40 years. Development and software costs are capitalized if the costs can be measured reliably, the related product or process is technically and commercially feasible, sufficient future economic benefits will be generated and sufficient resources are available to complete the development. The expenditures capitalized include the cost of materials, consultancy, licenses, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalized development and software costs are amortized on a straight-line basis over the estimated useful life of related assets, which generally is up to five years. Amortization methods, useful lives and residual values are reassessed annually.

### Property, plant and equipment (Note 10)

Property, plant and equipment are valued at cost less accumulated depreciation and impairment charges. Costs include expenditures that are directly attributable to the acquisition of the asset, including financing expenses of capital investment projects under construction. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Depreciation is calculated using the straight-line method, based on the estimated useful life. In the majority of cases the useful life of plant equipment and machinery is ten years, and for buildings ranges from 20 to 30 years. Land is not depreciated. In the majority of cases residual value is assumed to be insignificant. Depreciation methods, useful lives and residual values are reassessed annually.

Parts of property, plant and equipment that have different useful lives are accounted for as separate items of

property, plant and equipment. Costs of major maintenance activities are capitalized as a separate component of property, plant and equipment, and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant and equipment are expensed in the period in which they occur. Gains and losses on the sale of property, plant and equipment are included in the statement of income.

We have identified conditional asset retirement obligations at a number of our facilities that are mainly related to plant decommissioning. We recognize these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

### Impairments of intangible assets and property, plant and equipment (Notes 9, 10)

We assess the carrying value of intangible assets and property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, for goodwill and other intangible assets with an indefinite useful life, we review the carrying value annually in the fourth quarter.

The recoverable amount of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs to sell, whereby estimated future cash flows are discounted to their present value. The discount rate used reflects current market assessments of the time value of money and, if appropriate, the risks specific to the assets. If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The assessment for impairment is performed at the lowest level of assets generating largely independent cash inflows. For goodwill and other intangible assets with an indefinite life, we have determined this to be at business unit level (one level below segment). We allocate impairment losses in respect of cash-generating units first to goodwill and then to the carrying amount of the other assets on a pro rata basis.

Except for goodwill, we reverse impairment losses if and to the extent we have identified a change in estimates used to determine the recoverable amount. We only reverse to the extent that the carrying value of the asset does not exceed the carrying value that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of income.

#### Leases (Notes 10, 21)

Lease contracts in which we have substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between the interest expenses and the reduction of the outstanding liability. The interest expenses are recognized as other financing expenses over the lease term.

Payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized over the term of the lease.

#### Inventories (Note 13)

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, and take into account the stage of completion. The costs of inventories are determined using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

#### Equity (Note 16)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable cost, is net of any tax effects, and

is recognized as a deduction from equity. Dividends are recognized as a liability in the period in which they are declared.

#### Provisions (Note 17)

We recognize provisions when a present legal or constructive obligation as a result of a past event exists, and it is probable that an outflow of economic benefits is required to settle the obligation. Provisions are measured at net present value and take into account legal fees. The expected future cash outflows are discounted at appropriate pre-tax interest rates, reflecting current market assessments of the time value of money and, if applicable, the risks specific to the liability. The increase of provisions as a result of the passage of time is recognized in the statement of income under other financing expenses.

Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. We do not provide for future operating costs. Termination benefits for voluntary redundancy are recognized if we have made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

In accordance with our environmental policy and applicable legal requirements, we recognize a provision for environmental clean-up cost when it is probable that a liability has materialized and the amount of cash outflow can be reasonably estimated.

#### Financial instruments

Regular purchases and sales of financial assets and liabilities are recognized on trade date, which is the date we commit to purchase or sell the asset. The initial measurement of all financial instruments is fair value. Except for derivatives, the initial measurement of financial instruments is adjusted for directly attributable transaction costs.

Below, the accounting policies for financial instruments are explained, relating to the following categories:

- Derivative financial instruments
- Associates and joint ventures
- Other financial non-current assets
- Trade and other receivables
- Cash and cash equivalents
- Long-term and short-term borrowings
- Trade and other payables.

#### Derivative financial instruments (Note 24)

Derivative financial instruments include forward exchange contracts, interest rate derivatives and commodity contracts, as well as embedded derivatives included in normal business contracts. All derivative financial instruments are recognized at fair value on the balance sheet.

Fair values are derived from market prices and quotes from dealers and brokers, or are estimated using observable market inputs. Forward exchange and commodity contracts are reported under trade and other receivables, or under trade and other payables.

Changes in the fair value of forward exchange and commodity contracts are recognized in the statement of income, unless cash flow hedge accounting or net investment hedge accounting is applied. In that case, the effective part of the fair value changes is deferred in other comprehensive income and released to the related specific lines in the statement of income or balance sheet at the same time as the hedged item.

Interest rate derivatives are reported under other financial non-current assets or long-term borrowings. The changes in fair value of interest derivatives are recognized in financing income and expenses, where the effective part is offset by the fair value changes of the underlying fixed rate bond, in the event fair value hedge accounting is applied.

Both at the hedge inception and at each reporting date, we assess whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. When a derivative is not highly effective, we



discontinue hedge accounting prospectively. In the event a fair value hedge relationship is terminated, amortization of fair value hedge adjustments is included in financing income and expense. When a cash flow hedge relationship is terminated, the fair value changes deferred in other comprehensive income (in equity) are released to the statement of income only when the hedged transaction is no longer expected to occur. Otherwise these will be released to the statement of income at the same time as the hedged item.

#### **Associates and joint ventures (Note 11)**

Associates are those entities in which we have significant influence, but no control, over the financial and operational policies. Joint ventures are those entities over whose activities we have joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

Associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The consolidated financial statements include our share of the income and expenses of the associates and joint ventures for the period that we have significant influence or joint control, whereby the result is determined using our accounting principles. When the share of losses exceeds the interest in the investee, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless we have incurred legal or constructive obligations on behalf of the investee. Loans to associates and joint ventures are carried at amortized cost less impairment losses.

The results from associates and joint ventures consist of our share in the results of these companies, interest on loans granted to them and the transaction results on divestments of associates and joint ventures. Unrealized gains and losses arising from transactions with associates and joint ventures are eliminated to the extent of our interest in the investee.

#### **Other financial non-current assets (Note 12)**

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment

losses. Long-term receivables are discounted to their net present value. Interest receivable is included in financing income.

#### **Trade and other receivables (Note 14)**

Trade and other receivables are measured at amortized cost, using the effective interest method, less any impairment loss. An allowance for impairment of trade and other receivables is established if the collection of a receivable becomes doubtful.

Such receivable becomes doubtful when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. An impairment loss is recognized in the statement of income, as are subsequent recoveries of previous impairments.

#### **Cash and cash equivalents (Note 15)**

Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into cash. Cash and cash equivalents are measured at fair value.

#### **Long-term and short-term borrowings (Notes 18, 19, 24)**

Long-term borrowings are measured at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case the carrying amount is adjusted for the fair value changes caused by the hedged risk. Short-term borrowings are measured at amortized cost, using the effective interest method. The interest payable on borrowings is included in other financing expenses.

The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if

available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### **Trade and other payables (Note 20)**

Trade and other payables are measured at amortized cost, using the effective interest method.

#### **New IFRS accounting standards**

Several new accounting pronouncements were issued. We assessed whether our consolidated financial statements for 2012 and beyond may be affected.

- IFRS 9, "Financial Instruments" (replacement of IAS 39) will become effective as from 2015, with earlier adoption permitted. IFRS 9 introduced new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and will eventually replace IAS 39 – the current standard on financial instruments. As its scope will be further expanded during the next year(s), we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate.
- The main change resulting from the amendment to IAS 1, "Financial Statement Presentation" is a requirement to group items presented in other comprehensive income on the basis of potential reclassification to profit or loss. The amendments as such do not address which items are presented in other comprehensive income. This change is effective for our 2013 financial statements. We do not expect that this will have a material impact.
- IFRS 10, "Consolidated Financial Statements" introduces a single control model for consolidation of investees. This standard will be effective as from 2013. We will assess the effect of this standard on our consolidated financial statements during 2012.
- IFRS 11, "Joint Arrangements" focuses on the rights and obligations of joint arrangements and eliminates proportionate consolidation. As we do not apply this method, there is no impact on our consolidated financial statements.

- IFRS 12, “Disclosure of Interests in Other Entities” contains the disclosure requirements for interests in subsidiaries, joint ventures, associates and other unconsolidated entities. This standard will be effective as from 2013.
- IFRS 13, “Fair Value Measurement” replaces the fair value measurement guidance contained in existing IFRS with a single source of fair value measurement guidance. This standard, which is effective as from 2013, is not expected to materially impact our consolidated financial statements.
- The amendment to IAS 19, “Employee Benefits” will become effective in 2013. It includes the requirement that actuarial gains and losses are recognized immediately in other comprehensive income, thus removing the corridor method which we currently apply. In addition, expected return on plan assets recognized in the statement of income is calculated based on the rate used to discount the defined benefit obligation. The impact of this standard on our consolidated financial statements for 2013 can be material, depending on the funded status of our defined benefit plans as at December 31, 2012, and by the difference between the discount rates and the expected return on plan assets rates at that moment.
- The amendment to IAS 27, “Separate Financial Statements” carries forward the existing accounting and disclosure requirements for separate financial statements. This standard is not applicable to our company financial statements, as we prepare these under Dutch accounting principles.
- The amendment to IAS 28, “Investments in Associates and Joint Ventures” addresses the criteria and measurement of associates and joint ventures that qualify as held for sale. This amendment, effective as from 2013, is not expected to materially affect our consolidated financial statements.

2011 was a year in which we realized and announced several acquisitions and investments:

- In Decorative Paints we have entered into a partnership in China with Quangxi CAVA Titanium Industry Co. Ltd. to help ensure supply of titanium dioxide (TiO<sub>2</sub>).
- In Performance Coatings, the acquisition of coatings manufacturer Schramm Holding AG has closed early October 2011. This acquisition will enable us to strengthen our global leadership position in specialty plastic coatings.
- In Specialty Chemicals we have acquired patented Zeta Fraction technology from Integrated Botanical Technologies. In addition, in early 2012, we completed the acquisition of Boxing Oleochemicals (“Boxing”), the leading supplier of nitrile amines and derivatives in China and throughout Asia.

The acquisitions in 2011 both individually and in total, were deemed immaterial in respect of IFRS 3 disclosure requirements. Pre-acquisition carrying amounts were not gathered.

#### Recognized values at acquisition

In € millions	Schramm	Other acquisitions	Total
Goodwill	46	3	49
Other intangible assets	70	29	99
Property, plant and equipment	51	25	76
Other non-current assets	8	13	21
Inventories	29	6	35
Trade and other receivables	38	7	45
Cash and cash equivalents	6	–	6
Provisions	(5)	–	(5)
Deferred tax liabilities	(22)	(2)	(24)
Long-term borrowings	(21)	(2)	(23)
Trade and other payables	(33)	(3)	(36)
<b>Net identifiable assets and liabilities</b>	<b>167</b>	<b>76</b>	<b>243</b>
Recognized in the statement of income	–	(2)	(2)
<b>Consideration paid</b>	<b>167</b>	<b>74</b>	<b>241</b>
Cash and cash equivalents acquired	(6)	–	(6)
To be paid in 2012 and later years	(5)	(7)	(12)
Repayments related to previous years	–	(19)	(19)
<b>Net cash outflow</b>	<b>156</b>	<b>48</b>	<b>204</b>

### 3 Note 3: Incidentals

#### Incidental gains and losses included in operating income

In € millions	2010	2011
Restructuring costs	(120)	(131)
Results on acquisitions and divestments	33	10
Results related to major legal, antitrust and environmental cases	(49)	(9)
Other incidental results	(19)	(3)
<b>Total</b>	<b>(155)</b>	<b>(133)</b>

Restructuring is mainly related to European businesses in Decorative Paints and Performance Coatings.

#### Restructuring costs

In € millions	2010	2011
Decorative Paints	(65)	(93)
Performance Coatings	(37)	(39)
Specialty Chemicals	(24)	3
Other	6	(2)
<b>Total</b>	<b>(120)</b>	<b>(131)</b>

#### Incidentals per cost category

In € millions	2010	2011
Cost of sales	(126)	(52)
Selling expenses	(43)	(66)
General and administrative expenses	(13)	(24)
Research and development expenses	(1)	(9)
Other operating income/(expenses)	28	18
<b>Total</b>	<b>(155)</b>	<b>(133)</b>

### 4 Note 4: Other operating income/(expenses)

#### Other operating income/(expenses)

In € millions	2010	2011
Incidental gains and losses	19	18
Results on sale of redundant assets	3	2
<b>Currency exchange differences</b>		
Derivatives	55	13
Loans and receivables	(82)	(9)
Other financial liabilities	(4)	(2)
Other items	38	(15)
<b>Total</b>	<b>29</b>	<b>7</b>

In 2011, the incidental gains and losses related mainly to results from acquisitions and divestments (Schramm, Boxing) and a release from an antitrust provision.

In 2010, the incidental gains and losses related to the acquired powder coatings activities, the divestment of a captive insurance company and environmental costs for a site in Sweden.

### 5 Note 5: Financing income and expenses

#### Financing income and expenses

In € millions	2010	2011
<b>Interest income</b>		
Loans and receivables	51	57
<b>Interest expenses</b>		
Net financing expenses on pensions and other post-retirement benefits	(100)	(59)
Interest rate derivatives	14	–
Other financial liabilities	(253)	(302)
Other	(39)	(34)
<b>Fair value changes</b>		
Interest rate derivatives	16	–
Other financial liabilities	(15)	–
Other	(1)	–
<b>Total</b>	<b>(327)</b>	<b>(338)</b>

Net financing charges for the year increased by €11 million from €327 million to €338 million. Significant items included are:

- Other financial liabilities increased by €49 million to €302 million (2010: €253 million) mainly due to the loss (€67 million) on the buyback of company bonds in December partly offset by the higher amortization (€9 million) of interest rate swaps closed out in 2010. The repayment of the 4.25 percent bond in June 2011 resulted in a €11 million lower interest expense compared to 2010
- Financing expenses on pensions decreased by €41 million to €59 million (2010: €100 million) due to lower discount rates
- Other items include a €2 million gain (2010: €14 million loss) on foreign currency results of hedged future interest cash flows, partly being offset by lower interest on provisions in 2011 (€7 million).

A reduction of €4 million (2010: €10 million) was included in the interest expenses of capital investment projects under construction. The average interest rate used for capitalization of borrowing costs was 6.9 percent.

Pre-tax income amounted to a profit of €727 million (2010: profit €917 million). The net tax charges related to continuing operations are presented below. The total tax charge, including discontinued operations was €183 million (2010: €193 million).

#### Classification of current and deferred tax result

In € millions	2010	2011
<b>Current tax result for</b>		
The year	(245)	(233)
Adjustments for prior years	59	9
	<b>(186)</b>	<b>(224)</b>
<b>Deferred tax result for</b>		
Origination and reversal of temporary differences	1	22
Changes in tax rates	6	7
Tax losses recognized or unrecognized	9	1
	<b>16</b>	<b>30</b>
<b>Total</b>	<b>(170)</b>	<b>(194)</b>

#### Effective consolidated tax rate

in %	2010	2011
Corporate tax rate in the Netherlands	25.5	25.0
Effect of different tax rates in certain countries	(1.0)	2.6
Tax exempt income/non-deductible expenses	2.7	0.3
Non-taxable income from investment in associates and joint ventures	(0.7)	(0.8)
Changes in enacted tax rates (reductions in tax rate)	(0.7)	(1.0)
Recognition of previously unrecognized tax losses	(1.0)	(0.1)
Current year losses for which no deferred tax asset was recognized	0.5	0.4
Current year profits for which no deferred tax asset was recognized	(2.0)	–
Under/(over)-provided in prior years	(6.4)	(1.2)
Non-refundable withholding taxes	2.0	1.6
Other	(0.4)	(0.1)
<b>Effective consolidated tax rate</b>	<b>18.5</b>	<b>26.7</b>

The effective tax rate in 2011 is affected by several adjustments to prior years and by tax-exempt gains, the main one being a release of an antitrust provision. In addition, changes in the geographical mix of taxable income affected the tax burden.

In 2010, the tax rate was low due to several adjustments to prior years, partly related to settlements with tax authorities. Furthermore, there were tax-exempt gains related to acquisitions and divestments and part of a not recognized capital loss was used.

The impact of non-refundable withholding tax is dependent on the relative share of our profit from countries that levy withholding tax on dividends, and on the timing of the remittance of such dividends. This relative share is expected to increase in the coming years. Based on the Dutch tax system there is only a limited credit for such taxes.

#### Income tax recognized directly in equity

In € millions	2010	2011
<b>Current tax for</b>		
Currency exchange differences on inter-company loans of a permanent nature	(16)	(3)
	<b>(16)</b>	<b>(3)</b>
<b>Deferred tax for</b>		
Share-based compensation	(3)	(3)
Hedge accounting	(15)	17
Other	(4)	(5)
	<b>(22)</b>	<b>9</b>
<b>Total</b>	<b>(38)</b>	<b>6</b>

### Deferred tax assets and liabilities

In the deferred tax asset for other provisions (€345 million), an amount of €213 million (2010: €210 million) is related to interest expense carried forward.

From the total amount of recognized net deferred tax assets, €513 million (2010: €515 million) is related to entities that have suffered a loss in either 2011 or 2010 in the tax jurisdiction to which a deferred tax asset relates, and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences.

### Breakdown of deferred tax assets and liabilities

In € millions	2010		2011	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	68	781	61	762
Property, plant and equipment	64	160	62	156
Inventories	33	5	33	4
Trade and other receivables	22	20	31	17
Share-based compensation	11	–	12	–
<b>Provisions</b>				
Pensions and other post-retirement benefits	292	158	247	191
Restructuring	17	3	15	–
Other provisions	360	29	345	32
Other items	200	50	194	16
Net loss carryforwards	752	–	839	–
Deferred tax assets not recognized	(408)	–	(415)	–
<b>Tax assets/liabilities</b>	<b>1,411</b>	<b>1,206</b>	<b>1,424</b>	<b>1,178</b>
Set-off of tax	(617)	(617)	(611)	(611)
<b>Net deferred taxes</b>	<b>794</b>	<b>589</b>	<b>813</b>	<b>567</b>

### Loss carryforwards in the balance sheet

In € millions	2012	2013	2014	2015	2016	Later	Unlimited	Total
Total loss carryforwards (gross)	14	807	32	32	44	444	1,570	2,943
Loss carryforwards not recognized in deferred tax assets	(8)	(775)	(9)	(7)	(6)	(15)	(5)	(825)
<b>Total recognized</b>	<b>6</b>	<b>32</b>	<b>23</b>	<b>25</b>	<b>38</b>	<b>429</b>	<b>1,565</b>	<b>2,118</b>

### Unrecognized deferred tax assets

In € millions	2010	2011
Capital losses	257	268
Tax losses	29	23
Deductible temporary differences	122	124
<b>Total</b>	<b>408</b>	<b>415</b>

Deferred tax assets not recognized on the balance sheet are partly related to capital losses which cannot be offset against operational taxable profits.

**Movement in deferred tax in 2010**

In € millions	Net balance January 1, 2010	Changes in exchange rates	Acqui- sitions/ divestments	Recognized in income	Recognized in equity	Net balance December 31, 2010
Intangible assets	(704)	(64)	85	(30)	–	(713)
Property, plant and equipment	(189)	(15)	9	99	–	(96)
Inventories	25	1	2	–	–	28
Trade and other receivables	8	–	–	(2)	(4)	2
Share-based payments	15	–	–	(1)	(3)	11
<b>Provisions</b>						
Pension liabilities and other post-retirement benefits	243	16	(1)	(124)	–	134
Restructuring	28	1	–	(15)	–	14
Other provisions	282	23	23	3	–	331
Other items	154	7	–	4	(15)	150
Net operating loss carryforwards	633	36	–	83	–	752
Deferred tax assets not recognized	(376)	(31)	–	(1)	–	(408)
<b>Tax assets/liabilities</b>	<b>119</b>	<b>(26)</b>	<b>118</b>	<b>16</b>	<b>(22)</b>	<b>205</b>

**Movement in deferred tax in 2011**

In € millions	Net balance January 1, 2011	Changes in exchange rates	Acqui- sitions/ divestments	Recognized in income	Recognized in equity	Net balance December 31, 2011
Intangible assets	(713)	(5)	(19)	36	–	(701)
Property, plant and equipment	(96)	1	(4)	5	–	(94)
Inventories	28	–	–	1	–	29
Trade and other receivables	2	1	2	9	–	14
Share-based payments	11	–	–	4	(3)	12
<b>Provisions</b>						
Pension liabilities and other post-retirement benefits	134	(1)	–	(77)	–	56
Restructuring	14	–	–	1	–	15
Other provisions	331	8	–	(26)	–	313
Other items	150	1	–	15	12	178
Net operating loss carryforwards	752	27	5	55	–	839
Deferred tax assets not recognized	(408)	(14)	–	7	–	(415)
<b>Tax assets/liabilities</b>	<b>205</b>	<b>18</b>	<b>(16)</b>	<b>30</b>	<b>9</b>	<b>246</b>

The net gain from discontinued operations in 2011 of €8 million relates to the businesses divested in previous years to Schering-Plough, Henkel and National Starch as well as the divestment of a remaining stake in the Acordis business.

**Profit from discontinued operations**

In € millions	2010	2011
Revenue	777	–
Expenses	(667)	–
<b>Results from operating activities</b>	<b>110</b>	<b>–</b>
Income tax	(36)	–
<b>Results from operating activities after tax</b>	<b>74</b>	<b>–</b>
Gain on the sale of National Starch	56	–
Income tax on the sale	(3)	–
Results related to discontinued operations in previous years	(53)	(3)
Tax related to discontinued operations in previous years	16	11
<b>Profit for the period</b>	<b>90</b>	<b>8</b>

**Cash flows from discontinued operations**

In € millions	2010	2011
Net cash from operating activities	40	(2)
Net cash from investing activities	1,051	13
Net cash from financing activities	4	–
<b>Net cash from discontinued operations</b>	<b>1,095</b>	<b>11</b>

**Salaries, wages and other employee benefits**

In € millions	2010	2011
Salaries and wages	(2,204)	(2,298)
Pension and other post-retirement cost	(316)	(320)
Other social charges	(460)	(463)
<b>Total</b>	<b>(2,980)</b>	<b>(3,081)</b>

**Employees**

Average number during the year	2010	2011
Decorative Paints	21,800	22,400
Performance Coatings	20,600	21,300
Specialty Chemicals	11,100	11,300
Corporate and other	1,600	1,400
<b>Total</b>	<b>55,100</b>	<b>56,400</b>

At year-end 2011, we employed 57,240 staff for ongoing activities (year-end 2010: 55,590 employees). The net increase was due to:

- A net increase of 900 due to acquisitions and divestments, mainly from the Schramm acquisition (790 employees).
- A decrease of 1,050 employees due to ongoing restructuring.
- An increase of 1,800 employees, mainly due to new hires in high growth markets.

The average number of employees working outside the Netherlands was 51,400 (2010: 50,100).

**Salaries, wages and other employee benefits per cost category**

In € millions	2010	2011
Cost of sales	(978)	(969)
Selling expenses	(1,109)	(1,173)
Research and development expenses	(206)	(235)
General and administrative expenses	(587)	(645)
Net financing expenses related to pensions and other post-retirement benefits	(100)	(59)
<b>Total</b>	<b>(2,980)</b>	<b>(3,081)</b>

**Share-based compensation**

Share-based compensation relates to the performance-related share plan as well as the performance-related stock option plan. Charges recognized in the 2011 statement of income for share-based compensation amounted to €34 million and are included in salaries and wages (2010: €30 million).

**Performance-related share plan**

Under the performance-related share plan, a number of conditional shares are granted to the members of the Board of Management and executives each year. The number of participants of the performance-related share plan at year-end 2011 was 636 (2010: 589).

The conditional grant of shares is for 50 percent linked to the ranking of our company in the Dow Jones Sustainability Index (DJSI) and the remaining 50 percent is linked to the relative TSR performance of the company compared to the peer group. As from the series 2011-2013, the grant will be linked for 50 percent to the Sustainable Asset Management (SAM) benchmark. The conditional shares vested in 2011 as follows:

- Our TSR performance over the 2009-2011 series resulted in an 11<sup>th</sup> position within the ranking of the peer group companies. This did not result in vesting of conditional shares.

- The average position in the DJSI benchmark resulted in a 2<sup>nd</sup> position within the ranking.

As a result, the conditional shares of the 2009-2011 series vested for 62.5 percent (series 2008-2010: zero percent), including dividend shares of 11.68 percent, the final vesting percentage amounted to 69.8 percent (series 2008-2010: zero percent).

The fair value of the performance-related share plan at grant date is amortized as a charge against income over the three-year vesting period. The average fair value was calculated by external experts and amounted to €46.91 per performance-related share conditionally granted in 2011 (2010: €46.24). The 2011 charge recognized for performance-related shares aggregated €34 million (2010: €29 million).

The share price of a common AkzoNobel share at December 31, 2011, amounted to €37.36 (2010: €46.49). For further details on our performance-related share plan, refer to the Remuneration report.

**Stock option plans**

Prior to 2008, performance-related stock options were granted to members of the Board of Management and executives. We have not purchased own shares in connection with the stock option plan. The stock options are equity-settled and all exercisable. No options on American Depositary Receipts were outstanding at year-end (2010: 23,000).

For stock options exercised during 2011, the weighted average of the actual share price at date of exercise amounted to €49.71 (2010: €44.00). A number of 1.0 million outstanding stock options are non-dilutive but could potentially dilute basic earnings per share in the future.

## Performance-related shares

Series	Balance per January 1, 2011	Granted in 2011	Vested in 2011	Forfeited in 2011	Dividend in 2011 <sup>1</sup>	Balance at December 31, 2011	Vested on January 1, 2012
2009 – 2011	1,175,233	1,942	–	(458,041)	36,350	755,484	755,484
2010 – 2012	755,184	10,694	–	(10,137)	24,659	780,400	–
2011 – 2013	–	845,967	–	(5,742)	25,879	866,104	–
<b>Total</b>	<b>1,930,417</b>	<b>858,603</b>	<b>–</b>	<b>(473,920)</b>	<b>86,888</b>	<b>2,401,988</b>	<b>755,484</b>

<sup>1</sup> Equivalent in shares related to accumulated dividend, which is included in the balances on balance sheet date.

## Stock options

Year of issue	Exercise price in €	Outstanding per January 1, 2011	Exercised in 2011	Expired in 2011	Forfeited in 2011	Outstanding at December 31, 2011	Expiry date
2001	46.75	51,322	(51,322)	–	–	–	April 30, 2011
2002	46.53	107,250	–	–	–	107,250	April 25, 2012
2004	31.45	202,200	(199,900)	(2,300)	–	–	April 25, 2011
2005	31.98	296,581	(91,896)	–	(1,925)	202,760	April 24, 2012
2006	46.46	451,459	(51,881)	–	(2,100)	397,478	April 26, 2013
2007	58.89	502,369	–	–	(6,263)	496,106	April 26, 2014
<b>Total</b>		<b>1,611,181</b>	<b>(394,999)</b>	<b>(2,300)</b>	<b>(10,288)</b>	<b>1,203,594</b>	

## Number and weighted average exercise price stock options

	Number of options	Weighted average exercise price in €
<b>Balance at January 1, 2010</b>	<b>1,897,850</b>	<b>43.14</b>
Forfeited during the period	(7,237)	45.71
Exercised during the period	(279,432)	27.76
<b>Balance at December 31, 2010</b>	<b>1,611,181</b>	<b>45.80</b>
Forfeited during the period	(12,588)	47.69
Exercised during the period	(394,999)	35.53
<b>Balance at December 31, 2011</b>	<b>1,203,594</b>	<b>49.15</b>



## Intangible assets

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
<b>Balance at January 1, 2010</b>					
Acquisition cost	5,063	2,338	1,334	473	9,208
Cost of internally developed intangibles	–	–	–	39	39
Accumulated amortization/impairment	(1,360)	(112)	(250)	(137)	(1,859)
<b>Carrying value</b>	<b>3,703</b>	<b>2,226</b>	<b>1,084</b>	<b>375</b>	<b>7,388</b>
<b>Movements in 2010</b>					
Acquisitions through business combinations	7	3	40	16	66
Other investments – including internally developed intangibles	–	1	1	64	66
Divestments	(84)	(60)	(313)	(107)	(564)
Amortization	–	(20)	(102)	(39)	(161)
Changes in exchange rates	193	173	109	38	513
<b>Total movements</b>	<b>116</b>	<b>97</b>	<b>(265)</b>	<b>(28)</b>	<b>(80)</b>
<b>Balance at December 31, 2010</b>					
Acquisition cost	4,834	2,465	1,168	452	8,919
Cost of internally developed intangibles	–	–	–	46	46
Accumulated amortization/impairment	(1,015)	(142)	(349)	(151)	(1,657)
<b>Carrying value at year-end 2010</b>	<b>3,819</b>	<b>2,323</b>	<b>819</b>	<b>347</b>	<b>7,308</b>
<b>Movements in 2011</b>					
Acquisitions through business combinations	49	10	74	15	148
Other investments – including internally developed intangibles	1	–	–	54	55
Amortization	–	(18)	(107)	(45)	(170)
Changes in exchange rates	(4)	39	7	9	51
<b>Total movements</b>	<b>46</b>	<b>31</b>	<b>(26)</b>	<b>33</b>	<b>84</b>
<b>Balance at December 31, 2011</b>					
Acquisition cost	4,890	2,514	1,256	431	9,091
Cost of internally developed intangibles	–	–	–	141	141
Accumulated amortization/impairment	(1,025)	(160)	(463)	(192)	(1,840)
<b>Carrying value at year-end 2011</b>	<b>3,865</b>	<b>2,354</b>	<b>793</b>	<b>380</b>	<b>7,392</b>

### Amortization charges per cost category

In € millions	2010	2011
Cost of sales	(7)	(9)
Selling expenses	(106)	(125)
General and administrative expenses	(36)	(30)
Research and development expenses	(6)	(6)
Discontinued operations	(6)	–
<b>Total</b>	<b>(161)</b>	<b>(170)</b>

### Goodwill and other intangibles per segment

In € millions	2010	2011	Brands with indefinite useful lives		Other intangibles with finite useful lives	
			2010	2011	2010	2011
Decorative Paints	2,556	2,532	1,874	1,904	783	751
Performance Coatings	621	678	–	–	295	354
Specialty Chemicals	642	655	26	25	511	493
<b>Total</b>	<b>3,819</b>	<b>3,865</b>	<b>1,900</b>	<b>1,929</b>	<b>1,589</b>	<b>1,598</b>

### Average revenue growth rates per forecast period

In % per year	2012-2016	2017-2021
Decorative Paints	9.0	5.1
Performance Coatings	5.3	3.5
Specialty Chemicals	3.8	2.5

Dulux is the major brand with an indefinite useful life, due to its global presence, high recognition and strategic nature. Other intangibles include licenses, know-how, intellectual property rights and development cost. Both at year-end 2011 and 2010, there were no purchase commitments for individual intangible assets. No intangible assets were registered as security for bank loans.

### Impairment

Goodwill and other intangibles with indefinite useful lives are tested for impairment per business unit (one level below segment level) in the fourth quarter or whenever an impairment trigger exists. No impairment was recorded for any business unit in 2010 and 2011. The impairment test is based on cash flow projections of the five-year plan. The key assumptions used in the projections are:

- Revenue growth: based on actual experience, an analysis of market growth and the expected development of market share.
- Margin development: based on actual experience and management's long-term projections.

Revenue growth and margin development projections are extrapolated beyond this five-year explicit forecast period for another five years with reduced growth rates.

For virtually all business units, a terminal value was calculated using a long-term average market growth rate that did not exceed 2 percent. The estimated pre-tax cash flows are discounted to their present value using a pre-tax weighted average cost of capital. The discount rates are determined for each business unit and range from 8.4 percent to 19.3 percent, with a weighted average of 9.7 percent.

Reducing growth assumptions by 50 percent maintains comfortable headroom in almost all businesses, except for Deco North America. This business would in the situation that growth would be 50 percent lower or the discount rate would be 1 percentage point higher result in a recoverable amount around €150 to €200 million below the carrying amount. Under IFRS, restructurings not yet enacted are not taken into account in the impairment test. However, we have announced restructuring activities in Deco North America in January 2012 that would have created sufficient headroom if enacted at the date of the impairment test.

## Property, plant and equipment

In € millions	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process	Total
<b>Balance at January 1, 2010</b>						
Cost of acquisition	2,243	5,303	623	274	32	8,475
Accumulated depreciation/impairment	(995)	(3,507)	(477)	–	(22)	(5,001)
<b>Carrying value</b>	<b>1,248</b>	<b>1,796</b>	<b>146</b>	<b>274</b>	<b>10</b>	<b>3,474</b>
<b>Movements in 2010</b>						
Acquisitions through business combinations	19	19	–	–	–	38
Divestments	(184)	(252)	(3)	(10)	(1)	(450)
Capital expenditures	114	381	54	7	–	556
Transfer between categories	(11)	11	3	(2)	(1)	–
Depreciation	(81)	(311)	(50)	–	–	(442)
Impairment	(2)	(26)	(1)	–	–	(29)
Changes in exchange rates	92	128	7	10	–	237
<b>Total movements</b>	<b>(53)</b>	<b>(50)</b>	<b>10</b>	<b>5</b>	<b>(2)</b>	<b>(90)</b>
<b>Balance at December 31, 2010</b>						
Cost of acquisition	2,254	5,654	664	279	33	8,884
Accumulated depreciation/impairment	(1,059)	(3,908)	(508)	–	(25)	(5,500)
<b>Carrying value at year-end 2010</b>	<b>1,195</b>	<b>1,746</b>	<b>156</b>	<b>279</b>	<b>8</b>	<b>3,384</b>
<b>Movements in 2011</b>						
Acquisitions through business combinations	42	27	6	1	–	76
Divestments	(26)	(1)	(1)	(1)	(1)	(30)
Capital expenditures	110	365	81	151	1	708
Transfer between categories	–	(7)	9	(2)	–	–
Depreciation	(80)	(313)	(57)	–	(1)	(451)
Impairment	(2)	(6)	–	–	–	(8)
Changes in exchange rates	4	21	–	–	1	26
<b>Total movements</b>	<b>48</b>	<b>86</b>	<b>38</b>	<b>149</b>	<b>–</b>	<b>321</b>
<b>Balance at December 31, 2011</b>						
Cost of acquisition	2,330	5,906	750	428	28	9,442
Accumulated depreciation/impairment	(1,087)	(4,074)	(556)	–	(20)	(5,737)
<b>Carrying value at year-end 2011</b>	<b>1,243</b>	<b>1,832</b>	<b>194</b>	<b>428</b>	<b>8</b>	<b>3,705</b>

## Investments

In Decorative Paints, we are investing €110 million in a replacement manufacturing facility in the North East of England.

In Performance Coatings, we are investing €60 million to increase the production capacity of our Automotive and Aerospace Coatings business in China to meet rising demand.

In Specialty Chemicals, we are investing €90 million in a new facility being built in Brazil to supply the world's largest pulp mill. We are also investing €45 million in Ningbo, China and €140 million to convert our chlorine plant in Frankfurt, Germany, to membrane electrolysis technology.

## Impairments

In 2011, impairment charges have been recognized for an amount of €8 million (2010: €29 million). The impairment charges have been recognized in the cost of sales. The impairment charges related to restructuring activities in, among others, the US, Germany, Mexico and Italy.

## Commitments

The carrying value of the property, plant and equipment financed by hire purchase and leasing and not legally owned by the company was €9 million (2010: €13 million), €8 million of which related to buildings and land, €1 million to plant and equipment and machinery. Purchase commitments for property, plant and equipment totaled €49 million (2010: €47 million).

## Depreciation per cost category

In € millions	2010	2011
Cost of sales	(306)	(325)
Selling expenses	(68)	(72)
General and administrative expenses	(48)	(40)
Research and development expenses	(13)	(14)
Discontinued operations	(7)	–
<b>Total</b>	<b>(442)</b>	<b>(451)</b>

At year-end 2011, the carrying value of investments in associates amounted to €90 million (2010: €75 million) and in joint ventures €108 million (2010: €100 million).

In 2011, the results from associates and joint ventures amounted to a profit of €23 million (2010: €25 million).

No significant contingent liabilities exist related to associates and joint ventures.

The most significant associates and joint ventures of AkzoNobel are: Metlac Holdings Brl (49 percent), Metlac Spa (44 percent), Delesto B.V. (50 percent), Delamine B.V. (50 percent), Eka Chile SA (50 percent), Fort Amanda Specialties LLC (50 percent) and I.C. Insurance Holdings Ltd (49 percent).

#### Summary of financial information on a 100 percent basis

In € millions	Associates		Joint ventures	
	2010	2011	2010	2011
<b>Condensed statement of income</b>				
Revenue	121	113	594	673
Income before tax	17	15	47	39
Net income	11	10	34	29
<b>Condensed balance sheet</b>				
Current assets	113	101	182	191
Non-current assets	124	128	218	192
<b>Total assets</b>	<b>237</b>	<b>229</b>	<b>400</b>	<b>383</b>
Current liabilities	44	38	115	92
Non-current liabilities	29	29	88	79
Shareholders' equity	164	162	197	212
<b>Total liabilities and equity</b>	<b>237</b>	<b>229</b>	<b>400</b>	<b>383</b>

#### Other financial non-current assets

In € millions	2010	2011
Loans and receivables	368	294
Other than financial instruments	640	893
<b>Total</b>	<b>1,008</b>	<b>1,187</b>

The loans and receivables include the subordinated loan of €81 million granted to the AkzoNobel Pension Fund (APF) in the Netherlands and the non-current part of an escrow account of the AkzoNobel (CPS) Pension Scheme in the UK amounting to €140 million, invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund from the escrow account is £25 million (€30 million).

Other financial non-current assets include an amount of €712 million related to pension plans in an asset position (2010: €448 million).

Of the total carrying value of inventories at year-end 2011, €68 million is measured at net realizable value (2010: €53 million). In 2011, €25 million was recognized in the statement of income for the write-down of inventories (2010: €22 million), while €17 million of write-downs were reversed (2010: €8 million). There are no inventories subject to retention of title clauses.

### Inventories

In € millions	2010	2011
Raw materials and supplies	481	649
Work in progress	80	91
Finished products and goods for resale	1,113	1,177
Inventory prepayments	4	7
<b>Total</b>	<b>1,678</b>	<b>1,924</b>

### Trade and other receivables

In € millions	2010	2011
Trade receivables	2,105	2,251
Prepaid expenses	122	123
Tax receivables other than income tax	135	155
Receivables from associates and joint ventures	43	39
Forward exchange and commodity contracts	34	28
Other receivables	349	321
<b>Total</b>	<b>2,788</b>	<b>2,917</b>

Trade receivables are presented net of an allowance for impairment of €108 million (2010: €114 million). In 2011, €36 million of impairment losses were recognized in the statement of income (2010: €33 million).

### Ageing of trade receivables

In € millions	2010	2011
Performing accounts receivable	1,843	1,973
<b>Past due accounts receivables and not impaired</b>		
< 3 months	226	227
3 – 6 months	14	10
6 – 9 months	4	4
9 – 12 months	2	–
> 12 months	2	2
Impaired accounts receivables	128	143
Allowance for impairment	(114)	(108)
<b>Total trade receivables</b>	<b>2,105</b>	<b>2,251</b>

With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of reporting date that the debtors will not meet their payment obligations.

### Allowance for impairment of trade receivables

In € millions	2010	2011
Opening balance	133	114
Additions charged to income	33	36
Release of unused amounts	(22)	(14)
Acquisitions	–	6
Utilization	(40)	(32)
Currency exchange differences	10	(2)
<b>Closing balance</b>	<b>114</b>	<b>108</b>

The additions to and release of the allowance for impairment have been included in the statement of income under selling expenses.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. We do not hold any collateral for impaired trade receivables. We do not have a significant customer concentration.

**Cash and cash equivalents**

In € millions	2010	2011
Short-term investments	1,302	343
Cash on hand and in banks	1,549	1,292
<b>Included under cash and cash equivalents in the balance sheet</b>	<b>2,851</b>	<b>1,635</b>
Debt to credit institutions	(168)	(300)
<b>Total per cash flow statement</b>	<b>2,683</b>	<b>1,335</b>

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings and marketable securities immediately convertible into cash. We held these investments in relation to the funding obligations for the ICI Pension Fund and sold them in January 2012 in the context of the outcome of the triennial review. For more information on this transaction, see Note 17 and Note 25. For more information on credit risk management, see Note 24.

At December 31, 2011, an amount of €125 million in cash and cash equivalents was restricted (2010: €143 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions and mainly related to insurance.

**Subscribed share capital**

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Annual General Meeting of shareholders. The holders of the priority shares are entitled to dividend of 6 percent per share or the statutory interest in the Netherlands, whichever is lower, plus any accrued and unpaid dividends. They are entitled to 200 votes per share (in accordance with the 200 times higher nominal value per share) at the Annual General Meeting of shareholders. In addition, the holders of priority shares have the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management; amendments to the Articles of Association are subject to the approval of the Meeting of Holders of Priority Shares.

Priority shares may only be transferred to a transferee designated by a Meeting of Holders of Priority Shares and against payment of the par value of the shares, plus interest at the rate of 6 percent per annum or the statutory interest in the Netherlands, whichever is lower. There are no restrictions on voting rights of holders of common or priority shares. The Articles of Association set out procedures for exercising voting rights. The Annual General Meeting of shareholders has in 2011 resolved to authorize the Board of Management for a period of 18 months (i) to issue shares (or grant rights to shares) in the capital of the company up to a maximum of 10 percent, which in case of mergers or acquisitions can be increased by up to a maximum of 10 percent, of the total number of shares outstanding (and to restrict or exclude the pre-emptive rights to those shares) and (ii) to acquire shares in the capital of the company, provided that the shares that will at any time be held will not exceed 10 percent of the issued share capital. The issue or repurchase of shares requires the approval of the Supervisory Board.

**Composition of share capital at year-end**

In €	Authorized share capital	Subscribed share capital
Priority shares (48 with nominal value of €400)	19,200	19,200
Cumulative preferred shares (200 million with nominal value of €2)	400,000,000	–
Common shares (600 million with nominal value of €2)	1,200,000,000	469,376,682
<b>Total</b>	<b>1,600,019,200</b>	<b>469,395,882</b>

**Outstanding common shares**

Number of shares	2010	2011
<b>Outstanding at January 1</b>	<b>232,253,633</b>	<b>233,530,454</b>
Issued in connection to stock dividend, stock options exercised and performance shares granted	1,276,821	1,157,887
<b>Balance at year-end</b>	<b>233,530,454</b>	<b>234,688,341</b>

We held no common shares at year-end 2011 or 2010.

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year.

**Weighted average number of shares**

Number of shares	2010	2011
<b>Issued common shares at January 1</b>	<b>232,253,633</b>	<b>233,530,454</b>
<b>Effect of</b>		
Issued common shares during the year	974,699	409,553
Shares for basic earnings per share for the year	233,228,332	233,940,007
<b>Effect of dilutive shares</b>		
For stock options	191,601	73,906
For performance-related shares	1,189,146	1,735,998
<b>Shares for diluted earnings per share</b>	<b>234,609,079</b>	<b>235,749,911</b>

Of the shareholders' equity of €9.2 billion, an amount of €8.5 billion (2010: €8.3 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law.

#### Unrestricted reserves at year-end

In € millions	2010	2011
Shareholders' equity at year-end	8,984	9,212
Subscribed share capital	(467)	(469)
Subsidiaries' restrictions to transfer funds	(149)	(158)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(16)	(15)
Cash flow hedge reserve	(29)	–
<b>Unrestricted reserves</b>	<b>8,262</b>	<b>8,509</b>

Statutory reserves have been recognized following section 373 paragraph 4 of Book 2 of the Netherlands Civil Code. At the Annual General Meeting of shareholders of April 26, 2001, an amendment to the Articles of Association was approved whereby the par value of the priority shares was decreased to €400 and of the common shares and the cumulative preferred shares to €2. As the revised nominal values are lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, we recognize a statutory reserve of €61 million for this reduction in subscribed share capital. Statutory reserves also include €15 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates, and joint ventures after 1983.

#### Other components of shareholders' equity

Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Tax related to cash flow hedges was €17 million positive (2010: €15 million negative).

Cumulative translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of intercompany loans with a permanent nature and liabilities and derivatives that hedge the net investments in a foreign subsidiary. Tax related to exchange differences arising on translation of foreign operations were €8 million negative (2010: €20 million negative).

Equity-settled transactions include the stock option program and the performance-related share plan whereby options or shares are granted to the Board of Management and other executives. For details of the share-based compensation, see Note 8.

#### Dividend

We have introduced a stock dividend option with cash dividend as default. We will propose to the Annual General Meeting on April 23, 2012, a 2011 final dividend of €1.12 per share, which would make a total 2011 dividend of €1.45 per share (2010:€1.40). During 2011, we paid the 2010 final dividend of €1.08 and the 2011 interim dividend of €0.33.

**Movements in provisions**

In € millions	Pensions and other post-retirement benefits	Restructuring of activities	Environmental costs	Other	Total
<b>Balance at January 1, 2011</b>	<b>1,281</b>	<b>137</b>	<b>419</b>	<b>611</b>	<b>2,448</b>
Additions made during the year	156	121	41	83	401
Utilization	(531)	(109)	(48)	(110)	(798)
Amounts reversed during the year	–	(17)	(35)	(44)	(96)
Unwind of discount	–	2	32	15	49
Acquisitions/divestments	1	–	–	4	5
Pension plans changing to net asset position	264	–	–	–	264
Changes in exchange rates	(15)	1	5	4	(5)
<b>Balance at December 31, 2011</b>	<b>1,156</b>	<b>135</b>	<b>414</b>	<b>563</b>	<b>2,268</b>
Non-current portion of provisions	1,053	39	344	281	1,717
Current portion of provisions	103	96	70	282	551
<b>Balance at December 31, 2011</b>	<b>1,156</b>	<b>135</b>	<b>414</b>	<b>563</b>	<b>2,268</b>

**Provisions for pensions and other post-retirement benefits**

We have a number of defined benefit pension plans. The largest pension plans are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK which together account for 79 percent of our pension plan obligations. The benefits of these and other plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment. Obligations under the defined benefit plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. Valuations of the obligations under the pension and other post-retirement plans are carried out regularly by independent qualified actuaries.

We also provide certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees.

The main changes in 2011 related to our pension and other post-retirement obligations concerned the AkzoNobel (CPS) Pension Scheme. The UK Government announced in July 2010 that inflation as measured by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) would be used to determine future statutory pension increases for private sector pension schemes. As CPI inflation is generally lower than RPI inflation, the anticipated lower pension payments for a large proportion of CPS pensioners reduced the defined benefit obligation by around €131 million in 2011 following a reduction of €58 million in 2010 when the change was applied to a smaller group of members.



## Movements in pensions and other post-retirement benefits

In € millions	Pensions		Other post-retirement benefits		Total	
	2010	2011	2010	2011	2010	2011
<b>Defined benefit obligation</b>						
<b>Balance at beginning of year</b>	<b>(13,688)</b>	<b>(14,171)</b>	<b>(393)</b>	<b>(394)</b>	<b>(14,081)</b>	<b>(14,565)</b>
Acquisitions/divestments/transfers	192	9	16	–	208	9
Curtailments	6	–	–	–	6	–
Settlements	15	16	–	–	15	16
Past service costs	(8)	(6)	3	(5)	(5)	(11)
Current service costs	(52)	(51)	(7)	(6)	(59)	(57)
Contribution by employees	(3)	(4)	(3)	(2)	(6)	(6)
Interest costs	(773)	(725)	(20)	(18)	(793)	(743)
Benefits paid	936	919	34	31	970	950
Actuarial gains/(losses)	(250)	(715)	4	(16)	(246)	(731)
Changes in exchange rates	(546)	(382)	(28)	(11)	(574)	(393)
<b>Defined benefit obligation at year-end</b>	<b>(14,171)</b>	<b>(15,110)</b>	<b>(394)</b>	<b>(421)</b>	<b>(14,565)</b>	<b>(15,531)</b>
<b>Plan assets</b>						
<b>Balance at beginning of year</b>	<b>11,821</b>	<b>13,122</b>	<b>–</b>	<b>–</b>	<b>11,821</b>	<b>13,122</b>
Acquisitions/divestments/transfers	(105)	(6)	–	–	(105)	(6)
Settlements	(14)	(16)	–	–	(14)	(16)
Contribution by employer	524	502	31	29	555	531
Contribution by employees	3	4	3	2	6	6
Benefits paid	(936)	(919)	(34)	(31)	(970)	(950)
Expected return on plan assets	691	684	–	–	691	684
Actuarial gains/(losses)	652	840	–	–	652	840
Changes in exchange rates	486	394	–	–	486	394
<b>Plan assets at year-end</b>	<b>13,122</b>	<b>14,605</b>	<b>–</b>	<b>–</b>	<b>13,122</b>	<b>14,605</b>
<b>Funded status</b>	<b>(1,049)</b>	<b>(505)</b>	<b>(394)</b>	<b>(421)</b>	<b>(1,443)</b>	<b>(926)</b>
<b>Unrecognized net loss/(gain)</b>						
Unrecognized net loss/(gain)	637	491	(6)	10	631	501
Unrecognized past service costs	4	5	(19)	(17)	(15)	(12)
Restriction on asset recognition	–	(3)	–	–	–	(3)
Medicare receivable	–	–	(6)	(4)	(6)	(4)
<b>Net balance sheet provisions</b>	<b>(408)</b>	<b>(12)</b>	<b>(425)</b>	<b>(432)</b>	<b>(833)</b>	<b>(444)</b>
<b>Recorded under</b>						
Provisions for pensions and other post-retirement benefits	(856)	(724)	(425)	(432)	(1,281)	(1,156)
Other financial non-current assets	448	712	–	–	448	712
<b>Total</b>	<b>(408)</b>	<b>(12)</b>	<b>(425)</b>	<b>(432)</b>	<b>(833)</b>	<b>(444)</b>

## Funded and unfunded pension plans

In € millions	2010	2011
Wholly or partly funded plans	13,792	14,812
Unfunded plans	379	298
<b>Total</b>	<b>14,171</b>	<b>15,110</b>

## Funded status in earlier years at December 31

In € millions	Pensions			Other post-retirement benefits		
	2007	2008	2009	2007	2008	2009
Defined benefit obligation	(4,628)	(11,468)	(13,688)	(286)	(441)	(393)
Plan assets	3,502	10,480	11,821	-	-	-
<b>Funded status</b>	<b>(1,126)</b>	<b>(988)</b>	<b>(1,867)</b>	<b>(286)</b>	<b>(441)</b>	<b>(393)</b>

## Actuarial gains and losses

In € millions	Pensions					Other post-retirement benefits				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
<b>Defined benefit obligation</b>										
Due to experience	90	(147)	331	(92)	(98)	(3)	(5)	5	23	11
Due to change in assumptions	166	1,624	(2,034)	(158)	(617)	6	5	(12)	(19)	(27)
<b>Plan assets</b>										
Due to experience	(29)	(1,445)	614	652	840	-	-	-	-	-
<b>Total</b>	<b>227</b>	<b>32</b>	<b>(1,089)</b>	<b>402</b>	<b>125</b>	<b>3</b>	<b>-</b>	<b>(7)</b>	<b>4</b>	<b>(16)</b>

## Net periodic costs

In € millions	Pensions		Other post-retirement benefits	
	2010	2011	2010	2011
Service costs for benefits earned during the period	(52)	(51)	(7)	(6)
Interest costs on defined benefit obligations	(773)	(725)	(20)	(18)
Expected return on plan assets	691	684	-	-
Amortization of unrecognized losses/(gains)	(36)	(31)	-	(2)
Amortization of past service costs	(7)	(6)	5	(2)
Change of restriction of asset recognition	-	-	-	-
Settlement/curtailment gain	6	1	-	-
<b>Total</b>	<b>(171)</b>	<b>(128)</b>	<b>(22)</b>	<b>(28)</b>

## Weighted average assumptions

In %	Pensions		Other post-retirement benefits	
	2010	2011	2010	2011
<b>Defined benefit obligation at year-end</b>				
Discount rate	5.4	4.6	4.9	4.4
Rate of compensation increase	4.6	3.7	-	-
<b>Net periodic pension costs</b>				
Discount rate	5.6	5.4	5.3	4.9
Rate of compensation increase	4.6	4.6	-	-
Expected return on plan assets	5.7	5.3	-	-

The remaining plans primarily represent defined contribution plans. This includes, among others, the AkzoNobel Pension Fund in the Netherlands. The ITP2 plan in Sweden is financed through insurance with the Alecta insurance company and is classified as a multi-employer defined benefit plan. AkzoNobel does not have access to sufficient information from Alecta to enable a defined benefit accounting treatment and hence it is accounted for as a defined contribution plan. Contributions in 2011 were €10 million (2010: €10 million). Alecta's target funding ratio in 2011 was 140% although the actual ratio at September 2011 stood at 113%. There are also a small number of multi-employer plans in the US in which AkzoNobel participates with annual contributions totalling less than €1 million. The expenses of plans classified as defined contribution plans in AkzoNobel totalled €154 million in 2011 (2010: €136 million).

Interest costs on defined benefit obligations for both pensions and other post-retirement benefits together with the expected return on plan assets in the net periodic costs table together comprise the net financing expenses on pensions and other post-retirement benefits of €59 million (2010: €102 million), the operating cost portion of which is disclosed in Note 5. The table below illustrates the weighted average life expectancy of the persons participating in the defined benefit pension plans.

#### Life expectancy

	At December 31	
	2010	2011
In years		
<b>Currently aged 60</b>		
Male	25.5	26.1
Female	27.9	28.5
<b>Currently aged 45, at age 60</b>		
Male	27.0	27.2
Female	29.2	29.5

#### Plan assets

The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans.

The primary objective with regard to the investment of pension plan assets is ensuring that each individual scheme has sufficient funds available to satisfy future benefit obligations. For this purpose so-called asset and liability management (ALM) studies are made periodically at each pension fund under responsibility of the fund managers. For each of the pension plans an appropriate mix is determined on the basis of the outcome of these ALM studies, taking into account the national rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. At year-end 2011 and 2010, plan assets did not include financial instruments issued by the company, nor any property occupied or other assets used by it. The weighted average pension plan asset allocation at year-end, 2011 and 2010, and the target allocation for 2012 for the pension plans by asset category are as follows:

#### Plan asset allocation

In %	Plan assets at December 31		Target
	2010	2011	2012
Equity securities	16	15	14 – 16
Long-term interest earning investments	73	73	73 – 75
Real estate	2	2	1 – 3
Other	9	10	8 – 10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

At year-end 2011, an amount of £143 million (€170 million; 2010: £160 million or €186 million) remained in an escrow account on behalf of the AkzoNobel (CPS) Pension Scheme in the UK. The present minimum annual

funding of this pension fund from the escrow account is £25 million. The current portion is included in trade and other receivables, and the non-current part in other financial non-current assets. For the latter see also Note 12.

Weighted average assumptions for the other post-retirement benefit plans were as follows:

#### Assumed healthcare cost trend rates at year-end

In %/year	2010	2011
Healthcare cost trend rate assumed for next year	6.7	6.6
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.8	4.0
Year that the rate reaches the ultimate trend rate	2019–2024	2019–2030

Assumed healthcare cost trend rates can have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

#### Sensitivity healthcare cost trends

In € millions	1% point increase	1% point decrease
(Increase)/decrease on total of service and interest cost	(2)	1
(Increase)/decrease on post-retirement benefit obligations	(15)	13

In the US, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees, as well as a federal subsidy to sponsors of post-retirement healthcare plans, which both began on January 1, 2006. We have recognized this reimbursement right as an asset under other financial non-current assets, measured at fair value amounting to €4 million at year-end 2011 (2010: €6 million).

### Cash flows

We expect to contribute €484 million to our defined benefit pension plans in 2012. This includes a top-up payment of £135 million (€161 million) for the ICI Pension Fund and £100 million (€119 million) for AkzoNobel (CPS) Pension Scheme of which £25 million (€30 million) will be paid out of an escrow account. For other post-retirement benefit plans our contribution for 2012 is expected to be €31 million. In addition, we will contribute a further £200 million (€239 million) to the ICI Pension Fund in 2012 following the agreed termination of a £250 million (€298 million) asset-backed guarantee provided by wholly-owned subsidiary, ICI Receivables Funding Ltd.

### Estimated benefit payments

In € millions	Pensions	Other post-retirement benefits
2012	960	32
2013	954	32
2014	959	31
2015	961	31
2016	972	31
2017–2021	4,919	143

The figures in the above table are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

### Provisions for restructuring of activities

Provisions for restructuring of activities comprise accruals for certain employee benefits and for costs which are directly associated with plans to exit or cease specific activities and closing down of facilities. For all restructuring provisions a detailed formal plan exists and the implementation of the plan has started or the plan has been announced before the balance sheet date. Most restructuring plans are expected to be completed within two years from the balance sheet date. For more information, see Note 3.

### Provisions for environmental costs

For details on environmental exposures, see Note 21.

### Other provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases, claims, other long-term employee benefits such as long-service leave and jubilee payments. At year-end 2011, the provision for antitrust cases amounted to €134 million (2010: €158 million), see Note 21.

The majority of the cash outflows related to other provisions are expected to be within one to five years. In calculating the other provisions, a pre-tax discount rate of on average 3 percent has been used.

### Long-term borrowings

In € millions	2010	2011
Debt issued	2,684	2,941
Debt to credit institutions	6	15
Other borrowings	190	79
<b>Total</b>	<b>2,880</b>	<b>3,035</b>

The amounts due within one year are presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see Note 24. During 2011, the average effective interest rate was 6.22 percent (2010: 6.14 percent).

### Debt issued

In € millions	2010	2011
5 5/8% 2003/13 (\$500 million)	375	387
7 3/4% 2008/14 (€825 million)	995	822
7 1/4% 2009/15 (€621 million)	1,000	634
8% 2009/16 (£250 million)	289	297
4% 2011/18 (€800 million)	–	790
Other	25	11
<b>Total</b>	<b>2,684</b>	<b>2,941</b>

### Aggregated maturities of long-term borrowings

In € millions	2013 – 2016	After 2016
Debt issued	2,151	790
Debt to credit institutions	14	1
Other borrowings	57	22
<b>Total</b>	<b>2,222</b>	<b>813</b>

In September 2011, the five year multi-currency syndicated revolving credit facility was renewed and increased to €1.8 billion (previously: €1.5 billion). Both at year-end 2011 and 2010, this facility had not been drawn. At year-end 2011 and 2010, none of the borrowings was secured by collateral.

In 2011, we bought back bonds with nominal amounts of €175 million maturing in January 2014 and €353 million maturing in March 2015. A bond was issued with a nominal amount of €800 million maturing December 2018 at a coupon of 4 percent.

Finance lease liabilities are included in other borrowings and aggregated €9 million. An amount of €5 million will mature within one year and €3 million will mature in the period 2013 through 2016 and €1 million after 2016.

### Short-term borrowings

In € millions	2010	2011
Debt to credit institutions	168	300
Current portion of long-term borrowings	739	194
<b>Total</b>	<b>907</b>	<b>494</b>

In June 2011, bonds totaling €0.5 billion matured. This payback reduced the short-term borrowings outstanding.

We have a \$1.0 billion commercial paper program and a €1.5 billion euro commercial paper program, which had no paper outstanding at year-end 2011 and 2010. The US commercial paper program has been renegotiated and reactivated in January 2012 and the maximum has been increased to \$3 billion. The commercial paper programs can only be used to the extent that the equivalent portion of the revolving credit facility is not used. See also Note 24.

### Trade and other payables

In € millions	2010	2011
Suppliers	1,807	2,037
Amounts payable to employees	261	234
Derivatives	137	22
Taxes and social security contributions	216	227
Prepayments by customers	24	24
Dividends	20	30
Payable to related parties	30	38
Other liabilities	810	737
<b>Total</b>	<b>3,305</b>	<b>3,349</b>

### Environmental matters

We are confronted with substantial costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against us in various countries. In some cases this concerns sites divested in prior years or derelict sites belonging to companies acquired in the past.

It is our policy to accrue and charge against earnings environmental clean-up costs when it is probable that a liability has materialized and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and clean-ups proceed and additional information becomes available. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the geological circumstances, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

As stated in Note 17, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated €414 million at year-end 2011 (2010: €419 million). The provision has been discounted using an average pre-tax discount rate of 3.4 percent (2010: 4.1 percent). While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion, based on information currently available, would not have a material effect on the company's financial position but could be material to the company's results of operations in any one accounting period.

### Antitrust cases

AkzoNobel is – together with others – involved in civil proceedings initiated by Cartel Damages Claims HP

SA/NV before the Dortmund court in Germany in relation to the Hydrogen Peroxide infringement in the 1990's. CDC Project 13 SA has initiated civil proceedings against AkzoNobel and other companies before the Amsterdam District Court in relation to the Sodium Chlorate infringements in the 1990's. These claims are disputed.

Two cases are pending in appeal by the company with the EU General Court against decisions by the EU Commission to impose fines on the company for violations of EU competition laws regarding the following products: Metacrylates and Heat Stabilizers. The EU Commission fines imposed for both cases have been provided for. The total provision for the various antitrust cases at December 31, 2011, amounted to €134 million (2010: €158 million). It should be understood that, in light of possible future developments, such as (a) potential additional lawsuits by (direct or indirect) purchasers, (b) possible future civil settlements, and (c) rulings or judgments in the appeals with the General Court or in related civil suits, the antitrust cases may result in additional liabilities and related costs. At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence. The company believes that the aggregate amount of any additional fines and civil damages to be paid will not materially affect the company's financial position. The aggregate amount, however, could be material to our results of operations or cash flows in any one accounting period.

### Other claims and litigation

The Millennium Holdings related Glidden disputes reported in previous years have been settled in 2011.

AkzoNobel has provided various indemnities and guarantees in respect of past divestments to the relevant purchasers and their permitted assigns (if applicable), which in general are capped in time and/or amount (in proportion to the value received). In connection with

the Organon BioSciences divestment to Schering-Plough, AkzoNobel has limited its maximum exposure to claims to €850 million. The provided guarantees and indemnities have varying maturity periods. AkzoNobel has received various claims under such indemnities and guarantees. In some instances, AkzoNobel has been named as a direct defendant despite the divestments. A number of other claims are pending, all of which are contested. We are also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

### Commitments

Purchase commitments for property, plant and equipment aggregated €49 million at year-end 2011 (2010: €47 million).

### Maturity operational lease contracts

In € millions	2010	2011
Payments due within one year	157	159
Payments between one and five years	326	358
Payments due after more than five years	178	197
<b>Total</b>	<b>661</b>	<b>714</b>

The 2010 amounts in the table above have been restated for comparative purposes.

Guarantees related to investments in associates and joint ventures totaled €13 million (December 31, 2010: €9 million).

We purchased and sold goods and services to various related parties in which we hold a 50 percent or less equity interest (investment in associates and joint ventures). Such transactions were conducted at arm's length with terms comparable to transactions with third parties. In 2011, a significant related party transaction was a €204 million gas supply (2010: €166 million) by the company to Delesto, a joint venture of AkzoNobel and Essent. Delesto transforms gas into steam and electricity. The steam is used in our production processes and the electricity is sold to the market.

We have contracts with several pension funds, for which the financial impact is also disclosed in Note 17.

- At year-end 2011, AkzoNobel had a loan to the AkzoNobel Pension Fund in the Netherlands of €81 million (2010: €83 million)
- In recognition of a funding deficit in the ICI Pension Fund in the UK, the company has agreed to make top-up contributions of £135 million in 2012 and 2013 followed by payments of £179 million in each year from 2014 to 2017.
- A subsidiary of the company, Imperial Chemicals Industries Limited has provided an asset-backed guarantee, via another wholly owned subsidiary, ICI Receivables Funding Ltd (ICI RF), specifically incorporated to provide the guarantee, for £250 million to support its commitment for the ICI Pension Fund. At the year-end the guarantee was backed by the cash balances of ICI RF of £225 million and the remainder by means of letters of credit. This asset-backed guarantee was terminated on January 30, 2012 with the transfer of £200 million to the ICI Pension Fund (see Note 17).
- In recognition of a funding deficit in the AkzoNobel (CPS) Pension Scheme in the UK, the company has agreed to make top-up contributions of £75 million in each year from 2012 to 2018. In addition, contributions of at least £25m will be paid each year from the escrow account (see Notes 12 and 17) until 2017 or the earlier date on which the escrow account is exhausted

- In recognition of a funding deficit in the ICI Specialty Chemicals Fund in the UK, the company has agreed to make top-up contributions of £5 million in each year from 2012 to 2017.
- In recognition of a funding deficit in the J P McDougall Pension Scheme in the UK, the company has agreed to make top-up contributions of £2 million in each year from 2012 to 2018.
- In recognition of funding deficits at several pension plans in the US, the company has agreed to make top-up contributions of \$67 million in 2012.

During 2011, we considered the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 "Related parties". For details on their remuneration, as well as on shares and options held by members of the Supervisory Board or Board of Management, see Note 23. In the ordinary course of business, we have transactions with various organizations with which certain of the members of the Supervisory Board or Executive Committee are associated, but no related party transactions were effected in 2011. Likewise, there have not been any transactions with members of the Supervisory Board or Executive Committee, any other senior management personnel or any family member of such persons. Also no loans have been extended to members of the Supervisory Board or Executive Committee, any other senior management personnel or any family member of such persons.

**23** Note 23: Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €15.4 million (2010: €12.9 million), €7.6 million relates to short-term employee benefits (2010: €7.4 million); €2.1 million to post-employment benefits (2010: €1.7 million) and €5.7 million to share-based compensation (2010: €3.8 million). As from January 1, 2011, the four additional members of the newly established Executive Committee are included in key management personnel.

**Supervisory Board**

Members of the Supervisory Board receive a fixed remuneration: €100,000 for the Chairman, €60,000 for the Deputy Chairman and €50,000 for the other members. Members of committees receive an extra compensation. Members living outside the Netherlands receive an attendance fee dependent on the country of residence. Members who are resident in the Netherlands do not receive an attendance fee except for meetings held outside the Netherlands. The social charges of Mrs. Bruzelius paid in 2011 related to employer's contribution in the Netherlands (€2,600) and in Sweden over a four-year period (€93,000).

In accordance with the Articles of Association and good corporate governance practice, the remuneration of Supervisory Board members is not dependent on the results of the company.

We do not grant share-based compensation to our Supervisory Board members, neither do we provide loans. Travel expenses and facilities for members of the Supervisory Board are borne by the company and reviewed by the Audit Committee. The shares in the company owned by Supervisory Board members serve as a long-term investment in the company.

**Supervisory Board**

In €	Total remuneration	Remuneration	Attendance fee	Committee allowance fee			Employer's charges	Total remuneration
				Audit committee	Remuneration committee	Nomination committee		
	2010							2011
Karel Vuursteen, Chairman <sup>1</sup>	119,800	100,000	5,000	–	–	15,000	2,600	122,600
Uwe-Ernst Bufe, Deputy Chairman	77,300	60,000	17,500	–	–	–	2,600	80,100
Virginia Bottomley <sup>1</sup>	74,800	50,000	20,000	–	10,000	–	2,600	82,600
Dolf van den Brink	72,500	50,000	5,000	20,000	–	–	–	75,000
Peggy Bruzelius	84,800	50,000	15,000	15,000	–	–	95,600	175,600
Antony Burgmans <sup>1</sup>	67,500	50,000	5,000	–	15,000	–	–	70,000
Peter Ellwood <sup>1</sup>	72,300	50,000	15,000	–	10,000	–	2,600	77,600
Louis Hughes	97,300	50,000	25,000	15,000	–	–	2,600	92,600
<b>Total</b>	<b>666,300</b>	<b>460,000</b>	<b>107,500</b>	<b>50,000</b>	<b>35,000</b>	<b>15,000</b>	<b>108,600</b>	<b>776,100</b>

<sup>1</sup> Also member of the Nomination Committee.

**Shares held by the members of the Supervisory Board**

Number of shares at year-end	2010	2011
Karel Vuursteen	400	400
Uwe-Ernst Bufe	500	500
Virginia Bottomley	1,758	1,758
Dolf van den Brink	500	500
Peggy Bruzelius	500	500
Antony Burgmans	500	500
Peter Ellwood	500	500
Louis Hughes	500	500



### Board of Management

The individual contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adopted by the Annual General Meeting of shareholders. We do not provide loans to members of the Board of Management. For more detailed information on the decisions of the Supervisory Board with respect to the individual contracts of the members of the Board of Management, see the Remuneration report.

### Short-term incentive

The short-term incentive for 2011 is linked to EVA (35 percent), EBITDA (35 percent) and the individual and qualitative targets of the members of the Board of Management (30 percent). For more information, see the Remuneration report. The incentive for 2010 included a deferred pay-out for 2009, which was made subject to achieving EBITDA margin of 14 percent.

### Post-employment benefits

Pension premiums were calculated over the 2011 remuneration. These amounts together with the premiums over the 2011 short-term incentives are included in the post-employment benefits as presented.

### Other short-term benefits

Other short-term benefits include employer's charges and other compensations. Employer's charges refer to social contributions and healthcare contributions. The social charges of Mr. Nichols (€187,800) related to employer's contribution in the UK. A compensation for living expenses and home leave allowances was paid to Mr. Darner (€149,300) and Mr. Nichols (€51,100).

### Share-based compensation

The costs for share-based compensation are non-cash and related to the performance-related share plan following IFRS 2.

### Former members of the Board of Management

In 2011, charges for former members of the Board of Management amounted to €21,000 (2010: €382,000), mainly due to pension expenses.

## Board remuneration

In €	Salary		Short-term incentives		Other short-term benefits		Post-employment benefits		Share-based compensation		Total remuneration	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Hans Wijers	765,700	788,700	1,284,200	423,500	4,400	4,900	722,500	482,900	1,007,000	1,132,100	3,783,800	2,832,100
Leif Darner	574,300	591,500	513,000	206,400	151,800	154,200	272,200	217,900	741,000	848,500	2,252,300	2,018,500
Rob Frohn	574,300	591,500	513,000	206,400	7,100	7,400	206,900	185,800	741,000	848,500	2,042,300	1,839,600
Tex Gunning	574,300	591,500	513,000	206,400	4,400	4,900	277,200	240,800	628,700	848,500	1,997,600	1,892,100
Keith Nichols	574,300	591,500	513,000	206,400	213,300	238,900	204,400	198,200	709,000	848,500	2,214,000	2,083,500
<b>Total</b>	<b>3,062,900</b>	<b>3,154,700</b>	<b>3,336,200</b>	<b>1,249,100</b>	<b>381,000</b>	<b>410,300</b>	<b>1,683,200</b>	<b>1,325,600</b>	<b>3,826,700</b>	<b>4,526,100</b>	<b>12,290,000</b>	<b>10,665,800</b>

### Performance-related shares

With regard to the performance related shares granted to the members of the Board of Management in 2009, the final vesting percentage of the series 2009-2011 equaled 62.5 percent (series 2008-2010: zero), including dividend shares 69.8 percent. The members of the Board of Management will retain the shares for a minimum period of two years after vesting.

Shares in the company and options of the members of the Board of Management are held in an account, administered by the Stichting Executive Management Beheer. This Foundation acts as an independent portfolio manager for AkzoNobel participants.

### Number of performance-related shares

	Series	Balance at January 1, 2011	Granted in 2011	Vested in 2011	Forfeited in 2011	Dividend in 2011	Balance at December 31, 2011	Vested on January 1, 2012
Hans Wijers	2009 – 2011	39,638	–	–	(15,328)	1,237	25,547	25,547
	2010 – 2012	25,144	–	–	–	820	25,964	–
	2011 – 2013	–	24,800	–	–	764	25,564	–
Leif Darner	2009 – 2011	29,674	–	–	(11,474)	925	19,125	19,125
	2010 – 2012	18,858	–	–	–	615	19,473	–
	2011 – 2013	–	18,600	–	–	573	19,173	–
Rob Frohn	2009 – 2011	29,674	–	–	(11,474)	925	19,125	19,125
	2010 – 2012	18,858	–	–	–	615	19,473	–
	2011 – 2013	–	18,600	–	–	573	19,173	–
Tex Gunning	2009 – 2011	29,674	–	–	(11,474)	925	19,125	19,125
	2010 – 2012	18,858	–	–	–	615	19,473	–
	2011 – 2013	–	18,600	–	–	573	19,173	–
Keith Nichols	2009 – 2011	29,674	–	–	(11,474)	925	19,125	19,125
	2010 – 2012	18,858	–	–	–	615	19,473	–
	2011 – 2013	–	18,600	–	–	573	19,173	–

## Shares held by the Board of Management

Number of shares at year-end	2010	2011
Hans Wijers	75,324	75,324
Leif Darner	51,162	46,162
Rob Frohn	22,751	22,751
Keith Nichols	7,069	7,069

## Stock options

	Year of issue	Exercise price in €	Outstanding at January 1, 2011	Forfeited in 2011	Exercised in 2011	Outstanding at December 31, 2011	Expiry date
Hans Wijers	2002	46.53	14,850	–	–	14,850	April 25, 2012
	2004	31.45	23,000	–	(23,000)	–	April 25, 2011
	2005	31.98	23,000	–	–	23,000	April 24, 2012
	2006	46.46	19,800	–	–	19,800	April 26, 2013
	2007	58.89	19,800	–	–	19,800	April 26, 2014
<b>Value of outstanding options (in €)</b>						<b>199,100</b>	
Leif Darner	2006	46.46	13,000	–	–	13,000	April 26, 2013
	2007	58.89	13,000	–	–	13,000	April 26, 2014
<b>Value of outstanding options (in €)</b>						<b>47,500</b>	
Rob Frohn	2006	46.46	13,000	–	–	13,000	April 26, 2013
	2007	58.89	13,000	–	–	13,000	April 26, 2014
<b>Value of outstanding options (in €)</b>						<b>47,500</b>	
Keith Nichols	2006	46.46	3,000	–	–	3,000	April 26, 2013
	2007	58.89	3,750	–	–	3,750	April 26, 2014
<b>Value of outstanding options (in €)</b>						<b>12,100</b>	

### Financial risk management framework

Our activities expose us to a variety of financial risks: market risk (including: currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. These risks are inherent to the way we operate as a multinational with a large number of locally operating subsidiaries. Our overall risk management program seeks to identify, assess, and – if necessary – mitigate these financial risks in order to minimize potential adverse effects on our financial performance. Our risk mitigating activities include the use of derivative financial instruments to hedge certain risk exposures. The Board of Management is ultimately responsible for risk management. Day-to-day risk management activities are carried out by a central treasury department in line with clearly identified and formalized corporate policies and in line with the Treasury Statute. The treasury department identifies, evaluates and hedges financial risks at corporate level, and monitors compliance with the corporate policies approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation and hedging at business unit level rather than at corporate level.

We have a Corporate Finance & Treasury Committee in place that advises on financial policies and risk management. The businesses play an important role in identifying financial risk factors within the boundaries set in the corporate policies. We have treasury hubs located in Brazil, Asia and the United States that are primarily responsible for local cash management and short-term financing. The Treasury Statute does not allow for extensive treasury operations to be executed at subsidiary level directly with external parties. It is corporate policy that derivatives are entered into through the treasury department.

The treasury department is responsible for internal controls over treasury operations and for reporting to the Board of Management on company-wide exposures on a number of financial risks. This includes information regarding liquidity, foreign exchange, interest rate, capital and credit risk.

### Foreign exchange risk management

#### Trade and financing transactions

Our subsidiaries operate in a large number of countries. They have clients and suppliers in many countries, many of whom are outside of their functional currency environment. This creates currency exposure which is partly netted out on consolidation by the treasury department.

The purpose of our foreign currency hedging activities is to protect us from the risk that the functional currency net cash flows resulting from trade or financing transactions are adversely affected by changes in exchange rates. Our policy is to hedge our transactional foreign exchange rate exposures above predefined thresholds from recognized assets and liabilities. Cash flow hedge accounting is applied by exception. Derivative transactions with external parties are bound by overnight limits per currency.

In general, forward exchange contracts that we enter into have a maturity of less than one year. When necessary, forward exchange contracts are rolled over at maturity. Currency derivatives are not used for speculative purposes.

#### Hedged notional amounts at year-end

In € millions	Buy	Sell	Buy	Sell
	2010	2010	2011	2011
US dollar	214	977	619	1,062
Pound sterling	659	158	222	501
Swedish krona	390	51	306	6
Other	304	302	445	334
<b>Total</b>	<b>1,567</b>	<b>1,488</b>	<b>1,592</b>	<b>1,903</b>

#### Sensitivity analysis

We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end.

At year-end 2011, if the euro had weakened/strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been €nil million (2010: €2 million lower/higher). At year-end 2011, if the euro had weakened/strengthened by 10 percent against the pound sterling with all other variables held constant, post-tax profit for the year would have been €1 million higher/lower (2010: €3 million lower/higher). For 2010 and 2011 the sensitivity on equity is for both USD and GBP nil.

#### Translation risk related to investments in foreign subsidiaries associates and joint ventures

We have subsidiaries with a functional currency other than the euro. Therefore our consolidated financial statements are exposed to translation risk related to equity, inter-company loans of a permanent nature and earnings of foreign subsidiaries and investment in associates and joint ventures. In principle, we do not use financial instruments to hedge this risk.

In the following cases, we apply net investment hedge accounting. Net investment hedge accounting is applied on hedges of pound sterling net investments in foreign operations which were hedged by a £250 million bond. In 2011, the hedge was fully effective.

During 2011, \$780 million of net investments in foreign operations held by a pound sterling subsidiary were refinanced from the euro holding company and the related net investment hedge matured.

In 2011, we applied cash flow hedge accounting for a number of acquisitions. Amounts totaling Hong Kong dollar 1.6 billion and CNY 793 million were hedged with forward contracts. The gain on the effective hedges amounted to €20 million of which €9 million relates to acquisitions completed in 2011 and is included in the amount recognized as consideration paid in Note 2. In the cash flow hedge reserve a gain of €11 million was recorded.

## Price risk management

### Commodity price risk management

We use commodities, gas and electricity in our production processes and we are particularly sensitive to energy price movements.

Our Specialty Chemicals companies in the US hedge the price risk on natural gas through buying natural gas futures on the New York Mercantile Exchange. At year-end 2011, the notional amounts of these futures are 2 million dekatherms, spread over all 12 months of 2012 (2010: 1.3 million dekatherms, spread over all 12 months of 2010). The total fair value of these futures is an asset of €5 million at year-end (2010: an asset of €5 million). No hedge accounting is applied to the changes of the fair value of these contracts.

To hedge the price risks related to energy supply in the Netherlands, we operate one power plant in joint venture with Essent/RWE in Delfzijl of 520 MW. AkzoNobel power plants are located in Hengelo (80 MW), Rotterdam (20 MW) and Mariager, Denmark (20 MW). The power plants transform natural gas into steam and electricity. The steam is used in our production facilities and excess electricity is sold on the market. The price for natural gas in our purchase contracts is hedged by means of forwards. To cover the price risk of the excess electricity sold on the market, electricity futures to sell electricity are concluded. We do not apply hedge accounting to the changes of the fair value of these futures. At the end of 2011, on balance no gas (purchase) forwards or electricity (selling) futures were outstanding.

Our Chlor Alkali activity in the Netherlands used to mitigate price risks related to electricity by concluding normal purchase contracts for electricity to be supplied in future periods. As of May 2011, this policy was changed. Going forward electricity futures are concluded to gradually cover the expected use over future periods. As a consequence of this change, the already outstanding normal purchase contracts going forward no longer qualified for the "own use" exemption in IAS 39. Their recognition at fair value resulted in a gain of €4 million, net of tax. Going forward we apply cash flow hedge accounting to these contracts

and the newly concluded futures in order to mitigate the accounting mismatch that would otherwise occur. All contracts qualified as effective for hedge accounting. The fair value of the contracts outstanding at year-end 2011 amounted to a loss of €7 million, net of tax. In the cash flow hedge reserve a loss of €11 million, net of tax, was recorded. The amounts deferred in equity at year-end are expected to affect operational cost within the next three years. In order to hedge the oil price risk included in certain sales contracts, we have entered into oil/gas swap contracts. At the end of 2011, the fair value of these contracts amounted to a loss of €3 million net of tax (year-end 2010: €2 million loss net of tax). We did not apply hedge accounting to the changes of the fair values of these contracts. Income volatility caused by energy prices of the unit in Denmark is being hedged by electricity price swaps. At the end of 2011, we had no electricity swaps outstanding for our activities in Denmark (fair value of the contracts at year-end 2010: €1 million gain, net of taxes). We do not apply hedge accounting to the changes of the fair values of these contracts.

To hedge the price risk of electricity that is used for the Specialty Chemicals plants in Sweden and Finland, we entered into future contracts on the power exchange Nord Pool Spot, based on expected use of electricity over the period 2012 – 2014. We apply cash flow hedge accounting to these contracts in order to mitigate the accounting mismatch that would otherwise occur. The effective part of the fair value of these contracts amounted to a €9 million loss net of deferred taxes in equity (2010: €29 million net deferred gain). In 2011, nothing was recorded in cost of goods sold due to ineffectiveness (2010: € nil loss). The amounts deferred in equity at year-end are expected to affect operational cost within the next three years.

### Sensitivity analysis

We perform our commodity price risk sensitivity analysis by applying an adjustment to the forward rates prevailing at year-end. This adjustment is based on observed changes in commodity prices in the previous year and management expectations for possible future movements. We then apply the expected volatility to revalue all

commodity-derivative financial instruments in the applicable commodity in our balance sheet at year-end. For the purpose of this sensitivity analysis, the change of the price of the commodity is not discounted to the net present value at balance sheet date.

At year-end 2011, if a parallel adjustment of the price curve of natural gas by €5,000 per 10,000 dekatherms up/down as compared with the market prices prevailing at that date had occurred, with all other variables held constant, post-tax profit would have been €1 million (2010: €1 million) higher/lower. This is due to the fair value changes of natural gas derivatives.

At year-end 2011, if the forward price of electricity had weakened/strengthened by €5 per MWh (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, equity would have been €11 million lower/higher, net of tax. This is due to the fair value changes of electricity futures which have been accounted for under cash flow hedge accounting.

At year-end 2011, if the price of oil had weakened/strengthened by €8 per barrel (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, post-tax profit for 2011 would have been €6 million (2010: €2 million) higher/lower. Nevertheless over the full term of the (partially long-term) contracts, net impact on post-tax profit will be € nil.

At year-end 2011, if the forward price of electricity on the Nord Pool exchange had weakened/strengthened by €3.99 per MWh (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, equity would have been €7 million (2010: €13 million) higher/lower, net of tax. This is due to the fair value changes of electricity futures which have been accounted for under cash flow hedge accounting.

### Cash flow and fair value interest rate risk management

We are partly financed with debt in order to obtain more efficient leverage. Fixed rate debt results in fair value interest rate risk. Floating rate debt results in cash flow interest rate risk. The fixed/floating rate of our outstanding bonds shifted from 80 percent fixed at year-end 2010 to 94 percent fixed at year-end 2011. During 2011, no interest rate swap contracts were outstanding.

Fair value hedges closed out in previous years resulted in an adjustment to the carrying amount of a bond of which €12 million was amortized to the statement of income in 2011 on the interest line.

The effective interest rate (excluding hedge results) over 2011 was 6.60 percent (2010: 6.64 percent). Combined with the amortization of interest rate swaps closed out in 2010, the effective interest rate was 6.22 percent (2010: 6.14 percent).

### Sensitivity analysis

At year-end 2011, if EURIBOR interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been €2 million higher/lower (2010: €5 million higher/lower).

At year-end 2011, if US LIBOR interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been €1 million lower/higher (2010: €nil million lower/higher).

At year-end 2011, if GBP LIBOR interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been €2 million higher/lower (2010: €1 million higher/lower).

### Liquidity risk management

The primary objective of liquidity management is to provide for sufficient cash and cash equivalents at all times and any place in the world to enable us to meet our payment obligations. We aim for a well-spread maturity schedule of our long-term borrowings and a strong liquidity position.

At year-end 2011, we had €1.6 billion available as cash and cash equivalents (2010: €2.7 billion), see Note 15. In addition, we have a €1.8 billion multi-currency revolving credit facility expiring in 2016. At year-end 2011 and 2010, this facility had not been drawn. We have a \$1.0 billion commercial paper program and a €1.5 billion euro commercial paper program, which had no paper outstanding at year-end 2011 and 2010. The US commercial paper program has been renegotiated and reactivated in January 2012 and the maximum has been increased to \$3 billion. The commercial paper programs can only be used to the extent that the equivalent portion of the revolving credit facility is not used.

The table analyzes our cash outflows per maturity group based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

### Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
<b>At December 31, 2010</b>			
Borrowings	905	2,531	322
Interest on borrowings	238	673	12
Finance lease liabilities	2	8	–
Trade and other payables	3,305	–	–
<b>FX contracts (hedges)</b>			
Outflow	2,350	–	–
Inflow	(2,267)	–	–
<b>Other derivatives</b>			
Outflow	–	1	–
Inflow	44	–	–
<b>Total</b>	<b>4,577</b>	<b>3,213</b>	<b>334</b>
<b>At December 31, 2011</b>			
Borrowings	489	2,219	812
Interest on borrowings	178	382	64
Finance lease liabilities	5	3	1
Trade and other payables	3,349	–	–
<b>FX contracts (hedges)</b>			
Outflow	2,676	–	–
Inflow	(2,687)	–	–
<b>Other derivatives</b>			
Outflow	19	14	–
Inflow	(11)	–	–
<b>Total</b>	<b>4,018</b>	<b>2,618</b>	<b>877</b>

### Credit risk management

Credit risk arises from financial assets such as cash and cash equivalents, derivative financial instruments with a positive fair value, deposits with banks and financial institutions, and trade receivables.

We have a credit risk management policy in place to limit credit losses due to non-performance of financial counterparties and customers. We monitor our exposure to credit risk on an ongoing basis at various levels. We only deal with counterparties that have a sufficiently high credit rating. Generally, we do not require collateral in respect of financial assets.

Investments in cash and cash equivalents and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and good reputation. Derivative transactions are concluded mostly with parties with whom we have contractual netting agreements and ISDA agreements in place. The Treasury Statute sets limits per counterparty for the different types of financial instruments we use. We closely monitor the acceptable counterparty credit ratings and credit limits and revise where required in line with the market circumstances. We do not expect non-performance by the counterparties for these financial instruments.

Due to our geographical spread and the diversity of our customers, we were not subject to any significant concentration of credit risks at balance sheet date. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets, including derivative financial instruments, in the balance sheet. At year-end 2011, the credit risk on consolidated level was €4.6 billion (2010: €6.0 billion) for long-term borrowings given, trade and other receivables and cash. Our credit risk is well spread amongst both global and local counterparties. Our largest counterparty risk amounted to €150 million at year-end 2011. The credit risk from trade receivables is measured and analyzed at a local operating entity level, mainly by means of ageing analysis, see note 14.

### Capital risk management

Our objectives when managing capital are to safeguard our ability to satisfy our capital providers and to maintain a capital structure that optimizes our cost of capital. For this we maintain a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Moody's and Standard & Poors. The credit rating at year-end 2011 was Baa1/BBB+ (year-end 2010: Baa1/BBB+). The capital structure can be altered, among others, by adjusting the amount of dividends paid to shareholders, return capital to capital providers, or issue new debt or shares.

Consistent with others in the industry, we monitor capital headroom on the basis of funds from operations in relation to our net borrowings level (FFO/NB-ratio). The FFO/NB-ratio for 2011 at year-end amounted to 0.34 (2010: 0.49). Funds from operations are based on net cash from operating activities, which is adjusted, among others, for the elimination of changes in working capital, additional payments for pensions and for the effects of the underfunding of pension and other post-retirement benefit obligations. Net borrowings is calculated as a total of long and short-term borrowings less cash and cash equivalents, adding an after-tax amount for the underfunding of pension and other post-retirement benefit obligations and lease commitments.

In 2011 we bought back bonds with nominal amounts of €175 million maturing in January 2014 and €353 million maturing in March 2015. A bond was issued with a nominal of €800 million maturing December 2018 at a coupon of 4 percent.

### Fair value of financial instruments and IAS 39 categories

Loans and receivables and other liabilities are recognized at amortized cost, using the effective interest method. We estimated the fair value of our long-term borrowings based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with similar maturities.

The carrying amounts of cash and cash equivalents, trade receivables less allowance for impairment, short-term borrowings and other current liabilities approximate fair value due to the short maturity period of those instruments.

The only financial instruments accounted for at fair value through profit or loss are derivative financial instruments and the short-term investments included in cash. The fair value of foreign currency contracts, swap contracts, forward rate agreements, oil contracts and gas futures was determined by valuation techniques using market observable input (such as foreign currency interest rates based on Reuters) and by obtaining quotes from dealers and brokers.

The following valuation methods for financial instruments carried at fair value through profit or loss are distinguished:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable).

**Fair value per financial instruments category**

In € millions	Carrying amount	Out of scope of IFRS 7	Carrying value per IAS 39 category		Total carrying value	Fair value
			Loans and receivables/ other liabilities	At fair value through profit or loss		
<b>2010 year-end</b>						
Other financial non-current assets	1,008	640	368	–	368	386
Trade and other receivables	2,788	257	2,497	34	2,531	2,531
Cash and cash equivalents	2,851	–	–	2,851	2,851	2,851
<b>Total financial assets</b>	<b>6,647</b>	<b>897</b>	<b>2,865</b>	<b>2,885</b>	<b>5,750</b>	<b>5,768</b>
Long-term borrowings	2,880	–	2,880	–	2,880	3,266
Short-term borrowings	907	–	907	–	907	914
Trade and other payables	3,305	1,361	1,807	137	1,944	1,944
<b>Total financial liabilities</b>	<b>7,092</b>	<b>1,361</b>	<b>5,594</b>	<b>137</b>	<b>5,731</b>	<b>6,124</b>
<b>2011 year-end</b>						
Other financial non-current assets	1,187	860	327	–	327	338
Trade and other receivables	2,917	278	2,611	28	2,639	2,639
Cash and cash equivalents	1,635	–	–	1,635	1,635	1,635
<b>Total financial assets</b>	<b>5,739</b>	<b>1,138</b>	<b>2,938</b>	<b>1,663</b>	<b>4,601</b>	<b>4,612</b>
Long-term borrowings	3,035	–	3,035	–	3,035	3,341
Short-term borrowings	494	–	494	–	494	496
Trade and other payables	3,349	1,290	2,037	22	2,059	2,059
<b>Total financial liabilities</b>	<b>6,878</b>	<b>1,290</b>	<b>5,566</b>	<b>22</b>	<b>5,588</b>	<b>5,896</b>

In early 2012, we acquired Boxing Oleochemicals (“Boxing”), which we will consolidate as from January 2012 in our Surface Chemistry business. Boxing is a leading supplier of nitrile amines and derivatives, which are used in a variety of industrial and consumer applications including fabric softeners, asphalt additives, and hair conditioners. Established in 1993 and based in the Chinese province of Shandong, Boxing had revenues in 2010 of approximately €100 million.

Also early 2012, we announced to take 100 percent control of Metlac Group, a packaging coatings producing associate, based in Italy, by exercising the right to buy the remaining shares. The completion of the transaction is subject to antitrust approval. We expect to finalize the acquisition in Q2 2012.

In January 2012, we concluded the triennial actuarial funding review of the ICI Pension Fund. We expect to have top-up payments over the remaining six years of the recovery plan that are £198 million lower in total than the sum of the current schedule. In 2012 and 2013, they will be £62 million per annum lower, in 2014 to 2016 £19 million per annum lower and in 2017 £16 million lower. In addition, we have agreed to terminate an asset-backed guarantee in favor of the pension fund, releasing an asset on our balance sheet on order to fund further de-risking activities and thereby reduce future demands on our cash flows.



## Company financial statements

### Statement of income

In € millions			2010	2011
Net income from subsidiaries, associates and joint ventures			723	538
Other net income/(loss)			31	(61)
<b>Total net income</b>			<b>754</b>	<b>477</b>

### Balance sheet as of December 31, before allocation of profit

In € millions	Note		2010	2011
<b>Assets</b>				
<b>Non-current assets</b>				
Financial non-current assets	B	16,874	16,120	
<b>Total non-current assets</b>			<b>16,874</b>	<b>16,120</b>
<b>Current assets</b>				
Trade and other receivables	C	265	124	
Cash and cash equivalents	D	1,459	205	
<b>Total current assets</b>			<b>1,724</b>	<b>329</b>
<b>Total assets</b>			<b>18,598</b>	<b>16,449</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Subscribed share capital		467	469	
Additional paid-in capital		9	47	
Change in fair value of derivatives		29	(9)	
Other statutory reserves		233	240	
Cumulative translation reserves		(43)	4	
Other reserves		7,610	8,061	
Undistributed profit		679	400	
<b>Shareholders' equity</b>			<b>8,984</b>	<b>9,212</b>
<b>Non-current liabilities</b>				
Provision for subsidiaries	B	289	304	
Long-term borrowings	E	8,245	6,618	
<b>Total non-current liabilities</b>			<b>8,534</b>	<b>6,922</b>
<b>Current liabilities</b>				
Other short-term debt	F	1,080	315	
<b>Total current liabilities</b>			<b>1,080</b>	<b>315</b>
<b>Total equity and liabilities</b>			<b>18,598</b>	<b>16,449</b>

## Movement in shareholders' equity

In € millions	Statutory reserves							Shareholders' equity
	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Other Statutory reserves	Cumulative translation reserves	Other reserves	Undistributed results	
<b>Balance at January 1, 2010</b>	465	2	(6)	228	(777)	7,648	215	7,775
Changes in fair value of derivatives	–	–	35	–	–	–	–	35
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	734	–	–	734
Net income/(loss)	–	–	–	–	–	–	754	754
<b>Comprehensive income</b>	–	–	35	–	734	–	754	1,523
Dividend paid	–	–	–	–	–	–	(320)	(320)
Equity-settled transactions	–	–	–	–	–	27	–	27
Issue of common shares	2	7	–	–	–	–	–	9
Addition to other reserves	–	–	–	5	–	(35)	30	–
Acquisition of non-controlling interests	–	–	–	–	–	(30)	–	(30)
<b>Balance at December 31, 2010</b>	467	9	29	233	(43)	7,610	679	8,984
Changes in fair value of derivatives	–	–	(38)	–	–	–	–	(38)
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	47	–	–	47
Net income	–	–	–	–	–	–	477	477
<b>Comprehensive income</b>	–	–	(38)	–	47	–	477	486
Dividend paid	1	24	–	–	–	–	(329)	(304)
Equity-settled transactions	–	–	–	–	–	32	–	32
Issue of common shares	1	14	–	–	–	–	–	15
Addition to other reserves	–	–	–	7	–	420	(427)	–
Acquisition of non-controlling interests	–	–	–	–	–	(1)	–	(1)
<b>Balance at December 31, 2011</b>	469	47	(9)	240	4	8,061	400	9,211

## A Note A: General information

The financial statements of Akzo Nobel N.V. have been prepared using the option of section 362 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles used are the same as for the consolidated financial statements. Foreign currency amounts have been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income presented in note 1 to the consolidated financial statements. Subsidiaries of Akzo Nobel N.V. are accounted for using the equity method.

As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code. The remuneration paragraph is included in Note 23 of the consolidated financial statements.

## B Note B: Financial non-current assets and provisions for subsidiaries

### Movements in financial non-current assets

In € millions	Subsidiaries		Other financial non-current assets	Loans to associates and joint ventures	Total
	Share in capital	Loans <sup>1</sup>			
<b>Balance at January 1, 2010</b>	<b>8,537</b>	<b>6,760</b>	<b>121</b>	<b>11</b>	<b>15,429</b>
Acquisitions/capital contributions	109	–	2	–	111
Divestments/capital repayments	(68)	–	(47)	–	(115)
Net income from subsidiaries, associates and joint ventures	723	–	–	–	723
Equity-settled transactions	27	–	–	–	27
Change in fair value of derivatives	31	–	–	–	31
Loans granted	–	3,406	–	–	3,406
Repayment of loans	–	(3,240)	–	(11)	(3,251)
Changes in exchange rates	686	130	–	–	816
Other changes	(124)	–	13	–	(111)
Transfer to provision for subsidiaries	(192)	–	–	–	(192)
<b>Balance at December 31, 2010</b>	<b>9,729</b>	<b>7,056</b>	<b>89</b>	<b>–</b>	<b>16,874</b>
Acquisitions/capital contributions	691	–	3	–	694
Divestments/capital repayments	(113)	–	–	–	(113)
Net income from subsidiaries, associates and joint ventures	538	–	–	–	538
Equity-settled transactions	28	–	–	–	28
Change in fair value of derivatives	(48)	–	–	–	(48)
Loans granted	–	2,052	–	–	2,052
Repayment of loans	–	(3,870)	–	–	(3,870)
Changes in exchange rates	28	51	–	–	79
Other changes	(127)	–	(2)	–	(129)
Change to provisions for subsidiaries	15	–	–	–	15
<b>Balance at December 31, 2011</b>	<b>10,741</b>	<b>5,289</b>	<b>90</b>	<b>–</b>	<b>16,120</b>

<sup>1</sup> Loans to these companies have no fixed repayment schedule.

## C Note C: Trade and other receivables

### Trade and other receivables

In € millions	2010	2011
Receivables from subsidiaries	63	46
Receivable from associates and joint ventures	16	14
FX contracts	134	19
Other receivables	52	45
<b>Total</b>	<b>265</b>	<b>124</b>

## D Note D: Cash and cash equivalents

### Cash and cash equivalents

In € millions	2010	2011
Short-term investments	878	41
Cash on hand and in banks	581	164
<b>Total</b>	<b>1,459</b>	<b>205</b>

## E Note E: Long-term borrowings

### Long-term borrowings

In € millions	2010	2011
Debentures	1,289	1,721
Debt to subsidiaries	6,916	4,858
Other borrowings	40	39
<b>Total</b>	<b>8,245</b>	<b>6,618</b>

For the fair value of the debenture loans and the related interest-rate derivatives, see Note 24 of the notes to the consolidated financial statements.

## Debentures

In € millions	2010	2011
71/4 % 2009/15 (€975 million)	1,000	634
8 % 2009/16 (€250 million)	289	297
4% 2011/18 (€800 million)	–	790
<b>Total</b>	<b>1,289</b>	<b>1,721</b>

In September 2011, the five year multi-currency syndicated revolving credit facility was renewed and increased to €1.8 billion (previously: €1.5 billion). At year-end 2011 and 2010, this facility had not been drawn. At year-end 2011 and 2010, none of the borrowings was secured by collateral. Borrowings from subsidiaries have no fixed repayment schedule. Interest charged on these borrowings averaged 0.9 percent in 2011 (2010: 0.9 percent).

## F Note F: Short-term debt

### Short-term debt

In € millions	2010	2011
Current portion of long-term borrowings	702	48
Debt to subsidiaries	8	8
FX contracts	22	12
Borrowings from associates and joint ventures	40	37
Short-term bank loans	10	21
Debt related to pensions	6	10
Debt related to other suppliers	19	32
Other liabilities	273	147
<b>Total</b>	<b>1,080</b>	<b>315</b>

We have a €1.5 billion euro commercial paper program, which had no paper outstanding at year-end 2011 and 2010. For more information on this program, see Note 24 of the consolidated financial statements.

## G Note G: Financial instruments

At year-end 2011, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.6 billion (year-end 2010: €1.6 billion), while contracts to sell currencies totaled €1.9 billion (year-end 2010: €1.5 billion). The contracts mainly related to US Dollars, Pound sterling and Swedish krona, and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidiaries, and the fair value changes are recognized in the statement of income to offset the fair value changes on the contracts with the subsidiaries. For information on risk exposure and risk management, see Note 24 of the notes to the consolidated financial statements.

## H Note H: Contingent liabilities

Akzo Nobel N.V. is parent of the group's fiscal unit in the Netherlands, and is therefore liable for the liabilities of said fiscal unit as a whole.

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Dutch consolidated companies (section 403 of Book 2 of the Netherlands Civil Code). These debts, at year-end 2011, aggregating €0.4 billion (2010: €0.4 billion), are included in the consolidated balance sheet. Additionally, at year-end 2011, guarantees were issued on behalf of consolidated companies for an amount of €2.1 billion (2010: €2.4 billion), including a guarantee issued by Akzo Nobel N.V. in relation to the exemption of Dulux Paints (Ireland) Ltd, under section 5(c) of the companies (amendment) Act 1986 Ireland.

The debts and liabilities of the consolidated companies underlying these guarantees are included in the consolidated balance sheet or in the amount of long-term liabilities in respect of operational lease contracts as disclosed in Note 21 of the notes to the consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €13 million (2010: €9 million).

**I** Note I: Auditor's fees

**Auditor's fees**

	In the Netherlands	Network outside the Netherlands	Total	In the Netherlands	Network outside the Netherlands	Total
In € millions			2010			2011
Audit	3.5	8.1	11.6	3.2	6.8	10.0
Audit-related	0.3	0.2	0.5	0.4	0.3	0.7
Tax	–	0.5	0.5	–	0.3	0.3
Other services	0.1	0.2	0.3	0.3	–	0.3
<b>Total</b>	<b>3.9</b>	<b>9.0</b>	<b>12.9</b>	<b>3.9</b>	<b>7.4</b>	<b>11.3</b>

Amsterdam, February 15, 2012

**The Board of Management**

Hans Wijers  
Leif Darner  
Rob Frohn  
Tex Gunning  
Keith Nichols

**The Supervisory Board**

Karel Vuursteen  
Uwe-Ernst Bufe  
Virginia Bottomley  
Dolf van den Brink  
Peggy Bruzelius  
Antony Burgmans  
Peter Ellwood  
Louis Hughes

## Other information

### Independent auditor's report

#### To the Supervisory Board and the Annual General Meeting of shareholders of Akzo Nobel N.V.

#### Report on the financial statements

We have audited the accompanying financial statements 2011 of Akzo Nobel N.V., Amsterdam as set out on pages 97 to 145. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2011, the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2011, the company statement of income for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

#### Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Management in accordance with part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with part 9 of Book 2 of the Netherlands Civil Code.

#### Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2011 and of its result for the year then ended in accordance with part 9 of Book 2 of the Netherlands Civil Code.

#### Report on other legal and regulatory requirements

Pursuant to the legal requirements under section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Board of Management, to the extent we can assess, has been prepared in accordance

with part 9 of Book 2 of this Code, and if the information as required under section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the Board of Management as set out on pages 1 to 96, to the extent we can assess, is consistent with the financial statements as required by section 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, February 15, 2012  
**KPMG ACCOUNTANTS N.V.**

E.H.W. Weusten RA

## Profit allocation and distributions; subsequent events

### Profit allocation and distributions

#### Article 43 43.6

The Board of Management shall be authorized to determine, with the approval of the Supervisory Board, what share of profit remaining after application of the provisions of the foregoing paragraphs shall be carried to reserves. The remaining profit shall be placed at the disposal of the Annual General Meeting of shareholders, with due observance of the provisions of paragraph 7, it being provided that no further dividends shall be paid on the preferred shares.

#### 43.7

From the remaining profit, the following distributions shall, to the extent possible, be made as follows:

(a) to the holders of priority shares: 6 percent per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends (b) to the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the Annual General Meeting of shareholders may decide to carry to reserves, shall permit.

#### 43.8

Without prejudice to the provisions of paragraph 4 of this article and of paragraph 4 of article 20, the holders of common shares shall, to the exclusion of everyone else, be entitled to distributions made from reserves accrued by virtue of the provision of paragraph 7b of this article.

#### 43.9

Without prejudice to the provisions of article 42 and paragraph 8 of this article, the Annual General Meeting of shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

#### Article 44 44.7

Cash dividends by virtue of paragraph 4 of article 20, article 42, or article 43 that have not been collected within five years of the commencement of the second day on which they became due and payable shall revert to the company.

#### Proposal for profit allocation

With due observance of Dutch law and the Articles of Association, €477 million of net income is carried to the other reserves. Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €340 million (to be increased by dividend on shares issued in 2012 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.45 per share of €2, of which €0.33 was paid earlier as an interim dividend. The final dividend of €1.12 per share (which under the conditions to be published by the company and at the shareholders' election will be paid either in cash or in stock) will be made available from May 24, 2012.

#### Special rights to holders of priority shares

The priority shares are held by "Stichting Akzo Nobel" (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation.

The Meeting of Holders of Priority Shares has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments to the Articles of Association are subject to the approval of this meeting.

### Subsequent events

In early 2012, we acquired Boxing, which we will consolidate as from January 2012 in our Surface Chemistry business. Boxing is a leading supplier of nitrile amines and derivatives, which are used in a variety of industrial and consumer applications including fabric softeners, asphalt additives, and hair conditioners. Established in 1993 and based in the Chinese province of Shandong, Boxing had revenue in 2010 of approximately €100 million.

Also early 2012, we announced to take 100 percent control of Metlac Group, a packaging coatings producing associate, based in Italy, by exercising the right to buy the remaining shares. The completion of the transaction is subject to antitrust approval. We expect to finalize the acquisition in Q2 2012.

In January 2012, we concluded the triennial actuarial funding review of the ICI Pension Fund. We expect to have top-up payments over the remaining six years of the recovery plan that are £198 million lower in total than the sum of the current schedule. In 2012 and 2013, they will be £62 million per annum lower, in 2014 to 2016 £19 million per annum lower and in 2017 £16 million lower. In addition, we have agreed to terminate an asset-backed guarantee in favor of the pension fund, releasing an asset on our balance sheet on order to fund further de-risking activities and thereby reduce future demands on our cash flows.





# Sustainability facts and figures

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## Additional sustainability information

<b>In this report</b>		<b>On our website</b> ( <a href="http://www.akzonobel.com/sustainability">www.akzonobel.com/sustainability</a> )	
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This Sustainability facts and figures section of the Report 2011 is separate from, and does not in any way form part of, the company's annual financial report ("jaarlijkse financiële verslaggeving") as defined in article 5:25c of the Dutch Financial Markets Supervision Act for 2009. This section contains summarized key performance indicators (KPIs) relating to sustainability performance. Further information on AkzoNobel's sustainability strategy, activities and results can be found on our corporate website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)



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### **In the driving seat**

As the world's population continues to grow, finding innovative ways to develop solutions to the planet's environmental problems is becoming increasingly important. In regions where this growth is far outpacing the global average, the need is even more urgent.

Take India, for example. It's a massive country with a rapidly expanding population and it faces several major environmental challenges. But look closely at its booming transportation market and you'll notice that sustainable technology is starting to have an influence and make a difference. Vehicle manufacturer Tata has just launched the Iris, a small people mover designed to compete with the common rickshaw – which is open-sided and regarded by many as being unsafe. The introduction of the Iris is also significant to AkzoNobel because it uses the company's Interpon A5000 powder coatings.

The technology is a natural choice for innovative companies such as Tata. Why? Because powder products have virtually no VOCs and can be recycled or reclaimed. Powder's environmental credentials are further enhanced by the fact that it's a totally dry, non-liquid coating, so there's no need to use water during manufacturing. The technology – which helps to save energy and doesn't compromise on performance – is therefore one of few truly sustainable options well positioned to grow.

The Iris was launched at Tata's new plant in Dharwad, south west India, which is expected to produce 300 vehicles per day utilizing our powder technology. AkzoNobel's Powder Coatings business also worked with Tata on the successful ACE truck, assembled in Pantnagar.

## Consolidated non-financial statements

Sustainability topics and data have been integrated into all sections of the AkzoNobel Report 2011. This summary focuses on sustainability processes and activities that span our businesses.

A fuller overview of our sustainability strategy, activities and results can be found in the Sustainability section of our corporate website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

### Consolidated non-financial statements

	Note	2008	2009	2010	2011	Ambition 2011	Ambition 2012	Ambition 2015
<b>Top quartile safety performance</b>								
Total reportable injury rate employee/supervised contractors (per million hours)	5	4.6	3.7	3.6	3.1	3.0	2.5	<2.0
Manufacturing sites with BBS program (% sites)	5	–	–	72	76	100	100	100
<b>Top three in SAM</b>								
Position in SAM sustainability assessment		2	2	2	2	Top 3	Top 3	Top 3
<b>Top quartile employee engagement</b>								
Employee engagement (mean score out of five) <sup>1</sup>	11	78	80	3.56	3.74	3.76	–	4.33
% employees using electronic P&D Dialog system	9	60	72	76	78	90	–	95
% executives/high potential moves	9	–	5	4	5	5	–	–
% executives women	10	8	10	12	13	–	14	20
% executives high growth markets	10	10	11	12	13	–	14	20
<b>Top quartile eco-efficiency improvement rate</b>								
Eco-premium solutions (% total revenue)	14	18	18 <sup>2</sup>	21 <sup>2</sup>	22	26	27	30
Carbon value chain assessments	16	–	158	286	330	–	–	–
Greenhouse gas emissions per unit product (Cradle-to-gate) (% reduction from 2009)	16	–	–	3	2	4	5	10
Greenhouse gas emissions per unit production (own operations)	19	246	272	267	256	264	–	245
Sustainable fresh water management (% manufacturing sites)	22	–	38	48	74	60	70	100
Operational eco-efficiency footprint measure (% reduction from 2009)	18-22	–	–	7	11	8	10	30

<sup>1</sup> From 2010, employee survey changed from % favorable to Gallup GrandMean: average of mean scores for each question (out of five).

<sup>2</sup> 2009 and 2010 data restated

The blue pages of the Report 2011 describe the sustainability processes and activities that span our businesses. The focus areas of the sustainability agenda are shown in the Consolidated non-financial statements. The 2011 focus areas can be divided into four categories:

#### Safety

Expressed by the strategic objective **Top quartile safety performance**. All details on our safety performance and how we manage this can be found in Notes 5–8.

#### Employees

Expressed by the strategic objective **Top quartile performance in diversity, employee engagement and talent development**. All details on our employee performance and how we manage this can be found in Notes 9–13.

#### Value chain

Expressed by the strategic objective **Top quartile eco-efficiency improvement rate**. All details on our sustainability performance and improvement activities to reduce our impact across the value chain can be found in Notes 14–17.

#### Environment

Expressed by the strategic objective **Top quartile eco-efficiency improvement rate**. All details on the environmental impact and improvements in our own operations can be found in Notes 18–23.

### Strategic focus

The importance of sustainability to running our business is firmly integrated into the AkzoNobel strategy. In 2010, we updated our ambitions for 2015 for sustainable, accelerated growth in order to support our overall goals:

- Top quartile safety performance
- Top three position in sustainability
- Top quartile performance in diversity, employee engagement and talent development
- Top quartile eco-efficiency improvement rate

The Executive Committee monitors the company's financial and sustainability performance using a strategy dashboard, which specifies indicators – both leading and lagging – against each objective. For most key performance indicators we have announced 2015 ambitions; other short and long-term ambitions are set at business level. Our performance against these ambitions is described in the following pages.

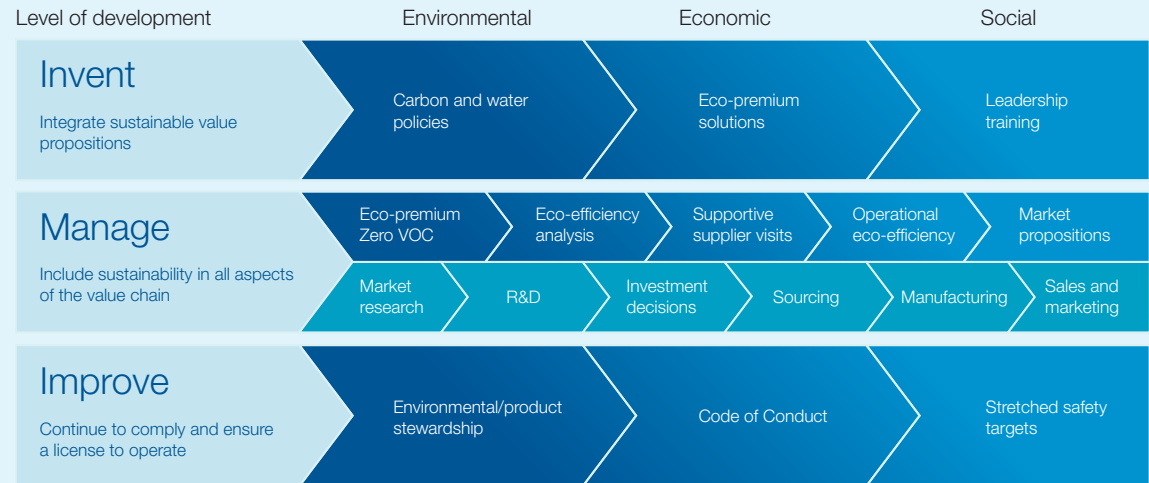
### Sustainability framework

The AkzoNobel sustainability framework maps out a progression towards sustainability. It has three levels, which include environmental, economic and social aspects.

- Invent: integrate sustainable value propositions
- Manage: include sustainability in all aspects of the value chain
- Improve: continue to comply and ensure our license to operate

The focus has shifted away from an emphasis purely on risks – working on integrity, governance and compliance, which are now integrated in the compliance framework (see Governance and compliance section) – towards creating opportunities for value creation through process excellence, innovation and talent development.

### Sustainability framework



■ Examples of sustainability activity  
 ■ Value chain aspects

## Management structure

### Sustainability

We have established a Sustainability Council, which advises the Executive Committee on strategy developments, monitors the integration of sustainability into management processes and oversees the company's sustainability targets and overall performance. The Council, which meets quarterly, is chaired by the CEO and includes representatives from the Executive Committee (Supply Chain, HR and RD&I), Managing Directors from our businesses, a Country Manager, and the Corporate Directors of Strategy, Sustainability & HSE, Sourcing and Communications.

The Corporate Director for Sustainability and HSE reports directly to the CEO and has an expertise team for HSE and Sustainability, including a group focusing on lifecycle and sustainability assessments.

The Managing Director of each business defines their respective non-financial targets and reports on progress every quarter. All businesses have also appointed a sustainability focal point to support the embedding of sustainability throughout their operations. They bring together an appropriate team to develop and implement the sustainability agenda for the business. Focal points from across the company have regular meetings to exchange best practices and identify opportunities for further development.

Meanwhile, each function in the value chain has identified focus areas for sustainability, with targets where appropriate. Functional management teams, such as HR, Supply Chain and RD&I, which are made up of both corporate and business representatives, are in place to support the implementation of functional strategy, including the sustainability elements.

### Compliance

A Corporate Compliance Committee monitors processes associated with the compliance framework and makes

sure that compliance is embedded and enforced in our business. Members include the General Counsel, Secretary to the Executive Committee and Corporate Directors of Compliance, Internal Audit, Control and HR. The Committee reports to the Executive Committee. The Executive Committee compliance reports are presented to the Audit Committee.

We have set up Compliance Committees in each of our businesses. Compliance is a responsibility of the business unit management team and a Compliance Officer assesses the main risks, improves and monitors compliance and its effectiveness, and trains employees. At the request of the Corporate Compliance function, the Compliance Officers investigate and report on alleged breaches of the Code of Conduct.

### Management processes

We include key sustainability issues in our corporate and business planning processes, as well as in our risk management and compliance processes. Where there are specific sustainability risks or issues of concern to stakeholders, we develop position papers and an improvement plan owned by a corporate staff member.

Overall progress in embedding sustainability is monitored using an annual self-assessment benchmark, which reflects the content of the sustainability framework and management processes. The assessment results are reviewed at corporate level. This year we have improved guidance and clarified the definitions of the performance levels to improve comparability of results.

The 2011 results indicate that sustainability processes are "in place" or "mostly in place" in all businesses. The highest level of embedding remains in the compliance aspects and processes, such as risk management and reporting. Integration in the value chain remains steady, while there has been progress in the newer areas, such as eco-premium solutions and carbon measurement.

We strive to empower all employees to contribute and be accountable for our sustainability performance. This responsibility continues to be anchored in the personal targets and remuneration packages of managers and employees. From 2009, half of the conditional grant of shares for Board members and all executives is based on AkzoNobel's performance in the SAM (Sustainability Asset Management) assessment over a three-year period (see Remuneration report).

The main corporate monitoring processes for sustainability items are:

- **Non-financial Letter of Representation.** At the end of the year, the Managing Director of each business signs the non-financial Letter of Representation to confirm compliance with the Code of Conduct and other corporate non-financial requirements, as well as indicating any material non-compliance. The outcome is reviewed with the responsible Board member and General Counsel and the results are reported to the Board of Management and the Audit Committee. Outstanding actions are followed up in each business and progressed in quarterly reviews
- **In-control process.** An annual, in-depth in-control process informs management whether business processes are in control. Shortcomings are reported and remediated
- **Corporate audits,** which include sustainability and compliance issues. The outcomes are shared with the Compliance Committee and Sustainability Council.

Our processes for managing sustainability were again reviewed as part of our 2011 external assurance activity.

### Reporting scope

The AkzoNobel Report 2011 combines our financial and sustainability reporting and is addressed to readers interested in both areas. In particular, we seek ways of linking sustainability performance to business results in areas such as carbon emission reduction and eco-premium solutions. Alongside the publication of this report, more sustainability information, including an index of all Global Reporting Initiative (GRI) indicators, will be made available online.

The information in this report also offers an update on our implementation of the ten principles of the United Nations Global Compact. The Global Compact Index on the website gives an overview of all the topics.

The topics covered in this report were selected on the basis of the GRI guidelines, the sustainability aspects of our strategy and input from various external stakeholders. These include our engagement with organizations such as Forum for the Future, the World Business Council for Sustainable Development (WBCSD), the World Resources Institute (WRI) and third party questionnaires, notably the SAM assessment – the rating agency for the Dow Jones Sustainability Indices – and the Carbon Disclosure Project.

### Reporting policies

#### Materiality

We have used the principle of materiality to assess the topics to include in the report, which are current and important for the company and key stakeholders.

#### Reporting boundaries

The AkzoNobel Report 2011 integrates sustainability aspects of our processes and business operations in each section, in particular the Strategy, Business performance and Governance and compliance sections.

This Sustainability facts and figures section summarizes the global, cross-business elements of the sustainability agenda and company performance. Specifically, it includes quantitative and qualitative information relating to the calendar year 2011 and comparative data for 2010, 2009 and 2008, which is based on the AkzoNobel portfolio, including the former ICI at the end of 2008. We report on consolidated data from entities where AkzoNobel is the majority shareholder (more than 50 percent) and joint ventures where we have management control, but exclude all data from entities where we have minority ownership, or no management control. Former ICI business Chemicals Pakistan has its own management board. The requirement to report on specific AkzoNobel sustainability indicators has been limited to HSE and compliance issues.

#### Comparability

Previously, our policy was to report new acquisitions within one calendar year. From 2010, we report from the date of purchase, recognizing that there may be reporting improvements required at these facilities. A significant change reflected in 2011 data is the acquisition of Schramm Holding AG and its related SSCP business.

We introduced a revised set of HSE KPIs with detailed reporting guidance as of 2009. There are a number of definition, calculation and reporting differences which impacted the comparability of data with 2008: Total reportable rate, energy, CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub> emissions. We identify these in the text and footnotes.

In 2010, we changed our employee survey to Gallup Q12. The Gallup GrandMean scores are not comparable with the previous survey's percent favorable score.

#### Reporting process and assurance

The reporting period is 2011. Data has mainly been obtained from our financial management reporting systems, corporate HR information management systems, corporate compliance information reporting systems and the AkzoNobel corporate reporting systems for Health, Safety and Environment performance indicators, which have associated approval and verification processes. Data collection for the newer value chain reporting aspects is carried out using standard templates and procedures. More details are available on our corporate website.

We are confident in the overall reliability of the data reported, but recognize that some of the information is subject to a certain degree of uncertainty, inherent to limitations associated with measuring and calculating data. Senior managers approved the content and the quantitative data used in the Sustainability facts and figures section relating to their respective areas of responsibility.

The integration of sustainability in day-to-day business is part of our routine internal audit process. The Sustainability facts and figures section has been reviewed by independent, external auditors. The assurance report, including the scope of the audit, can be found in the Independent assurance report on page 177.

### Our approach

The aim of our stakeholder engagement is to learn from key financial, social and environmental stakeholder groups and in collaboration to develop leading sustainability solutions relevant to:

- Our stakeholder needs
- Implementation of current mid-term strategic ambitions (Value and Values)
- Management of risks and opportunities

Our key stakeholders are employees, customers, suppliers, investors, communities, specific sustainability/ research organizations and NGOs.

Significant deliverables from our stakeholder engagement actions are included in our annual reporting and, upon agreement with relevant stakeholders, are also communicated in applicable media externally and internally. Reference to stakeholders is made in the Strategy section and more specifically in the sections mentioned below:

- Communities: Note 13 of this section
- Customers: Business performance section
- Employees: Note 11 of this section
- Investors: Governance and compliance section
- Suppliers: Note 17 of this section

### Stakeholder engagement in 2011

#### Our commitment and primary partners

We support a number of external organizations and charters to demonstrate our commitment to sustainability issues. These include the UN Global Compact, where we are also an active member of the network in the Netherlands; the CEO Water Mandate, where we are represented on the steering group; and the Responsible Care® Global Charter.

In order to contribute to, and keep up-to-date with, developments in the sustainability agenda, we continue to work with the WBCSD, the WRI and Forum for the Future

(UK) as well as analysis organizations. We have also held discussions with NGOs, with the aim of setting up longer term activity during 2012.

#### Product-related

Through the Amsterdam Initiative on Malnutrition and the project Smarter Futures, our Ferrazzone iron fortificant is making an important contribution to the Millennium Development Goals of the United Nations.

- In 2011, Ferrazzone was approved in accordance with EU, as well as Indian, standards for health enhancing agents in food
- In collaboration with Smarter Futures, we have supported an educational seminar in Tanzania targeting decision makers from industry, government and NGOs on the quality assurance of flour fortification

Developments in our partnership with the Forest Stewardship Council (FSC) are described in the Strategy section.

#### Supporting our development areas

AkzoNobel participated in the 2011 WBCSD Future Leaders Team, which focused on engaging suppliers in sustainability discussions and exploring data-sharing on social and environmental issues.

Through our partnership with WRI, we take part in the Next Practice Collaboration (NPC), working with NGOs and Fortune 500 companies. The collaboration is identifying unmet sustainability needs and opportunities to create new long-term value and explore financing options to support new developments.

We continue to be involved in the IUCN Leaders for Nature program in the Netherlands. During 2012, we will work together with peer companies on a so-called Inspirational program on ecosystems.

#### Developing good practice

We have an ambition of 100 percent fresh water management at our manufacturing sites by 2015. To help us achieve this ambition, we interact with various stakeholders to learn and share best practices. In 2011, we took an active role in the CEO Water Mandate steering committee. Furthermore, we participate in the GEMI Local Water Tool (LWT) project, as well as the WBCSD water work group, where we jointly work on transparency and standards for water risk management.

In the field of carbon management, we co-chair the WBCSD Chemical Sector Working Group. Together with peers, we are developing a chemical sector guideline to drive consistent reporting of Scope 1 and 2, as well as Scope 3 up and downstream emissions.

To enhance the importance and development of sustainable value chains, we again supported the organization of the International Supply Management Congress in Amsterdam. This is a joint initiative with Rabobank, Unilever, NEVI (a Dutch knowledge network for purchasing and supply management), IDH (the Dutch Sustainable Trade Initiative) and Alfa Delta Compendium. The event is a meeting point for sharing knowledge, experience and best practices across supply chain professionals, NGOs and thought leaders. The focus for 2011 was corporate vision, research and early best practices from emerging economies for 2020.

#### Indices and recognition

During 2011, we maintained our position on the Dow Jones Sustainability Index and FTSE4Good and improved our performance as assessed by the Carbon Disclosure project.

In the Netherlands, we were shortlisted in the Transparency benchmark (top three) and the VBDO supply chain assessment (top five).

**Key performance indicators – integrity**

	2009	2010	2011
Code of Conduct trained (% online employees)	~ 95	95	95
Competition Law certification (number of employees)	10,000	13,000	14,400

Details of our Code of Conduct, compliance processes and complaints procedure are included in the Governance and compliance section under Compliance and integrity management.

**Key performance indicators – safety**

	2008	2009	2010	2011	Ambition 2011	Ambition 2012	Ambition 2015
<b>People</b>							
TRR employee/supervised contractors (per million hours)	4.6	3.7	3.6	3.1	3.0	2.5	<2.0
BBS in place (% manufacturing sites)	–	–	72	76	100	100	100
<b>Process</b>							
Regulatory actions (Level 3)	–	3	4	0	0	0	0
Significant loss of containment (Level D)	–	1	0	2	0	0	0
<b>Product</b>							
Priority substances with management plan (%)	–	–	–	23	20	40	100
REACH compliance Tier 2 (%)	–	–	8	44	40	80	100
<b>Management</b>							
Safety incidents (Level 3)	2	9	10	8	0	0	0
HSE audits	61	66	61	66	–	–	–

We have global Health, Safety, Environment and Security policies, directives and standards in place to ensure we protect people, assets, the environment, our business and society at large.

Our 2010–2011 HSE strategy identified safety management as a key improvement issue for the next five years. Our ambition for 2015 is to perform in the top quartile of our safety peer group.

Management leadership, behavior based improvement processes and operational discipline are the building blocks to changing culture and achieving our ambitions. Safety information is presented in our internal quarterly reports and reviewed by our Executive Committee during the performance review cycles. Safety improvement programs for both occupational and process safety are in place at our businesses and related ambitions have been set for 2015.

Although we have seen an improvement in the safety performance for employees and supervised contractors, we have not entirely met our 2011 ambition: TRR ambition was 3.0 vs 3.1 actual performance. It's a similar situation in terms of the performance of our independent contractors. One of the reasons for this might be the delay we have encountered in the full implementation of our behavior based safety (BBS) processes. Specifically, implementation in our paint stores operations required a dedicated and tailor-made approach. This is under development and will be finalized and rolled out in 2012 in North America, followed by Europe.

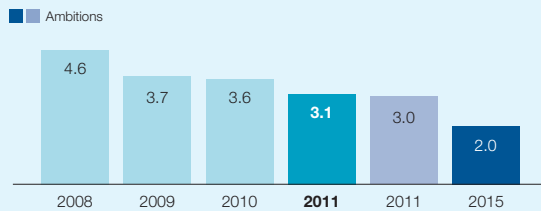


**Employee and contractor safety**

We focus on health and safety in the workplace as this is one of the greatest risks in the chemical industry. Performance on occupational safety is measured by the total reportable rate (TRR) of injuries for employees and supervised contractors (per million hours worked). The 2015 ambition is set at <2.0 for both employees and supervised contractors.

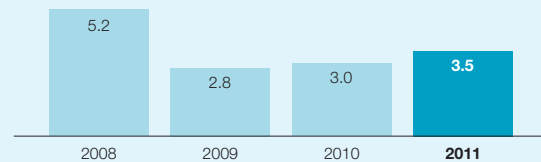
We continue to focus on improvement actions by applying BBS processes, which involve the support of employees in reducing unsafe situations and unsafe behaviors.

**Employee and supervised contractors total reportable injuries injury rate**



2008 data includes employees only.

**Independent contractors total reportable injuries injury rate**



2008 data includes supervised and independent contractors. The TRR is the number of injuries, including fatalities, resulting in a lost time case, restricted work or requiring medical treatment by a competent medical practitioner per million hours worked.

- The TRR for employees and supervised contractors improved to 3.1 injuries per million hours worked (2010: 3.6). The rate for independent contractors was 3.5 injuries per million hours (2010: 3.0)
- Six of our businesses (2010: five) and 69 percent of our units (2010: 66 percent) were exceeding our 2015 ambition level (TRR <2.0)
- More than 76 percent of our manufacturing sites are working according to the principles of the BBS improvement process
- We have selected a number of units (roadmap sites) which are facing difficulties in achieving these high ambitions. These units will receive special attention and support to bring them to the desired performance level
- In September, we organized a second global AkzoNobel Safety Day, during which employees made their personal pledge towards safety in both their working and private lives
- Since launching our safety induction training for new and existing employees, 2,563 employees have taken and passed the multi-language e-learning online evaluation (passing score is 80 percent)

**Employee health**

As well as ensuring a safe working environment, we also focus on employee health and managing illness absence.

**Employee health**

	2009	2010	2011
Total illness absence rate	2.0	1.9	2.0
Occupational illness rate	0.4	0.3	0.3
Wellness Checkpoint use	-	>5,000	>8,800

- The total illness absence rate is stable at 2.0 percent (2010: 1.9 percent). We will keep monitoring this indicator for the whole company, aiming to stay at a level around 2.0 percent, but will not set new long-term ambitions
- The occupational illness rate for employees and

supervised contractors stands at 0.3 illnesses per million hours worked (2010: 0.3). With our expansion in high growth countries, we recognize that there are challenges associated with cultural aspects – health beliefs and the emphasis on group importance rather than the individual – as well as differences in healthcare

- Our health assessment tool, the Wellness Checkpoint, is being used by an increasing number of employees and their families. By the end of 2011, around 8,800 people had participated in the health assistance program
- Businesses continued to implement the health management standard during the year

**Safe driving**

Road safety remains a priority area. Analysis of serious motor vehicle and distribution incidents revealed that the majority of cases involved non-compliance with traffic regulations.

**Motor vehicle incidents**

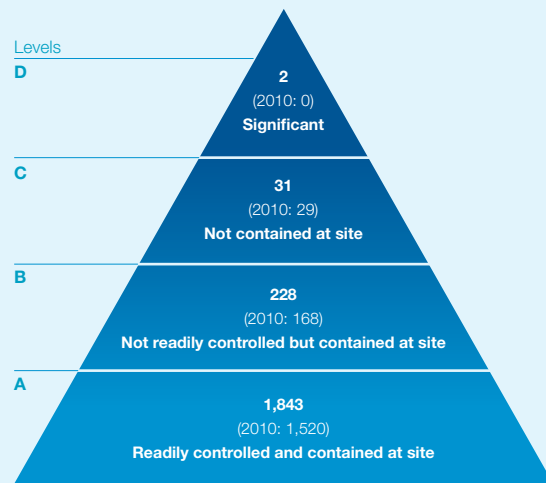
	2009	2010	2011
Incidents with injury	31	34	29
Fatalities – employees	-	1	0

- During 2011, there were 29 (2010: 34) incidents involving injury, as well as four fatal accidents (2010: 4) involving a member of the public
- There is a company-wide defensive driving program (using e-learning) for those who drive on company business. Approximately 3,000 employees have already participated
- Drivers at risk (covering more than 20,000 business miles) are also advised to take regular hands-on safe driver training
- A good practice guidance note was issued in 2011 to support business implementation

We use “loss of primary containment” as our main indicator of asset/integrity/process safety performance at our manufacturing sites.

Loss of containment incidents are divided into four categories depending on severity, from small on-site spill (Level A) to a significant escape (Level D).

**Loss of containment incidents**



Comparing 2010 and 2011, we see an increase in reporting loss of primary containment. This is a comparatively new reporting requirement, so the figures indicate more awareness and management attention at our sites for process safety issues.

- There were two loss of containment incidents (Level D) during 2011 (2010: 0). At our site in Stenungsund, Sweden, ethylene oxide was lost to sea during a maintenance operation in May. An in-depth investigation was carried out and results shared with the authorities, while preventive and corrective actions were taken by site management. Environmental monitoring indicated that damage to the marine environment was limited. In December, a second incident took place at the same site when a smaller quantity of ethylene oxide was spilled. This led to a thorough review to confirm that recommendations from the first incident investigation had been followed through
- We use the HSE audits, the annual self-assessments and the defined performance criteria to monitor progress and identify sites that need help. A number of units (sites in focus) will receive special support
- Our process safety/asset integrity standards were supplemented with guidance notes/best practices during 2011
- Process safety awareness training sessions, for site managers and new process safety professionals, were developed and executed in 2011

Following a major incident at a Dutch chemical company, the national authorities have intensified their safety inspections at production sites that fall under the so-called post-Seveso regime (called BRZO – “major hazard control” – in the Netherlands). We have introduced an HSE Country Manager for the Netherlands who will coordinate the company-wide approach to ensure full compliance with the BRZO rules and regulations. The concept of coordinating HSE issues at country level will be used as a repeatable model for other countries.

Product safety/stewardship encompasses all product aspects of undertaking business in a socially aware, environmentally sound and ethical manner.

### Distribution

Distribution of product is one facet of product stewardship. Our aim is to eliminate incidents associated with the distribution of our product by ensuring that our contracted distribution companies have high safety standards in place and by auditing their performance.

#### Distribution incidents

	2009	2010	2011
Road	44	82	67
Sea	7	5	3
Rail	1	4	10
Air	0	0	0
<b>Total</b>	<b>52</b>	<b>91</b>	<b>80</b>

### Product stewardship

Product stewardship has been incorporated into the company's HSE and operational eco-efficiency agenda for 2011–2015, with a clear direction for building a comprehensive product safety platform, based on:

- A clear definition of the methods and controls required to safeguard the correct use of materials with intrinsic hazards
- Prioritization of substances by incorporating the requirements of the UN Globally Harmonized System of Classification and Labeling (GHS)
- Management of these priority substances, including phase-out if required. This has led to the phasing out of some materials including lead compounds. The product stewardship and regulatory affairs community works closely with Research, Development and Innovation (RD&I) to establish suitable alternatives

We have established an initiative to assess all priority substances used by AkzoNobel, throughout their lifecycle, by 2015. In 2011, a number of materials were assessed. This commitment to better controlling or replacing materials with unsuitable risk will ensure that our material and products can continue to be used by all stakeholders in a safe and cost effective manner. This work is carried out by a dedicated team of professionals, who ensure the product stewardship agenda is firmly established in our business culture. A better understanding of information related to our materials and products is also showing benefits in terms of portfolio management. Greater harmonization of our systems across businesses not only minimizes costs, but also leads to consistent data use.

Our key biocide suppliers conduct plant hygiene audits and hence reduce the amount of biocides used. Also, together with our key biocide suppliers, we are studying the efficacy and application of slow release biocides to protect our paints, the goal being to apply less fungicides and algaecides.

### Regulatory affairs

We continue to devote considerable resources to meet our legal obligations and ensure we can continue manufacturing and marketing our products in all countries where we operate. Our current priority activities include:

- Within Europe, to meet our obligations under Phase II of the EU REACH requirements in mid-2013
- Developing more harmonized substance classifications. This is resource consuming, but we see the benefits to manufacturers and users in establishing correct, meaningful and harmonized classifications
- Continuing to support the High Production Volume (HPV) program in the US and to ensure we meet any subsequent regulatory requirements
- Supporting the voluntary production of product stewardship summaries for all our substances under the Responsible Care® program

- Continuing with several advocacy initiatives to promote a more harmonized way of introducing chemical legislation. Initiatives in China, the US, Malaysia, Taiwan, Japan and South Korea have been beneficial. Support for global initiatives through various trade associations and the International Council of Chemical Associations (ICCA) will also continue

In addition to legal requirements, we continuously strive to ensure that our products are developed, manufactured and marketed in a manner which supports their long-term sustainability. We will drive for more sustainable alternatives, the minimization of non-renewable resources and the continuous reduction of materials with risk in use.

**Management systems**

Operational management systems at our sites are integrated for quality and HSE. They are risk-based and follow the Responsible Care® and Coatings Care® principles. Our HSE management standards are set up and updated in accordance with international standards such as ISO-14001, RC-14001 and OHSAS-18001. In 2011, we verified our corporate HSE process safety framework against the PAS 55 (public standard for process safety). Any identified gaps will be closed in 2012. Many sites and businesses have additional external certification for their management systems, which are subject to audit by our internal audit group and external audits from certification authorities.

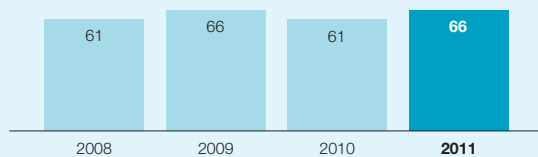
**External certification**

in % of production	2010	2011
ISO-14001/RC-14001	72	73
OHSAS-18001/RC-14001	35	37

**HSE audit**

The HSE audit process combines a continuous improvement tool for sites with a periodic audit managed by our internal auditing department. For most sites, the audit frequency is every five years. For sites with an intrinsic high hazard rating, this frequency is every three years.

**Management audits** number of audits



During 2011, we carried out 62 corporate HSE audits (2010: 51) and four reassurance audits (2010: 10), which

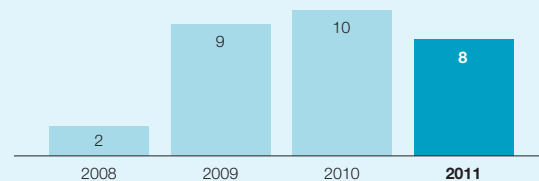
are required for sites with high risk findings. Learnings from the 2011 audits indicate that we need to continue to improve our management of occupational health, asset integrity and, to a lesser extent, security.

We run regional training sessions for auditors in North America, Latin America, Europe and Asia to calibrate the classification of audit findings, and share good practice and new developments.

**Safety incidents**

We classify incidents based on severity of outcome, from local impact (Level 1) to the highest category (Level 3). All safety incidents are investigated to identify root causes, take remedial action and share learning. Sharing takes place via direct notifications and the issue of HSE alerts, as appropriate, across our sites.

**Safety incidents**



Safety incidents (Level 3) involve any loss of life; more than five severe injuries; environmental, asset or business damage totaling more than €25 million; or extensive reputational damage.

There were eight (2010: 10) safety incidents (Level 3). We regret that two employees, one independent contractor and four members of the public died as a result of these incidents. The number of Level 1, 2 and 3 safety incidents totaled 36 (2010: 32).

- Two colleagues died while carrying out their jobs. One while performing inspection tasks at a customer shipyard in China, and a second at one of our sites in Singapore

- One independent contractor died while performing community work on behalf of AkzoNobel outside our premises in Pakistan
- Four distribution incidents (in Colombia, Malaysia, Indonesia and Germany) involved the loss of life of four members of the public
- There were two environmental incidents. Both involved the loss of ethylene oxide to surface waters in Sweden: one is classified Level 1 and the other Level 3 (see Note 6 of this section)

The majority of safety incidents this year happened outside our own premises. A greater focus on haulage contract management and implementation of safe defensive driving practices has therefore been initiated.

(For further details on preventive action, see Notes 5 and 7 in this section.)

**Regulatory actions**

We have defined three categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3).

**Regulatory actions**

	2009	2010	2011
Regulatory actions Level 3	3	4	0

There were no Level 3 regulatory actions in 2011 (2010: 4).

**Security management**

Security of assets, people and information is an integral part of our HSE management system. Security assessments help our sites to identify risks and put in place appropriate security protection, as well as meeting the demands of increasingly strict legislation in the US and Europe.

## Painting a brighter future

If one thing is driving innovation at the moment it's the heightened level of concern about the environment. In the European coatings industry, one particular focus of government regulation is the use of VOC compliant varnishes and paints for all interior finishing. This is already in force for permanent installations such as cabinetry, flooring and windows and it is anticipated that the same requirements will soon be placed on movable furniture.

This impending change will have a wide-ranging and significant impact, particularly on the wood coatings industry. It means that conventional, solvent-borne varnishes – which have been used for generations to apply a beautiful, durable finish – will have to be replaced. Many original equipment manufacturers (OEM) of wood products have already switched to more sustainable waterborne and UV cure formulations, but these products typically require sophisticated application equipment, which is not practical for use in custom workshops.

Chemists at our Wood Finishes and Adhesives business have also been busy working on this switch to more sustainable technology and have created a new waterborne varnish which solves the custom workshop dilemma. Marketed under the Zweihorn brand, our new Duocryl waterborne, high gloss varnish has all the properties of outstanding brilliance, depth and a perfect gloss, but without the application costs and complexities. Sandable after six hours, it gives craftsmen and custom workshops the first, practical waterborne high gloss finish while reducing the impact on the environment.



## Key performance indicators – employees

	2008	2009	2010	2011	Ambition 2011	Ambition 2012	Ambition 2015
Online P&D Dialog participation (% of employees) <sup>1</sup>	60	72	76	78	90	–	95
Women executives (%)	8	10	12	13	–	14	20
Executives from high growth markets (%)	10	11	12	13	–	14	20
MEP training participation (cumulative number of employees)	527	2,256	4,354	5,696	5,938	–	6,637
AMP training participation (cumulative number of employees)	0	452	873	1,371	1,484	–	1,659
Employee engagement (mean score out of 5) <sup>2</sup>	78	80	3.56	3.74	3.76	–	4.33

<sup>1</sup> 2008 data excludes former ICI employees.

<sup>2</sup> From 2010, our employee survey changed from % favorable to Gallup Q12 GrandMean: average of mean scores for each question (out of five).

## Leadership pipeline

A strong leadership pipeline is crucial to supporting our growth ambitions, particularly in our target high growth countries.

## Retention of leadership talent

in %	2009	2010	2011	Ambition 2011	Ambition 2015
Retention of leadership talent	98	97	96	95	95
Retention of leadership talent – under-represented group (women and high growth market employees)	96	96	94	95	95

In 2011, we were able to consistently retain our leadership talent at or around our ambition level. This was also the case in our high growth markets, where competition for talent is particularly high.

To develop our leadership pipeline, we are working hard to deepen our understanding of future market needs, identify the talent that we already have and further improve our planning to ensure we can meet new requirements. For example:

- Leadership Talent Reviews in our businesses and functions play an important role in identifying potential talent early, managing succession planning and structuring individual development
- Our top management is actively involved in facilitating career development moves
- During 2011, we made good progress in delivering on individual development plans and achieved improvement both in the number of cross-business moves made by our employees and in the diversity of our executives
- Our performance improvement program is providing opportunities for managers to lead significant improvement projects which will help to create a stronger AkzoNobel

## Performance and Development Dialog

The P&D Dialog is AkzoNobel's global performance appraisal and employee development program. All employees are required to participate. Our company values and success factors (behavioral competencies) are an integral part of all development discussions and are integrated into the system and annual performance appraisal process. In 2011, 78 percent (2010: 76 percent) completed their P&D Dialog online, with the rest of our employees completing their performance reviews using the traditional paper-based system.

## Management development programs

We have two main management development programs. The Management Essentials Program (MEP) is designed to give all managers the fundamental skills needed to properly manage their people. The Advanced Management Program (AMP) is designed to help more senior or middle managers become more proficient at leading larger, or more complex organizations, develop leadership talent among their staff and create high-performing teams spanning various functional areas.

### Management Essentials Program

cumulative participants

	2008	2009	2010	2011
Europe	182	732	2,039	2,562
Americas	117	796	968	1,341
Asia	228	728	1,212	1,642
Other			135	151
<b>Total</b>	<b>527</b>	<b>2,256</b>	<b>4,354</b>	<b>5,696</b>

### Advanced Management Program

cumulative participants

	2008	2009	2010	2011
Europe	–	199	441	695
Americas	–	80	201	309
Asia	–	173	172	298
Other			59	69
<b>Total</b>	<b>–</b>	<b>452</b>	<b>873</b>	<b>1,371</b>

By the end of 2011, 5,696 managers from across the company started the MEP program, representing, in total, 81 percent of the total target population of first line managers. Overall, 1,371 senior managers have participated in the AMP to date, which represents, in total, 79 percent of the target population of senior managers.

## AkzoNobel Academy

In 2011, we set up the AkzoNobel Academy. It will ensure – in a clear and transparent way – that the same courses, standards, processes and methodologies are available across the organization for project management, leadership development or core processes. The Academy will offer employees training to improve in their current roles, or to progress within the company.

## Functional training

This section includes examples of functional training available to employees.

### Training HR employees

In 2011, we launched a pilot of our HR Business Partner Program in the Netherlands to strengthen the capabilities of our HR professionals. The modular program aims to develop the skills and behaviors of our HR Business Partners in engaging with leaders and managers, and to provide them with the tools they need to achieve their objectives. A group of 24 HR professionals participated in the pilot in 2011. In 2012, we plan to roll out the program to other countries and reach a group of up to 100 HR professionals across AkzoNobel.

### Training sourcing employees

The AkzoNobel Procurement Faculty provides standardized training for our worldwide procurement professionals. From 2007–2011, we trained more than 500 purchasers in strategic sourcing methodology, communications, leadership skills, processes and systems in various parts of the world.

A new branch of the Procurement Faculty is the Procurement Executive Potentials (PEP) program, in which 40 employees took part. The ten-day program is designed to groom the company's next generation of procurement leaders and further encourage operational excellence. All participants were hand-picked based on long-term talent reviews. They worked for six months on learning projects derived from the strategic procurement agenda, which they presented to Executive Committee members before they took part in a three-day leadership journey. The final part of the program involved a one-week training program on procurement leadership competencies with a strategic outlook, such as sustainability and purchase to pay processes.

## HSE training

Our Safety Leadership program targeted at senior business leaders continues to be rolled out across business management teams. The objective is to help senior managers become personal role models for safety in their organizations and to ensure the right level of management support for improvement activities.

An HSE alert system, to share learning on safety incidents and near misses, is operational and reaches out to our leaders and professionals worldwide.

Activities to strengthen our HSE capability standards and development processes are progressing to plan. The competency framework and role profiles have been defined and include management roles with critical HSE functions (production managers and site managers). The framework has been integrated with other HR relevant tools such as the annual Performance and Development Dialog, individual career planning, structured job family models, dual career ladders and the Hay function appraisals. With the help of learning advisors, an HSE faculty is being developed to enable HSE professionals in HSE critical functions to obtain professional training for their personal development.

We strive to draw from as wide a talent pool as possible and create a working environment where differences are valued and where everyone has the opportunity to develop their skills and talents. To achieve this, we have had a dedicated Diversity & Inclusion (D&I) program in AkzoNobel since 2008. The goals of the program are to create awareness and engagement around diversity, to embed the concept in the organization, to establish company-wide metrics and to make AkzoNobel a true reflection of the markets in which we operate.

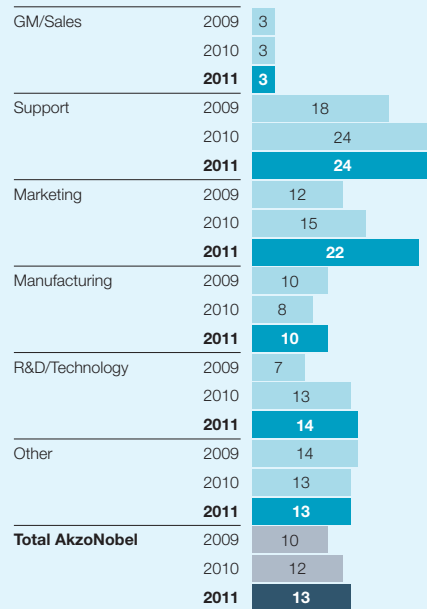
We have made good progress with D&I in recent years. For example, we have improved the proportion of our executives who are either women or come from high growth markets. Since the start of 2009, the proportion of women in executive positions has increased from 10 percent in 2009 to 13 percent of the total population in 2011.

The presence of women in executive positions has been particularly strengthened in functional roles over the past two years, especially in HR, Finance, Purchasing, Legal, Marketing and, to a lesser extent, Sales and Manufacturing. With regard to executives in high growth markets, we have made less progress, although the proportion of executives coming from these markets is now 13 percent.

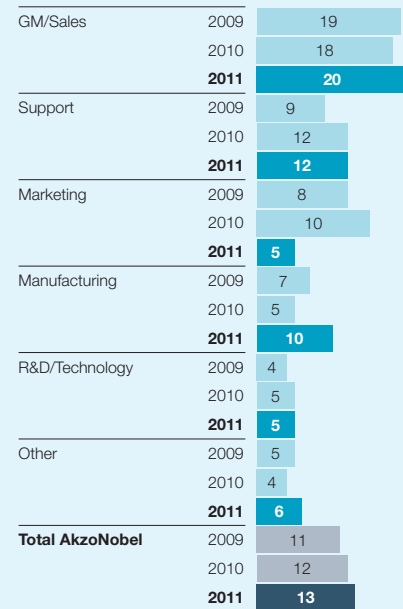
**2011 employee diversity**

in %	Executives	Executive potentials	Total AkzoNobel
Female	13	26	23
Male	87	74	77
High growth markets	13	31	41
Mature markets	87	69	59

**Executive diversity: female in %**



**Executive diversity: high growth markets in %**





In 2011, a number of initiatives were put in place to further embed D&I in the AkzoNobel culture. These included:

- Three-step D&I program: All of our businesses have now gone through this comprehensive program, which culminates in a customized five-year action plan to improve D&I
- D&I awareness training for managers in the skills needed to create and sustain diverse teams: 2,000 of our managers have already completed the training
- D&I e-learning module for all employees: Nearly 20,000 employees globally have completed the training program
- Mentoring program established: Targeted at our key focus groups – women and employees from high growth markets, this has led to the development of more than 100 mentor and mentee relationships
- Women in Leadership program: This was developed for women executives and executive potentials to better understand the challenges faced by women in leadership positions. A total of 80 women attended the three courses held in 2011

We aim to become one of the top companies when it comes to employee engagement by creating a working environment where people feel valued and are given the right conditions to perform at their best. We use our ViewPoint engagement survey to monitor progress. This is based on the Gallup Q12 survey and provides a comparison against nearly 500 organizations.

**Employee survey scores for each engagement item**



- Almost 49,000 employees took part in the survey – 88 percent of the global workforce (2010: 79 percent)
- Our overall engagement score has improved to 3.74 or 33rd percentile (2010: 3.56 or 23rd percentile). The biggest improvements came from teams that had followed through on their actions to improve engagement levels
- More than 500 teams achieved an engagement rating in the top 25 percent (2010: 184)

The most significant change was that employees felt positive about the amount of recognition they received at work. Having a best friend at work and personal progress were two other factors that showed the most improvement, as well as clear improvement in company attention to safety. The results are available at team level and consolidated at business unit, function and company level. Managers are trained to feed back results and develop a team improvement plan.

Compared with peer companies in the Gallup database, this puts AkzoNobel in the third quartile. Plans to remedy the gaps are already in place, including improving communications from senior managers to employees and offering support for all people managers. This will allow managers to work better with their teams.

In 2011, we continued to restructure our business to meet the needs of our customers and deliver our company strategy. We are committed to supporting our employees during such reorganizations. We do this in compliance with legal requirements and, where applicable, in consultation with employee representative bodies. We strive to ensure clear and ongoing communications, transparent selection processes and, in many cases, support in the transition from work to work, which can include training and out-placement. While restructuring is a business necessity, our responsibility as an employer stretches to those who unfortunately have to leave our company. The company has announced a performance improvement program, which will have implications on our employee numbers.

Community involvement is an integral part of the social pillar in our Sustainability framework (see Note 1 in this section). The requirement to engage with local communities is also embedded in our HSE standards and is part of our auditing cycles. Our main societal contributions fall into three areas:

1. Support to community/social development through the AkzoNobel Community Program and AkzoNobel Education Fund
2. Improve prosperity in society through products and partnerships
3. Social contribution of our overall business activities

There is a growing trend towards combining business strategic drivers with societal contributions. Strategic drivers include: license to operate, employee development, company and product branding and market growth through increased prosperity in society.

### Community Program

Our Community Program allows sites and individuals to take part in projects where our products/resources and the skills and knowledge of employees can benefit the wider community. In the past five years this has led to a variety of projects, from educating underprivileged youngsters to creating more awareness about the importance of a clean environment. It also provides opportunities for employees to develop team-building and leadership skills.

Since the start of the program in 2005, more than 8,000 volunteers from 50 countries have worked on over 1,600 projects, representing approximately €11 million in investment. Nearly 70 percent of projects have supported educational/employability and healthcare/well-being activities, with environmental and housing projects also well represented.

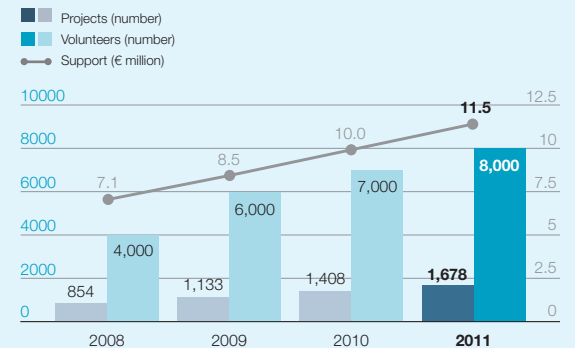
The fund is also available to support post-relief efforts for major disasters in countries where we operate, as long as there is hands-on involvement by our employees.

For example, in 2011, our employees set up a cross-business initiative called ALERT (AkzoNobel Emergency Response Team) to support those left injured and homeless in Java following the eruption of the Mount Merapi volcano. The initiative focused on four main areas: providing free healthcare services, reforestation of destroyed land, reconstruction of the infrastructure and raising morale of children affected by the disaster through entertainment.

In 2011, 270 new projects were initiated, while more than 3,500 employees voted for their favorite entries in our annual Community Program Best Practice competition.

First prize went to employees in our Decorative Paints business in Mumbai, India, who have helped to set up a 150-acre model farm.

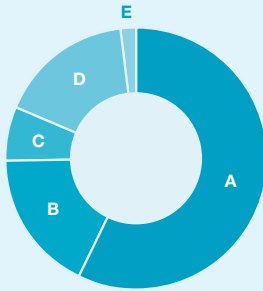
### Cumulative Community Program involvement



## Value chain

### 2011 projects by region

<b>A</b> Europe	155
<b>B</b> North America	47
<b>C</b> Latin America	18
<b>D</b> Asia	45
<b>E</b> Africa/Oceania	5



### Education Fund

The Education Fund was created at the end of 1994 in order to make a contribution to the education of children in developing countries. Since being launched, it has changed the lives of tens of thousands of young people by supporting projects from school renovation in Burkina Faso, through improving sanitation and hygiene conditions at schools in Vietnam, to improving the capabilities of primary school teachers in Brazil.

Plan Nederland estimates that several thousand children aged three to 16 have directly benefited from quality pre-school and primary education provided by the Education Fund.

In 2010, three new projects were initiated in Vietnam, India and Brazil to help young people – in many cases girls – find decent and safe employment that offers them long-term prospects. It is estimated that a special fundraising campaign in 2011 will raise around €150,000, which will enable us to provide around 500 young people with vocational training opportunities.

### Key performance indicators – value chain

	2008	2009	2010	2011	Ambition 2015
Eco-premium solutions (% of revenue)	18	18 <sup>1</sup>	21 <sup>1</sup>	22	30
Reduction in cradle-to-gate carbon footprint per ton of product from 2009 (in %)	–	–	3	2	10

<sup>1</sup>Restated numbers (see Note 14 in this section).

This section shows our sustainability performance and improvement activities to reduce our impact across the value chain. Our ambition is to achieve top quartile eco-efficiency improvement rates (across the value chain).

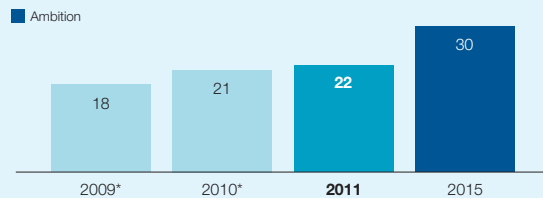
Eco-premium solutions help to create value for our businesses and our customers. They provide top line growth opportunities because of their improved performance in areas such as raw material use, manufacturing processes and product innovation.

These solutions demonstrate improvements in our own operations and across the entire value chains in which we operate. Downstream, we seek to offer solutions that allow our customers, or their customers, to reduce their footprint. Upstream, we achieve improvements by working with our suppliers to reduce their eco-footprint, or to identify new and lower footprint process, formulation or application routes to meet our customers' needs.

We have an ambition to increase the share of revenue from eco-premium solutions to at least 30 percent in 2015. This is a challenging objective because the measurement will be taken against the mainstream, or standard, product in the market, which is a moving target.

Our businesses carry out an annual assessment of their portfolio.

**Eco-premium solutions** in % of revenue



\*Restated numbers

An eco-premium solution is measured using a quantitative analysis or a qualitative assessment focusing on six categories: toxicity, energy efficiency, use of natural resources/raw materials, emissions and waste, land use and risks (e.g. accidents). The eco-premium solution must be significantly better than currently available solutions in at least one criterion, and not significantly worse in any.

In 2011 we focused on a more detailed understanding of our markets and the mainstream solutions when applying the eco-premium solutions definition. This led to the conclusion that we need to restate 2010 and 2009 numbers on a comparable basis.

The total revenue relating to eco-premium solutions was about €3.5 billion in 2011. The proportion of revenue from eco-premium solutions has increased to 22 percent (2010 restated: 21 percent). This is divided between Specialty Chemicals (24 percent), Performance Coatings (15 percent) and Decorative Paints (27 percent).

We have seen lower growth in some markets and faced market movements with the result that some of our eco-premium solutions portfolio is now mainstream in some markets or regions (e.g. move to water-based paints and coatings). This now excludes some products from our eco-premium solution listing.

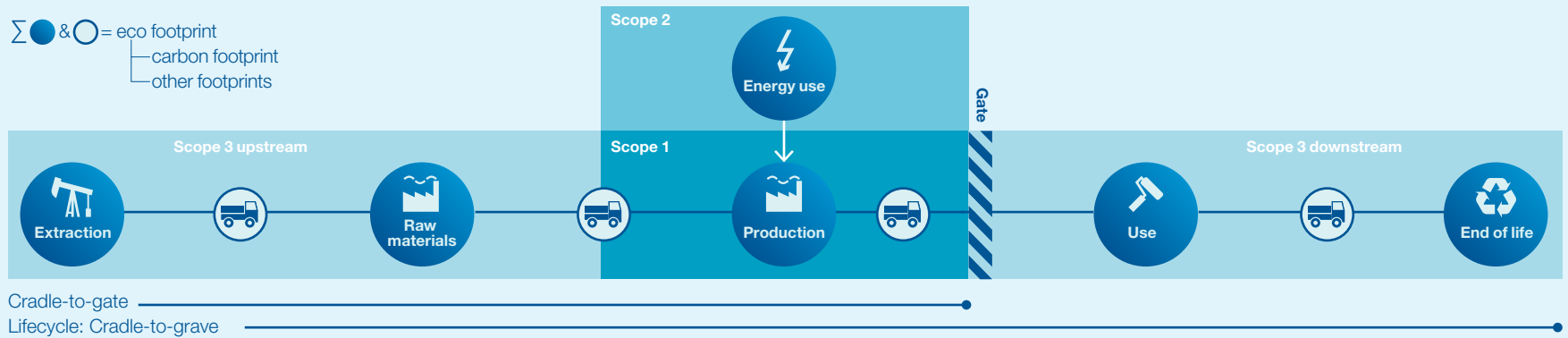
On the other hand, we have placed new products and solutions in the market that are better than the current mainstream solution, which compensate for points explained above, leading to an increase of 1 percent in eco-premium solutions when compared with 2010 (using the restated numbers).

We are committed to taking a leadership role in the reduction of VOCs within the coatings and paints industry and plans have been put in place to ensure that a 25 percent reduction in the volume weighted average VOC content of Decorative Paints and Performance Coatings products is achieved by 2015. This will also reduce the greenhouse gas footprint of the use phase of our products.

A cross-business group, including RD&I, marketing and product stewardship, has created a comprehensive model of VOC use across the Decorative Paints and Performance Coatings Business Areas. This has provided a thorough analysis of the 2009 VOC baseline and a robust forecast of the position in 2015, with an annual evaluation process in place to measure our performance.

During 2011, we evaluated the 2010 data. It shows that within Decorative Paints, we have realized an 11 percent reduction in average VOC content per ton of product compared with the baseline position. This has been accompanied by a 2 percent absolute decrease in VOC usage within Decorative Paints.

**The product lifecycle**



We recognize that the effects of climate change are likely to have fundamental impacts on the environment, society and the economics of industrial activity. Our Carbon Policy commits us to move beyond controlling emissions from our own operations towards managing the strategic risks from dependence on fossil-based fuels and raw materials. In line with our commitment to develop eco-efficient solutions for customers, we acknowledge the societal imperative, as well as the business opportunity, of managing our carbon footprint through innovative products, technology and energy management.

We have a cradle-to-gate carbon footprint intensity ambition for 2015 to reduce our carbon footprint by 10 percent per ton of product, compared with 2009. Our 2020 ambition is to reduce by 20–25 percent, compared with 2009. We also aim to control the absolute Scope 1 and 2 (own operations) greenhouse gas emissions of our current business portfolio to ensure that they are no higher than extrapolated 2008 levels.

This year is the third time we have assessed the cradle-to-gate footprint of our operations. We have now

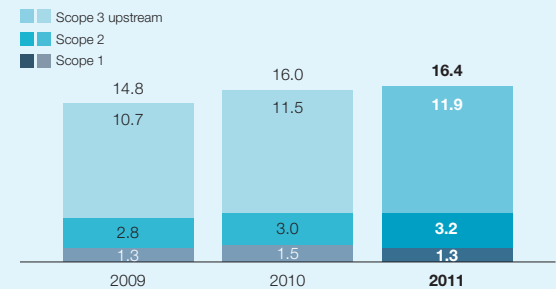
assessed 330 key value chains over the last three years (2009: 158; 2010: 286). This year's assessment indicates a total footprint of around 16.4 million tons CO<sub>2</sub>(e) assessed cradle-to-gate for our ongoing businesses. There was an additional 0.30 million tons CO<sub>2</sub>(e) in Scope 1 and 2 reported from Chemicals Pakistan. As in previous years, the cradle-to-gate assessment indicated around 70 percent was from raw materials extraction and processing (Scope 3 upstream) and under 30 percent from our own direct and indirect emissions from energy use.

The results of the cradle-to-gate assessments show a reduction of around 2 percent from about 850 kg/ton in 2009 to approximately 830 kg/ton in 2011 on a comparable basis.

2011 absolute Scope 1 and 2 emissions, including Chemicals Pakistan, are at 4.8 million tons CO<sub>2</sub>(e) (baseline 2008: 4.6 million).

In addition, we have evaluated downstream and end of life scenarios for key product applications in order to identify improvement opportunities.

**Cradle-to-gate carbon footprint in million tons of CO<sub>2</sub>**



The carbon footprint of the six main greenhouse gases is measured from cradle-to-gate based on the international Greenhouse Gas (GHG) Protocol and Lifecycle Assessment ISO 14040-44. See Assessment method. 2009 and 2010 cradle-to-gate data has been restated to reflect changes in raw material data.

### Assessment method

Each business calculates its cradle-to-gate carbon footprint annually. The AkzoNobel carbon footprint is obtained from the sum of all business carbon footprints. The data is verified at business level and critically reviewed and audited at corporate level.

We measure and report our cradle-to-gate carbon footprint using boundaries in line with financial reporting. The assessment is carried out using recognized tools, staff experienced in lifecycle assessment and according to the Greenhouse Gas (GHG) Protocol. Cradle-to-gate includes Scope 1 and 2 and Scope 3 upstream.

We have developed a central raw materials/energy database to provide consistency/transparency of data use for the Scope 3 upstream footprint. This database includes default or proxy data which has been selected as the most representative data from recognized data sources, as well as specific supplier data. The absolute Scope 3 data and year-on-year comparison provide indicative assessments.

Direct (Scope 1) and indirect (Scope 2) GHG emissions are reported from about 300 reporting units via the AkzoNobel HSE Accounting System. The business unit carbon footprint calculation is based on two related methods:

- Extrapolation from key value chains – defined as products or groups of products with similar footprint characteristics, which represent at least 80 percent of total business unit revenue/production
- Assessment of total raw material footprint from purchased materials and total production and transport energy use

We continuously update our raw materials database and the value chains. We have restated the 2009 and 2010 data on a comparable basis to 2011.

### Improvements

We continue to focus on improving the energy efficiency and managing the fuel mix of our energy intensive businesses to reduce greenhouse gas emissions and potential carbon costs. We are also committed to reducing the impact of our raw materials and developing solutions that help our customers to reduce their energy requirements.

Businesses have developed carbon management plans which identify specific improvement opportunities and programs. These plans are consolidated at company level to manage carbon reduction against our ambitions. Examples of programs in place include:

- Material strategies for key raw material groups (e.g. solvents and resins)
- Renewable raw materials
- Energy strategy including renewable energy targets and ambitions
- Joint activities with suppliers to reduce the footprint of key raw materials
- Reformulations using lower footprint raw materials
- New curing developments to reduce energy use during product application
- Site programs to improve yields, reduce waste and improve energy efficiency

In addition to activities to reduce energy use and greenhouse gas emissions in our value chain, we participate in different business initiatives, such as the WBCSD Chemical Sector group for carbon reporting. Our carbon management and performance is reported through the Carbon Disclosure Project. We have also taken an active part in developing the GHG Protocol Accounting and Reporting Guidelines for product lifecycles and corporate value chains (Scope 3). During 2012, we will evaluate how to cover and measure all Scope 3 categories in this new standard.

### Raw material strategies

We are working to “future-proof” our supply chains in order to:

- Ensure we will continue to be able to obtain the raw materials that we need to be successful with our products
- Contribute to footprint reduction, which will require appropriate raw material and intermediates supply

In 2011, we developed a strategy for the sourcing of resins, TiO<sub>2</sub> and solvents. Sustainability was integral to the development of the strategy. We identified a number of opportunities to reduce footprint through complexity reduction, raw material substitution and supplier selection. Implementation is part of the performance improvement program we launched in 2011.

We have discussed this with a number of major suppliers to identify improvement opportunities. Examples include:

- An analysis of one of our key raw materials showed a factor three difference in carbon footprint between the best and the worst supply site. This can make a major contribution to decreasing the cradle-to-gate carbon footprint of our products
- Solvents’ cradle-to-gate carbon footprint is a considerable part of our total footprint. However, the footprint after leaving AkzoNobel (gate-to-grave) is many times higher. By redefining our solvent supply, we will reduce complexity and costs, as well as improve health impact, environmental hazards and greenhouse gas footprint

### Renewable raw materials

We are also developing a renewable chemicals and white biotech, or chemicals from biomass, strategy. We already have an advantage in this area as we use more than average volumes of renewable chemicals, i.e. 9 percent of our raw materials have a renewable element, versus approximately 3 percent for the chemical industry as a

### Emission limits for European lease cars

g/km	2009–2010		2010–2011		2011–2012	
	Diesel	Petrol	Diesel	Petrol	Diesel	Petrol
Category 1	135	160	125	150	120	145
Category 2	155	180	145	170	135	160
Category 3	175	200	165	190	163	188
Category 4	195	220	185	210	175	200

whole. We intend to further boost this percentage by increasing the use of renewable raw materials in our resins and latex supply chain. Further targets for innovation and procurement are under development.

An example is one of the raw materials for resins. By switching from using ECH (epichlorohydrin) produced from fossil sources to using epicerol produced from vegetable oil, an overall carbon footprint reduction of more than a third can be achieved. We are also at the forefront in renewable energy (see Renewable energy in Note 18 in this section).

### Transport

#### Car lease

Although our emissions from transport are low compared with raw materials and our operations, this is an area where many employees can contribute to emission reductions. The CO<sub>2</sub> reduction policy for passenger cars was introduced in 2009, with a ambition of 130 grams of CO<sub>2</sub> emission per kilometer by 2013. In Europe, we have set emission caps, which are reduced each year following developments in engine technology. In 2011, the CO<sub>2</sub> average for new cars was 131 CO<sub>2</sub> g/km. The figure for all cars is now 143 g/km in Europe (down from 159 g/km).

#### Logistics

Sustainability is one of the five major criteria of the supplier selection process. A questionnaire on sustainability has also been included in the tender process, resulting in a clear sustainability picture of around 50 carriers. This will

be used during carrier selection and sustainability targets will be included in the service level agreement.

### Supplier management

Our main objective is to create a sustainable supplier base, supporting our license to operate.

#### Vendor Policy

Our Vendor Policy clearly states that we want to do business with trading partners who endorse our ethical values and our social and environmental standards. We therefore require suppliers to sign our Vendor Policy Declaration, which is based on the AkzoNobel Code of Conduct. In a gradual process of enhancing assurance that our business partners comply with our Vendor Policy, the socially responsible performance of our business partners will be verified to create a sustainable supplier base, supporting our license to operate.

- Our Vendor Policy is continuously verified. Currently, 95 percent of product-related spend is from suppliers who adhere and nearly 77 percent for non-product related (NPR) spend
- We will target further improvement in 2012, aiming for 96 percent product-related supplier compliance and 80 percent non-product related compliance

#### Supplier support visits

Our supplier support visits (SSV) program was established to verify that the business principles and practices of our critical suppliers in high growth markets comply with

our Vendor Policy. It also helps suppliers to improve their health, safety and environmental standards. The purchasing community, together with HSE officials, identify critical suppliers in each region and visit them on a regular basis. The frequency is defined by the performance rating provided by the SSV teams. These teams agree specific and continuous improvement programs with each supplier as appropriate and monitor progress through routine revisits. Those suppliers either unwilling or incapable of positive progress are de-listed.

In 2011, we exceeded the targeted number of 300 supplier support visits since 2007, which demonstrates both a growth in the number of suppliers participating in the program and a deepening awareness and maturing commitment of local and regional suppliers to employee health, safety and environmental sustainability in emerging markets.

In 2012, we will continue to institutionalize the SSV program through the development and implementation of enhanced metrics, which will further enhance the effectiveness of the program and promote the growth of a more sustainable supplier base in high growth markets. The continuing maturation of the program will be measured by the following KPIs:

- Number of suppliers participating in the SSV program: Current metric
- Critical supplier coverage: The measurement of spend with suppliers participating in the SSV program versus the total spend with defined critical suppliers in the emerging market
- Total program coverage: The measurement of spend from suppliers covered by the Vendor Policy and SSV program versus total purchase spend of AkzoNobel in high growth markets

## Supplier management

% of spend	2008	2009	2010	2011	Ambition 2011	Ambition 2012	Ambition 2015
Raw material suppliers Vendor Policy signed	82	85	91	95	95	96	–
NPR <sup>1</sup> business suppliers Vendor Policy signed	–	–	62				
NPR <sup>1</sup> centrally contracted suppliers Vendor Policy signed	80	89	100	77	75	80	–
Suppliers on SSV program since 2007	152	185	266	304	300	–	–

<sup>1</sup> Non-product related. From 2011 we have combined the NPR supplier reporting

## Key supplier management

To ensure in-depth cooperation with our key suppliers on value creation, innovation and sustainability, we have further developed our key supplier management program. We have incorporated our sustainability ambition (reduce our cradle-to-gate carbon footprint by 10 percent by 2015) with selected key suppliers.

On average, we organize high level meetings twice a year with these suppliers to specifically focus on projects linked to our value creation, innovation ambitions and sustainability ambition.



**Key performance indicators – environment**

	2008	2009	2010	2011	Ambition 2011	Ambition 2012	Ambition 2015
Greenhouse gas emissions per unit of production (own operations )	246	272	267	256	264	–	245
Sustainable fresh water management (% manufacturing sites)	–	38	48	74	60	70	100
Operational eco-efficiency footprint measure (% reduction from 2009)	–	–	7	11	8	10	30

This section shows the environmental impact and improvements in our own operations. Many of these improvements are driven through our operational eco-efficiency (OEE) program.

**Operational eco-efficiency program**

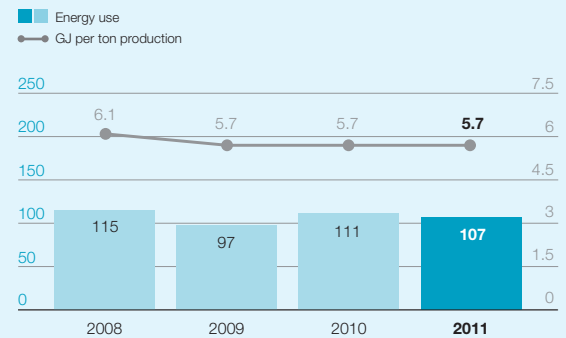
The focus of the operational eco-efficiency program is to increase raw material efficiency, reduce consumption of energy and decrease emissions and production of waste.

We measure progress using an internal indicator which combines energy, water, waste and air emissions as well as cost elements. Our ambition is to reduce this measure by 10 percent in 2012 and by 30 percent by 2015, with a baseline of 2009.

**Energy use**

Energy is a major raw material for some of our Specialty Chemicals businesses, so energy efficiency and carbon efficient energy consumption are important metrics for our operations. Energy reduction is supported by a site Energy Diagnostics Methodology, which shows significant saving opportunities in utility energy and results in the development of repeatable models for implementation.

**Energy use in 1000\*TJ**



2008 data for former AkzoNobel coatings businesses were based on factors per ton of production.

- Energy consumption per ton of production is stable at 5.7 GJ/ton (2010: 5.7 GJ/ton). Absolute consumption was down 4 percent at 107,000 TJ (2010: 111,000 TJ) in line with slightly lower production volumes

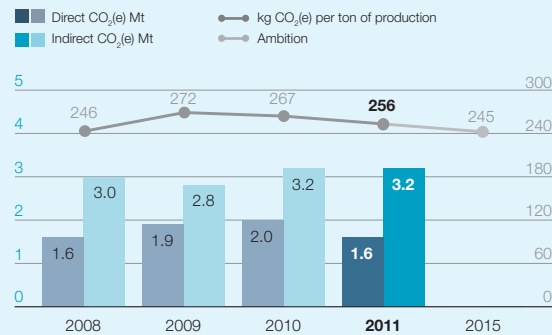
**Renewable energy**

During 2011 we started to develop a renewable energy strategy. We already source about 30 percent of our energy from renewable sources such as wind, water and biomass.

As part of the strategy, we are now exploring opportunities to expand this by another 10 percent through participation in large wind projects, as well as smaller site-by-site initiatives concerning solar, wind and biomass.

Greenhouse gas emissions are primarily CO<sub>2</sub> related to fuel, but also include some CO<sub>2</sub>, CH<sub>4</sub> and HFC process emissions. This section reflects the performance of our own operations covering the gate-to-gate scope. More details on our Carbon Policy and cradle-to-gate reporting can be found in Note 16 in this section.

**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. 2008 data for former AkzoNobel coatings businesses were based on factors per ton of production.

- Total greenhouse gas emissions per ton of production decreased by 4 percent to 256 kg/ton CO<sub>2</sub>(e) (2010: 267 kg/ton). Absolute greenhouse gas emissions have come down by 8 percent to 4.8 million tons of CO<sub>2</sub>(e) (2010: 5.2 million tons). The decrease is mainly caused by lower fuel consumption
- Direct greenhouse gas emissions are 1.6 million tons of CO<sub>2</sub>(e), made up of 1.3 million tons from fuel burned and 0.3 million tons of CO<sub>2</sub>(e) process emissions, mainly from the soda ash business in Pakistan

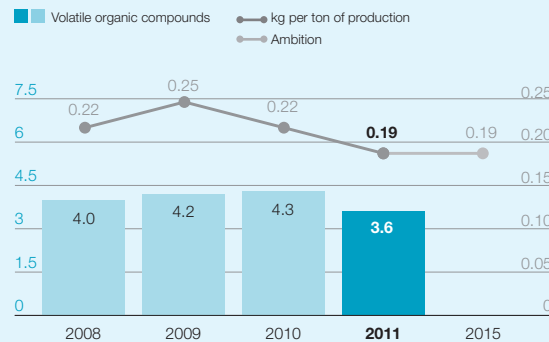
Our air monitoring is focused on volatile organic compound (VOC) and NOx and SOx emissions.

**Volatile organic compounds (VOC)**

VOC emissions may lead to local low level ozone creation, smog formation and associated health problems for people in surrounding areas.

All our businesses will continue to manage VOC emissions from sites in line with regional legal requirements. In future, VOC ambitions will be set at business level, but monitored at company level. The VOC reduction focus for our paints and coatings businesses is increasingly concentrating on low/zero VOC product design, rather than controlling VOCs in our operations. Reducing VOC emissions from our sites remains part of the scope of our OEE program, while our Research, Development and Innovation groups are working on projects to reduce the solvent content of our products – the zero VOC challenge. (See Note 15 in this section).

**Volatile organic compounds** in kilotons



VOC emissions may lead to local low level ozone creation, smog formation and associated local health issues. We measure halogenated and non-halogenated organic compounds discharged to air.

VOC emissions per ton of production were down 14 percent to 0.19 kg/ton (2010: 0.22 kg/ton), mainly due to a detailed investigation of the emission sources at the largest sites. Total VOC emissions were down 16 percent to 3.6 kilotons (2010: 4.3 kilotons).

**NOx and SOx**

NOx and SOx emissions contribute to acidification. In 2009, we strengthened our NOx and SOx reporting to include the contribution from fuel burned across our operations.

**NOx and SOx emissions**

in kilotons	2008 <sup>1</sup>	2009	2010	2011
NOx	1.1	2.1	2.0	2.0
NOx kg/ton	-	0.12	0.10	0.11
SOx	4.8	6.2	7.1	7.7
SOx kg/ton	-	0.37	0.36	0.41

Emissions may form acid rain that can lead to acidification. The gases are emissions from manufacturing and combustion of fuel that we burn.

<sup>1</sup>Main emissions only

- SOx emissions (from process emissions and energy) per ton of production were up 14 percent to 0.41 kg/ton of production (2010: 0.36 kg/ton). Absolute emissions were up 8 percent at 7.7 kilotons (2010: 7.1 kilotons). Although the emissions per ton for our three sulfur derivatives plants in Germany, the US and Argentina were stable, the increase from our Pakistan operations continues as a result of scarcity of natural gas, leading to higher oil consumption for power generation
- NOx emissions from our sites per ton of production were up 10 percent at 0.11 kg/ton (2010: 0.10 kg/ton). Total emissions were stable at 2.0 kilotons (2010: 2.0 kilotons)

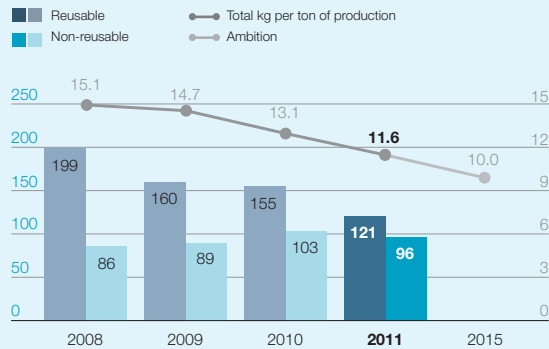
**Ozone depleting substances**

Emissions of ozone depleting substances are mainly due to fugitive emissions of Freon 22 in closed air conditioning and cooling units. These units are continuously being replaced.

**Waste**

Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both costs and our environmental footprint. Our focus is on reducing total waste and eliminating hazardous waste to landfill. The exception is asbestos waste – mainly from demolishing old equipment and buildings – where the preferred current safe disposal route is properly designed landfill facilities.

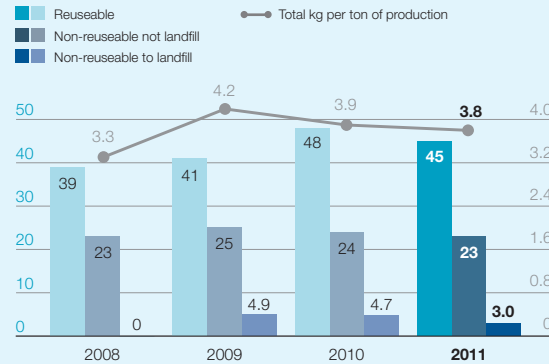
**Total waste in kilotons**



Non-reusable waste is not used for resource recovery, recycling, reclamation, direct reuse, or alternative uses.

A program for waste prevention through alternative outlets for obsolete paint is in place. These are sent to processors and distributors and can prevent waste streams up to 10 percent of the company's total.

**Hazardous waste in kilotons**



2008 figures indicate total non-reusable waste.

- Total waste per ton of production generated and leaving our sites is down 11 percent to 11.6 kg/ton (2010: 13.1 kg ton). The total waste volume came down to 217 kilotons (2010: 258 kilotons), a decrease of 16 percent. This was partly due to the divestment of the National Starch business in 2010 and the site closures of Grand Quevilly in 2010 and Emmerich in 2011, and partly to many improvements at our manufacturing sites as part of the operational eco-efficiency program
- Hazardous waste to landfill per ton of production is down 33 percent to 0.16 kg/ton (2010: 0.24kg/ton) and the total figure is down 36 percent to 3.0 kilotons (2010: 4.7 kilotons). This is mainly due to the divestment of the calcium carbide business in 2011

**Fresh water availability**

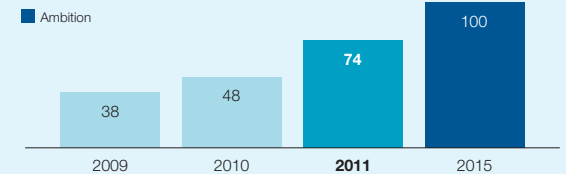
Water supply is essential to life – and to the sustainability of our business. We rely on water for raw materials production, product formulation and manufacturing, power generation, cooling, cleaning, transporting and for effective use of some products. In total, 88 percent of our fresh water intake is from surface water and 85 percent of our intake is used for cooling.

Our ambition is to achieve sustainable fresh water management at all our manufacturing sites in 2015.

In addition to the intake of fresh water, the emission of contaminated water from our sites to surface waters may impact fresh water resources and eco-systems. We continue to reduce the chemical oxygen demand (COD) of our effluent to surface water.

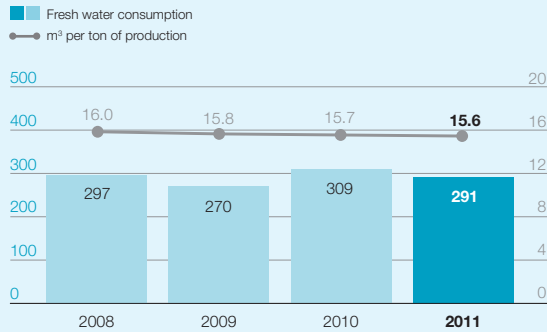
**Sustainable fresh water management**

in % manufacturing sites



Sustainable fresh water management is defined as a low risk score in all categories in the AkzoNobel sustainable fresh water assessment tool: water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors.

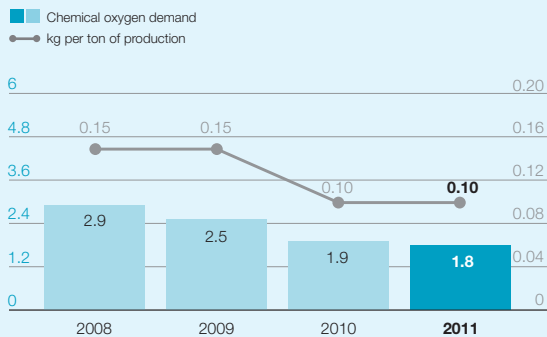
**Fresh water use** in million m<sup>3</sup>



Total fresh water used from surface, ground or potable water sources.

**Water emissions**

**Chemical oxygen demand (COD)** in kilotons



Chemical oxygen demand (COD) is the amount of oxygen required for the chemical oxidation of substances in the waste water effluent which is directly discharged into surface waters from our facilities. It excludes our effluent treated by others.

- 74 percent of manufacturing sites have sustainable fresh water management (2010: 48 percent) as measured by the AkzoNobel fresh water management risk assessment tool
- Fresh water use per ton of production has come down to 15.6 m<sup>3</sup>/ton (2010: 15.7 m<sup>3</sup>/ton). Total fresh water use was 291 million m<sup>3</sup> (2010: 309 million m<sup>3</sup>), a decrease of 6 percent
- Reductions in COD in effluent are being achieved across the company. The COD load to surface water per ton of production remained stable at 0.10 kg/ton (2010: 0.10 kg/ton). The total COD load to surface water was down 5 percent to 1.8 kilotons (2010: 1.9 kilotons). Improvements are due to the divestment of the National Starch business, as well as developments in Decorative Paints, where a waste water reduction initiative applies new technologies to increase yield and reduce related waste water streams

**Soil and groundwater remediation**

There are substantial costs associated with the assessment and remediation of historical soil and groundwater contamination. We periodically review contamination at our sites, taking remedial action when required, and have procedures to prevent new contamination.

In line with IFRS accounting rules, we make provisions for environmental remediation costs when it is probable that liability will materialize and the cost can be reasonably estimated. We have set aside €414 million, which we believe is sufficient for the sites where we have ownership or responsibility (see also Notes 17 and 21 in the Financial statements).

# Independent assurance report

## To the readers of AkzoNobel's Sustainability facts and figures 2011

We have been engaged by the Board of Management of Akzo Nobel N.V. to provide assurance on the information in the section Sustainability facts and figures of the AkzoNobel Report 2011. The Board of Management of Akzo Nobel N.V. is responsible for reporting on sustainability in such a way that it provides an adequate view of AkzoNobel's sustainability policies, measures and performance in 2011. This includes the identification of material issues and the design and implementation of an adequate internal control system to ensure the sustainability information does not contain any material inaccuracies. Our responsibility is to provide assurance on this information.

### Scope

Our engagement was designed to provide:

- Limited assurance on whether information in the Sustainability facts and figures section is, in all material respects, fairly stated in accordance with the reporting criteria
- Reasonable assurance on whether the information in the paragraph Managing our values (see Note 1 in this section) is, in all material respects, presented in accordance with the reporting criteria as defined by Akzo Nobel N.V.

Procedures performed to obtain a reasonable level of assurance are more extensive than those for a limited level of assurance, which are aimed at determining the plausibility of information. We have also reviewed, to the extent of our competence, whether the sustainability information in the Achieving our strategic ambitions and Our strategic agenda chapters in the Strategy section of the AkzoNobel Report 2011 is consistent with the information in the Sustainability facts and figures section.

### Reporting criteria and assurance standard

AkzoNobel applies the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3), supported by internally developed guidelines, as described in the Reporting principles section. It is important to view the performance data in the context of this explanatory

information. We believe that these criteria are suitable in view of the purpose of our assurance engagement.

We conducted our engagement in accordance with the International Standard for Assurance Engagements (ISAE) 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand sustainability information, identify and collect the thereto related assurance information and that they comply with the requirements of the Code of Ethics for Professional Accountants from the International Federation of Accountants to ensure their independence.

### Work undertaken

We have performed the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions. Our procedures for the information for which limited assurance was provided, were:

- A documentation study to obtain insight into the organization and a risk analysis (including a sector benchmark, a media analysis and internet search) to identify relevant environmental, safety and social issues for AkzoNobel in the reporting period
- A review of the reporting criteria and the design and implementation of systems and processes for information management, internal control and processing of the qualitative and quantitative information in the Sustainability facts and figures section
- Interviewing management at corporate and business level who are responsible for the sustainability policies, management, internal control and reporting and evaluating trends and the explanations provided in the Sustainability facts and figures section
- Reviewing internal and external documentation to determine whether the qualitative information in the Sustainability facts and figures section is supported by sufficient evidence
- Joining a site visit of the Internal Audit department in relation to Health, Safety and Environment (Jundiai)

In order to obtain reasonable assurance on the information in the paragraph Managing our values, we performed additional procedures, including:

- Reviewing relevant internal audit work for all businesses
- Contacting relevant management about the information submitted by three business units
- Performing one business unit visit audit together with the Internal Audit department (Functional Chemicals)

During the assurance process, we discussed changes to the various drafts of the Sustainability facts and figures section with AkzoNobel, and reviewed the final version to ensure that it reflects our findings.

### Conclusions

Based on our procedures for limited assurance, nothing came to our attention which indicates that the information in the Sustainability facts and figures section is not, in all material respects, fairly stated in accordance with the reporting criteria.

Based on our procedures for reasonable assurance, we conclude that the information in the Managing our values chapter of the Sustainability facts and figures section is, in all material respects, presented in accordance with reporting criteria defined by Akzo Nobel N.V.

We also report, to the extent of our competence, that the information on sustainability in the sections Achieving our strategic ambitions and Our strategic agenda of the AkzoNobel Report 2011 is consistent with the information in the Sustainability facts and figures section.

Amsterdam, February 15, 2012

**W.J. Bartels, partner,**  
on behalf of KPMG Sustainability,  
part of KPMG Advisory N.V.

## Living colour

Colour has the power to inspire all of us. Over the last few years, we've been making the most of this power to create better living environments by helping to transform places and spaces in towns and cities all over the world, using little more than a few splashes of paint. Designed to add colour to people's lives, our Let's Colour campaign has been a huge success, engaging local communities and encouraging residents to revitalize their surroundings. It's also helping to create employment opportunities for people and build awareness among professionals about the positive effects and benefits of using colour.

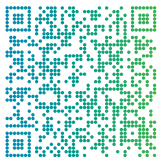
Originally introduced in Brazil, the ongoing worldwide initiative has brought a new lease of life to streets, houses, schools and squares in countries such as India, Canada, France, China, South Africa, Taiwan and Turkey. By donating more than 200,000 liters of paint and training hundreds of people, we've already inspired many thousands around the world. Our own employees have also volunteered thousands of hours to make the campaign a success. As well as making a positive social impact and reinforcing our role as the global colour authority, Let's Colour is also encouraging consumers to use our brands and make their world a brighter and better place.

In 2011, projects included a major event to repaint the town of Fortaleza in Brazil, which involved more than 200 volunteers and AkzoNobel employees. In Belgium, the historic water tower in Charleroi was given a much-needed makeover, while AkzoNobel employees also helped to give a fresh coat of paint to more than 100 houses in the north of Jutland in Denmark.



**2.5**  
**million**

So far we've added colour to the lives  
of nearly 2.5 million people



# 200,000

More than 200,000 liters of paint have  
been donated to date







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# Financial summary

## Consolidated statement of income

In € millions	2002	2003 <sup>1</sup>	2004	2005 <sup>2</sup>	2006	2007	2008 <sup>3</sup>	2009	2010	2011
Revenue	14,059	13,106	12,833	13,000	10,023	10,217	15,415	13,028	14,640	15,697
Operating income	1,390	1,146	1,588	1,492	887	778	(577)	855	1,219	1,042
Financing income and expenses	(232)	(248)	(205)	(162)	(134)	(151)	(232)	(405)	(327)	(338)
Income tax	(335)	(254)	(412)	(338)	(96)	(166)	(260)	(141)	(170)	(194)
Results from associates and joint ventures	30	7	10	6	87	(20)	25	21	25	23
<b>Profit for the period from continuing operations</b>	<b>853</b>	<b>651</b>	<b>981</b>	<b>998</b>	<b>744</b>	<b>441</b>	<b>(1,044)</b>	<b>330</b>	<b>747</b>	<b>533</b>
Minority interests attributable to minority shareholders	(35)	(49)	(36)	(37)	(29)	(31)	(65)	(77)	(83)	(64)
Discontinued operations	–	–	–	–	438	9	23	32	90	8
<b>Net income, attributable to shareholders</b>	<b>818</b>	<b>602</b>	<b>945</b>	<b>961</b>	<b>1,153</b>	<b>419</b>	<b>(1,086)</b>	<b>285</b>	<b>754</b>	<b>477</b>
Common shares, in millions at year-end	285.7	285.7	285.8	285.8	287.0	262.3	231.7	232.3	233.5	234.7
Dividend	343	343	343	343	344	472	417	325	320	304
Number of employees at year-end	67,900	64,600	61,400	61,300	42,700	42,600	60,000	54,700	55,600	57,240
Average number of employees	67,000	66,400	63,600	61,400	61,900	42,600	61,300	56,300	55,100	56,400
Employee benefits	3,552	3,505	3,216	3,221	2,158	2,215	3,022	2,955	2,980	3,081
Average revenue per employee	210	197	202	212	162	240	252	231	266	278
Average EBITDA per employee	32	30	28	34	30	30	31	31	36	32
<b>Ratios</b>										
Operating income in % of revenue	9.9	8.7	12.4	11.5	8.8	7.6	(3.7)	6.6	8.3	6.6
Operating income in % of invested capital	15.4	13.6	20.8	19.4	16.3	14.6	– <sup>4</sup>	7.3	9.6	7.6
Net income in % of shareholders' equity	32.9	26.2	40.6	32.0	30.5	122.9	– <sup>4</sup>	3.7	8.4	5.2
Employee benefits in % of revenue	25.3	26.7	25.1	24.8	21.5	21.7	19.6	22.7	20.4	19.6
Interest coverage <sup>5</sup>	6.0	4.6	7.7	9.2	6.6	5.2	– <sup>4</sup>	2.1	6.4	4.3
<b>Per share information</b>										
Net income	2.86	2.11	3.31	3.36	4.02	33.82	(4.38)	1.23	3.23	2.04
Adjusted earnings per share								2.06	3.71	2.91
Shareholders' equity	7.34	8.76	9.12	11.95	14.44	42.06	32.21	33.47	38.48	39.25
Highest share price during the year	54.50	32.44	33.79	40.18	49.41	65.56	57.11	46.52	47.70	53.74
Lowest share price during the year	27.25	16.00	24.87	30.82	38.30	44.41	22.85	26.01	37.18	29.25
Year-end share price	30.23	30.60	31.38	39.15	46.18	54.79	29.44	46.40	46.49	37.36

<sup>1</sup> The 2002–2003 figures have not been restated to IFRS accounting standards.

<sup>2</sup> The 2002–2005 figures have not been restated for the Organon BioSciences divestment.

<sup>3</sup> Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.

<sup>4</sup> Not meaningful as income was a loss.

<sup>5</sup> Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.

## Consolidated balance sheet

In € millions	2002	2003 <sup>1</sup>	2004	2005 <sup>2</sup>	2006	2007	2008 <sup>3</sup>	2009	2010	2011
Intangible assets	629	590	448	488	682	669	7,172	7,388	7,308	7,392
Property, plant and equipment	4,402	3,967	3,535	3,432	3,346	2,203	3,357	3,474	3,384	3,705
Financial non-current assets	2,217	1,866	1,418	1,800	1,706	1,402	1,848	1,783	1,977	2,198
<b>Total non-current assets</b>	<b>7,248</b>	<b>6,423</b>	<b>5,401</b>	<b>5,720</b>	<b>5,734</b>	<b>4,274</b>	<b>12,377</b>	<b>12,645</b>	<b>12,669</b>	<b>13,295</b>
Inventories	2,206	2,133	1,978	1,987	2,042	1,177	1,781	1,441	1,678	1,924
Receivables	2,815	2,671	2,761	2,910	2,919	2,164	2,977	2,666	2,896	3,015
Cash and cash equivalents	520	727	1,811	1,486	1,871	11,628	1,595	2,128	2,851	1,635
Assets held for sale	–	–	–	322	219	–	4	–	–	–
<b>Total current assets</b>	<b>5,541</b>	<b>5,531</b>	<b>6,550</b>	<b>6,705</b>	<b>7,051</b>	<b>14,969</b>	<b>6,357</b>	<b>6,235</b>	<b>7,425</b>	<b>6,574</b>
Shareholders' equity	2,098	2,502	2,605	3,415	4,144	11,032	7,463	7,775	8,984	9,212
Minority interests	137	140	140	161	119	97	450	470	525	531
<b>Total equity</b>	<b>2,235</b>	<b>2,642</b>	<b>2,745</b>	<b>3,576</b>	<b>4,263</b>	<b>11,129</b>	<b>7,913</b>	<b>8,245</b>	<b>9,509</b>	<b>9,743</b>
Provisions	3,855	3,333	2,877	2,210	2,132	1,598	2,072	1,919	1,855	1,717
Long-term borrowings	2,797	2,717	2,392	2,702	2,551	1,954	2,341	3,641	2,880	3,035
Other non-current liabilities	513	590	200	183	181	133	715	674	589	567
<b>Total non-current liabilities</b>	<b>7,165</b>	<b>6,640</b>	<b>5,469</b>	<b>5,095</b>	<b>4,864</b>	<b>3,685</b>	<b>5,128</b>	<b>6,234</b>	<b>5,324</b>	<b>5,319</b>
Short-term borrowings	979	441	560	357	410	1,635	1,338	384	907	494
Current liabilities	2,410	2,231	2,677	2,571	2,652	2,276	3,510	3,220	3,761	3,762
Current portion of provisions	–	–	500	766	571	518	845	797	593	551
Liabilities held for sale	–	–	–	60	25	–	–	–	–	–
<b>Total current liabilities</b>	<b>3,389</b>	<b>2,672</b>	<b>3,737</b>	<b>3,754</b>	<b>3,658</b>	<b>4,429</b>	<b>5,693</b>	<b>4,401</b>	<b>5,261</b>	<b>4,807</b>
<b>Invested capital</b>										
Of consolidated companies	8,692	8,117	7,145	8,007	8,060	5,197	13,424	11,732	12,718	13,708
Of investments in associates and joint ventures	491	353	318	301	177	142	201	176	175	198
Operating working capital							2,359	1,691	2,016	2,196
<b>Property, plant and equipment</b>										
Capital expenditures	689	581	551	514	371	359	534	513	534	708
Depreciation	622	599	540	528	349	330	453	424	435	451
<b>Ratios</b>										
Revenue/invested capital	1.55	1.56	1.68	1.68	1.85	1.91	1.07	1.06	1.15	1.15
Equity/non-current assets	0.31	0.41	0.51	0.62	0.74	2.60	0.64	0.65	0.75	0.73
Inventories and receivables/current liabilities	2.08	2.15	1.77	1.90	1.87	1.47	1.36	1.28	1.22	1.31
Operating working capital as % of revenue							16.5	13.7	13.9	14.4

<sup>1</sup> The 2002–2003 figures have not been restated to IFRS accounting standards.

<sup>2</sup> The 2002–2005 figures have not been restated for the Organon BioSciences divestment.

<sup>3</sup> Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.

## Business Area statistics

In € millions	2008	2009 <sup>1</sup>	2010	2011
<b>Decorative Paints</b>				
Revenue	5,006	4,573	4,968	5,296
EBITDA <sup>2</sup>	598	487	548	440
EBIT <sup>2</sup>	401	298	343	230
Operating income	(669)	133	275	137
Invested capital <sup>3</sup>	6,187	6,206	6,404	6,749
EBIT margin <sup>2</sup> (in %)	8.0	6.5	6.9	4.3
Capital expenditures	120	112	154	204
Average number of employees	24,600	22,900	21,800	22,400
Average revenue per employee	203	200	228	236
Average EBITDA per employee	24	21	25	20
<b>Performance Coatings</b>				
Revenue	4,575	4,112	4,786	5,170
EBITDA <sup>2</sup>	566	594	647	611
EBIT <sup>2</sup>	467	492	540	495
Operating income	444	433	487	458
Invested capital <sup>3</sup>	2,004	1,817	2,122	2,351
EBIT margin <sup>2</sup> (in %)	10.2	12.0	11.3	9.6
Capital expenditures	89	61	87	116
Average number of employees	21,000	20,200	20,600	21,300
Average revenue per employee	218	204	232	243
Average EBITDA per employee	27	29	31	29
<b>Specialty Chemicals</b>				
Revenue	5,687	4,359	4,943	5,335
EBITDA <sup>2</sup>	909	738	939	906
EBIT <sup>2</sup>	605	490	679	625
Operating income	130	422	604	622
Invested capital <sup>3</sup>	4,055	3,106	3,457	3,620
EBIT margin <sup>2</sup> (in %)	10.6	11.2	13.7	11.7
Capital expenditures	305	319	273	366
Average number of employees	12,900	11,400	11,100	11,300
Average revenue per employee	441	382	445	472
Average EBITDA per employee	70	65	85	80

<sup>1</sup> Restated for transferred businesses and excluding National Starch, divested in 2010.

<sup>2</sup> Before incidentals.

<sup>3</sup> At year-end.

## Regional statistics

In € millions	2008 <sup>1</sup>	2009	2010	2011	2008 <sup>1</sup>	2009	2010	2011	2008 <sup>1</sup>	2009	2010	2011
<b>The Netherlands</b>					<b>Other European countries</b>				<b>Other Asian countries</b>			
Revenue by destination	867	792	803	694	3,666	3,095	3,398	3,702	1,866	1,585	1,780	1,918
Revenue by origin	1,423	1,284	1,537	1,646	2,582	2,211	2,336	2,459	1,682	1,389	1,514	1,627
EBIT <sup>2</sup>	18	(49)	(41)	(107)	195	216	269	237	199	224	212	175
Operating income	(45)	(69)	(78)	(162)	113	115	172	191	(110)	220	217	174
Capital expenditures	86	104	84	144	81	69	83	98	43	27	48	64
Invested capital <sup>3</sup>	2,007	1,489	1,266	1,477	2,359	2,420	2,616	2,665	103	610	766	806
Number of employees <sup>3</sup>	5,000	4,800	5,000	5,200	10,100	9,400	9,100	8,900	7,800	6,800	7,200	7,800
<b>Germany</b>					<b>US and Canada</b>				<b>Other regions</b>			
Revenue by destination	1,141	1,088	1,160	1,284	333	2,600	2,954	3,141	614	533	636	668
Revenue by origin	1,179	1,089	1,096	1,228	3,463	2,712	3,074	3,315	352	341	409	419
EBIT <sup>2</sup>	115	90	102	128	154	123	226	228	45	41	57	41
Operating income	(34)	44	91	119	(608)	114	225	228	38	32	52	44
Capital expenditures	25	19	22	31	94	55	63	117	8	7	10	11
Invested capital <sup>3</sup>	1,086	983	915	975	325	2,554	2,762	2,830	174	114	221	214
Number of employees <sup>3</sup>	3,600	3,700	3,500	3,800	12,000	10,100	10,300	10,300	2,400	2,200	2,200	2,100
<b>Sweden</b>					<b>Latin America</b>							
Revenue by destination	478	423	468	515	1,306	1,147	1,394	1,558				
Revenue by origin	1,457	1,284	1,475	1,481	1,103	959	1,168	1,282				
EBIT <sup>2</sup>	157	124	200	128	135	121	121	121				
Operating income	126	59	162	125	89	108	140	105				
Capital expenditures	50	37	19	54	49	30	30	66				
Invested capital <sup>3</sup>	557	461	542	559	776	767	872	840				
Number of employees <sup>3</sup>	3,800	3,500	3,400	3,300	4,800	4,300	4,300	4,500				
<b>UK</b>					<b>China</b>							
Revenue by destination	1,093	768	798	841	1,054	997	1,249	1,376				
Revenue by origin	1,206	830	854	879	968	929	1,177	1,361				
EBIT <sup>2</sup>	153	82	67	100	144	159	161	124				
Operating income	(48)	75	76	100	(98)	157	162	118				
Capital expenditures	31	22	28	27	67	143	147	96				
Invested capital <sup>3</sup>	1,324	1,562	1,782	2,117	861	772	952	1,225				
Number of employees <sup>3</sup>	4,200	3,800	3,900	3,900	6,300	6,100	6,700	7,400				

<sup>1</sup> Excluding National Starch, divested in 2010.

<sup>2</sup> Before incidentals.

<sup>3</sup> At year-end.

# Sustainability performance summary

## Economic/Governance/Social

Area		2007	2008	2009	2010	2011	Ambition 2015
<b>Product</b>							
Eco-premium solutions <sup>5</sup>	% revenue	18	18	18 <sup>10</sup>	21 <sup>10</sup>	22	30
<b>Business integrity</b>							
Code of Conduct incidents handled by the Compliance Committee	number			19	23	24	
Code of Conduct trained	% employees		31	~95	95	95	
<b>Health and Safety<sup>2</sup></b>							
Fatalities employees	number	1	0	0	1	2	
Total reportable injury rate employees/supervised contractors	/million hours	5.3	4.6	3.7	3.6	3.1	<2.0
Lost time injury rate employees/supervised contractors	/million hours	1.9	1.9	1.5	1.6	1.3	
Occupational illness rate employees	/million hours	0.3	0.3	0.4	0.3	0.3	
Total illness absence rate employees	%	2.2 <sup>1</sup>	2.2 <sup>1</sup>	2.0	1.9	2.0	
Fatalities contractors (supervised plus independent)	number	1	0	3	0	1	
Total reportable injury rate independent contractors	/million hours	–	5.2	2.8	3.0	3.5	
Manufacturing sites with BBS program <sup>9</sup>	%				72	76	100
Distribution incidents	number			52	91	80	
Motor vehicle incidents with injury	number			31	34	29	
<b>Employees<sup>5</sup></b>							
Employee numbers	number			54,700	55,600	57,240	
Women executives	%		8	10	12	13	20
High growth country executives	%		10	11	12	13	20
Online P&D Dialog participation	%	53	60	72	76	78	95
Management development program participation	cumulative number		527	2,708	5,227	7,067	8,296
Employee engagement index <sup>7</sup>	% favorable <sup>7</sup>	76	78	80	3.56	3.74	4.33
Community Program investment	in € millions	1.4	1.5	1.4	1.5	1.5	
<b>Reliable operations</b>							
Management audits plus reassurance audits	number	64	61	66	61	66	
Safety incidents – Level 3	number	4	2	9	10	8	0
Safety incidents – Level 1, 2, 3	number			33	32	36	
Significant loss of containment (Level D)	number			1	0	2	0
Regulatory actions – Level 3	number			3	4	0	0
<b>Sourcing<sup>5</sup></b>							
Raw material suppliers – Vendor Policy signed	% purchases	81	82	85	91	95	
NPR central suppliers – Vendor Policy signed <sup>11</sup>	% purchases		80	89	100	77	
NPR business suppliers – Vendor Policy signed <sup>11</sup>	% purchases				62		
Supportive Supplier Visits since 2007	number	100	152	185	266	304	

## Environmental

Area		2006	2007	2008	2009	2010	2011	Ambition 2015
<b>Raw material efficiency</b>								
Total waste (excluding Soda Ash process) <sup>4</sup>	kiloton			285	249	258	217	
per ton production	kg/ton			15.1	14.7	13.1	11.6	10.0
Total hazardous waste	kiloton			62	71	77	71	
per ton production	kg/ton			3.3	4.2	3.9	3.8	
Non-reusable waste <sup>4</sup>	kiloton	112	84	86	89	103	96	
per ton production	kg/ton		4.4	4.5	5.2	5.3	5.1	
Hazardous non-reusable waste <sup>4</sup>	kiloton	27	19	23	30	29	26	
per ton production	kg/ton		1	1.2	1.8	1.5	1.4	
Hazardous waste to landfill	kiloton				4.9	4.7	3.0	
per ton production	kg/ton				0.29	0.24	0.16	
<b>Maintain natural resources/fresh air</b>								
Fresh water use	million m <sup>3</sup>	285	304	297	270	309	291	
per ton production	m <sup>3</sup> /ton		16.0	16.0	15.8	15.7	15.6	
COD emissions	kiloton	2.4	3.1	2.9	2.5	1.9	1.8	
per ton production	kg/ton		0.16	0.15	0.15	0.10	0.10	
Manufacturing sites with sustainable fresh water	%				38	48	74	100
VOC emissions	kiloton	4.9	4.9	4.0	4.2	4.3	3.6	
per ton production	kg/ton		0.26	0.22	0.25	0.22	0.19	0.19
NOx emissions <sup>9</sup>	kiloton		0.9	1.1	2.1	2.0	2.0	
per ton production	kg/ton				0.12	0.10	0.11	
SOx emissions <sup>9</sup>	kiloton		4.1	4.8	6.2	7.1	7.7	
per ton production	kg/ton				0.37	0.36	0.41	
Total CO <sub>2</sub> (e) emissions (cradle-to-gate) <sup>5</sup>	kiloton				14.8 <sup>8</sup>	16.0 <sup>8</sup>	16.4	
per ton product <sup>5</sup>	kg/ton				846 <sup>8</sup>	830 <sup>8</sup>	830	-10%
Raw material CO <sub>2</sub> (e) emissions (Scope 3) <sup>5</sup>	million tons				10.7 <sup>8</sup>	11.5 <sup>8</sup>	11.9	
per ton product <sup>5</sup>	kg/ton				627 <sup>8</sup>	611 <sup>8</sup>	612	-10%
Direct CO <sub>2</sub> (e) emissions (Scope 1) <sup>6</sup>	million tons	3.2	1.7	1.6	1.9	2.0	1.6	
per ton production <sup>6</sup>	kg/ton		87	85	110	102	85	-10%
Indirect CO <sub>2</sub> (e) emissions (Scope 2) <sup>6</sup>	million tons		3.1	3.0	2.8	3.2	3.2	
per ton production <sup>6</sup>	kg/ton		161	161	162	165	171	-10%
Total energy consumption	1000TJ		116	115	97	111	107	
per ton production	GJ/ton			6.1	5.7	5.7	5.7	

2007–2011: current AkzoNobel business.

<sup>1</sup> Former AkzoNobel businesses only.

<sup>2</sup> HSE KPIs: from 2009 report employees/supervised contractors

(was employees only) and independent contractors (was all contractors).

<sup>3</sup> BBS restated for manufacturing sites only.

<sup>4</sup> In addition to this figure, our Soda Ash facility in Pakistan generated on a dry basis 495 ktons (2010: 533 ktons) of non-reusable non-hazardous waste, as a result of the process chemistry. This aqueous mixture is stored and evaporates in large, managed on-site lagoons.

<sup>5</sup> Excludes Chemicals Pakistan.

<sup>6</sup> Includes Chemicals Pakistan.

<sup>7</sup> From 2010 employee survey changed from % favorable to Gallup Q12 GrandMean: average of mean scores for each question (out of five).

<sup>8</sup> 2009 and 2010 figures restated in line with raw material data updates.

<sup>9</sup> 2007 and 2008 figures include main emissions only.

<sup>10</sup> 2009 and 2010 figures restated (see Note 14 of Sustainability facts and figures section).

<sup>11</sup> From 2011 the NPR supplier data is combined.

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# Glossary

## **Adjusted earnings per share**

Basic earnings per share from continuing operations excluding incidentals in operating income, amortization of intangible assets and tax on these adjustments.

## **BBS**

Behavior based safety.

## **Carbon footprint**

The carbon footprint of a product or organization is the total amount of greenhouse gas (GHG) emissions caused during a defined period, or across the total or part of a product lifecycle. It is expressed in terms of the amount of carbon dioxide equivalents emitted.

## **Code of Conduct**

Our Code of Conduct defines our company values and how we work. It incorporates fundamental principles on issues such as business integrity, labor relations, health, safety, environment and security and community involvement.

## **Code of Conduct incident**

The Code of Conduct incidents handled by the Corporate Compliance Committee cover competition law, bribery, export control, insider trading or auditing matters; or involve a senior member of corporate staff, business teams or local management; or have a value greater than €0.1 million.

## **Community Program**

AkzoNobel's global Community Program encourages and gives financial support for employees to get involved, hands-on, in their local communities.

## **Comprehensive income**

The change in equity during a period resulting from transactions and other events other than those changes resulting from transactions with shareholders in their capacity as shareholders.

## **Earnings per share**

Net income attributable to shareholders divided by the weighted average number of common shares outstanding during the year.

## **EBIT**

Operating income before incidentals.

## **EBIT margin**

Operating income or EBIT as percentage of revenue and can refer to margins both before and after incidentals.

## **EBITDA**

EBIT before depreciation and amortization and refers in this report to EBITDA before incidentals.

## **EBITDA margin**

EBITDA as percentage of revenue.

## **Eco-efficiency**

Eco-efficiency means doing more for less: creating goods and services while using fewer resources and creating less waste and pollution.

## **Eco-premium solutions**

A measure of the eco-efficiency of our products. An eco-premium solution is significantly better than competing offers in the market in at least one eco-efficiency criterion (toxicity, energy use, use of natural resources/raw materials, emissions and waste, land use, risks), and not significantly worse in any other criteria.

## **EMEA**

Europe, Middle East and Africa.

## **Emerging Europe**

Czech Republic, Estonia, Hungary, Poland, Romania, Russian Federation, Slovenia, Turkey and Ukraine.

## **Emissions and waste**

We report emissions to air, land and water for those substances which may have an impact on people or the environment: CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub>, VOCs, chemical oxygen demand, hazardous and non-hazardous waste. Definitions are in the Sustainability facts and figures section.

## **EVA (Economic Value Added)**

Calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital.

## **GHG**

Greenhouse gases.

## **Incidentals**

Incidentals are special charges and benefits, results on acquisitions and divestments, restructuring and impairment charges, and charges related to major legal, antitrust and environmental cases. EBIT and EBITDA before incidentals are key figures management uses to assess the company's performance, as these figures better reflect the underlying trends in the results of the activities.

## **Interest coverage**

Operating income divided by net interest on net debt.

## **Invested capital**

Total assets (excluding cash and cash equivalents, investments in associates, assets held for sale) less current income tax payable, deferred tax liabilities and trade and other payables.

## **Key value chain**

Used to map the carbon footprint of our businesses. Key value chains are product groupings with similar footprint characteristics, which are representative of the majority of total business unit revenue/production.

**Loss of containment**

A loss of containment is an unplanned release of material, product, raw material or energy to the environment (including those resulting from human error). Loss of containment incidents are divided into four categories, dependent on severity, from small, on-site spill up to Level D – a significant escape.

**Mature markets**

Comprised of Western Europe, the US, Canada, Japan and Oceania.

**Moving average ROI**

Calculated as EBIT of the last 12 months divided by average invested capital.

**Natural resource use**

We do not report specific natural resource use, except water. We do report our use of energy and waste from our operations, and indicate the main raw materials used in our products.

**Net debt**

Defined as long-term borrowings plus short-term borrowings less cash and cash equivalents.

**Net income**

Net income attributable to shareholders of Akzo Nobel N.V.

**Occupational illness frequency rate**

The number of reportable cases of occupational illnesses per million hours worked.

**Operating income**

Operating income is defined in accordance with IFRS and includes the relevant incidental charges.

**Operating ROI**

Calculated as EBIT before amortization of the last 12 months divided by average invested capital excluding intangible assets.

**Operating working capital**

Defined as the sum of inventories, trade receivables and trade payables in the Business Areas. When expressed as a ratio, operating working capital is measured against four times last quarter revenue.

**Operational eco-efficiency**

Refers to the eco-efficiency of our manufacturing operations. Our aim is to improve the operational eco-efficiency by reducing the resources used and emissions/waste from our sites during the manufacture of our products.

**P&D Dialog**

The Performance & Development Dialog (P&D Dialog) is AkzoNobel's global performance and appraisal system for employees.

**Profit for the period**

The sum of net income attributable to shareholders of Akzo Nobel N.V. and the income attributable to non-controlling interests.

**RD&I**

Research, Development and Innovation.

**Regulatory action**

We have defined three categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3).

**Revenue**

Revenue consists of sales of goods, services and royalty income.

**Safety incident**

We have defined three levels of safety incidents. The highest category – Level 3 – involves any loss of life; more than five severe injuries; environmental, asset or business damage totaling more than €25 million; inability to maintain business; or serious reputation damage to AkzoNobel stakeholders.

**Shareholders' equity per share**

Akzo Nobel N.V. shareholders' equity divided by the number of common shares outstanding at December 31.

**Talent Factory**

Talent Factory describes our ambition to be recognized as a company which offers opportunities to its people for ongoing learning, development and growth.

**SAM (Sustainable Asset Management) assessment**

Assesses the sustainability performance of companies selected for the Dow Jones Sustainability Index (DJSI). The DJSI tracks the performance of the global sustainability leaders. The index comprises the top 10 percent in each sector for the 2,500 largest companies.

**Total reportable rate of injuries (TRR)**

The number of injuries per million hours worked. Full definitions are in the Sustainability facts and figures section.

**TSR (total shareholder return)**

Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

**Wellness Checkpoint**

The company's health assessment tool, which allows employees to prepare their personal health risk assessments and health improvement plans. Employee family members may also participate in this program.

# Financial calendar

2012

April 19

**Report for the first quarter 2012**

April 23

Annual General Meeting of shareholders

April 25

Ex-dividend date of 2011 final dividend

April 27

Record date of 2011 final dividend

April 30 – May 18

Election period cash or stock final dividend

May 24

Payment date cash dividend and delivery of new shares

July 19

**Report for the second quarter**

October 18

**Report for the third quarter**

2013

February 14

**Report for the year 2012 and the fourth quarter**

**Disclaimer**

In this Report 2011, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units. In this publication the terms “AkzoNobel” and “the company” refer to Akzo Nobel N.V. and its consolidated companies in general. The company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Business performance”, they refer to the business concerned.

**Safe harbor statement**

This Report 2011 contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies.

**Report 2011 including Sustainability Report**

The company's annual financial report has this year been combined with the sustainability report into one Report 2011. The sustainability sections, however, in no way form part of the company's annual report as the company is required to publish pursuant to Dutch law.

**Report 2011 – Dutch version**

Selected chapters of this report are also available in Dutch. In the event of any discrepancies between the two versions, the English report will prevail.

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AkzoNobel is the largest global paints and coatings company and a major producer of specialty chemicals. We supply industries and consumers worldwide with innovative products and are passionate about developing sustainable answers for our customers. Our portfolio includes well-known brands such as Dulux, Sikkens, International and Eka.

Headquartered in Amsterdam, the Netherlands, we are a Global Fortune 500 company and are consistently ranked as one of the leaders in the area of sustainability. With operations in more than 80 countries, our people around the world are committed to excellence and delivering Tomorrow's Answers Today™.