AkzoNobel

# Report 2012

## Performance at a glance

### Statement of income

**Revenue** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 14,604 | +5% |
| **2012** | **15,390** | |

**EBITDA** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 1,834 | +4% |
| **2012** | **1,901** | |

**EBITDA margin** ▼
% of revenue

| | | |
|---|---|---|
| 2011 | 12.6 | -0.2 |
| **2012** | **12.4** | |

**EBIT** =
in € millions

| | |
|---|---|
| 2011 | 1,271 |
| **2012** | **1,276** |

### Dividend and earnings per share

**Adjusted earnings per share** ▲
in €

| | | |
|---|---|---|
| 2011 | 3.10 | +5% |
| **2012** | **3.26** | |

**Dividend per share** =
in €

| | |
|---|---|
| 2011 | 1.45 |
| **2012** | **1.45** |

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

| | |
|---|---|
| 2011 | 477 |
| **2012** | **(2,169)** |

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

| | |
|---|---|
| 2011 | 2.29 |
| **2012** | **(7.30)** |

### Cash flows

**Net debt** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 1,895 | +21% |
| **2012** | **2,298** | |

**Operating working capital** ▼
% of revenue

| | | |
|---|---|---|
| 2011 | 13.2 | -2.0 |
| **2012** | **11.2** | |

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

| | | |
|---|---|---|
| 2011 | 396 | +86% |
| **2012** | **737** | |

**Capital expenditures** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 658 | +26% |
| **2012** | **826** | |

### Ratios

**Moving average ROI** ▼
in %

| | | |
|---|---|---|
| 2011 | 10.5 | -0.5 |
| **2012** | **10.0** | |

**Return on sales (before impairment)** ▼
% of revenue

| | | |
|---|---|---|
| 2011 | 7.8 | -2.2 |
| **2012** | **5.6** | |

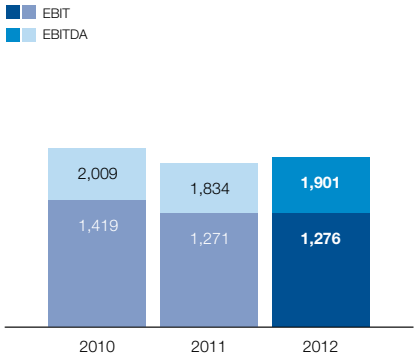
**Research and development expenses** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 349 | +11% |
| **2012** | **387** | |

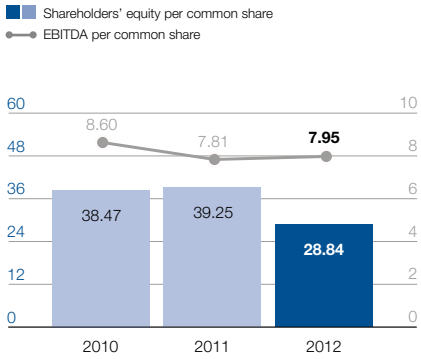
**Research and development major projects** ▲
% of R&D expenses

| | | |
|---|---|---|
| 2011 | 49 | +1.0 |
| **2012** | **50** | |

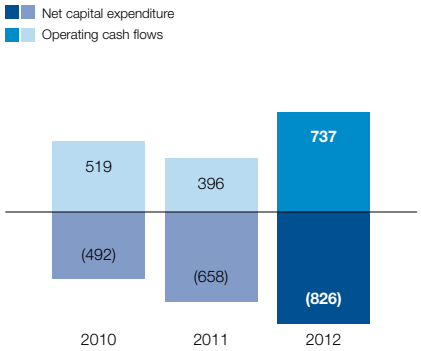
**EBIT and EBITDA**
in € millions



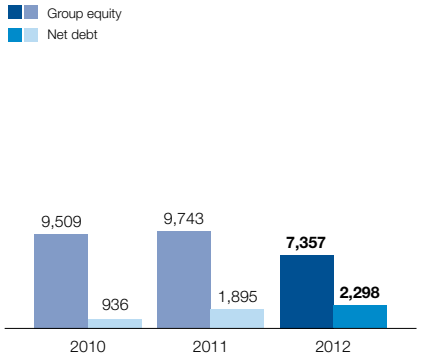

**Shareholders' equity and EBITDA per common share** in €




**Operating cash flows**
in € millions




**Group equity and net debt**
in € millions



## Sustainability

**Eco-premium solutions** =
% of revenue

| | | |
|---|---|---|
| 2011 | 22 | 0 |
| **2012** | **22** | |

**Employee engagement** ▲
Gallup GrandMean (out of 5)

| | | |
|---|---|---|
| 2011 | 3.74 | +2% |
| **2012** | **3.80** | |

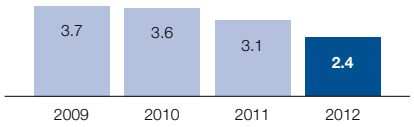
**Key value chains carbon** ▲
footprint assessment (over three-year period)

| | | |
|---|---|---|
| 2011 | 330 | +11% |
| **2012** | **366** | |

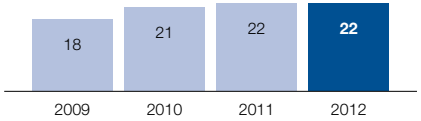
**Total reportable rate of injuries** ▼
per million hours

| | | |
|---|---|---|
| 2011 | 3.1 | -23% |
| **2012** | **2.4** | |

**Total reportable rate of injuries**
per million hours




**Eco-premium solutions**
% of revenue




## Specialty Chemicals

**Revenue** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 5,335 | +4% |
| **2012** | **5,543** | |

**EBITDA** ▼
in € millions

| | | |
|---|---|---|
| 2011 | 906 | -2% |
| **2012** | **889** | |

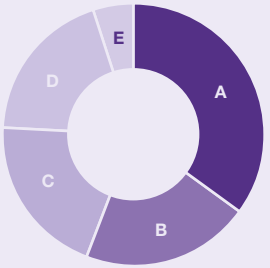
**EBITDA margin** ▼
% of revenue

| | | |
|---|---|---|
| 2011 | 17.0 | -1.0 |
| **2012** | **16.0** | |

**Total reportable rate of injuries** ▼
per million hours

| | | |
|---|---|---|
| 2011 | 2.8 | -36% |
| **2012** | **1.8** | |

**Revenue breakdown** in %




| | |
|---|---|
| **A** Functional Chemicals | 35 |
| **B** Industrial Chemicals | 21 |
| **C** Pulp and Performance Chemicals | 20 |
| **D** Surface Chemistry | 19 |
| **E** Chemicals Pakistan | 5 |

**Total revenue high growth markets vs mature**

## Performance Coatings

**Revenue** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 5,170 | +10% |
| **2012** | **5,702** | |

**EBITDA** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 611 | +26% |
| **2012** | **769** | |

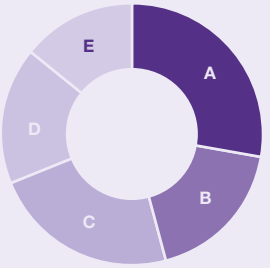
**EBITDA margin** ▲
% of revenue

| | | |
|---|---|---|
| 2011 | 11.8 | +1.7 |
| **2012** | **13.5** | |

**Total reportable rate of injuries** ▼
per million hours

| | | |
|---|---|---|
| 2011 | 2.8 | -7% |
| **2012** | **2.6** | |

**Revenue breakdown** in %




| | |
|---|---|
| **A** Marine and Protective Coatings | 28 |
| **B** Automotive and Aerospace Coatings | 18 |
| **C** Industrial Coatings | 23 |
| **D** Powder Coatings | 17 |
| **E** Wood Finishes and Adhesives | 14 |

**Total revenue high growth markets vs mature**

## Decorative Paints

**Revenue** ▲
in € millions

| | | |
|---|---|---|
| 2011 | 4,201 | +2% |
| **2012** | **4,297** | |

**EBITDA** ▼
in € millions

| | | |
|---|---|---|
| 2011 | 479 | -11% |
| **2012** | **425** | |

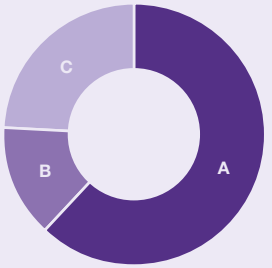
**EBITDA margin** ▼
% of revenue

| | | |
|---|---|---|
| 2011 | 11.4 | -1.5 |
| **2012** | **9.9** | |

**Total reportable rate of injuries** ▼
per million hours

| | | |
|---|---|---|
| 2011 | 3.5 | -23% |
| **2012** | **2.7** | |

**Revenue breakdown** in %




| | |
|---|---|
| **A** Europe | 62 |
| **B** Latin America | 14 |
| **C** Asia Pacific | 24 |

**Total revenue high growth markets vs mature**

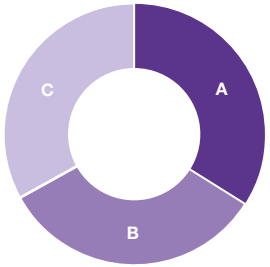
# AkzoNobel at a glance in 2012

**Revenue (in € billions)**

## €15.4

**Revenue by Business Area**

| | |
|---|---|
| **A** Specialty Chemicals | 36% |
| **B** Performance Coatings | 37% |
| **C** Decorative Paints | 27% |

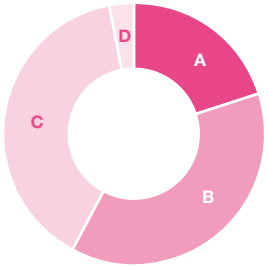



**Employees**

## 50,600

**Employees by Business Area**

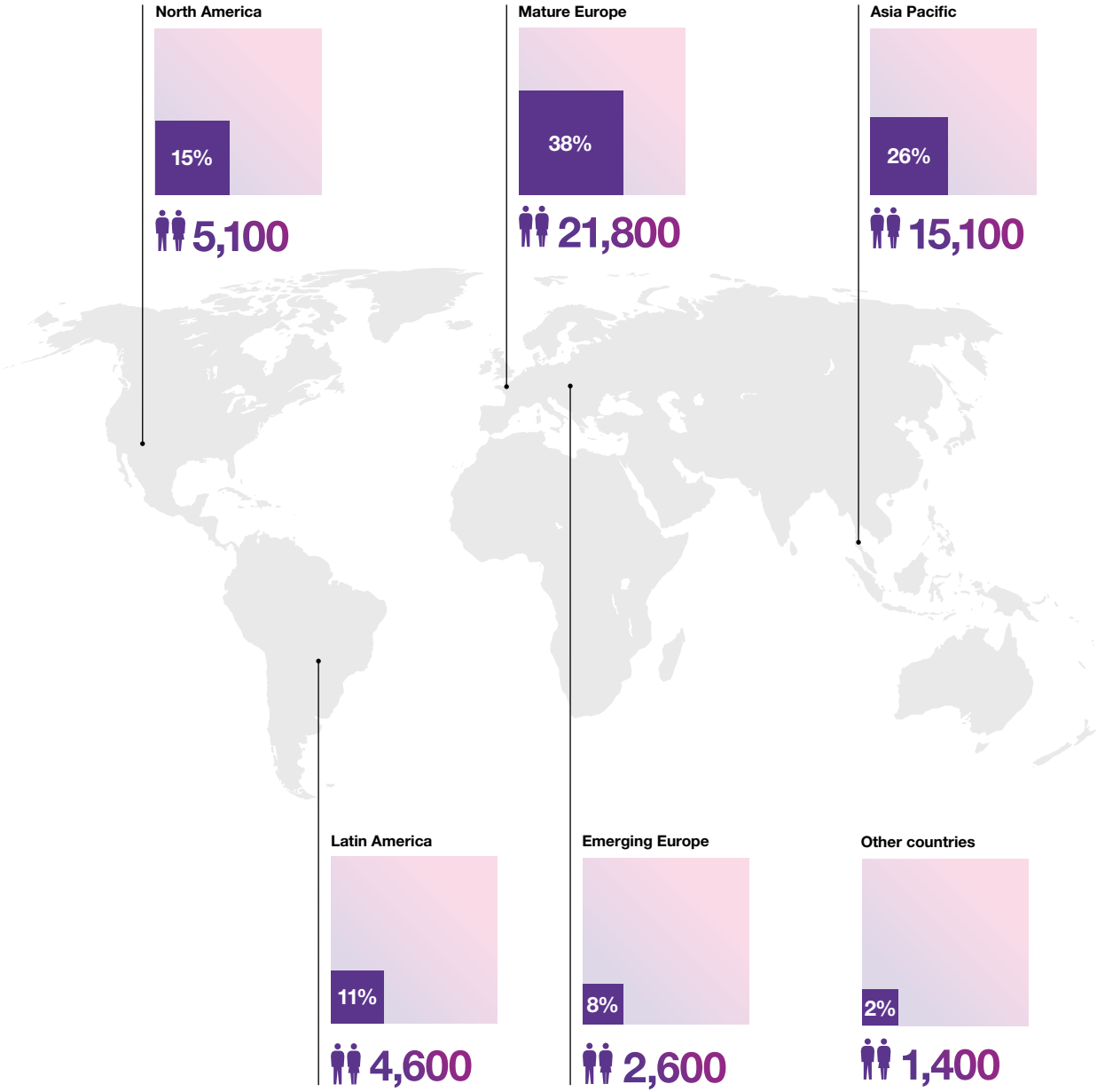
| | |
|---|---|
| **A** Specialty Chemicals | 21% |
| **B** Performance Coatings | 42% |
| **C** Decorative Paints | 34% |
| **D** Other | 3% |




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

Geo-mix revenue by destination

Employees by region



During 2012, there were various changes to the company's portfolio and its leadership. The economic climate remained volatile and markets worldwide offered limited opportunity for growth. But we made good progress and benefited from improvements in several key areas, while never losing focus on our customers. More information can be found in this Report 2012, which takes an in-depth look at our performance and activities during the year.

# A few historical highlights

Hoarding advertising: the planned construction of the new Sikkens plant in Sassenheim, the Netherlands, shortly before World War II broke out

ICI was created by the merger of four companies, each with its own distinctive logo. The wavy lines in the Nobel Industries logo were borrowed for the new ICI logo

**1646** Bofors forge founded in Sweden

**1792** Lacquer manufacturer Sikkens Lakfabrieken founded in Groningen, the Netherlands

**1826** Silk manufacturer Courtaulds founded in Essex, England

**1911** Nederlandse Kunstzijdefabriek (Enka) is founded in Arnhem, the Netherlands

**1923** Organon is founded in Oss, the Netherlands, and commences insulin production

**1926** ICI is founded via the Aquitania Agreement

**1969** Algemeene Kunstzijde Unie (AKU) merges with Koninklijke Zout Organon to form Akzo

Rolling gunpowder at Bofors at the time when Alfred Nobel turned the factory into the most important arms manufacturer in Sweden

Samuel Courtauld III (1793 –1881), the founder of Courtaulds and a titan among Victorian entrepreneurs

Packaging insulin

ICI's Dulux Paint entered the retail market in 1953

Alfred Nobel (photo: 1885)

International Paint, with its renowned red propeller logo, is the world leader in high performance marine coatings

## 1984

KemaNobel merges with the company Bofors to form Nobel Industries

## 1994

Akzo and Nobel Industries merge to form Akzo Nobel

## 1998

Akzo Nobel acquires Courtaulds. Best known brand: International

## 2000

Akzo Nobel's Fibers group is divested and becomes the independent company Acordis

## 2007

Akzo Nobel sells its human and animal healthcare businesses to Schering-Plough

## 2008

Akzo Nobel acquires ICI and changes its name to AkzoNobel

## 2012

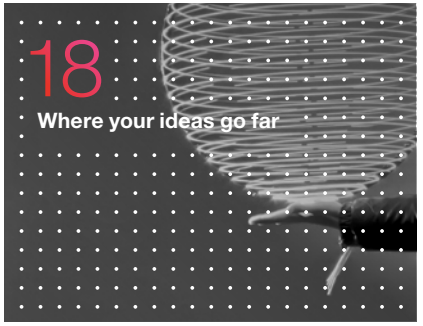
Announced the divestment of the North American Decorative Paints business

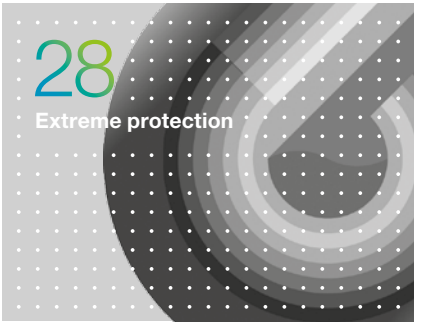
Akzo's first corporate headquarters in Arnhem, the Netherlands, in the early 1970s

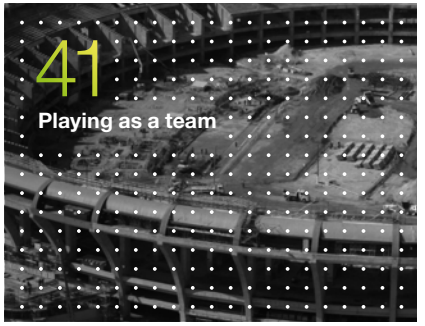
Launching of the new AkzoNobel. AkzoNobel's new brand was unveiled at a gala event held in Amsterdam, the Netherlands

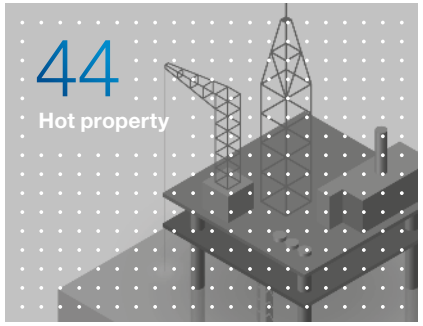
# Case studies

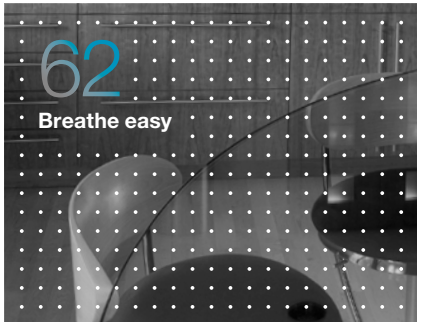
Throughout our Report 2012 you will find various case studies highlighting just part of our contribution to the world around us.

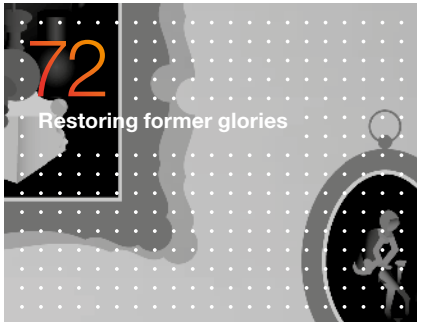




# Contents


| | |
|---|---|
| **Strategy** | **7** |
| Chairman's statement | 8 |
| Our ambitions and strategy | 10 |
| Risk management | 22 |
| **Our leadership** | **31** |
| Our Board of Management and Executive Committee | 32 |
| Report of the Board of Management | 34 |
| Statement of the Board of Management | 40 |
| Supervisory Board Chairman's statement | 42 |
| Our Supervisory Board | 43 |
| Report of the Supervisory Board | 45 |
| **Business performance** | **51** |
| AkzoNobel Specialty Chemicals | 53 |
| AkzoNobel Performance Coatings | 63 |
| AkzoNobel Decorative Paints | 73 |
| **Governance and compliance** | **81** |
| Corporate governance statement | 82 |
| Remuneration report | 90 |
| Compliance and integrity management | 98 |
| AkzoNobel on the capital markets | 102 |
| **Financial statements** | **107** |
| Consolidated statement of income | 108 |
| Consolidated statement of comprehensive income | 109 |
| Consolidated balance sheet | 109 |
| Consolidated statement of cash flows | 110 |
| Consolidated statement of changes in equity | 111 |
| Segment information | 112 |
| Notes to the consolidated financial statements | 113 |
| Company financial statements | 153 |
| Other information | 158 |
| **Sustainability statements** | **161** |
| 2020 Sustainability strategy | 163 |
| Consolidated Sustainability statements | 164 |
| Safety | 171 |
| Employees | 178 |
| Value chain | 183 |
| Environment | 188 |
| Independent assurance report | 193 |
| **Summaries** | **195** |
| Financial summary | 196 |
| Sustainability performance summary | 200 |
| Index | 202 |
| Glossary | 203 |
| Financial calendar | 205 |
| Disclaimer | Inside back cover |

# Strategy

This section provides an overview of our strategic priorities, and gives details of the ambitions to which we aspire. You will also find the Chairman's statement and learn about how we manage operational risks.


| | |
|---|---|
| Chairman's statement | 8 |
| Our ambitions and strategy | 10 |
| Risk management | 22 |

# Chairman's statement

Going into 2012, we knew it was going to be a challenging year. Economies were slowing down, the eurozone was full of uncertainty and raw material prices were putting a strain on margins in all our markets.

As the year progressed, conditions remained unfavorable and operating in such a testing environment proved extremely challenging. However, despite the constant headwinds, we combined the resilience of our portfolio with careful but stringent management to realize topline growth of 5 percent and an EBITDA improvement of 4 percent.

As expected, we saw a continued decline in consumer confidence and in housing markets worldwide, which had a negative impact on many of our businesses. We were faced with an additional slowdown in high growth regions, with markets that had previously been more resistant to the economic crisis also being affected. The new market reality called for a more focused business approach, so we implemented various improvements to supplement the ongoing restructuring which has been taking place. This positively impacted our results, with Performance Coatings achieving good growth and improving profitability, while Specialty Chemicals had a solid year and Decorative Paints remained essentially flat. In terms of share price development, we achieved a 33.2 percent increase by year-end, outperforming the Bloomberg Chemicals Index by 5.3 percent.

Our decision-making throughout 2012 was very much influenced by the performance improvement program we introduced the previous year. We set ourselves the ambition of delivering €200 million EBITDA in 2012 and the good news is that we are ahead of target, delivering €250 million by the end of the year. In addition, we brought forward our ambition of delivering €500 million EBITDA in 2014 by one year. We aim to achieve this by earlier implementation of several actions and by introducing additional measures in 2013. We will continue to strengthen from within, striving for operational and functional excellence while building lasting and profitable relationships with customers all over the world. This disciplined, customer-focused approach is fundamental to our continued success and forms a cornerstone of the new strategy we have adopted (see later in this section), which is based on end-user segmentation and is designed to further improve on our leadership positions in paints, coatings and specialty chemicals.

It was a year which called for many tough decisions, one of the most significant being the divestment of our North American Decorative Paints activities to PPG Industries, Inc. The business has been significantly improved, but it was clear that further strengthening of our position would require substantial investment. Given the depressed economic climate, we decided to focus our Decorative Paints investment and priorities on key markets in Europe, and on building our strong existing positions in high growth regions. Another major decision followed a prudent review (excluding restructuring benefits) of the balance sheet, which took into account lower expected market growth rates. This resulted in a non-cash impairment charge against the Decorative Paints business' assets, primarily in Europe.

Our major investments during the year were mainly concentrated on expanding capacity and boosting production capability, particularly in high growth regions. For example, Industrial Chemicals and Functional Chemicals both announced expansion projects in China, while Pulp and Performance Chemicals is building a new Chemical Island in Brazil and Wood Finishes and Adhesives opened a new site in Vietnam. This ability to grow organically was crucial given the depressed economic climate, which offered little encouragement for pursuing acquisitions. However, should the right opportunities come along, we are in a strong position to make the appropriate investments in line with our strategic growth ambitions.

Operational matters and the state of the global economy clearly occupied much of our time, but we were not distracted from remaining committed to other vital areas of our business. We made good progress with our innovation agenda, highlighted by the launch of Dissolvine StimWell (a stimulation technology for the oil and gas industry with low environmental impact) and the introduction of click&go, an ingenious, eco-efficient paint packaging system designed for use on sprayguns in vehicle refinish bodyshops. Both new products are prime examples of how we have fully embedded sustainability into all our activities and processes, a fact which was recognized by our first place ranking in the Chemicals supersector on the Dow Jones Sustainability Index. Recognition such as this is obviously welcome, but we will continue striving to make further improvements and step up our efforts in areas such as safety.

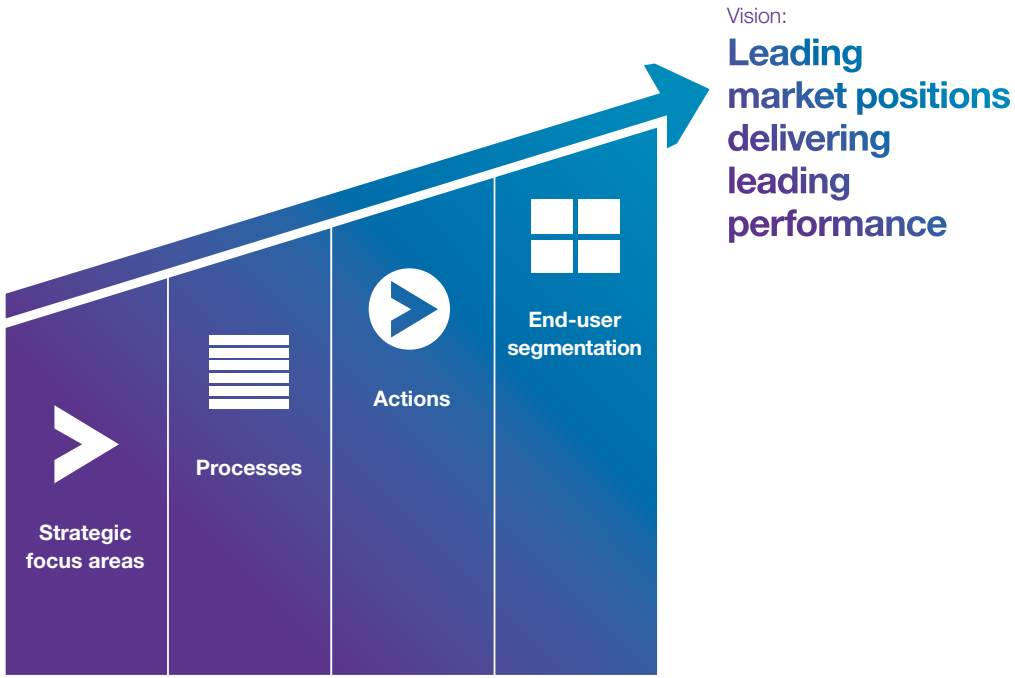
On a personal note, it was certainly an interesting year. Having succeeded Hans Wijers as CEO in April, there was a lot of work to do in terms of fine-tuning my vision for the company and developing the new strategy. Having to take a temporary leave of absence was unexpected, but the Executive Committee and Supervisory Board did an excellent job in keeping the company moving forward and we are all fully energized and excited about what lies ahead. There are still key issues to address – we have to improve our cash management and increase our profitability – while the economic climate is likely to remain challenging for some time. But we are confident that our new strategy will enable us to take full advantage of our market leadership positions and our global scale and we remain in a strong position to achieve our strategic ambitions.

On behalf of the Executive Committee, I would like to thank our shareholders, and all our colleagues around the world for their hard work and valued contribution during 2012. Together we have much to look forward to as we strive to make our company even stronger and continue to focus on delivering for our customers.

**Ton Büchner**
CEO and Chairman of the Board of Management
and the Executive Committee

# Our ambitions and strategy

As a starting point for defining our strategic agenda, we initiated a company-wide analysis of the outlook for the end-user segments that we serve. This is something that we will continue to do on a regular basis in order to assess the outlook for our businesses. Specifically, we will be incorporating end-user segment analysis into our strategy, budgeting and operational review processes going forward.



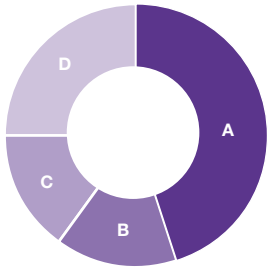

Vision:

**Leading market positions delivering leading performance**

We sell products and services into four main end-user segments – Buildings and Infrastructure, Transportation, Consumer Goods and Industrial. A brief profile of each of these segments, including their sub-segments, is provided over the following pages. The outlook for these end-user segments going forward varies, but in general the economic outlook has become more negative over the past couple of years. Particular areas of concern are Western Europe from a geographic perspective and the Buildings and Infrastructure segment from an end-user perspective. While we continue to expect growth in high growth markets, going forward, growth rates are expected to be limited to single digit figures.

**AkzoNobel revenue by segment** in %

| | |
|---|---|
| **A** Buildings and Infrastructure | 45 |
| **B** Transportation | 15 |
| **C** Consumer Goods | 15 |
| **D** Industrial | 25 |



# Buildings and Infrastructure

The global Buildings and Infrastructure end-user segment uses a wide variety of products to build, decorate, protect, maintain and renovate building interiors and exteriors. Various products are also used for the construction and maintenance of infrastructure, such as airports, bridges and roads. The segment can be divided into three specific sub-segments:

**New build projects**
- Residential
- Commercial
- Infrastructure

**Maintenance, renovation and repair**
- Residential
- Commercial
- Infrastructure

**Building products and components**
- Windows
- Doors
- Joinery
- Flooring
- Roofing and siding
- Structural components

**Percentage of AkzoNobel revenue**
- 45 percent

**Examples of AkzoNobel products sold into this end-user segment**
- Decorative paints used in interiors and exteriors
- Protective coatings used to coat and fire protect metals in larger buildings and infrastructure
- Coil coatings used in roofing and siding products
- Powder coatings used in extrusions
- Wood finishes and adhesives used for flooring and joinery
- Chlor-alkali products used in many plastic components
- Redispersible powders and cellulosic derivatives used in building adhesives and coatings

**Trends**

The Buildings and Infrastructure end-user segment has experienced a significant contraction since 2006, with limited recovery since then. Due to continued restrictions in the mortgage market and low levels of consumer confidence, the sector remains depressed, impacting all three sub-segments – New build projects; Maintenance, renovation and repair; and Building products and components. The outlook in mature geographies remains neutral at best, while in some areas of Western Europe, the expectation is that there will be further declines, even off the existing low base. The outlook for high growth regions is more positive due to population and wealth growth, but the growth rates going forward are expected to be lower than historical growth rates. Government stimulus packages for infrastructure development are also in place in many regions.

**Future sustainability developments**

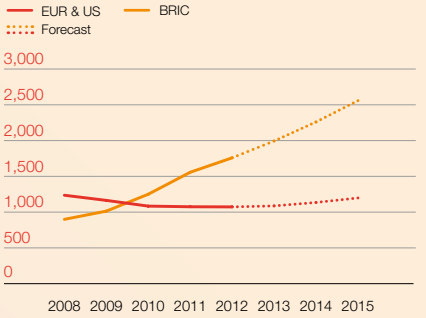
Even in a difficult market environment, there are pockets of demand due to the requirement for increased sustainability and lower energy costs in the Buildings and Infrastructure segment. Changes in demand due to changes in energy requirements in residential, commercial and infrastructure buildings are expected to be considerable. For example, according to the World Business Council for Sustainable Development's (WBCSD) Vision 2050 report, the expectation is that by 2050, 70 percent of the world's population will live in urban areas and 95 percent of new building stock will use zero net energy. The proportion of buildings heated by fossil fuels will also fall below 6 percent.

**Implications for strategy and actions**

To address this difficult end-user segment environment, AkzoNobel will need to manage product lines and improve margins in all geographies, while remaining focused on delivering better value for customers. Innovation will play a vital role in terms of improving our sustainability profile and establishing triggers that prompt the use of our products. We will need to continue to restructure in mature geographies, while in high growth areas we must continue to ensure strong positions and appropriate business models.

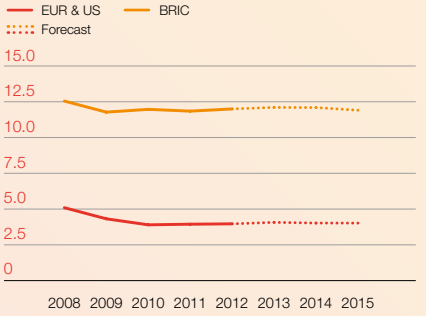
**New non-residential construction**[1]

$ billion, output



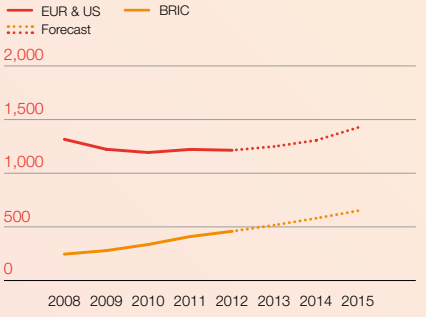

**Residential construction**[2]

Housing completions million units




**Total market maintenance and repair**[3]

$ billion, output




Sources: (1/3) IHS / Construction IC (2) Euromonitor International.

# Transportation

The Transportation segment covers parts manufacture, assembly and maintenance of cars, trucks, ships, airplanes, trains and all other products that facilitate movement. Our specialty chemicals are key parts of the process that make components and coatings play an important functional role in terms of protecting the underlying vehicle, but are also vital for aesthetics. We recognize the following three sub-segments in Transportation:

### Automotive OEM, parts and assembly

- Interior and exterior components and systems for cars and trucks, including:
  - Bumpers
  - Instrument panels
  - Wheels
  - Assembly of cars, light vehicles and commercial vehicles

### Automotive repair

- Aftermarket refurbishment and modification of cars and trucks
- Repair of damage to cars and trucks

### Marine and air transport

- Ship and yacht new build
- Ship and yacht maintenance, repair and refurbishment
- Airplane new build
- Airplane maintenance, repair and refurbishment

### Percentage of AkzoNobel revenue

- 15 percent

### Examples of AkzoNobel products sold into this segment

- Specialty coatings used for interior (e.g. instrument panels) and exterior (e.g. bumpers) automotive plastics
- Powder coatings for automotive components, such as wheels and engines
- Chlorine, organic peroxides and metal alkyls used in the production of automotive plastics
- Automotive refinish coatings
- Marine and yacht coatings for new build and maintenance
- Aerospace coatings for new build and maintenance

### Trends

The Transportation segment is expected to continue growing, with a geographic shift of demand and manufacturing to high growth regions. Increased use of lighter, alternative materials is also forecast. Within the sub-segments, in Automotive OEM and parts and assembly, the dip experienced during the global recession was marked. However, the recovery has been quite robust, with continued strong growth in high growth regions and moderate growth elsewhere. The Automotive repair sub-segment is expected to continue being more stable and geographically broad, but with much lower growth. Vehicle car miles driven are increasing, but both accident rates and repair rates per accident are falling due to extra safety features, while many motorists are delaying small repairs due to the difficult economy. The Marine and air transport sub-segment has seen a major drop in shipbuilding and reduced maintenance spend as shipping rates decline, with some evidence of increased use of more basic materials for repair. Airplane passenger miles continue to rise, keeping demand for maintenance more stable.

### Future sustainability developments

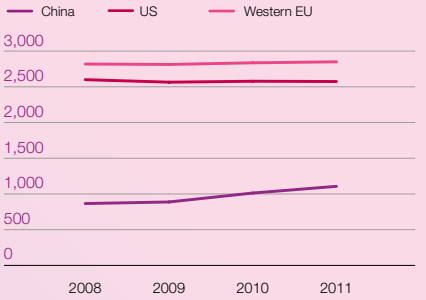
Sustainability-related concerns and, in particular, the need for reduced energy use in Transportation are important issues in terms of customer/consumer demand going forward. According to the WBCSD's Vision 2050 report, universal access to low carbon transport is expected by 2050. An 80 percent reduction in energy use by light duty vehicles is also forecast, along with a 50 percent drop in shipping/freight transportation. This will create challenges and opportunities for suppliers to this end-user segment.

### Implications for strategy and actions

In response to the trends in this segment, we will continue to focus on launching innovative products to improve functionality, sustainability and margins, and deliver better value for customers. A particular focus area will be ensuring we have the right products as customers shift to new, lighter materials. For high growth areas in particular, we need to ensure we have products with appropriate cost-to-serve/value trade-offs. We must also leverage our global scale to improve efficiency and effectiveness, and continue restructuring in lower margin segments and geographies with limited growth potential.

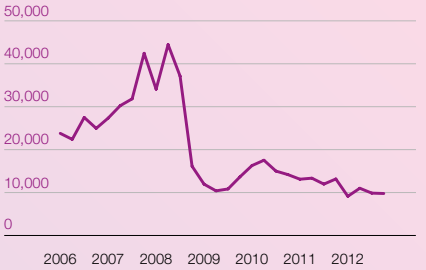
**Vehicle (car) miles driven**[1]

Billion car kilometers



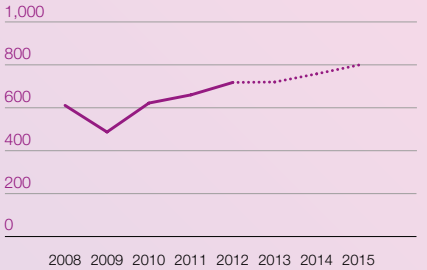

**Freight rates**[2]

ClarkSea Index $ earnings/day




**Motor vehicles and parts production**[3]

$ billion, value added




Sources: (1) IRF / Euromonitor International (2) Clarkson Research Services Limited (3) Oxford Economics.

# Consumer Goods

The Consumer Goods segment covers products such as consumer electronics, furniture, domestic appliances, food and beverage, personal care and cleaning products. Our specialty chemicals are either vital to the process that makes components (e.g. for making plastics used in consumer electronics), or they are key functional ingredients (e.g. chelates in dishwashing). As with the Transportation end-user segment, our coatings have an important aesthetic and design role (such as powder coatings on appliances), but are also used for protection, such as packaging coatings used inside cans to protect the can from the contents and the contents from the can. We recognize two sub-segments in Consumer Goods:

### Consumer durables

- Consumer electronics
- Domestic appliances
- Wood furniture
- Metal furniture
- Toys, recreational and sports equipment

### Consumer packaged goods

- Packaged (particularly canned) food and beverage
- Personal care products such as hair care and body care
- Industrial cleaning
- Household cleaning
- Micronutrients
- Pharmaceutical

### Percentage of AkzoNobel revenue

- 15 percent

### Examples of AkzoNobel products sold into this segment

- Wood finishes, wood adhesives and powder coatings used for the manufacture of furniture
- Specialty finishes and powder coatings used for appliances and consumer electronics
- Silica used in consumer electronics
- Packaging coatings used in the manufacture of cans for food, beer and beverage
- Natural and synthetic surfactants and polymers used in the manufacture of soap, detergents and personal care products
- Chelates/ethylene amines in dishwashing and detergents

### Trends

In Consumer Goods, we see continued growth and a geographic shift to Asia in terms of demand, production and design. The growth outlook is fairly positive, due mainly to rising wealth levels in high growth regions. During the recession, there was a substantial drop in mature geographies for the Consumer durables sub-segment and so far the recovery has been muted, notably in furniture. The Consumer packaged goods sub-segment is more stable and global in nature, but has a lower growth rate. In both sub-segments, there are changes in demand patterns. For example, in mature markets, there is evidence of the “vanishing middle”, with consumers choosing either higher value premium products or basic alternatives. In high growth areas, as wealth increases, many new consumers are coming into the market, but often with demand for products that are more affordable than those sold into the basic market in mature geographies.

### Future sustainability developments

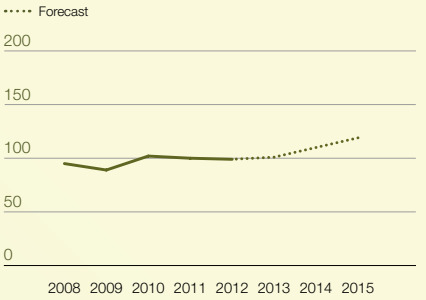
The WBCSD’s Vision 2050 report foresees major changes in this end-user segment, due to increased pressure from resource scarcity. By 2050, it is forecast that people will only use five tons of non-renewable materials each, down from 85 tons per person being used in the United States today. Products will be expected to be longer lasting and recycling of durables and packaging for non-durables will be fully integrated into business models.

### Implications for strategy and actions

Given the trends in this end-user segment, we need to have appropriate capabilities in high growth areas. This applies to manufacturing, distribution and technical support, but also to design and key account management, as the need for managing multi-level relationships becomes greater. For example, managing requirements and relationships with original equipment manufacturers and contract manufacturers will be increasingly important. Delivering better value for customers through innovation remains fundamental in Consumer Goods. So we must closely follow trends and be prepared for changes in consumer needs, as well as seeking opportunities to differentiate through color, design and/or customer process improvement. We must also continue to restructure in mature regions as manufacturing relocates and consumer demand patterns change.

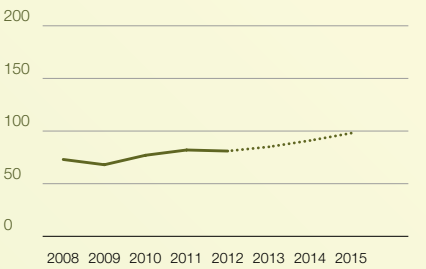
**Consumer electronics production**[1]

$ billion, value added



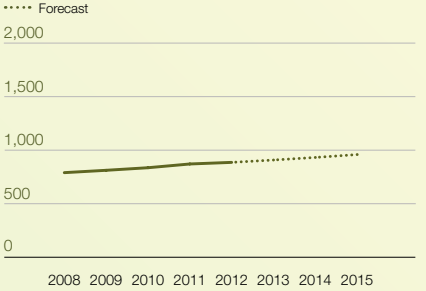

**Domestic application production**[2]

$ billion, value added




**Food and beverage production**[3]

$ billion, value added




Sources: (1/2/3) Oxford Economics.

# Industrial

The Industrial end-user segment covers production activities as varied as oil and gas, metals and mining, electricity and utilities, agricultural, chemical manufacturing and pulp and paper manufacturing. Our specialty chemicals perform a variety of roles in this segment. We supply products such as chlorine and caustic soda that are a key building block for producing chemicals. Various products also support the production process, but are not included in the final production process outcome, such as bleaching chemicals for manufacturing pulp and organic peroxides for plastics production. In addition, many specialty chemicals are included in formulations and play a vital functional role in the final product, such as surface chemicals used in oil and gas and agricultural applications. We also sell liquid protective and powder coatings which play some aesthetic role, but primarily provide functionality such as fire and corrosion protection. We recognize two sub-segments in the Industrial segment:

### Natural resource and energy industries

- Oil and gas extraction
- Metals and mining
- Energy and electricity generation
- Water and wastewater treatment
- Agriculture

### Process industries

- Bulk chemicals
- Specialty chemicals
- Pulp production
- Paper manufacturing

### Percentage of AkzoNobel revenue

- 25 percent

### Examples of AkzoNobel products sold into this segment

- Chlorine, caustic soda, ethylene amines and cellulose-based, sulfur-based and silica products used as a building block or a process facilitator in many industrial applications
- Chelates and surfactants used in oilfield applications
- Synthetic/natural polymers used in wastewater treatment
- Surfactants, ethylene amines, sulfur products and chelates used for agricultural applications
- Organic peroxides, metal alkyls and polymer additives used in the production of plastics
- Bleaching chemicals, caustic soda and chelates used in pulp production
- Retention chemicals used in paper production
- Protective coatings used for oil and gas up and downstream, as well as energy and water and wastewater installations
- Powder coatings used on pipes

### Trends

Many markets within this end-user segment are fairly cyclical, with substantial swings in demand. However, some are subject to different cycles (agricultural), while others are lower growth and not as cyclical (pulp and paper). During the last recession, the impact of the economic cycle was more limited than expected, based largely on robust high growth country demand. In particular, the oil and gas market was quite strong on the basis of high oil prices. We continue to expect buoyant demand in energy and utilities as high growth regions build infrastructure and mature markets replace existing infrastructure, in many cases with more sustainable solutions. We also expect reasonable demand in other markets covered by this end-user segment, especially outside the mature European region as industrial confidence appears to be growing in the United States and in all high growth markets.

### Future sustainability developments

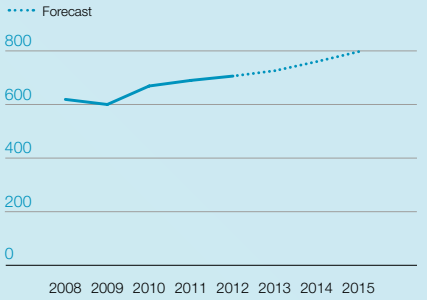
The WBCSD's Vision 2050 report foresees major changes in the Industrial end-user segment. As well as a four to ten-fold improvement in the eco-efficiency of resources and materials, it is expected that closed loop processes will make landfills obsolete and cooperation across sectors will become the norm.

### Implications for strategy and actions

To ensure we are well-positioned, we need to manage product lines and improve margins in all geographies, while remaining focused on delivering better value for customers. Innovation will play a vital role in terms of improving our sustainability profile and establishing triggers that prompt the use of our products. We need to continue restructuring in mature geographies, while in high growth areas, we must continue to ensure strong positions and appropriate business models.

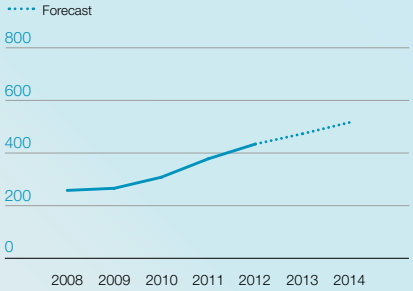
**Chemical production**[1]

$ billion, value added

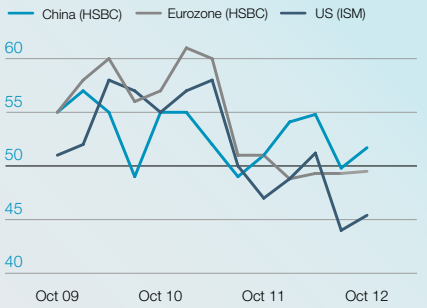



**Energy and utilities construction**[2]

$ billion, output




**Purchasing mangers' index**[3]




Sources: (1) Oxford Economics (2) Business Monitor International (3) Markit Economics, Institute of Supply Mangement.

**A more sustainable future**

Radically improving your eco-footprint while significantly increasing production capacity would be considered a major challenge in any industry. But that's exactly what we took on when we announced the investment of €140 million to convert our chlorine plant in Frankfurt, Germany, to the latest, state-of-the-art membrane electrolysis technology.

The new facility will increase current capacity by around 50 percent while reducing our ecological footprint by nearly a third. For example, electricity consumption per ton of product will be improved by almost 30 percent and brine cleaning waste will also be cut by roughly the same amount. Meanwhile, adopting the new membrane technology means mercury usage will no longer be necessary.

Work is already underway switching over to new, single element, electrolysis cells, which will replace the existing amalgam cells – technology which is now 40 years old. Construction activity began in late 2012 and represented an important milestone on our path towards a more sustainable future.

Due to come on stream in the fourth quarter of 2013, the new and improved plant will help to reinforce our Industrial Chemicals business' leadership position in Europe's caustic lye and chloromethanes markets. By increasing chlorine capacity to an expected 250 kilotons per year, we will also be able to meet robust demand and continue to support the growth of our customers.

# Our ambitions

## Our strategic ambitions are as follows:

Achieve return on sales (operating income/revenue) of 9.0 percent by 2015

Achieve return on investment (operating income/ average 12 months invested capital) of 14.0 percent by 2015

Maintain net debt/EBITDA lower than 2.0 by 2015

Increase revenue from downstream eco-premium solutions to 20 percent of our revenues by 2020

Reduce our carbon emissions through the value chain (excluding Scope 4) by 25 to 30 percent per ton by 2020 (2012 base)

Improve resource efficiency across the full value chain

AkzoNobel's vision is to have: Leading market positions delivering leading performance. Our ambitions and agenda reflect our view that in order to be a true leader, we must achieve leadership in both financial and non-financial aspects of our business. Given the modest outlook for end-user segment growth, our financial ambitions and strategic agenda are strongly focused on operating income, cash generation and return on capital. This is based on the principle that, even if our revenue growth opportunities are more modest going forward than they were historically, we still need to generate higher returns to be a true leader.

From a non-financial perspective, we will focus on safety, carbon footprint, resource efficiency and eco-premium solutions. Going forward, we will focus more on innovative solutions that lead to higher levels of resource efficiency in our downstream value chain (i.e. with our customers and consumers).

# Strategic focus areas

In order to achieve our ambitions, we have established a clear set of strategic focus areas throughout the company.

**Care for the customer**
The starting point for everything we do must be understanding and serving our end-user segments in a profitable way. This requires segmentation which is focused on customer and consumer needs, and product and process innovation that addresses those needs. We will continuously review leading indicators in our segments so that we can be proactive. In addition, we need to make sure that we have a supply chain which allows us to deliver on-time and right-first-time service. To ensure that this is beneficial for customers, consumers and AkzoNobel, we must also optimize our cost-to-serve levels.

**Reduction of product and process complexity**
We need to reduce complexity wherever possible. This incorporates reducing product and stock keeping unit (SKU) complexity, but it also means reducing unnecessary process complexity.

**Cash and return on investment (ROI)**
Although we are a very large paints, coatings and specialty chemicals supplier, we aspire to improve significantly when it comes to cash generation and return on investment. We strive to make balanced decisions to improve our businesses structurally and continuously.

**Embedded safety and sustainability**
Safety will always be first on our agenda. Regarding sustainability, we continuously improve, as evidenced by our continued strong performance in the Dow Jones Sustainability Index. We will enhance our focus on improved resource efficiency in the downstream value chain (i.e. with customers, consumers and in end-of-life) to build on our existing resource efficiency activities in our own scope and with our suppliers.

**Diverse and inclusive talent development**
The active participation of a strong and motivated workforce which reflects the diversity of the end-user segments we serve is required if we are to deliver on our vision and ambitions. We must therefore continue to build our programs and processes in order to achieve substantially higher levels of employee engagement and diversity at various levels in the company. We will do this through company-wide talent management.

# Processes

We are standardizing a number of processes in the company to benefit from our scale. We have defined a specific set of core processes that will help to build on the strengths of AkzoNobel company-wide. These are:

**Behavior-based and process safety**
We have had, and will continue to have, one approach to safety across the entire company, regardless of market sector or geography. This includes personal safety – which we refer to as behavior-based safety – and safety in our production activities, which we refer to as process safety. Within the innovation process, we will also be addressing product and process safety opportunities.

In 2012, we took a number of important steps with regard to behaving safely. Specifically:

- TakeCare program
- Life-Saving Rules
- Substance management

Going forward, rather than inventing new processes or frameworks, our focus will be on disciplined and rigorous implementation of existing initiatives.

**Operational Control Cycle**
To ensure that we are dependable and focused on cash and return on investment, we need to have a coherent and disciplined operational management process. This process must take a forward-looking view. It starts with our end-user segment view and drives our planning, our actions and our continuous follow-up at various levels of the company.

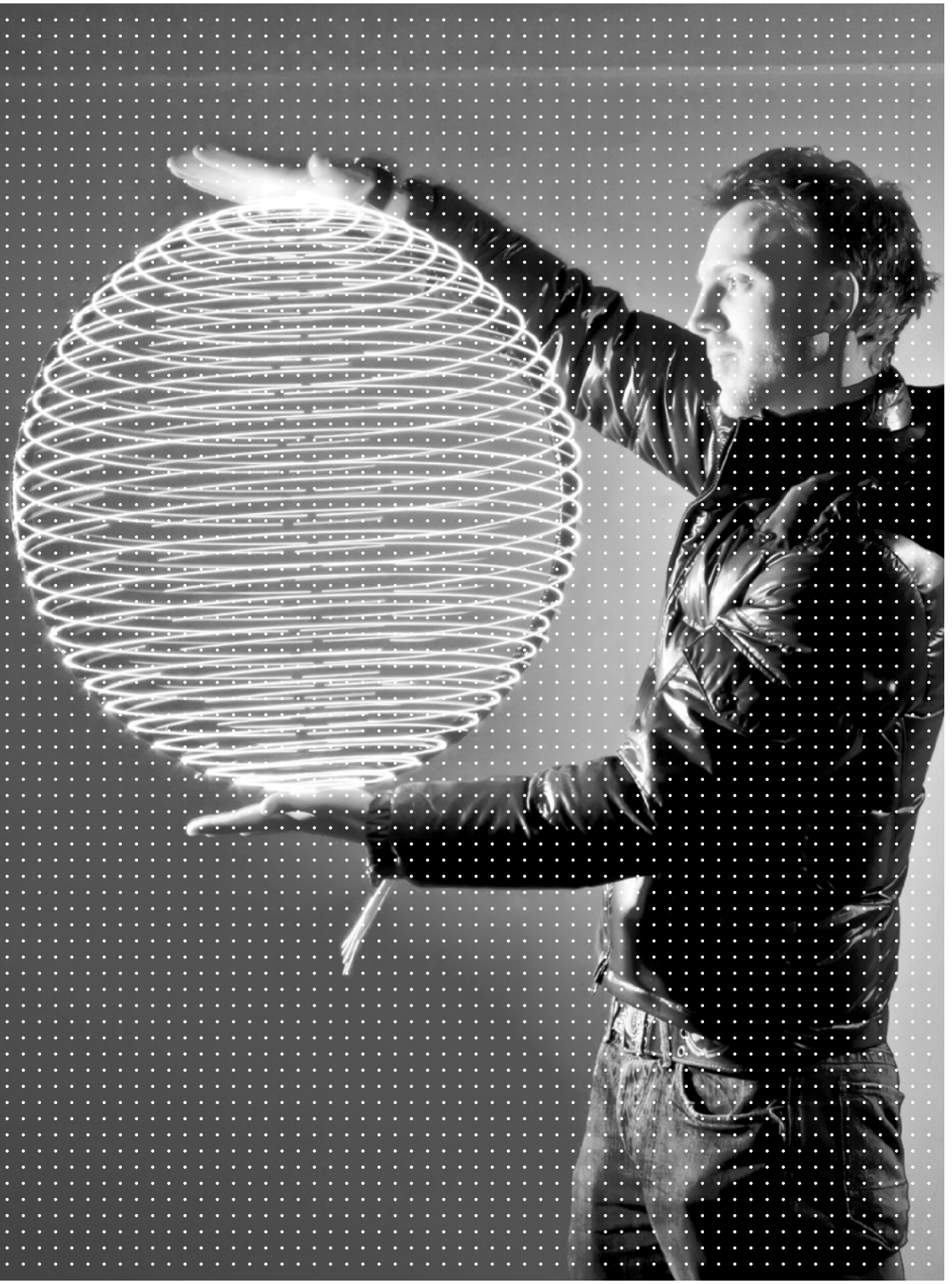
**Where your ideas go far**

Attracting promising new talent and retaining employees with high potential are key to the success of any company with aspirations to be the best. With our sights firmly set on becoming the world's leading paints, coatings and specialty chemicals company, we attach huge strategic importance to the attraction and retention of talent and the continued development of our employees.

We are already recognized as being a highly collaborative organization that offers an accessible working environment, where sustainability and entrepreneurial spirit are key. But in order to better position ourselves as an employer of choice and differentiate ourselves from the competition, we have to do even more.

So we have developed an Employee Value Proposition, or EVP. Essentially, it's an articulation of what we stand for as an employer and outlines what employees can expect from us in terms of their role, development, work environment and reward. To help bring it to life, we've embodied our EVP in a concept called Where your ideas go far. It will enable us to better communicate the deal between prospective and current employees and help ensure that we have in place the talents we need to achieve our ambitions.

Our EVP also gives us a clear and consistent approach to recruitment and talent development around the world. It sends a strong message that we are looking for people who can see what is happening in the world around them – whether that's climate change or the increasingly rapid pace of urbanization – and who can use those insights to develop ideas of what tomorrow should look like. How we should live, how we should travel, what type of buildings we should live and work in. In short, our EVP makes it explicit we're looking for people who have the energy and determination to create the future with our customers and take AkzoNobel and the world forward, one step, every day.



# Actions

**Continuous improvement**
As is the case with the Operational Control Cycle, a rigorous continuous improvement process is required. This applies not only in our factories, but also in other areas of our operations, such as office activities and distribution. In our continuous improvement process, we incorporate the following important concepts:

- Continuous improvement starts with the customer
- We must understand, standardize and improve processes that deliver customer value, seeking excellence by reducing variation (often referred to as Six Sigma activities) and waste (often referred to as "Lean"). By waste, we mean all forms of waste, including over-processing, time, skills and capabilities, in addition to process defects, over-production, wasted transport and inventory
- We need to continuously learn using a structured plan-do-study-act (PDSA) approach, based on data and facts

**Innovation**
Effective and efficient innovation processes are fundamental if we are to care for the customer, in that good processes deliver products with better functionality, improved eco-efficiency and/or lower costs for customer and/or consumer benefit. This includes processes that enable delivery of opportunity identification, concept generation, solution development, commercialization and continuous improvement in response to customer and market needs. The focus will not only be in the area of new product development, but also on simplifying existing product portfolios and innovation in manufacturing and distribution processes.

**Procurement**
To leverage our scale, harness innovation and combine the capabilities of our suppliers with our own, we need to take an AkzoNobel approach to procurement. Sustainability is also becoming an increasingly important topic in our own discussions with suppliers. We have been harmonizing and standardizing processes such as strategic sourcing, key supplier and account management and operational procurement (including purchase-to-pay, or P2P) processes. Standardization of these processes will accelerate going forward.

**Talent management**
In order to deliver diverse and inclusive talent development, we must have one talent management process across the whole of AkzoNobel, which engages and motivates a high quality, diverse workforce. This talent management process includes:

- Planning for talent needs based on diversity and inclusion goals and utilizing disciplined workforce planning
- Attracting, acquiring and on-boarding based on a clear employee value proposition (see case study opposite)
- Assessing performance and potential through performance dialogs, development planning, development centers and talent reviews
- Development and retention via cross-BU/functional moves, challenging assignments, mentoring, coaching, learning (e.g. the AkzoNobel Academy)
- Deployment of personnel based on solid succession planning and rich internal talent pools

These strategic focus areas and core processes will result in a set of key actions that lead us to our goal of leadership in coatings and specialty chemicals.

**Deliver dependably**
We must deliver on our promises whether they are to the financial market, to customers, to suppliers, or to one another.

**Grow organically**
We need to build on our strong market sector and geographic positions. The starting point for this is capitalizing on the significant investments that we have made over the last few years, including:

- The creation of additional production capacity in high growth regions, such as investments in China (at our Ningbo multi-site; for new production capability for Decorative Paints; and to add capacity for Automotive and Aerospace Coatings in Changzhou), and in Brazil (Chemical Islands for bleaching chemicals)
- Improvements in capability in mature geographies such as our investment in North East England to build a world class, hi-tech manufacturing facility and the de-bottlenecking of our existing manufacturing sites in Örnsköldsvik and Sundsvall, Sweden

We will need to be more selective in our investments going forward given the uncertainties in the market and our focus on cash and return on investment. Therefore, we are already making difficult choices about where to invest. A good example is the divestment of our North American Decorative Paints business. In 2012, we decided to prioritize our resources and focus on those areas where our end-user segment analysis indicates there will be better growth potential.

**Innovate**
Innovation is vital for organic growth and embedded sustainability. Good examples of the kind of product innovation that fit this profile are:

- Emulsion paints which are diluted at the point of use. This provides a sustainability benefit of reduced energy use in transportation
- Dissolvine StimWell biodegradable well stimulation technology for the oil and gas industry, derived from renewable resources (see case study in the Our leadership section)
- Dulux Guardian interior wall paint, which has been launched in India with a well-being proposition: low-VOC, low-odor and anti-bacterial

Innovation is also vital for simplicity and focus on cash and return on investment. We need to take an innovative approach to process improvement to cut costs and enhance effectiveness.

For example, we have reorganized our Marine and Protective Coatings business along market sector lines and now operate three distinct, streamlined activities – Marine, Protective and Yacht coatings. They are supported by global organizations in research, development and innovation (RD&I) and supply chain. This will ensure that we take a global approach to innovation and complexity reduction.

**Simplify**
By simplifying our product ranges and processes we can deliver care for our customers while ensuring that we maximize our cash and return on investment. Complexity reduction is therefore crucial if we are to capture the benefits created by our considerable global scale.

A good example of successful simplification is in our Powder Coatings business in Europe. Following the acquisition of the Rohm & Haas powder business, we had a very complex product range, with considerable duplication. By creating a much smaller, but better formulated range, we have been able to capture the benefits of scale internally, while offering customers the best quality products, often with shorter lead times and greater availability.

Product line simplification isn't the only way to take advantage of our global scale. Process simplification can also provide significant advantages. In our Procurement and Finance functions, for example, we are simplifying our back office processes, allowing us to carry out these tasks more efficiently and improve productivity with no impact on customer service levels.

**Standardize**
Once we have defined a process, we must standardize it. Core processes are being defined at the highest level of the organization that we can use to leverage our scale. As indicated earlier, we are ensuring core processes at the AkzoNobel level for safety, operational control, continuous improvement, talent management, procurement and innovation.

The use of standardized processes for improved efficiency and effectiveness is a key element of our performance improvement program, which was originally designed to generate an additional €500 million EBITDA by 2014. We exceeded the program's target for 2012 by delivering €250 million of improvements (the original ambition for 2012 was €200 million). By accelerating the program and by introducing additional measures, we aim to deliver our program benefits a year early, in 2013.

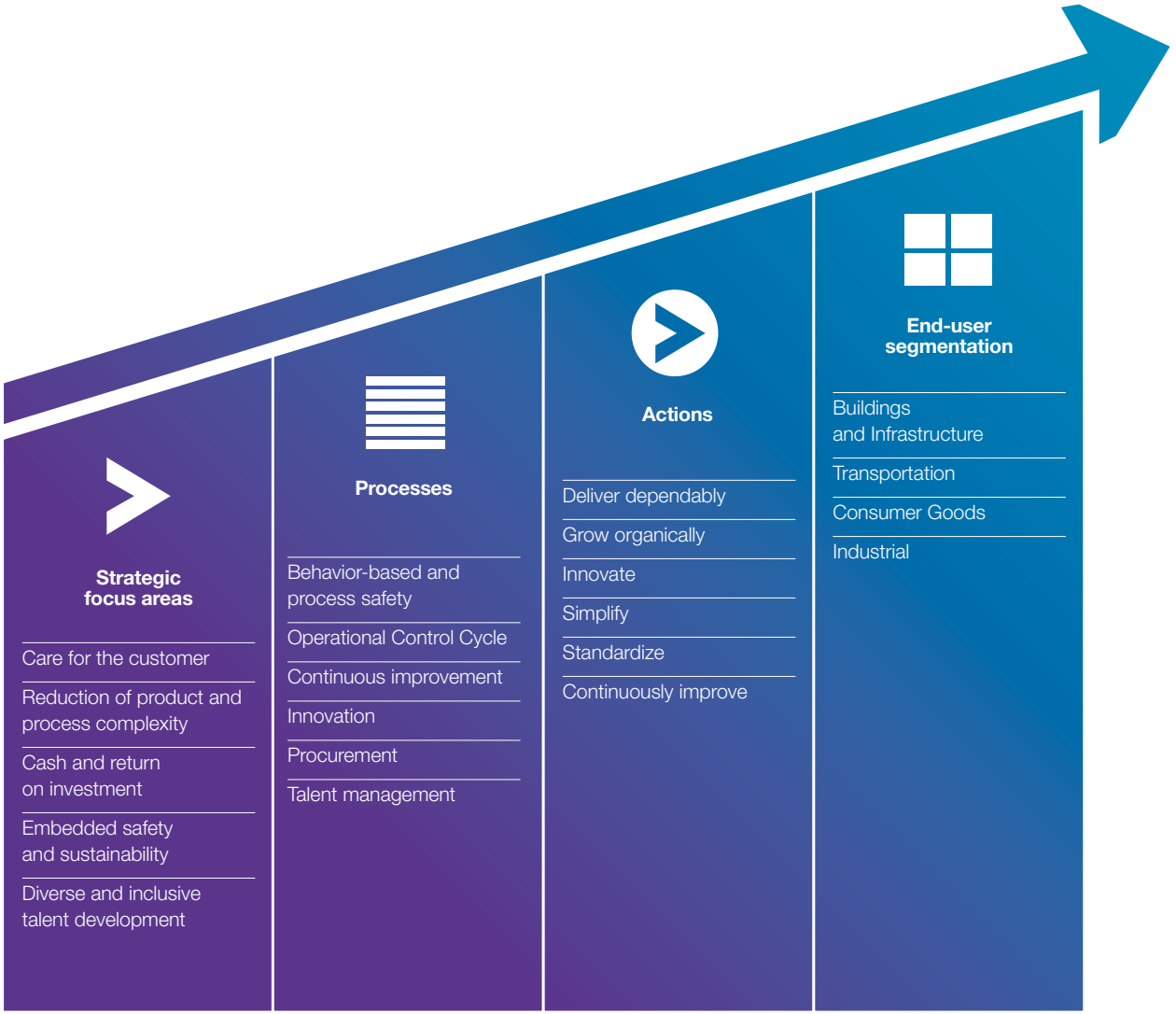
Some processes will also be standardized at other levels of the organization to capture the advantages created by our scale as part of our transition from large to leading. For example, we are standardizing product branding processes within Decorative Paints at Business Area level, while at Specialty Chemicals Business Area level, we will be standardizing process engineering and enterprise resource planning (ERP) processes. Other processes will be standardized and continuously improved at business unit or market sector level.

**Continuously improve**
We aim to have robust and consistent processes for performance improvement, which will be rolled out to the organization through operational excellence training as part of the AkzoNobel Academy. Instead of project-based improvements, we aim to generate these improvements continuously, based on our process and innovation strength.

**Summary**
AkzoNobel now has a clear set of strategic focus areas, a defined set of core processes and a set of key actions that drive our goal of: Leading market positions delivering leading performance. We will deliver dependably and focus on organic growth, process strength and continuous improvement. We have sustainability at our core and drive relationships across the value chain to incorporate innovation which reduces our own ecological footprint and the footprint of other stakeholders. We will inspire our employees to perform better every day and together we will move the company forward.

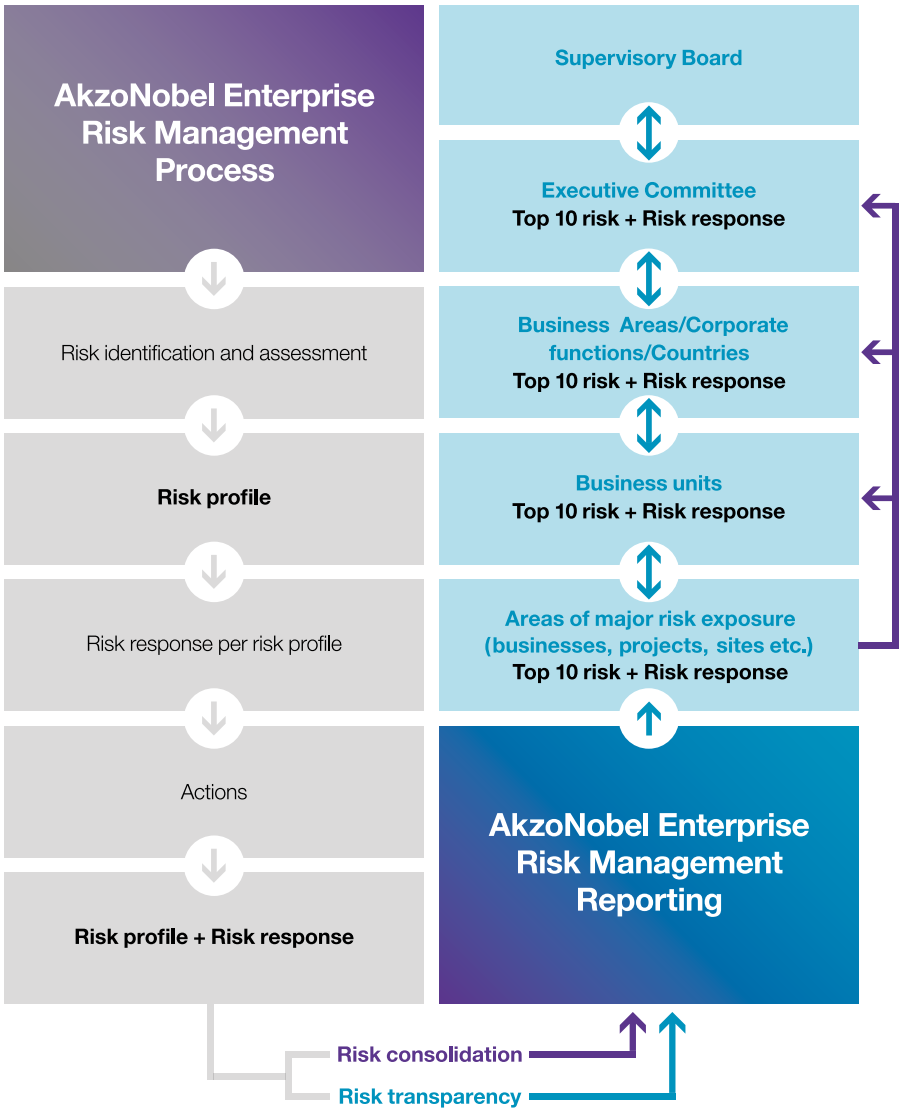
Vision:

# Leading market positions delivering leading performance



# Risk management

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



We foster a high awareness of business risks and internal control, geared to safeguarding our risk appetite and providing transparency in our operations. The Executive Committee 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 Our leadership section).

### AkzoNobel risk management framework

Through our risk management framework, we seek 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 subsequently reviewed 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, 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 achieve our growth, innovation and sustainability objectives. 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.
- **Operational:** With respect to operational risks, we continuously strive to minimize these risks. Our risk appetite is very limited. We are executing programs geared towards improving our operational and functional excellence. Our risk appetite is governed by our ambition to strive for top quartile safety performance, top quartile performance in diversity and talent development, top quartile eco-efficiency improvement rates and a top three position in the Chemicals supersector of the Dow Jones Sustainability Index.
- **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 22 in the Financial statements section.
- **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. See the Corporate governance section for more details.

### Risk management in 2012

Enterprise Risk Management is a bottom-up process which provides full 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 2012 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.

During 2012, we held more than 100 facilitated Enterprise Risk Management workshops. More than 4,000 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 pages. An unexpected event in 2012 was the absence of our CEO due to illness and the consequential delay of the strategic update. Furthermore, we were faced with continued deterioration of market conditions, especially in Europe.

### 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 in this section. 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. The company's risk management systems endeavor to ensure the timely discovery of such incidents.

An overview of our major risk factors follows. 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

- Identification of major transforming technologies
- Implementation of strategic agenda

### Operational

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

### Financial

### Compliance

## External

### Strategic

- **Worsening of 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**

## 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**
The risk of missing relevant technology developments is mitigated in four ways. Firstly, we adequately support research and development with a spend level of between 2 and 3 percent of revenue (2012: 2.5 percent or €374 million), with 50 percent spent on major projects and technology developments. Secondly, our key projects have detailed technology road-maps which assess the most appropriate routes. Thirdly, we are actively developing our open (external) innovation capability to identify and utilize the most promising technology platforms. These technology platforms are used as an integral part of VISTA projects, where we define technology and market opportunities. Finally, 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. Specifically, the Boards are helping us to identify, assess and evaluate scientific and technological opportunities for sustainable innovation. Where appropriate, they also suggest centers and individual experts the company might consider developing relationships with to advance identified opportunities.

**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 core processes 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. Risks are minimized as we operate in attractive industries, have global leading positions and have strong executive leadership in place. In August 2012, we implemented a new monthly Operational Control Cycle designed to manage our business in a more operational way, with particular emphasis on a forward-looking outlook. A modification to the executive remuneration system will be made to ensure executives are fully focused on the company's overall priorities. Furthermore, our long-term executive remuneration is partly linked to our ranking in the Chemicals supersector of the Dow Jones Sustainability Index (SAM assessment). (See Remuneration report chapter in the Governance and compliance section).

**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.

**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 motivating them and developing their capabilities. As part of this drive, we are stepping up our actions to strengthen our corporate identity and to build a functionally excellent One HR organization focused on best-in-class talent management. Our ultimate goal is to be recognized internally and externally as the employer of choice. To achieve this, we have a number of priority focus areas including professionalizing recruitment, improving our talent management processes and harmonizing key HR administration processes to provide efficient service and free up time for the business partnering that is crucial to helping us attract, develop and retain superior people. In addition, as part of the overall performance improvement program, we have set up the AkzoNobel Academy. This is specifically focused on building capability across the company and, in particular, at providing a higher level of general leadership, project and change management skills, as well as creating a consistent approach to specific functional capabilities.

**Internal Operational** – Top five risk

## 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 program and business restructuring projects, are under the direct supervision of dedicated Executive Committee members. Furthermore, we have included project management and change management curricula in our AkzoNobel Academy.

**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 business continuity risks and reputational damage.

**Risk corrective actions**
We held a company-wide Safety Day in 2012 focused on launching our TakeCare and Life-Saving Rules programs. The TakeCare program is the umbrella for all existing and future safety initiatives at business and central level, introducing one safety mission and identity. The Life-Saving Rules program introduces a "golden principle" and eight basic safety rules that will be mandatory as of April 2013, for all AkzoNobel employees and all our contractors. We continue with our business continuity planning and have appropriate risk transfer arrangements in place (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. We are actively engaging in stimulating continuous improvement on OEE and initiating 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.

**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 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. We have also set up a dedicated Middle East organization responsible for all AkzoNobel business in the countries belonging to the region.

**External Strategic** – Top five risk

## Worsening of economic conditions

One of the principal uncertainties continues to be the development of the global economy. The global economic conditions remain fragile and it is difficult to predict customer demand and raw material costs. Construction and housing markets are expected to remain soft in mature markets and our Decorative Paints business in particular has been affected by the market downturn. The likelihood of a European sovereign crisis may have decreased but the chronic fiscal imbalances 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, based on functional and operational excellence. Around 40 percent of the anticipated benefits will come from programs to decrease complexity and to optimize the supply chain, and a further 50 percent from margin management, research and development initiatives and business restructuring programs. These benefits will accrue across our Business Areas. We continue to apply various scenarios for planning and budgeting to be best prepared for further changes in economic conditions.

**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. Across the organization we encourage our employees to participate in one of many ongoing Community Programs, thereby supporting local societies.

**External Operational**

## Energy pricing and emission trading rights

Our Specialty Chemicals business operates two energy-intensive businesses, Pulp and Performance Chemicals and Industrial Chemicals. The latter conducts its business primarily in Europe. A non-level playing field for energy on a global level (e.g. shale gas, national policies, subsidies) and emission trading rights can affect the competitive position of these businesses and the competitive position of our customers.

**Risk corrective actions**
We will continue to analyze and review our competitive positions and we are proactively 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 22 in the Financial statements).

**External Operational**

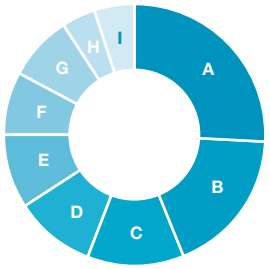
## Sourcing of raw materials

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. The table to the right shows our relative spend on these key raw materials, excluding energy. 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, increases in cost and expenses for raw materials and energy, and changes in product mix may adversely affect future results and growth.

**Risk corrective actions**
Our strengthened global sourcing strategy enables us to bundle the purchasing power, both in product related and non-product related requirements. We use our purchasing power and our 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 continuously monitor the markets in which we operate for developments and opportunities and adapt our purchasing strategy accordingly.

**Breakdown of total raw material spend** in %

| | |
|---|---|
| A Chemicals & intermediates* | 26 |
| B Resins | 18 |
| C Additives | 12 |
| D Titanium dioxide | 10 |
| E Solvents | 9 |
| F Coatings specialties | 8 |
| G Packaging | 8 |
| H Pigments | 4 |
| I Other raw materials** | 5 |




* Chemicals and intermediates include caustic soda, acetic acid, tallow, ethylene, ethylene oxide, sulfur, amines etc.
** Other raw materials include cardolits, hylar etc.

**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. Product stewardship has been incorporated into the company's HSE and operational eco-efficiency agenda. Product stewardship is also integrated into product slate decisions in the operational excellence program. We have a central policy to optimize insurance coverage which relates to specific insurance programs covering product liability. We have established an initiative to assess all priority substances used by AkzoNobel throughout their lifecycle by 2015.

**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 19 in the Financial statements section).

**External Financial** – Top five risk

## Cash flow

The potential for further deterioration of economic conditions may have an impact on the free cash flow generation of our businesses. Furthermore, we are potentially exposed to funding of pension schemes. This 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 continue to deliver on our comprehensive performance improvement program to achieve €500 million EBITDA and we will engage in restructuring of underperforming parts of our portfolio if deemed strategically appropriate. We have a prudent financing strategy and a strict cash management policy, which are managed by our centralized treasury function (see Note 22 in the Financial statements).

**External Financial**

## Contributions to pension funds

Economic, regulatory and political developments may increase our defined benefit pension liabilities and/or reduce the value of assets held to fund those obligations, 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 2012, the Courtaulds Pension Scheme in the UK entered into an insurance contract with Swiss Re which covers the longevity risks of almost 17,000 current pensioners and their dependants. We are committed to further de-risking over time. Pension activities are overseen by the Board Committee Pensions (see Note 14 and Note 20 in the Financial statements section).

**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.

**Risk corrective actions**
In Q3 of 2012, we reported a non-cash impairment charge related to Decorative Paints intangible assets (€1.9 billion in Europe, €0.4 billion in North America and €0.2 billion in Latin America), reflecting deteriorating market conditions in these regions. The Executive Committee continuously monitors acquisition and divestment opportunities and the management of assets held for sale. 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).

**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 22 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.

**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 court proceedings and civil litigation resulting from (alleged) involvement in anti-competitive behavior in the past (see Note 19 in the Financial statements section).

**Risk corrective actions**
We are monitoring and adapting to significant and rapid changes in the legal systems, regulatory controls, 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 the Governance and compliance section).

**Extreme protection**

How do you protect against fire in one of the most high risk working environments? You turn to Chartek, a name which has become synonymous with providing ultimate fire protection in both the offshore and onshore oil and gas industries for more than 35 years.

Supplied by our Marine and Protective Coatings business, the Chartek range of intumescent epoxy passive fire protection products – which expand and insulate when exposed to high heat – is actually based on technology which was first used during the Apollo missions and NASA's space shuttle program.

Today, Chartek is specified all over the world by the oil refining, gas processing, petrochemical and chemical industries, where it is primarily used to protect installations against hydrocarbon pool and jet fires, although it also offers excellent corrosion resistance in some of the world's harshest environments. Customers mainly use Chartek on structural steelwork, but it can also be applied to other materials, including aluminum and plastic.

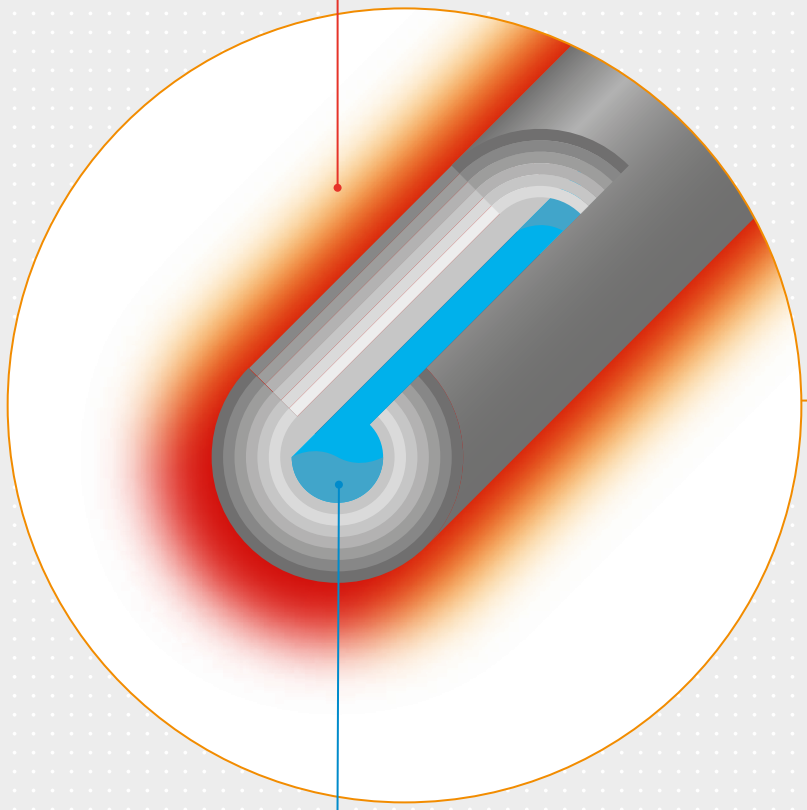
As well as helping to maintain structural integrity during a blaze, Chartek also slows the spread of fire, giving people more time to escape to safety. The most common installations to feature the technology include offshore platforms, refineries, petrochemical plants, LNG terminals, LPG storage facilities and FPSOs.

Demand for Chartek increased substantially during 2012, driven partly by increasingly stringent fire protection regulations worldwide. In fact, forecasters expect general global demand for fire protection to increase significantly over the next five years.

With this in mind, the company recently opened a dedicated €7.1 million testing laboratory for fire protection coatings at its Felling site in the UK. As well as significantly improving our ability to develop and bring new fire protection products to market, it will also help to strengthen the company's position as the leading supplier of fire protection coatings and products worldwide.

**1,000°C**

Hydrocarbon fires are fuelled by oil and gas and have a very rapid heat rise to 1,000°C within five minutes



**22°C**

Chartek insulates and helps to maintain structural integrity during a blaze

# 6x

Chartek expands to six times the applied thickness on exposure to heat

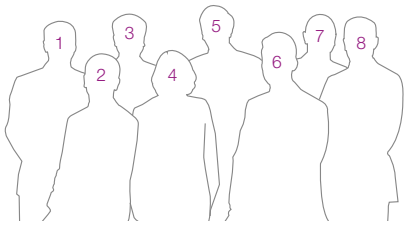
Application thickness 1–4mm

# Our leadership

In this section we introduce our Board of Management and Executive Committee, as well as our Supervisory Board. We also present the Report of the Board of Management and the Report of the Supervisory Board, which provide detailed overviews of their activities during 2012.


| | |
|---|---|
| Our Board of Management and Executive Committee | 32 |
| Report of the Board of Management | 34 |
| Statement of the Board of Management | 40 |
| Supervisory Board Chairman's statement | 42 |
| Our Supervisory Board | 43 |
| Report of the Supervisory Board | 45 |

# Our Board of Management and Executive Committee




**Ton Büchner** (6)
**CEO and Chairman of the Board of Management and the Executive Committee**
(1965, Dutch)

Prior to joining AkzoNobel, Ton Büchner was the President and CEO of Sulzer Corporation, a position he held since 2007.

Büchner is an engineer by training, having earned his Master of Science in Civil Engineering at Delft University of Technology in the Netherlands. He also has a Masters of Business Administration from IMD in Lausanne and attended the Stanford Executive Program in Palo Alto, California, in the US.

His early career was spent in the oil and gas construction industry, including positions at Allseas Engineering in Europe and AkerKvaerner in South East Asia, before joining Sulzer in 1994. Büchner worked in a range of Sulzer operations, including a period in China, until his appointment to the Executive Committee in 2001.

**Keith Nichols** (8)
**Chief Financial Officer**
**Member of the Board of Management and the Executive Committee**
(1960, British)

Keith Nichols joined AkzoNobel in December 2005 from Corus Group, 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 fellow of the Association of Corporate Treasurers and holds the MCT Advanced Diploma.

**Leif Darner**[1] (3)
**Member of the Board of Management and the Executive Committee 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 World-wide 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 Council of Paint and Printing Ink producers.

**Tex Gunning**[2] (1)
**Member of the Board of Management and the Executive Committee 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 N.V. and Friesland Campina N.V.

**Graeme Armstrong**[4] (7)
**Member of the Executive Committee responsible for Research, Development & Innovation**
(1962, British)

Graeme 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, Chairman of the Chemistry Innovation Knowledge Transfer Network, and a former non-executive director of the UK government Technology Strategy Board.

**Sven Dumoulin** (2)
**Member of the Executive Committee and AkzoNobel General Counsel**
(1970, Dutch)

Sven 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. In addition, 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.

**Werner Fuhrmann** (5)
**Member of the Executive Committee responsible for Specialty Chemicals and Supply Chain**
(1953, German)

After graduating from university, Werner Fuhrmann held various positions in the field of finance, including Controller of AkzoNobel Specialty Chemicals. He was later appointed General Manager of Chelates and Sulphur Products in 2000. He then became Managing Director of Industrial Chemicals in 2005, a position he held until he took on his current role in 2011.

He is Chairman of the Dutch Chemicals Industry Association (VNCI) and Board Member of the European Chemicals Association (Cefic).

**Marjan Oudeman**[3] (4)
**Member of the Executive Committee responsible for HR and Organizational Development**
(1958, Dutch)

Marjan 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 is a non-executive director of Nederlandse Spoorwegen, ABN Amro Group and Statoil.

[1] As of January 1, 2013, Conrad Keijzer joined the Executive Committee and will assume Leif Darner's responsibilities for Performance Coatings following the 2013 AGM.
[2] As of the 2013 AGM, Ruud Jousten will join the Executive Committe and assume Tex Gunning's responsibilities for Decorative Paints.
[3] Until June 2013.
[4] As of April 1, 2013, Graeme Armstrong will assume the role of Surface Chemistry Managing Director.

# Report of the Board of Management

Revenue up 5 percent driven by favorable currencies and pricing, offset by lower volumes

EBITDA 4 percent higher at €1,901 million (2011: €1,834 million)

Performance improvement program 2012 target has been exceeded

Net loss from continuing operations €1,733 million (2011: €536 million income), due to the Q3 impairment charge of €2,106 million

Net cash from operating activities up 86 percent to €737 million

Adjusted EPS €3.26 (2011: €3.10)

Total dividend for 2012 proposed at €1.45 (2011: €1.45)

Decorative Paints North America reported in discontinued operations; Chemicals Pakistan divestment completed in 2012

The economic environment remains challenging, especially in Europe

## Financial highlights

### Continuing operations

| In € millions | 2011 | 2012 | Δ% |
|---|---|---|---|
| Revenue | 14,604 | 15,390 | 5 |
| EBITDA[1] | 1,834 | 1,901 | 4 |
| EBITDA margin (in %) | 12.6 | 12.4 | |
| EBIT[1] | 1,271 | 1,276 | – |
| EBIT margin (in %) | 8.7 | 8.3 | |
| ROI[1] (in %) | 10.5 | 10.0 | |
| | | | |
| Operating income | 1,145 | (1,244) | |
| Operating income before impairment | 1,145 | 862 | (25) |
| Net income from continuing operations | 536 | (1,733) | |
| Net income from discontinued operations | (59) | (436) | |
| Net income total operations | 477 | (2,169) | |
| Earnings per share from continuing operations (in €) | 2.29 | (7.30) | |
| Earnings per share from total operations (in €) | 2.04 | (9.14) | |
| Adjusted earnings per share (in €) | 3.10 | 3.26 | |
| | | | |
| Capital expenditures | 658 | 826 | 26 |
| Net cash from operating activities | 396 | 737 | 86 |
| Invested capital | 12,613 | 11,030 | |
| Net debt | 1,895 | 2,298 | |
| Number of employees | 52,020 | 50,610 | |

[1] Excluding incidentals.

## Financial highlights

Revenue for the year was up 5 percent driven by favorable currencies and pricing, offset by lower volumes. EBITDA for the year was 4 percent higher at €1,901 million (2011: €1,834 million). The performance improvement program exceeded intermediate targets. As a consequence of the impairment charge of €2,106 million, operating income was €1,244 million negative; excluding the impairment charge, this was €862 million positive (2011: €1,145 million).

## Discontinued operations

In December 2012, we announced the divestment of Decorative Paints North America to PPG Industries, Inc. As a consequence, the results of this business are reported in discontinued operations in the statements of income and cash flows and are no longer included in the other explanations and details in this report. The financial results of this business were as follows:

**Discontinued operations**

| In € millions | 2011 | 2012 |
|---|---|---|
| Revenue | 1,094 | 1,190 |
| EBITDA | (69) | 19 |
| Performance improvement program savings | – | 26 |
| Incidentals | (7) | (17) |
| Impairment charge | – | (372) |
| Workforce at year-end | 5,220 | 4,670 |
| Number of employees who left following the performance improvement program | – | 360 |

## Performance improvement program

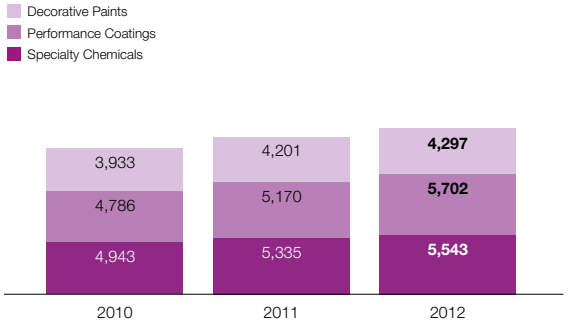
The performance improvement program announced in October 2011 is making good progress and has exceeded its intermediate goal for 2012. Since the announcement of the program, benefits amount to €250 million (excluding €26 million contributed by Decorative Paints North America). The program conceptually consists of three building blocks: operational professionalization, functional excellence and business unit specific adaptations. Operational professionalization addresses issues such as product complexity reduction, procurement, manufacturing and distribution excellence, and margin management. Business unit adaptations and operational professionalization have contributed around 95 percent of the 2012 benefits, while functional excellence is primarily an important enabler.

The cost of the program for 2012 equaled €292 million, recorded under incidentals, including costs for the additional restructuring measures in Decorative Paints and excluding €17 million for Decorative Paints North America. Since the announcement of the program, around 2,100 people have left the company, of which approximately 360 in Decorative Paints North America.

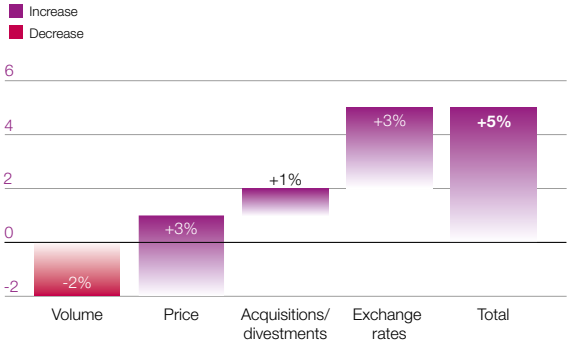
**Revenue development in % versus 2011**

| | Volume | Price/mix | Acquisitions/ divestments | Exchange rates | Total |
|---|---|---|---|---|---|
| Decorative Paints | (2) | 2 | – | 2 | 2 |
| Performance Coatings | (1) | 5 | 2 | 4 | 10 |
| Specialty Chemicals | (1) | 1 | 1 | 3 | 4 |
| **Total** | **(2)** | **3** | **1** | **3** | **5** |

**Revenue** in € millions




**Revenue development** in % versus 2011



## Revenue

### Decorative Paints

Revenue in Decorative Paints for 2012 increased 2 percent, mainly due to positive price/mix and favorable currencies. Asian revenue is growing due to strong volume development in China. However, market conditions remain challenging in Europe and Latin America.

### Performance Coatings

In Performance Coatings, revenue increased 10 percent compared with the previous year. The strongest growth came from Industrial Coatings and Marine and Protective Coatings. Volume declined, with differences between individual businesses.

### Specialty Chemicals

Specialty Chemicals made a good start to 2012, but demand started to weaken in the second half of the year, particularly in Europe and in general in construction-related products. Demand was also more volatile.

## Acquisitions and divestments

In early 2012, we boosted our Speciality Chemicals portfolio with the acquisition of Boxing Oleochemicals – the leading supplier of nitrile amines and derivatives in China and throughout Asia. The Schramm/SSCP acquisition accounted for the acquisition effect in Performance Coatings as these activities were consolidated from Q4 2011. On December 28, 2012, we completed the divestment of Chemicals Pakistan, which was subsequently deconsolidated.

## Raw materials

On average, raw material costs were stable compared with the previous year, with the upward pressure on oil prices offsetting softer $TiO_2$ prices.

## EBITDA

### Decorative Paints

In Decorative Paints, EBITDA for the year was 11 percent lower at €425 million, reflecting weaker demand from our European markets. The euro crisis and the general slowdown in global markets continued to affect our business. Restructuring activities continued across Europe.

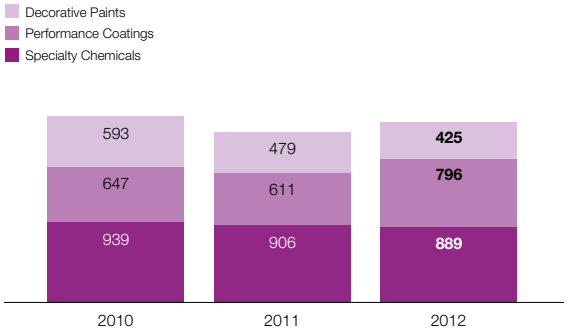
### Performance Coatings

In Performance Coatings, overall margins improved due to a combination of margin management activities and ongoing cost control. The major restructuring activities were undertaken in mature markets. Margin management and operational efficiency improvements resulted in EBITDA of €769 million, 26 percent higher than the previous year.

### Specialty Chemicals

In Specialty Chemicals, we recorded a robust performance on the back of margin management, cost control measures and strong market and technology leadership positions.

**EBITDA AkzoNobel 2010 – 2012** in € millions




## Incidental items included in operating income

- We incurred higher restructuring costs mainly in mature markets, as we implemented the performance improvement program. Restructuring activities are ongoing across the businesses, and we stepped up restructuring in the European businesses in Decorative Paints. Besides the costs of the performance improvement program of €292 million, we had a number of writedowns for an amount of €32 million, bringing the total amount of restructuring costs to €324 million. The impairment amount in Q3 was adjusted to exclude Decorative Paints North America, which is reported as a discontinued operation
- We increased a provision for an environmental case in Sweden
- We incurred a loss of €36 million from recycling the cumulative translation differences in equity to the statement of income due to the completed divestment of Chemicals Pakistan

**Incidentals included in operating income**

| In € millions | 2011 | 2012 |
|---|---|---|
| Restructuring costs | (129) | (324) |
| Impairment | – | (2,106) |
| Results related to major legal, antitrust and environmental cases | (9) | (36) |
| Results on acquisitions and divestments | 10 | (45) |
| Other incidental results | 2 | (9) |
| **Total** | **(126)** | **(2,520)** |

## EBIT in "other"

Corporate costs were higher due to increased information management and integrated supply chain costs as a consequence of functional excellence initiatives and one-off costs.

Costs for research and development in 2013 are expected to be in line with 2012, with 50 percent aimed at breakthrough innovations.

**EBIT in "other"**

| In € millions | 2011 | 2012 |
|---|---|---|
| Corporate costs | (98) | (113) |
| Pensions | (14) | (4) |
| Insurances | 1 | (6) |
| Other | (65) | (71) |
| **EBIT in "other"** | **(176)** | **(194)** |

## Net financing expenses

Net financing charges for the year decreased by €69 million, from €336 million to €267 million. Significant variances were:

- Financing expenses on net debt decreased by €63 million to €239 million (2011: €302 million) following the buy-back of bonds in December 2011, which had a one-off impact in 2011 of €67 million
- Interest on provisions decreased by €17 million to €29 million (2011: €46 million) due to higher discount rates
- Financing expenses related to pensions increased by €8 million to €65 million (2011: €57 million) due to a lower expected return on assets
- Other items decreased by €5 million to €7 million (2011: €12 million), mainly explained by lower interest on discounted long-term receivables (€3 million)

### Net financing expenses

| In € millions | 2011 | 2012 |
|---|---|---|
| Financing income | 57 | 59 |
| Financing expenses | (302) | (239) |
| **Net interest on net debt** | **(245)** | **(180)** |
| Financing expenses related to pensions | (57) | (65) |
| Interest on provisions | (46) | (29) |
| Other items | 12 | 7 |
| **Net other financing expenses** | **(91)** | **(87)** |
| **Net financing expenses** | **(336)** | **(267)** |

## Tax

Excluding the non-tax-deductible goodwill impairment charge of €2,106 million, the year-to-date tax rate was 30 percent (2011: 27 percent). The tax rate was negatively impacted by several adjustments to previous years and by other non-taxable items. The loss carryforward recognized in the balance sheet and its usage in the coming years has a decreasing impact on the cash tax rate in coming years.

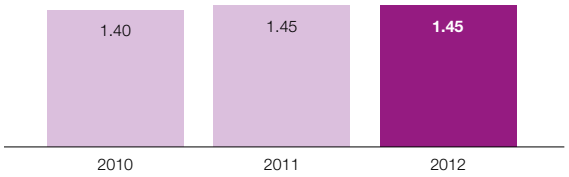
## Shareholders' equity

Shareholders' equity as at year-end 2012 decreased to €6.9 billion, mainly due to the net effect of the net loss of €2,169 million and dividend payments of €214 million.

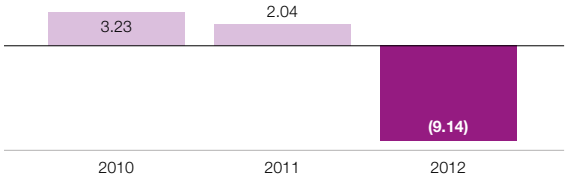
## Final dividend proposal

Our dividend policy is to pay a stable to rising dividend. We will propose a 2012 final dividend of €1.12 per share, which would make a total 2012 dividend of €1.45 (2011: €1.45) per share. There will be a stock dividend option with cash dividend as default.

**Dividend** in €




**Earnings per share total operations** in €




## Invested capital

Invested capital at year-end 2012 totaled €11.0 billion, €1.6 billion lower than at year-end 2011. Invested capital was impacted by the net effect of:

- A decrease of €2.1 billion due to a non-cash impairment charge for Decorative Paints assets
- An increase of €0.6 billion of long-term receivables related to increases in pension funds in an asset position
- Increased capital expenditures, which continued on previously announced projects, such as the two pulp mills in Brazil, the start of the new Decorative Paints plant in the UK and activities in China. We will prioritize our investments going forward given the uncertainties in the market and our focus on cash and return on investment. We therefore expect our 2013 capital expenditures to be below 2012
- A decrease of operating working capital of €0.2 billion mainly due to improvements in capital management. Expressed as a percentage of revenue, operating working capital was 11.2 percent (year-end 2011: 13.2 percent)

### Condensed consolidated balance sheet

| In € millions | 2011 | 2012 |
|---|---|---|
| Intangible assets | 7,392 | 4,454 |
| Property, plant and equipment | 3,705 | 3,739 |
| Other financial non-current assets | 2,198 | 2,763 |
| **Total non-current assets** | **13,295** | **10,956** |
| Inventories | 1,924 | 1,545 |
| Trade and other receivables | 2,937 | 2,698 |
| Cash and cash equivalents | 1,635 | 1,752 |
| Other current assets | 98 | 91 |
| Assets held for sale | – | 921 |
| **Total current assets** | **6,594** | **7,007** |
| **Total assets** | **19,889** | **17,963** |
| Shareholders' equity | 9,212 | 6,892 |
| Non-controlling interests | 531 | 465 |
| **Group equity** | **9,743** | **7,357** |
| Provisions and deferred tax liabilities | 2,284 | 2,159 |
| Long-term borrowings | 3,035 | 3,388 |
| **Total non-current liabilities** | **5,319** | **5,547** |
| Short-term borrowings | 494 | 662 |
| Trade and other payables | 3,369 | 3,242 |
| Other short-term liabilities | 964 | 845 |
| Liabilities held for sale | – | 310 |
| **Total current liabilities** | **4,827** | **5,059** |
| **Total equity and liabilities** | **19,889** | **17,963** |

### Pensions

The funded status of the pension plans at year-end 2012 was estimated to be a deficit of €1.1 billion (year-end 2011: €0.5 billion). The movement compared with year-end 2011 is primarily due to:

- Top-up payments of €355 million into certain UK and US defined benefit pension plans
- A payment from a contingent asset structure of €239 million into the UK ICI Pension Fund
- Plan asset returns ahead of expectation

Offset by:

- Lower discount rates significantly increasing the pension obligation

The amended IAS 19 on pensions has become effective as of January 1, 2013. Implementation of this amendment will result in including the pension deficit in other comprehensive income in shareholders' equity as of 2013. The impact is disclosed in Note 14 of our 2012 Financial statements.

### Workforce

At year-end 2012, we employed 50,610 staff in continuing operations (year-end 2011: 52,020 employees). The net decrease was due to:

- A decrease of 1,450 employees due to ongoing restructuring
- A net decrease of 540 employees due to acquisitions and divestments, mainly from the Boxing Oleochemicals acquisition (620 employees) and the divestment of Chemicals Pakistan (1,100 employees)
- An increase of 580 employees mainly due to new hires in high growth markets
- In 2013 we will see the impact of restructuring in the mature markets. In the context of our performance improvement program, restructuring has started in Decorative Paints in Europe

### Net debt and cash flows

Operating activities in 2012 resulted in a cash inflow of €737 million (2011: €396 million). The change is mainly due to a net effect of higher cash inflow from working capital, partly offset by higher payments related to provisions (mainly in relation to pensions).

Net debt increased in 2012 to €2,298 million (2011: €1,895 million) as higher cash flows from operating activities were more than offset by higher capital expenditures. In 2013, we expect to receive the proceeds from the divestment of Decorative Paints North America, which will reduce our net debt.

### Condensed consolidated cash flow statement

| In € millions | 2011 | 2012 |
|---|---|---|
| **Cash and cash equivalents opening balance** | **2,683** | **1,335** |
| Profit/(loss) for the period from continuing operations | 600 | (1,670) |
| Amortization, depreciation and impairments | 577 | 2,795 |
| Changes in working capital | (331) | 251 |
| Changes in provisions | (484) | (688) |
| Other changes | 34 | 49 |
| **Net cash from operating activities** | **396** | **737** |
| Capital expenditures | (658) | (826) |
| Acquisitions and divestments | (156) | 122 |
| Other changes | 2 | (22) |
| **Net cash from investing activities** | **(812)** | **(726)** |
| Changes from borrowings | (470) | 570 |
| Dividends | (362) | (256) |
| Other changes | 7 | (43) |
| **Net cash from financing activities** | **(825)** | **271** |
| **Net cash used from continuing operations** | **(1,241)** | **282** |
| Cash flows from discontinued operations | (96) | (53) |
| **Net change in cash and cash equivalents of total operations** | **(1,337)** | **229** |
| Effect of exchange rate changes on cash and cash equivalents | (11) | (6) |
| **Cash and cash equivalents at year-end** | **1,335** | **1,558** |

**Progress on past medium-term ambitions**
In 2010, AkzoNobel stated its medium-term ambitions, which have now been modified. In order to give a final update on progress, we are providing an overview of our achievements relative to those ambitions. In the future, we will provide updates relating to our new targets, as detailed in the Strategy section.

**€20 billion in revenue**
- 2012 revenue of €15.4 billion (excluding Decorative Paints North America)
- Strong growth in Decorative Paints Asia, Marine and Protective Coatings and due to acquisitions in Industrial Coatings and Surface Chemistry
- Much of our growth resulted from pricing actions and currency
- Volumes are an issue, particularly in Europe

**Reduction in OWC of 0.5 p.a., towards a 12 percent target**
- OWC improved to 11.2 percent
- Inventory levels remain a key issue and are a focus area in terms of Integrated Supply Chain performance improvement actions

**Growth in absolute EBITDA, in a 13–15 percent margin range**
- Absolute EBITDA growth of €67 million vs. 2011
- EBITDA margin below the 13–15 percent range

**Stable to rising dividend**
- It is proposed that the 2012 total dividend be kept stable at €1.45 per share
- Shareholders are offered an option to obtain a stock dividend

**Top quartile safety performance**
(Good progress)
- Significant progress in total reportable injury rate towards our target of <2.0 by 2015
- Implemented our new Life-Saving Rules as part of a global TakeCare behavioral safety program
- Enhanced the stringency of our behavior-based safety program – more than 75 percent of our manufacturing sites are already consistent with the higher standards
- Refocused the process safety aspect of our HSE self-assessment program in order to make improvements at high hazard sites

**Top quartile eco-efficiency improvement rate**
(Some progress)
- Use of our operational eco-efficiency metric (focusing on energy, water, waste and VOCs) led to meaningful progress in these areas against the 2009 baseline
- Revenue generated from eco-premium products remained at 22 percent and was spread more broadly throughout the full value chain
- Work on cradle-to-gate carbon footprint improvement is beginning to demonstrate improvements against the 2009 baseline
- Considerable investment of time and resources in developing the company's new sustainability strategy for 2020, taking us beyond the basics to focus on resource efficiency throughout the entire value chain

**Top quartile performance in diversity, employee engagement and talent development**
(Some progress)
- Some improvement in the ViewPoint employee engagement score, both in terms of absolute score and percentile rating, but more effort is required and planned
- We made good progress with the AkzoNobel Academy, which was established in 2011 to build functional and operational excellence capabilities across the company
- Made some progress towards our diversity goals – 15 percent of our executive positions are now held by women and 13 percent by individuals from high growth markets (up from 8 percent and 10 percent respectively on 2008)
- Launched an AkzoNobel-wide employee value proposition supporting the creation of centers of excellence for recruitment and on-boarding processes

**Top three position in sustainability**
(Achieving our ambition)
- Achieved Chemicals supersector leadership position in the Dow Jones Sustainability Index and, for the first time since 2007, also reached the number one position in all three dimensions (economic, environmental, social)
- Particular areas of strength were innovation management, risk and crisis management, climate strategy, labor practice indicators and human capital development
- Strong improvement in operational eco-efficiency
- Room for further improvement in talent attraction and retention, social reporting, customer relationship management and supply chain management

# 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 2012 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 2012 give a true and fair view of our assets and liabilities, our financial position at December 31, 2012, and the result of our consolidated operations for the financial year 2012
- The management report in this AkzoNobel Report 2012 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 applicable 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 Code of Conduct, 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:

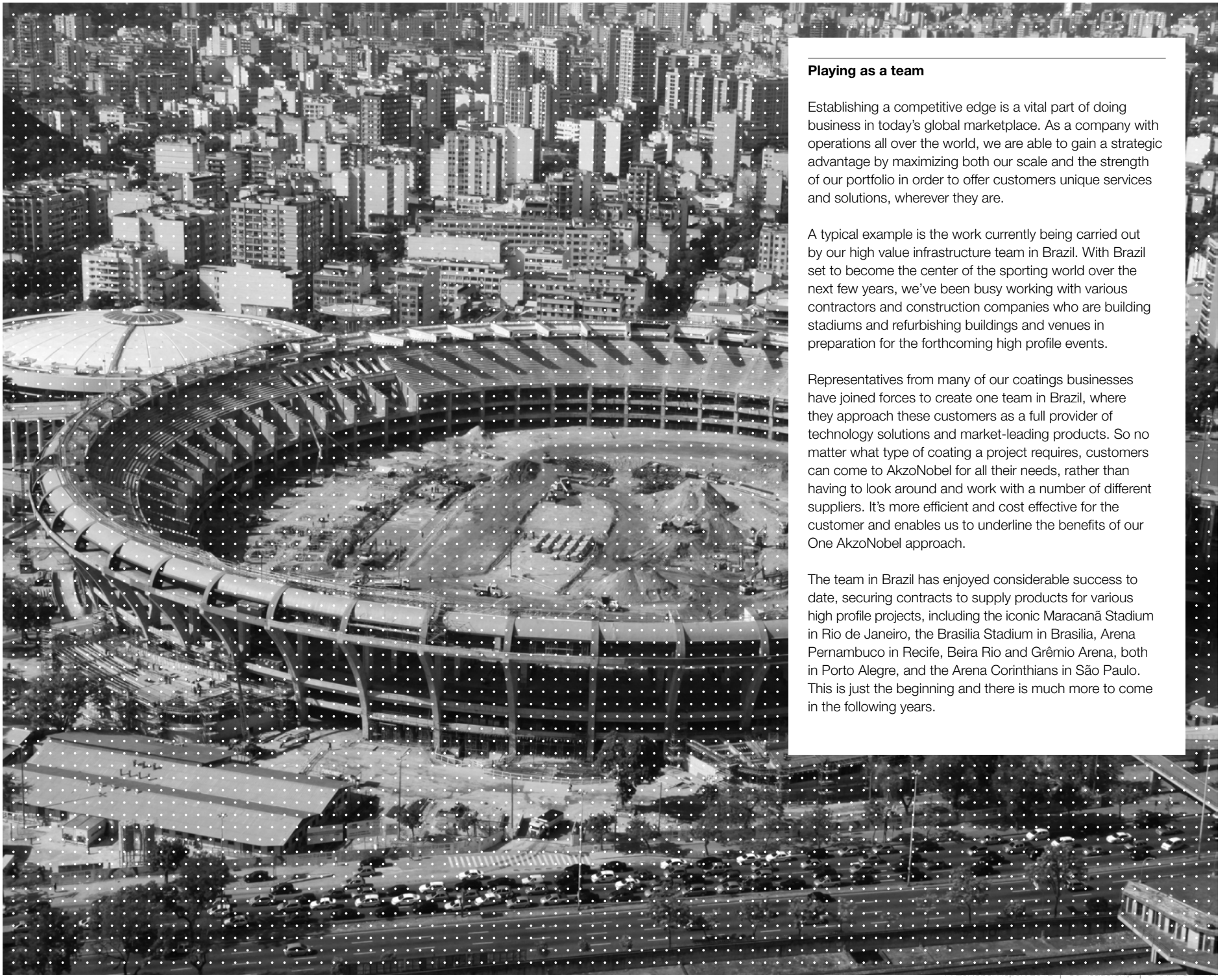
- Provide a reasonable level of assurance that the financial reporting in this Report 2012 does not contain any errors of material importance
- Have worked properly during the year 2012

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 Strategy section, as well as the Compliance and integrity management chapter of the Governance and compliance section. We have discussed the above opinion and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

**Outlook**

In the short term, we expect the economic environment will remain challenging and there to be no fundamental changes in the trends that we have seen recently in our businesses. We will continue to focus on performance improvements and operational efficiencies in order to benefit from our strong portfolio of businesses with many leading market positions and exposure to growth markets.

Amsterdam, February 19, 2013
**The Board of Management**
Ton Büchner
Keith Nichols
Leif Darner
Tex Gunning



**Playing as a team**

Establishing a competitive edge is a vital part of doing business in today's global marketplace. As a company with operations all over the world, we are able to gain a strategic advantage by maximizing both our scale and the strength of our portfolio in order to offer customers unique services and solutions, wherever they are.

A typical example is the work currently being carried out by our high value infrastructure team in Brazil. With Brazil set to become the center of the sporting world over the next few years, we've been busy working with various contractors and construction companies who are building stadiums and refurbishing buildings and venues in preparation for the forthcoming high profile events.

Representatives from many of our coatings businesses have joined forces to create one team in Brazil, where they approach these customers as a full provider of technology solutions and market-leading products. So no matter what type of coating a project requires, customers can come to AkzoNobel for all their needs, rather than having to look around and work with a number of different suppliers. It's more efficient and cost effective for the customer and enables us to underline the benefits of our One AkzoNobel approach.

The team in Brazil has enjoyed considerable success to date, securing contracts to supply products for various high profile projects, including the iconic Maracanã Stadium in Rio de Janeiro, the Brasilia Stadium in Brasilia, Arena Pernambuco in Recife, Beira Rio and Grêmio Arena, both in Porto Alegre, and the Arena Corinthians in São Paulo. This is just the beginning and there is much more to come in the following years.

# Supervisory Board
# Chairman's statement

**2012 was a testing year for AkzoNobel, highlighted by a further deterioration of the economic environment and our CEO's leave of absence, but the company remained strong and reported solid operational results.**

The impact of the economic slowdown was unavoidable, but despite the unfavorable conditions, our business portfolio remained resilient. Many of the company's activities performed well, maintaining high margins and market share, with the negative effect of the slowdown primarily being felt in our more consumer-facing businesses. Following a significant improvement in the performance of our Decorative Paints business in North America, and with the full support of the Supervisory Board, the company made a strategic choice to focus its Decorative Paints business on key markets in Europe and its strong positions in high growth regions. Therefore, we agreed to sell our Decorative Paints North America activities to PPG Industries, Inc.

CEO Ton Büchner's leave of absence in mid-September was, of course, unexpected. He made an excellent start before being confronted with fatigue. Although difficult, we took the right joint decision in agreeing to his temporary leave of absence. Fortunately, we have been able to welcome him back in good health and excellent spirit to lead the company forward and return to business. In Ton's absence, the knowledge and experience of the Executive Committee, with the support of my fellow Supervisory Board member, Antony Burgmans, proved invaluable as they took care of the day-to-day running of the company.

Before September, Ton initiated several leadership changes, which have now been implemented in close cooperation with the Supervisory Board. The Supervisory Board is confident that the new Executive Committee members, Conrad Keijzer and Ruud Joosten, will bring valuable expertise along with their strong track records and extensive management experience. In addition, the Supervisory Board is delighted that Werner Fuhrmann, already the Executive Committee member responsible for Integrated Supply Chain, was appointed Executive Committee member responsible for Specialty Chemicals. His knowledge and skills will be of great benefit to the company in years to come.

Several measures were taken by Ton and the Executive Committee to deliver sustainable performance improvements. Due to deteriorating market conditions, the company had to write-down the value of its Decorative Paints assets and an additional restructuring within Deco Europe was initiated. To ensure that the Board of Management, together with the other members of the Executive Committee, remains fully focused on the company's overall priorities – carefully managing costs and cash and looking for ways to make AkzoNobel more opera-tionally and functionally excellent – the Supervisory Board will propose at the 2013 AGM that more flexibility is introduced into the remuneration policy. This will allow a decision to be taken each year, within a set of defined indicators, on the financial metrics and their weighting in order to define short-term incentives, similar to what already applies to the company's executives. Further details on this proposal are outlined in the Remuneration report. Finally, a new Operational Control Cycle, with particular emphasis on the forward outlook for our business, was introduced during 2012, which over the last couple of months has truly become the heartbeat of the company.

Our ongoing performance improvement program also continues to do well. Focused on three main building blocks – operational professionalization, functional standardization and business unit specific adaptations – the program delivered €250 million EBITDA by the end of the year, exceeding our original ambition of €200 million.

I am confident that by leveraging our scale via operational and functional excellence at lower costs, together with the above-mentioned additional sustainable performance improvements, the delivery of our medium-term profitability ambitions in a challenging market environment will be enhanced.

I am also proud that AkzoNobel has cemented its position as a global sustainability leader after being ranked first in the Chemicals supersector on the prestigious Dow Jones Sustainability Index, the sixth consecutive year we have been ranked in the top three.

On the following pages, we will further introduce the Supervisory Board and present the Supervisory Board report for 2012, which provides a detailed overview of our activities during the reporting year. Our corporate governance, remuneration policy and compliance and integrity management are covered in the Governance and compliance section. I hope it will give you a good understanding of the framework under which the company operates.

On behalf of my fellow members of the Supervisory Board, I would like to thank the CEO, Board of Management, the other members of the Executive Committee and all employees for their dedication and hard work for the company in 2012. Finally, I would like to thank my fellow Supervisory Board members for their commitment and support during the year. I believe that the Supervisory Board is a strong and united team with a wide range of experience and expertise that will continue to serve the company well.

**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 Shareholders' Committee of Henkel KGaA.

- 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.

**Sari Baldauf**
(1955, Finnish)
**Initial appointment 2012**
**Current term of office 2012–2016**

Former member of the Group Executive Board of Nokia Oyj; non-executive director and Chairman of the Executive Committee of F-Secure Oyj; Chairman of the Board of Fortum Oyj; non-executive director at Daimler AG and Deutsche Telekom.

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

**Dolf van den Brink**
(1948, Dutch)
**Initial appointment 2004**
**Current term of office 2012–2016**

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

- Chairman of the Audit Committee

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

Former CEO of ABB Financial Services; former Executive Vice-President of SEB; non-executive director of Axfood AB, Husqvarna AB, Syngenta AG and Diageo plc; Chairman of Lancelot Asset Management 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., Jumbo Group Holding B.V. and AEGON N.V.; Chairman of the Supervisory Boards of TNT Express N.V. and Intergamma B.V.

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

**Sir Peter Ellwood**
(1943, British)
**Initial appointment 2008**
**Current term of office 2012–2016**

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

- Member of the Audit 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

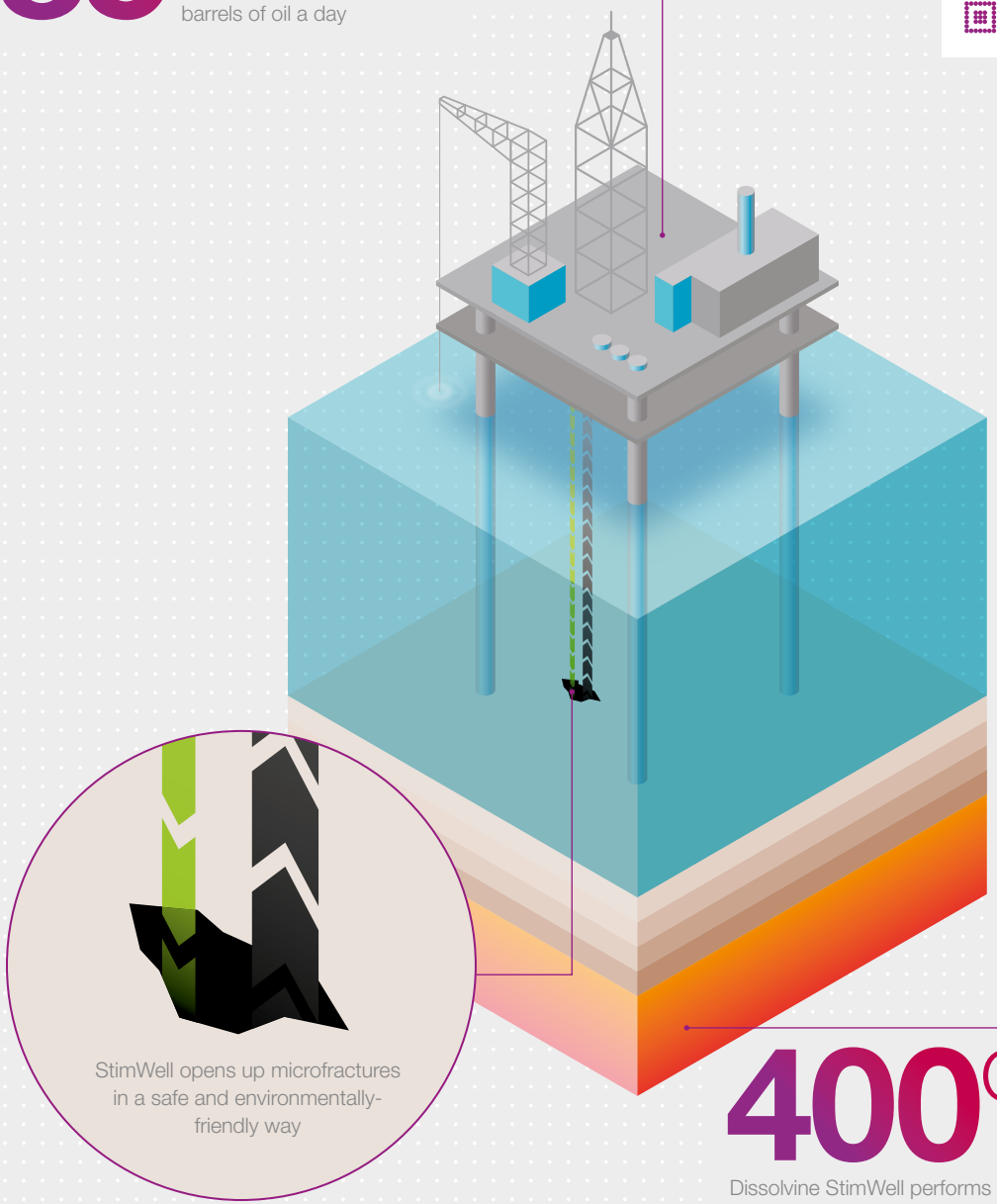
**Ben Verwaayen**
(1952, Dutch)
**Initial appointment 2012**
**Current term of office 2012–2016**

CEO Alcatel-Lucent; former non-executive director of UPS; former Chief Executive/ Chairman of the Board's Operating Committee BT group; former Vice-Chairman Management Board Lucent Technologies; former President and Managing Director of KPN's subsidiary PTT Telecom.

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

**85** million

The world uses 85 million barrels of oil a day



StimWell opens up microfractures in a safe and environmentally-friendly way

**400°F**

Dissolvine StimWell performs at temperatures up to 400°F

## Hot property

The planet's depleting natural resources are an increasing cause for concern, with demand for fossil fuels only likely to intensify. In the face of growing demand and declining production from existing wells, producers of oil and gas are facing a number of challenges. The question is, can anything be done to help?

AkzoNobel is a major supplier to various sectors of the oil and gas industry and our Functional Chemicals business recently developed breakthrough technology in the field of well stimulation, a process which has actually been around for more than 100 years. It involves using chemicals to open up micro-fractures in the rock (that have become clogged with minerals and sediments) and this allows more oil and gas to flow through.

Conventional technologies currently use highly corrosive chemicals that can damage the well installation and surrounding rock formations. With oil and gas wells getting, deeper, hotter and closer to urban centers, they also no longer meet the requirements of regulatory bodies. So we've developed Dissolvine StimWell, a bio-based, non-hazardous stimulation solution which combines all the advantages of existing technologies while avoiding their disadvantages.

Based on one of the company's new generation molecules, the product has been widely acknowledged for its readily biodegradable nature, its low corrosion potential and its excellent environmental profile. It can also be used in places that are hard to get to, such as wells that are hotter and deeper than average and for which no stimulation options are currently available.

"There is nothing on the market that comes close to it," says Professor Hisham Nasr-El-Din from Texas A&M University, a world renowned authority on oilfield stimulation. "It's the best chemical to use in the industry, especially at expensive well installations and with materials that are now becoming the norm. And it's environmentally-friendly." Also crucial to AkzoNobel is the fact that it underlines what can be achieved if you work closely with customers and understand their needs.

# Report of the Supervisory Board

## Main 2012 activities

CEO and senior executive succession

CEO leave of absence

Supervisory Board member succession

Remuneration Board of Management

Performance improvement program

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

Decorative Paints impairment and North American divestment

Enterprise risk management

Sustainability

HR strategy including talent review

Board visit to the Nordics

Financial statements and dividend

**Financial statements and profit allocation**

The financial statements of Akzo Nobel N.V. for the financial year 2012 were audited by KPMG Accountants N.V. The Board of Management has submitted the financial statements, together with the report of the Board of Management, the report and management letter of the external auditor, to the Supervisory Board.

The financial statements, the report and management letter of the external auditor were discussed extensively with the auditors by the Audit Committee, in the presence of the Chairman of the Board of Management (CEO) and the Chief Financial Officer (CFO), and by the full Supervisory Board with the full Board of Management. Based on these discussions, the Supervisory Board is of the opinion that the 2012 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 financial statements of this annual report can be found in the Financial statements section. The Audit Committee monitors the follow-up by management of the recommendations reported by the external auditor.

The Supervisory Board recommends that the Annual General Meeting of shareholders (AGM) adopts the financial statements as presented in this Report 2012 and, as proposed by the Board of Management, approve the allocation of €347 million for the payment of dividend. This is consistent with our aim to provide a stable to rising dividend which is in line with sustainable earnings. The proposed total dividend for 2012 on each of the common shares outstanding is €1.45 and it is proposed that this amount, less the interim dividend of €0.33 – which was paid in November 2012 – be made payable on May 29, 2013. The dividend will, at the shareholder's discretion, be paid either in cash or in shares. In addition, we request that the AGM discharge the members of the Board of Management of their responsibility for the conduct of business in 2012 and the members of the Supervisory Board for their supervision in 2012.

## Supervisory Board activities

One of the main activities of the Supervisory Board in 2012 was handling the CEO's absence. Ton Büchner succeeded Hans Wijers as CEO after his appointment to the Board of Management by the AGM on April 23, 2012. He suffered from fatigue in early September 2012, which resulted in a temporary leave of absence. The Supervisory Board subsequently appointed CFO Keith Nichols to be the first point of contact and coordinator for the Executive Committee. While the activities and direct reports of the CEO were divided on a temporary basis between several functional Executive Committee members, Mr. Nichols took on the governance processes and further preparatory work on the company's strategy update, in addition to his CFO responsibilities. The Supervisory Board further decided to appoint Antony Burgmans from among its members to advise and support Mr. Nichols and the other Executive Committee members during this period. Mr. Burgmans made himself available for consultation and coaching of the Executive Committee members several times per month and reported back on a regular basis to the other members of the Supervisory Board. He also held several analyst and investor calls to discuss the situation and, together with Karel Vuursteen, kept in regular contact with Mr. Büchner to monitor the progress of his recovery.

The Supervisory Board devoted considerable time to discussing the company's strategy and reviewing strategic options with the CEO, which was finalized upon Mr. Büchner's return. Business Area, business unit and functional strategies were presented to the Supervisory Board following the strategic review sessions at company level with the Executive Committee. In 2012, BU strategy presentations on Industrial Coatings, Pulp and Performance Chemicals and Industrial Chemicals were given. The Supervisory Board also discussed corporate social responsibility issues relevant to the company.

HR presented an update on its strategy, including a talent review. Developing a healthy talent pipeline with strong succession planning has been one of the key priorities of the Supervisory Board. The aim is to have talent pipelines with two or three immediate successors to key positions. This will be achieved by managing the careers of our key talents in a more proactive manner and linking succession planning to career planning, with clearly aligned learning and development opportunities, mentoring and coaching facilities, as well as career development possibilities. The Board of Management has kept the Supervisory Board regularly informed of intended organizational changes, appointments of senior managers and major contracts.

In September 2012, the Supervisory Board, Board of Management and Executive Committee visited some of the company's businesses in the Nordics. This included meetings with local management, customers and other stakeholders, as well as a visit to the Functional Chemicals and Surface Chemistry site in Stenungsund. 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 Nordics.

The company's performance improvement program focuses on achieving operational and functional excellence at lower costs and is fundamental to the delivery of our 2015 targets in a challenging market environment. The program was closely monitored by three Supervisory Board members, who held six meetings with the CEO or CFO, the program director and the Corporate Controller. During these meetings, the progress of the program was reviewed and discussed in detail, while representatives from the various work streams were also invited to attend on several occasions to provide detailed overviews of their areas of responsibility. In addition to reports on the progress made, discussions were held about embedding the results achieved and the quality of implementation. The results of these meetings were reported back to, and discussed with, the full Supervisory Board.

The outcome of the enterprise risk management session held by the Executive Committee was presented to the Supervisory Board and risk corrective actions were identified to address the top ten risks. Further details are included in the Risk management chapter and the Strategy section.

Other topics discussed and reviewed by the Supervisory Board included:

- Reports from the Supervisory Board committees
- Reports from the CEO
- Reports from the CFO on financial results, investor feedback and share price development
- Financial statements and dividends
- Operational planning (including budget) and the annual financing and investment plan
- Acquisition and divestiture update
- Business Area updates. Messrs. Darner, Gunning and Fuhrmann provided regular updates to inform the Supervisory Board on safety, competitive behavior, projects and YTD financials
- Governance of the company
- Negative growth scenarios and underperforming businesses. The performance of the company was impacted by the economic crisis. The Supervisory Board discussed how AkzoNobel addresses underperforming businesses and negative volume growth scenarios
- Diversity and inclusion
- The company-shareholder relationship
- Approval of major investments, acquisitions and divestments

The Supervisory Board held 13 meetings during 2012. Six meetings were plenary sessions with the full Board of Management present, six meetings were held without the full Board of Management present, of which two were attended by the CEO. One meeting was held via conference call. An overview of the Supervisory Board and attendance of its committees is set out later in this chapter. The Chairman of the Supervisory Board prepared the meetings with the Corporate Secretary and discussed matters, such as the agendas, with the CEO. Additional (informal) meetings and calls were held with Supervisory Board members to discuss the CEO's leave of absence and have contact with Mr. Nichols and the other Executive Committee members.

### Audit Committee

Before each announcement of the company's quarterly results, the Audit Committee reviewed the figures and consulted on the reports and press releases to be published. Supervisory Board members were invited to participate in this part of the Audit Committee meeting.

The Audit Committee also reflected on the deteriorating market conditions in Europe and the US, the value of our Decorative Paints assets, and advised the Supervisory Board on the impairment. After several discussions, the Supervisory Board approved the company's announcement of a non-cash impairment charge against the Decorative Paints business' assets, primarily in Europe.

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 is closely monitoring the international discussions on auditor independence, the substance of which does not give rise to concerns regarding our existing policy of, and guidance on, auditor independence. 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 for 2013. In 2011, the Audit Committee already decided to reconsider undertaking an external auditor selection process (full tender) towards the end of 2013, for submission and decision at the AGM in 2014.

The Audit Committee also discussed topics including:

- Financial statements
- Dividend directions
- External auditor's report and management letter
- External auditor's approach to auditing the company, engagement letter, fees, risk assessment and audit plan
- Hard close (as part of making the year-end process more efficient, in order to highlight important issues for the financial statements 2012 and to give timely attention to important issues, AkzoNobel performs a hard close as per October 31. Aligned with this, the external auditor also performs certain procedures in respect of the financial outcomes as at October 31, 2012)
- Operational plan (including budget)
- Internal control procedures and report
- InControl assurance statement
- HSE&S audits summary of findings
- Risk management
- Internal audit reports and planning
- Tax strategy
- The quality of internal and external audit
- Internal audit strategy
- Operating working capital management. In several meetings, the Audit Committee discussed OWC to identify improvement actions
- Compliance with primary and secondary legislation (internal framework, monitoring and processes and compliance reports)
- Litigation and claims
- Impact of new IFRS rules
- Insight accounting issues/Accounting issue tracker
- Information Management strategy
- Treasury strategy
- Bonds issuance
- Centralization and standardization of treasury activities

The Audit Committee held eight meetings during 2012.

### Remuneration Committee

The Remuneration Committee reviewed the performance of the members of the Board of Management and the Executive Committee. Recommendations were made on the remuneration and personal targets for members of the Board of Management and the other members of the Executive Committee. Proposals for the remuneration of Messrs. Fuhrmann, Keijzer and Joosten were reviewed and discussed with the CEO. The committee also reviewed the remuneration package of the members of the Supervisory Board.

The Remuneration Committee prepared a proposal to the Supervisory Board on an adjustment to the current remuneration policy for the Board of Management and Executive Committee to ensure that both remain fully focused on the company's overall priorities – functional excellence, increasing return on investment, increasing our operating income and improving our cash position. To ensure continued align-

ment between incentive metrics and the company's objectives, greater flexibility is required in order to be able to respond adequately to the economic challenges the company is facing.

The Supervisory Board approved this recommendation and will propose to the 2013 AGM to introduce in the remuneration policy a flexibility (within a set of defined indicators) for the Supervisory Board to decide each year on the financial metrics and their weighing to define short-term incentives. Further details on this are outlined in the Remuneration report chapter in the Governance and compliance section. Information on the remuneration of the Board of Management and Supervisory Board can be found in Note 21 of the Financial statements section.

The Remuneration Committee held four meetings in 2012.

### Nomination Committee

The Nomination Committee made several recommendations to the Supervisory Board during 2012. These included proposing the appointment of Ton Büchner as a member of the Board of Management at the AGM on April 23, and his subsequent appointment as CEO following AGM approval. The committee also recommended the reappointment of Mr. Nichols for a second term of four years, and the reappointment of Mr. Darner for a term of two years. The Supervisory Board supported and approved these recommendations and the AGM subsequently made these (re)appointments on April 23, 2012.

The Nomination Committee also made a proposal to limit the number of Board of Management positions from five to four following the departure of Mr. Frohn as a Board of Management member at the 2012 AGM.

The Nomination Committee identified Ms. Baldauf to succeed Baroness Bottomley as a member of the Supervisory Board and made a proposal to expand the Supervisory Board to nine members. Mr. Verwaayen was identified to fulfill the additional position. Ms. Baldauf and Mr. Verwaayen were appointed at the 2012 AGM. At the same meeting, Mr. Van den Brink and Sir Peter Ellwood were reappointed for a third and second term of four years respectively. Subject to their appointment as members of the Supervisory Board, the Nomination Committee prepared a proposal for Ms. Baldauf and Mr. Verwaayen to join the Remuneration Committee and the Nomination Committee. Ms. Baldauf brings a different mix of international business experiences gained in Asia. Mr. Verwaayen adds substantial business and functional excellence experience gained in the US, UK, France and the Netherlands. Their expertise is a good addition to these committees. Sir Peter Ellwood was proposed to join the Audit Committee. In addition to his nomination and remuneration expertise, Sir Peter, as former Group Chief Executive of Lloyds TSB Group, has the appropriate financial knowledge for the Audit Committee.

The Nomination Committee held two meetings in 2012. Together with the CEO, the Committee devoted considerable time to senior executive succession planning. From the start of his appointment as CEO, Ton Büchner has discussed and reviewed with the Nomination Committee the Executive Committee member positions responsible for the company's Business Areas. After a thorough selection process, recommendations were made by the Nomination Committee – following proposals by the CEO – for the succession of Mr. Frohn, Mr. Darner and Mr. Gunning. Important selection criteria included a balanced knowledge of the markets in which the company operates, a proven track record, global business experience and team spirit. The following appointments were subsequently approved by the Supervisory Board. Werner Fuhrmann was appointed as the Executive Committee member responsible for Specialty Chemicals as per October 1, 2012, a role he initially took over on an ad interim basis after the 2012 AGM (in addition to his Integrated Supply Chain responsibilities in the Executive Committee). Conrad Keijzer joined the Executive Committee on January 1, 2013, and will succeed Mr. Darner as the member responsible for Performance Coatings following the 2013 AGM. Ruud Joosten will also join the Executive Committtte and, following the 2013 AGM, will take over from Mr. Gunning as the Executive Committee member responsible for Decorative Paints.

### Supervisory Board attendance record

The Supervisory Board is confident that the table on the following page shows that all Supervisory Board members made adequate time available to give sufficient attention to the company.

### Board evaluation

The Supervisory Board carried out a performance evaluation of itself, its individual members, its Remuneration Committee and Nomination Committee, the Chairman and the chairmen of these committees. The process consisted of Supervisory Board members completing confidential questionnaires. The Audit Committee carried out a performance evaluation of itself and invited the other participants of the meetings to also complete the confidential questionnaire.

Unlike the process in 2011, the evaluation was conducted without the assistance of an external facilitator. It is the Supervisory Board's intention to use an external facilitator in the evaluation process every third year.

In separate meetings without the Board of Management, the full Supervisory Board and the Audit Committee discussed

the results of the evaluation questionnaires. These discussions were recorded and the conclusions and actions were discussed and confirmed at the next meeting of the Supervisory Board and the Audit Committee. The evaluation of the Chairman was discussed by the full Supervisory Board in the Chairman's absence. Items addressed were overall performance and composition of the Supervisory Board, the Audit Committee and the other committees, strategic issues and key areas for 2013. Other points discussed were the nature and impact of the discussions, strategy oversight, risk management and internal control, succession planning and other such matters. Overall it was concluded that the Supervisory Board and its committees, including the Audit Committee, continued to operate effectively. The Supervisory Board was positive about the progress made in a number of important areas, such as succession planning and training. Improvement areas are diversity and knowledge of high growth markets.

## Gratitude

The Supervisory Board in particular wishes to thank Messrs. Darner and Gunning for their contribution 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 2012.

**Amsterdam, February 19, 2013**
The Supervisory Board

### Supervisory Board attendance record

| | Supervisory Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Karel Vuursteen | 10/13 | – | 3/4 | 2/2 |
| Sari Baldauf* | 8/10 | – | 3/3 | 1/1 |
| Virginia Bottomley* | 2/2 | – | 1/1 | 1/1 |
| Dolf van den Brink | 13/13 | 8/8 | – | – |
| Peggy Bruzelius | 11/13 | 7/8 | – | 2/2 |
| Uwe-Ernst Bufe | 13/13 | – | – | – |
| Antony Burgmans | 13/13 | – | 4/4 | 2/2 |
| Sir Peter Ellwood* | 13/13 | 6/6 | 1/1 | 1/1 |
| Louis Hughes | 12/13 | 7/8 | – | – |
| Ben Verwaayen* | 9/10 | – | 2/3 | 1/1 |

* Where a Supervisory Board member stood down from the Supervisory Board or a committee during the year, or was appointed during the year, only meetings before standing down or after the date of appointment are taken into account.

# Business performance

The following section gives a detailed summary of how each of our Business Areas performed during 2012. Information on market characteristics, key brands and revenue comparisons is also provided.


| | |
|---|---|
| AkzoNobel Specialty Chemicals | 53 |
| AkzoNobel Performance Coatings | 63 |
| AkzoNobel Decorative Paints | 73 |

**Superior strength and performance**

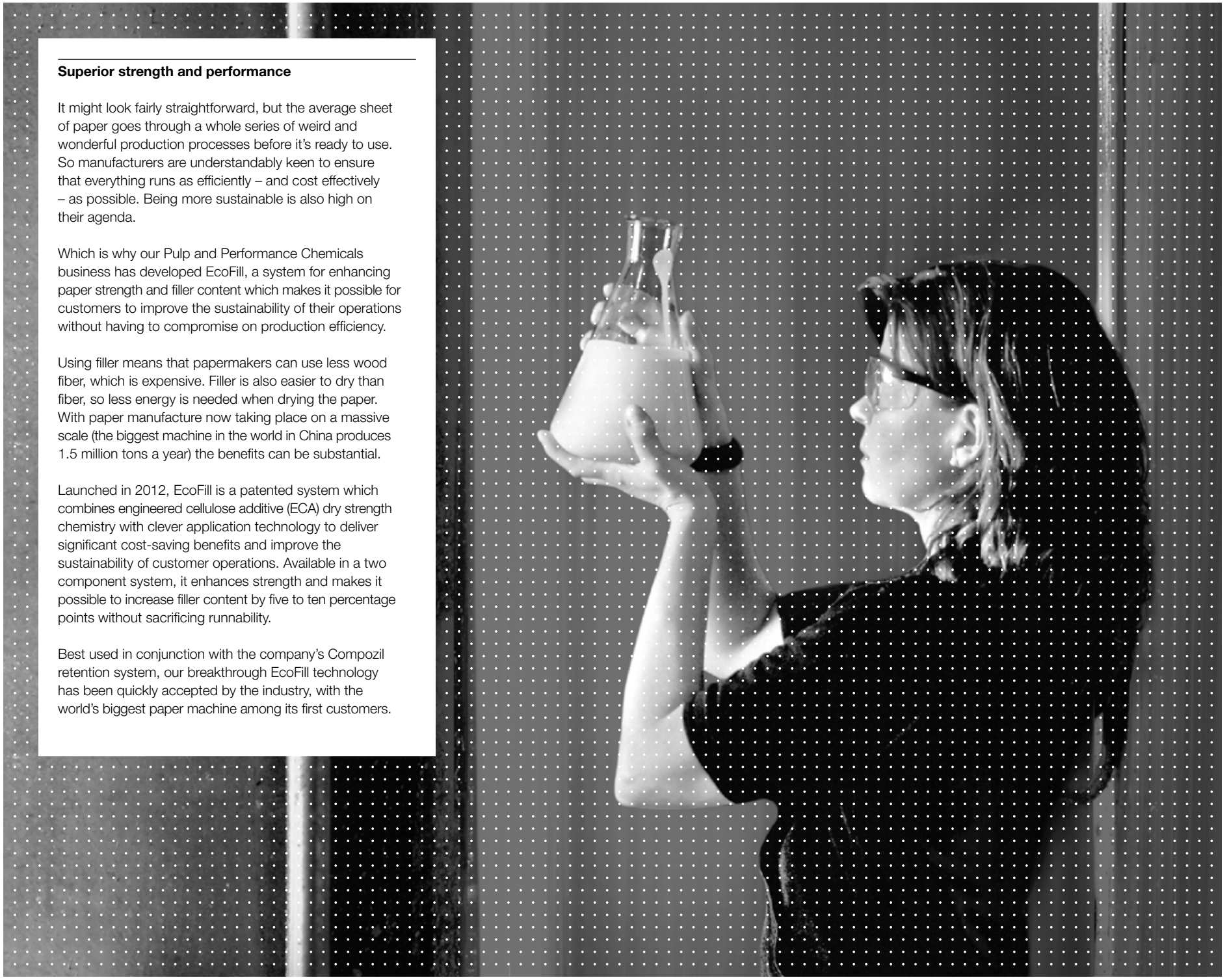
It might look fairly straightforward, but the average sheet of paper goes through a whole series of weird and wonderful production processes before it's ready to use. So manufacturers are understandably keen to ensure that everything runs as efficiently – and cost effectively – as possible. Being more sustainable is also high on their agenda.

Which is why our Pulp and Performance Chemicals business has developed EcoFill, a system for enhancing paper strength and filler content which makes it possible for customers to improve the sustainability of their operations without having to compromise on production efficiency.

Using filler means that papermakers can use less wood fiber, which is expensive. Filler is also easier to dry than fiber, so less energy is needed when drying the paper. With paper manufacture now taking place on a massive scale (the biggest machine in the world in China produces 1.5 million tons a year) the benefits can be substantial.

Launched in 2012, EcoFill is a patented system which combines engineered cellulose additive (ECA) dry strength chemistry with clever application technology to deliver significant cost-saving benefits and improve the sustainability of customer operations. Available in a two component system, it enhances strength and makes it possible to increase filler content by five to ten percentage points without sacrificing runnability.

Best used in conjunction with the company's Compozil retention system, our breakthrough EcoFill technology has been quickly accepted by the industry, with the world's biggest paper machine among its first customers.



# AkzoNobel Specialty Chemicals

"The resilience of our portfolio enabled us to increase revenues and post solid results"

**Werner Fuhrmann**
Executive Committee member responsible for Specialty Chemicals

It was another good year for our Specialty Chemicals business, despite a less than favorable macro-economic environment. Following a good first quarter, conditions weakened as the year progressed, particularly in areas such as construction, while lower economic activity in the upstream petrochemical sector and a slowdown in China's manufacturing industry also impacted our performance. However, the resilience of our portfolio – combined with effective cost leadership and our strong market and technology positions – enabled us to increase revenues and post solid results, helped by a weaker euro.

Although trading conditions weren't quite as severe as in recent years, 2012 still presented a number of notable challenges. The construction industry continued to struggle, which hit sales at our Functional Chemicals business, while the economic slowdown in Europe also took its toll in terms of volume. Another ongoing issue in Europe is the lack of competitively-priced energy and feedstocks. The North American chemical industry is benefiting from large-scale use of shale gas. Gas prices there are only a fraction of what they are in Europe, so businesses there have a clear advantage when it comes to energy pricing and access to competitively priced petrochemical raw materials such as ethylene.

Looking briefly at our activities, Surface Chemistry achieved a record year, building on its leadership positions and clearly benefiting from the acquisition of Boxing Oleochemicals. In addition, we announced a series of investments to further strengthen the business' presence in China. Pulp and Performance Chemicals also recorded a record year, despite some weakness in demand. The business has streamlined its portfolio to focus on key strategic markets and is well positioned to maintain its growth momentum, with the Chemical Island concept proving to be particularly successful.

It was a more challenging year for Functional Chemicals, mainly due to softer demand and an imbalance in supply/demand in certain markets. But the business continued to launch innovative products – notably groundbreaking oil/gas well stimulation technology Dissolvine StimWell – and further developed its activities in Ningbo, China, where additional strategic investments were made during the year. Industrial Chemicals again proved resilient and was less affected by the downturn in Europe due to its strong positioning in the downstream value chain. It continued to commercialize its mTA anti-caking technology and strengthen its global leadership positions in electrolyses salt and MCA in Europe. We divested our Pakistan-based activities to better align the Specialty Chemicals portfolio with our global strategy.

We were particularly proud to receive the Dutch Responsible Care Award and the European Responsible Care Award during 2012. The former was presented by the Dutch Chemical Industry (VNCI) and the latter by the European Chemical Industry Council (Cefic). Both awards were given in recognition of new DME-based DeMythe LDD technology, which is helping to revolutionize the leather and protein industries. It was developed by our Industrial Chemicals business along with a Spanish partner. Also notable was the achievement of our best ever safety records, underlining our focus on continuous improvement in all areas.

# Specialty chemicals market overview

## End-user segment and market sector analysis

The global chemicals market is roughly €3 trillion in size and, within that, the specialty chemicals market represents around €500 billion (of which paints and coatings accounts for €75 billion). AkzoNobel competes in reasonably selective niches within this very large and diverse market. The outlook for our business, therefore, is best described by evaluating the end-user segments that we serve.

### Industrial

The majority of our Specialty Chemicals revenue comes from the Industrial end-user segment. Many of the different industries incorporated in this broad sector can be somewhat cyclical. However, the cycle for agricultural, for example, is linked to the weather and not to economic cycles. There are also industries that are less cyclical, such as pulp and paper. Furthermore, during the recent recession, the downturn was less than would have been expected as domestic demand in high growth countries continued to lead to robust industrial growth. Taking each of the sub-segments in turn:

#### Natural resource and energy industries

This sub-segment encompasses a wide range of markets, including oil and gas, metals and mining, energy and electricity generation, water and wastewater and agriculture. In the recent past, oil and gas growth was buoyant as a result of high oil prices. Going forward, we expect this to moderate somewhat, but the outlook for energy and utilities in general remains strong and we are seeing higher levels of growth in agriculture. Thus the outlook for the market sectors that serve this sub-segment is strong, assuming that our position in the market sector is global. For example, we expect good growth in market sectors such as surfactants, chelates, ethylene amines and sulfur products.

#### Process industries

This sub-segment covers chemicals and pulp and paper manufacture. Growth in this sub-segment going forward is expected to be somewhat below average globally as chemicals growth is expected to be average and pulp and paper growth is lower than this. However, geography plays a key role when it comes to demand. So, for example, we continue to expect strong growth in pulp production in Brazil, which will lead to above average growth for our bleaching chemicals market sector, which is well positioned in this market. On the other hand, chemicals growth in mature Europe is expected to be limited, and because our chlorine and caustic soda market sectors are entirely Northern European, we are expecting market growth below global average growth rates.

### Consumer Goods

In general, the higher growing industries within the Consumer Goods end-user segment are in the Consumer durables sub-segment, which is small in terms of revenues from our Specialty Chemicals Business Area. However, for market sectors such as organic peroxides, metal alkyls, polymer additives and silica sols used in polymers for the manufacture of consumer electronics, toys and recreation equipment, above average market growth is expected.

There are also some faster growth industries within the Consumer packaged goods end-user sub-segment, such as personal care. As a result, the surfactants and specialty polymers market sectors for these industries are also expecting above average growth. Historically, these industries – along with food and beverage – have experienced lower growth, but are more stable. Recent trends are very positive and we therefore expect average or above average growth for relevant market sectors such as surfactants, chelates and ethylene amines.

### Transportation

Our revenues from the Transportation segment are roughly equivalent to our revenues from the Consumer Goods end-user segment. With the exception of marine transportation, most of the industries in this end-user segment are performing well and the global outlook is particularly strong for the Automotive OEM, parts and assembly end-user sub-segment, which is the only relevant sub-segment for our Specialty Chemicals Business Area. In this sub-segment, we sell chlorine, organic peroxides and metal alkyls used in the production of automotive plastics. Our Chlorine business is very European, though, so on average the relevant market growth for this end-user segment for AkzoNobel is likely to be average, rather than above average.

### Buildings and Infrastructure

The smallest segment for our Specialty Chemicals Business Area, our revenues in the Buildings and Infrastructure end-user segment are all in the Building products and components sub-segment. The outlook for this sub-segment is below average, taken as a whole. However, industries within the sub-segment that are less residentially oriented, and/or have a strong maintenance component, are performing better. Our revenues in this sub-segment come from products such as chlorine used in the manufacturer of plastics for windows, doors and pipes, as well as redispersible powders and cellulosic derivatives used in building adhesives and coatings. Market growth for all of these market sectors is expected to be below average, particularly as our chlorine business is heavily European, where growth rates are lower, and redispersible powders have a strong new build orientation.

The vision for the Specialty Chemicals Business Area is to be the leading specialty chemicals company in selected market sectors and a reliable cash generator for AkzoNobel. To achieve this, we will need to continue to ensure that we have strong processes and capabilities in terms of:

- Management of integrated value chains
- Continuous technological advancement
- Engineering and project management
- Process safety
- Product and margin management
- Managing capital intensive businesses and investments

## Strategic direction

We have four main strategic priorities. These are:

1. Although the emphasis for AkzoNobel in general, and for the Specialty Chemicals Business Area in particular, is on focusing on cash and return on investment, we will continue to invest in people and technology. This is vital for the long-term health of our business.

**2.** We will be even more selective in where and how we grow the business, with a strong emphasis on market sectors and geographic regions with better end-user segment outlook. We have done this in the past. For example, recent capital expansions have been almost exclusively in Brazil for bleaching Chemical Islands, and at our Ningbo site in China. Our most recent acquisition was of Boxing Oleochemicals, which has made a major contribution to our Surface Chemistry position in Asia. We will continue to select for these kinds of investments going forward.

**3.** We will strengthen our focus on functional and operational excellence. This incorporates continuing to work on building capabilities in product and margin management, complexity reduction, efficiency improvements in factories, operating working capital reduction and ERP rationalization across the full Business Area.

**4.** Given all the changes in the external environment, such as shale gas and other chemical feedstock potential game changers, we will be stress-testing our strategies against the changing competitive landscape to ensure that we are well placed for the future.

### Key actions going forward

- Further integrate and grow the acquired Boxing Oleochemicals activities
- Benefit from capacity expansions in China, Brazil and Germany
- Generate growth from new products
- Further rationalize and consolidate ERP systems

### 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 | **Chelates and micronutrients** |
| | **Ethylene amines** |
| | **Organic peroxides** |
| | **Salt specialties (North Western Europe)** |
| | **Sulfur products** |
| 2nd | Organometallic specialties |
| | Building and paints performance additives |

Industrial Chemicals

| | |
|---|---|
| 1st | **Chlorine merchant (Europe)** |
| | **Monochloroacetic acid (MCA)** |
| | **Salt (chemical transformation Europe)** |
| | **Chloromethanes merchant (Europe)** |
| 2nd | Caustic lye merchant (Europe) |

Pulp and Performance 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 2012

- Completed the acquisition of Boxing Oleochemicals, China
- Announced €45 million investment in a new dicumyl peroxide (DCP) plant at our Ningbo multi-site in China
- Demerger and divestment of Chemicals Pakistan
- Opened bleaching Chemical Island in Brazil and announced €80 million investment in the construction of a Chemical Island to supply the Suzano Maranhão pulp mill
- Began work at our Taixing site in China to increase annual production capacity for MCA to 100,000 MT
- Broke ground on our €140 million investment to modernize and expand manufacturing at our Frankfurt site and switch our chlorine production from mercury to the latest membrane electrolysis technology
- Completed de-bottlenecking at the Stockvik site in Sweden, giving us 30 percent more production capacity for our Expancel expandable microspheres
- Signed an agreement with Mexichem Resinas Vinilicas, S.A. de C.V. to supply our pioneering Continuous Initiator Dosing (CiD) technology to three of their plants

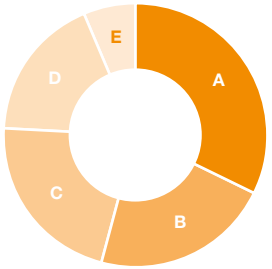
**Key figures** in € millions

| | 2011 | 2012 |
|---|---|---|
| Revenue | 5,335 | 5,543 |
| EBITDA | 906 | 889 |
| EBITDA margin (in %) | 17.0 | 16.0 |
| EBIT | 625 | 583 |
| EBIT margin (in %) | 11.7 | 10.5 |
| Operating income | 622 | 500 |
| Moving average ROI (in %) | 17.8 | 15.6 |

**Employees by region** at year-end

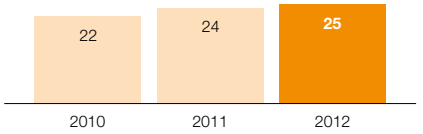
| | 2011 | 2012 |
|---|---|---|
| North America | 1,800 | 1,800 |
| Latin America | 900 | 1,000 |
| Mature Europe | 5,800 | 5,500 |
| Emerging Europe | – | 100 |
| Asia Pacific | 3,000 | 2,300 |
| **Total** | **11,500** | **10,700** |

**Revenue breakdown by business unit**
in %

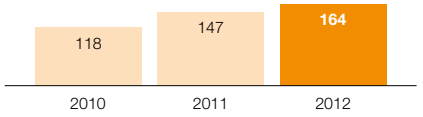



| | |
|---|---|
| A Functional Chemicals | 35 |
| B Industrial Chemicals | 21 |
| C Pulp and Performance Chemicals | 20 |
| D Surface Chemistry | 19 |
| E Chemicals Pakistan | 5 |

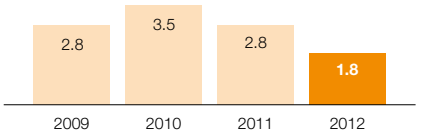
**Eco-premium solutions**
% of revenue



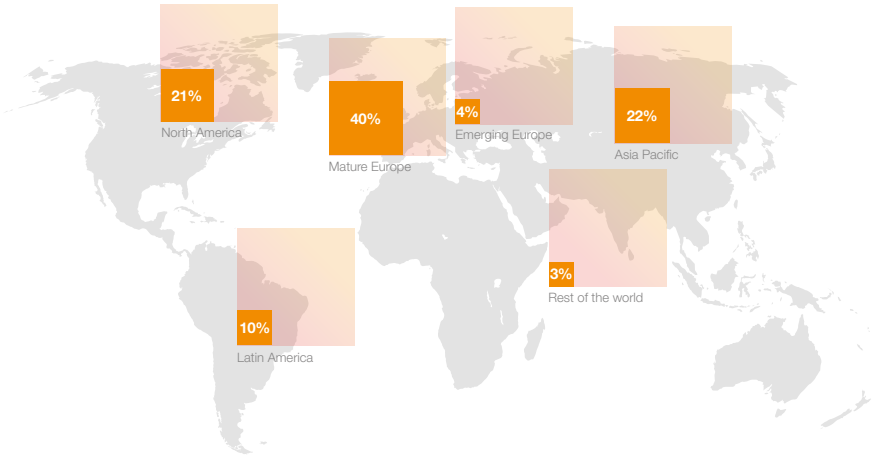

**Key value chains with carbon footprint assessment**




**Total reportable rate of injuries**
per million hours




**Geo-mix revenue by destination**



# AkzoNobel Functional Chemicals

"Recent investments mean we are well positioned to benefit from the next economic upturn"

**Jan Svärd**
Managing Director

## Overview

It was a mixed year, with many of our product lines either on a par or performing better than 2011. Raw material prices were stable, but margins came under pressure when volumes started to weaken towards the end of the year.

## Analysis

Our results benefited from an upturn in the North American chemical industry, which enjoyed something of a revival, with sales to the polymer market being particularly good. Asia continued to grow, but not as fast as expected, partly because of weaker demand for exports to Europe. The fact that the US became more competitive also impacted the market in Asia. In terms of business performance, many of our activities had a reasonably good year. Chelates and Micronutrients were strong in Asia, while Performance Additives improved on 2011, due mainly to the launch of several new cellulose-based products. The one exception was Ethylene Amines, which continued to find the going tough. The sluggish macro-economic market made it difficult to place new capacity into the market, but recent investments mean we are well positioned to benefit from the next economic upturn, particularly in high growth markets. In order to optimize our supply chain for ethylene amines, we realigned our operations, which involved discontinuing a long-term toll manufacturing agreement in Germany.

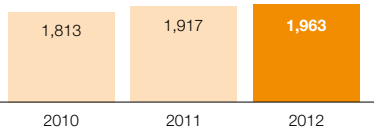
## Highlights

The success of our growing range of biodegradable chelates caught the eye, in particular the launch of Dissolvine Stim-Well, a unique technology for the oil and gas industry which stimulates wells and makes them more productive. It has huge potential to revolutionize the industry and we have already secured a number of high profile customers. We also signed an agreement with Mexichem Resinas Vinilicas, S.A. de C.V., one of the world's largest PVC manufacturers, to supply our pioneering Continuous Initiator Dosing (CiD) technology. It was our first CiD license outside Europe and involves three Mexichem plants, two in Mexico and one in Colombia. The technology was developed to help PVC manufacturers improve reactor output, product quality and operational safety. We also invested in our pharma salt activities in Denmark, which supplies high purity products and has trebled turnover in the last three years.

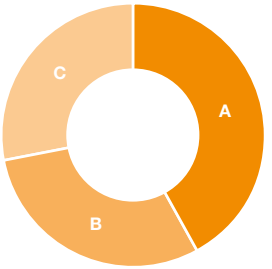
## Developments

In China, we successfully started up a new organic peroxide plant at our Ningbo site, while the ongoing project at the same facility to add capacity for our Bermocoll cellulose derivatives is scheduled for completion in mid-2013. We are also investing €45 million in a new dicumyl peroxide (DCP) plant, which will be operational in 2014. These investments are part of a strategic plan to develop a strong cluster in Ningbo which will play a key role in our growth ambitions. Elsewhere, we made a number of changes to our organizational set-up, which involved realigning our High Polymers and XTP (Cross-linking Peroxides, Thermoset Chemicals and Polymer Additives) activities in order to create a more robust and simpler model. As a result, we formed two new sub-businesses – Organic Peroxides and Organometallic Specialties – which will enable us to achieve operational excellence and cost efficiencies, while retaining the focus on customers. This was in addition to the ongoing initiatives (such as Lean Six Sigma) being implemented as part of the company's performance improvement program, which will enable us to operate our production facilities at lower cost.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 42 |
| **B** Americas | 30 |
| **C** Asia Pacific | 28 |

### 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

Dozo, Butanox, Ferrazone, AkzoNobel, ELOTEX, Bermocoll, Rexolin, AKUCELL, Rexene, Dissolvine

# AkzoNobel Industrial Chemicals

"Continued investments in our leadership positions have ensured that we are well positioned going into 2013"

**Knut Schwalenberg**
Managing Director

## Overview

Despite a slowdown in our markets, we achieved solid results in the range of our record year 2011. Continued investments in our leadership positions, combined with ongoing cost-saving and efficiency measures, have ensured that we are well positioned going into 2013.

## Analysis

Our Chlor-Alkali business had its best ever year, mainly due to our strong chlorine portfolio and a favorable price situation for caustic. We were all but sold out for much of 2012, well ahead of the European chlorine industry from a utilization perspective. MCA also posted an excellent year as we harvested the benefits of recent expansions and cost-saving programs. We are now the clear market leader in the US and China and in Europe we are a co-leader. Our Salt activities had to cope with two issues that influenced the business' performance. First of all we had no real winter – which impacted sales of road salt – and secondly a broken canal lock near our Dutch Hengelo site caused major shipment problems and resulted in lost volumes. Both effects were compensated by excellent business to the chemical industry, which posted a record volume. Our Energy activities faced several challenges and as a result we had to mothball our large Delesto 2 cogeneration unit at Delfzijl in the Netherlands. We are now investigating several alternatives for generating steam.

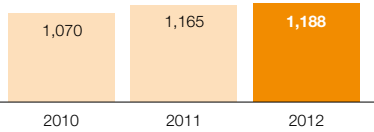
## Highlights

We began work at our Taixing site in China ahead of a major expansion which will further increase its annual production capacity for MCA to 100,000 MT. Once complete, the Taixing facility will become the biggest MCA plant in the world. A groundbreaking ceremony was also held at Frankfurt in Germany, where we are investing €140 million to modernize and expand manufacturing and switch our chlorine production from mercury to the very latest membrane electrolysis technology. One highlight we were particularly proud of was the fact that we received both the Dutch Responsible Care Award and the European Responsible Care Award. The former was presented by the Dutch Chemical Industry (VNCI) and the latter by the European Chemical Industry Council (Cefic). Both awards recognized the DME-based DeMythe LDD technology we developed with Spanish partner GRIT which is helping to revolutionize the leather and protein industries. We also secured our first license for the technology, which is used to remove water and grease from animal skins and makes the process far more sustainable and less harmful to health than more conventional methods.

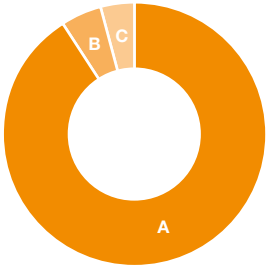
## Developments

The first licensing contract for our mTA technology for the salt and chlorine industries in China was signed and we gained approval to store strategic oil reserves in our salt caverns. We already store gas and nitrogen and are investigating the possibility of using the caverns to store energy as compressed air to cope with fluctuation of wind energy. In addition, we have ongoing initiatives targeted at significantly increasing steam production from renewables (for example through waste incineration) and are looking into ways we can improve the eco-profile of our suppliers and raw materials.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 91 |
| **B** Americas | 5 |
| **C** 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

# AkzoNobel Pulp and Performance Chemicals

"All three main businesses made an important contribution to the overall performance improvement"

**Ruud Joosten**
Managing Director

## Overview

The momentum we have been building up over the last few years continued as we achieved another record performance. EBITDA improved significantly, driven mainly by strong margin management, which helped to mitigate the impact of the economic slowdown.

## Analysis

Having refocused our strategy to concentrate on activities with global leadership positions, all three of our main businesses made an important contribution to the overall performance improvement. Bleaching Chemicals had a strong year in Latin America, but also did well in Europe and North America, while Specialty Products (with our Expancel microspheres) outperformed its record year in 2011. It was more of a mixed picture for Silica and Paper Chemicals, primarily due to the weak economic conditions in North America and Europe. Raw material prices were not as volatile as the previous year, and although 2012 began well in terms of volumes, they progressively came under more pressure, particularly in the paper chemicals sector. However, we were able to manage our margins very effectively and consolidated our positions in our key markets.

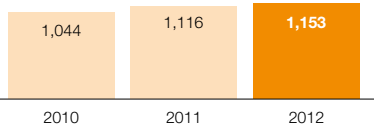
## Highlights

We introduced our new strategy in April in order to globalize our business operations and further strengthen our market positions. This included divesting some non-core activities and optimizing the production footprint, as well as changing the name of the business to Pulp and Performance Chemicals, which better reflects our focus on three core technologies with global leadership positions. We are now better placed to build on the market strength of these activities, further increase profitability and give current and future customers full value from our position as a world leader in our industries. Many customers, however, still remember us by the Eka Chemicals name, so we will continue to use the Eka name as a product brand for the pulp and paper industry. Another major highlight was the €80 million investment in the construction of a new Chemical Island facility in Brazil which will supply the Suzano Maranhão pulp mill. The project should be completed by the end of 2013. The Suzano investment came just a year after we announced plans to build a €90 million Chemical Island in Três Lagoas, also in Brazil, which was ready to start production in early 2013. Meanwhile in Europe, we took steps to right-size the organization in order to better align with prevailing market conditions.

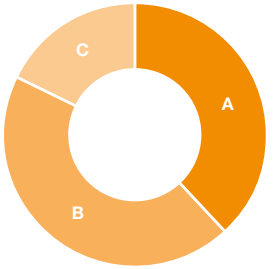
## Developments

The €32 million investment in our Stockvik site in Sweden was completed by the end of the year, giving us 30 percent more production capacity for our Expancel expandable microspheres. Our biggest innovation was EcoFill, a product which has advanced from a concept stage and has now been launched into the market. It enables paper makers to make a stronger paper with less fiber and higher filler levels, allowing for drying times that result in less energy consumption during the production process, resulting in cost and environmental benefits. Progress was also made in the area of safety, which received a lot of attention.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 37 |
| **B** Americas | 47 |
| **C** 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
- Colloidal silica dispersions for industrial use

### Key brands

eka Expancel Kromasil
Bindzil® Compozil Levasil®

# AkzoNobel Surface Chemistry

"Our record results were driven by the optimization of our product portfolio, margin management and tight control on costs"

**Bob Margevich**
Managing Director

## Overview

We achieved record results for the third year in a row, driven mainly by the optimization of our product portfolio, margin management and sales into relatively strong markets. The integration of the Boxing Oleochemicals business, acquired in 2012, helped grow our business and improved the geographic diversity of our sales. Volumes remained more or less flat, raw material price increases were not as severe as in 2011 and we were able to keep tight control on costs, all of which contributed to our overall financial performance.

## Analysis

North America was our strongest and steadiest market, while Europe held up well given the economic turmoil. In Latin America and Asia, underlying conditions were not as vibrant as in recent years, although there remained many opportunities for our technologies. From a business perspective, we achieved strong sales in agrochemicals, oilfield chemicals, mining and asphalt, while our home and personal care activities were less robust. Asphalt benefited from the US Congress passing a new highway funding bill, which sustained current levels of funding for the construction and repair of highways, bridges and other transportation projects across the US. Mining started out slow, but picked up and delivered a good year, while oil and gas moderated somewhat after growing for most of 2012. Essentially, all our market segments were either stable or improved on 2011.

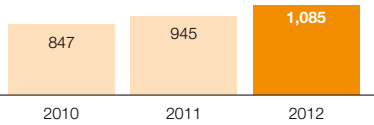
## Highlights

In Europe, we reorganized our management team and streamlined the business, which had a positive impact on our performance. We also integrated the Personal Care business into our regional sub-business units globally. Early in the year, we focused on integrating the Boxing Oleochemicals activities, including a significant manufacturing base in Shandong Province. This acquisition will allow us to help local customers enhance and differentiate their products. Another key highlight was our safety performance. All 13 of our plants performed well and we ended the year favorably below corporate ambitions in terms of total reportable rate of injuries.

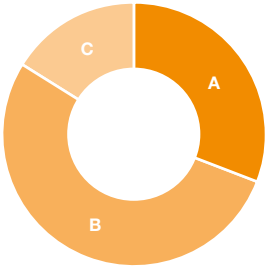
## Developments

Our Rediset LQ liquid asphalt warm-mix additive was used to pave five new taxiways at Chicago's O'Hare International Airport. The taxiways are an integral part of the O'Hare Modernization Program, one of the largest infrastructure rehabilitation and construction projects in the US, at one of the world's largest and busiest airports. We also worked together with AkzoNobel Marine and Protective Coatings to develop a new advanced antifouling product for ships. There were some interesting developments in the US and Asia with the sustainable chemistry we acquired from Integrated Botanical Technologies in 2011. One particularly notable product launch was Armovis EHS, a readily biodegradable, high temperature surfactant for the oilfield market which can be used in a diverse range of applications, including acidizing, fracturing and completion brine systems.

**Revenue in** € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 31 |
| **B** Americas | 53 |
| **C** Asia Pacific | 16 |

### Main products

- Surfactants
- Synthetic polymers
- Bio-polymers

### Key markets

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

### Key product lines

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

### Key brands

ALCOGUARD HYBRID POLYMERS · Biostyle · BEROL HD · WITBREAK OILFIELD DEMULSIFIERS · ARMOVIS STIMULATION SURFACTANTS · ARMOCLEAN SUSTAINABLE SURFACTANT CLEANERS

# Chemicals Pakistan

"The sale of ICI Pakistan to Yunus Brother Group concluded on December 28, 2012"

**Waqar A Malik**
Chief Executive ICI Pakistan

## Overview

The business environment remained tough in 2012, with the escalating energy crisis in Pakistan impacting both margins and downstream demand. However, we were able to increase revenue on the back of effective price management, new product launches and opportunities in the Life Sciences and Chemicals businesses.

## Analysis

Operating results were severely affected by the rising cost of alternative energy needed to maintain optimum production levels. The additional cost incurred to replace the use of natural gas amounted to €3.4 million. However, our ongoing coal-fired boilers project – which will offer a cheaper alternative to high cost energy – is progressing well and is on track for completion in 2013. We also incurred a one-off expense of €3.1million on the demerger of the Paints business and the divestment of ICI Pakistan.

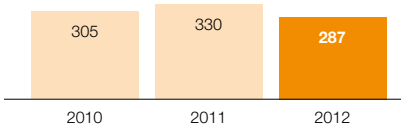
## Highlights

AkzoNobel, in accordance with its declared strategy through ICI Omicron B.V., sold its entire holding of 75.81 percent in ICI Pakistan Limited to Yunus Brother Group on December 28, 2012. In line with the same strategy, the Paints business of ICI Pakistan Limited was demerged into a separate listed entity (Akzo Nobel Pakistan Limited), effective July 2011. The Pakistan Paints business is now managed through our Middle East organization.

## Developments

The business won the coveted Best Sustainability Report WWF-ACCA award, as well as receiving a number of additional honors for financial and sustainability reporting. Our employee engagement score was also one of the best in the company. In August, a safety incident at our Polyester site in Sheikhupura unfortunately resulted in a fatality. A detailed investigation was immediately carried out and new HSE management controls are being drawn up.

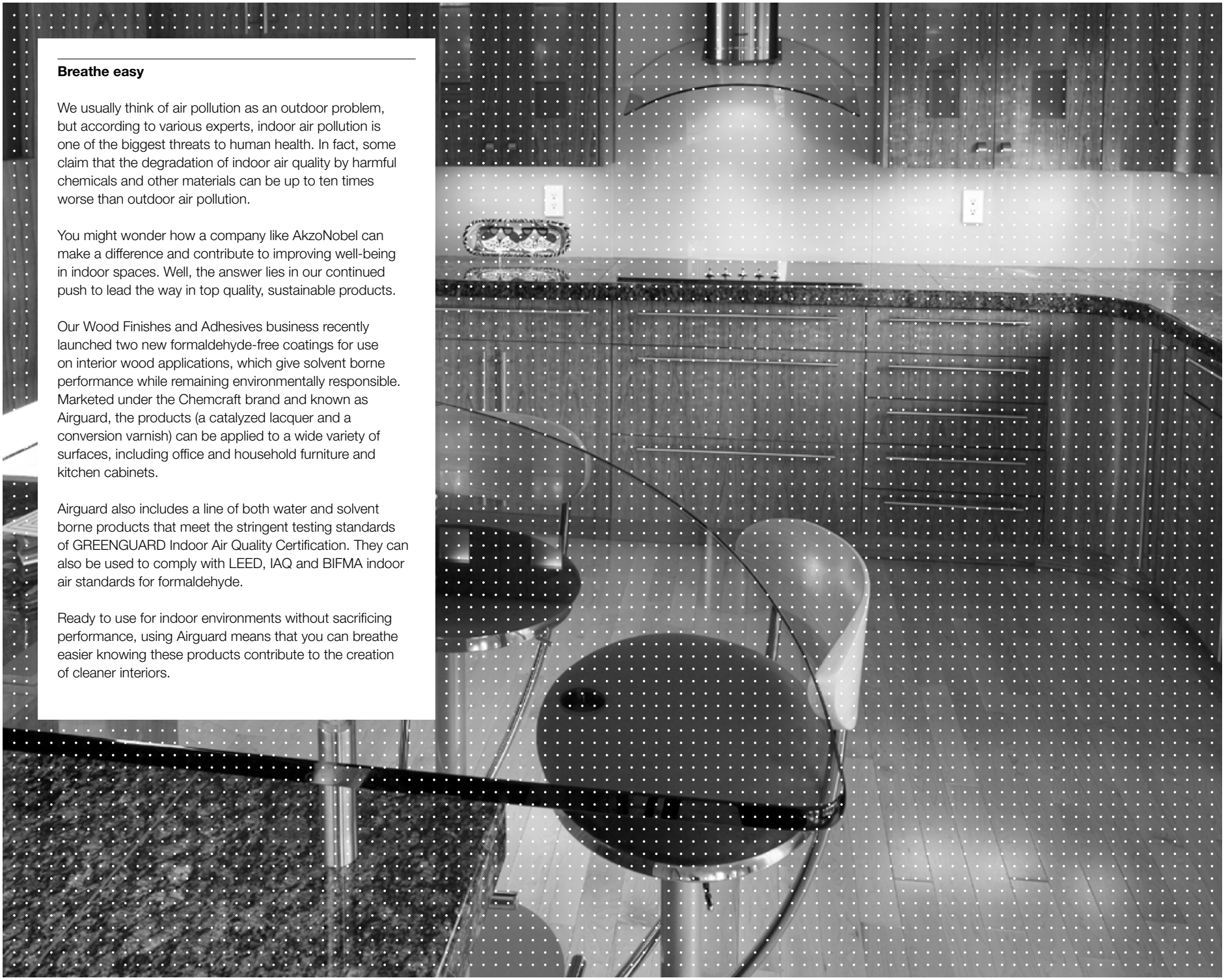
**Revenue in** € millions




## Main products

- Polyester fiber
- Soda ash
- Life sciences
- Chemicals

## Key brands



**Breathe easy**

We usually think of air pollution as an outdoor problem, but according to various experts, indoor air pollution is one of the biggest threats to human health. In fact, some claim that the degradation of indoor air quality by harmful chemicals and other materials can be up to ten times worse than outdoor air pollution.

You might wonder how a company like AkzoNobel can make a difference and contribute to improving well-being in indoor spaces. Well, the answer lies in our continued push to lead the way in top quality, sustainable products.

Our Wood Finishes and Adhesives business recently launched two new formaldehyde-free coatings for use on interior wood applications, which give solvent borne performance while remaining environmentally responsible. Marketed under the Chemcraft brand and known as Airguard, the products (a catalyzed lacquer and a conversion varnish) can be applied to a wide variety of surfaces, including office and household furniture and kitchen cabinets.

Airguard also includes a line of both water and solvent borne products that meet the stringent testing standards of GREENGUARD Indoor Air Quality Certification. They can also be used to comply with LEED, IAQ and BIFMA indoor air standards for formaldehyde.

Ready to use for indoor environments without sacrificing performance, using Airguard means that you can breathe easier knowing these products contribute to the creation of cleaner interiors.

# AkzoNobel Performance Coatings

"While it has been a strong year, we remain focused on continuous improvement"

**Leif Darner**
Member of the Board of Management and the Executive Committee member responsible for Performance Coatings

Our Performance Coatings portfolio delivered record results in 2012, even though we were operating under economically challenging circumstances. It wasn't a year of large volume increases, so most of the momentum for the improvement across all key ratios was driven by careful operational management and our ability to capture the limited growth opportunities that arose.

Also significant was the fact that the balanced spread of our portfolio means we are not over-dependent on any particular segment or sector. Our activities span various cycles across all geographies. So when the economy becomes volatile, as it has been for some time, we are able to adjust and respond. From an operational perspective, we worked diligently to make our businesses more efficient and competitive, which meant we had to focus hard on cost control and keep a close eye on margin management, in line with the company's performance improvement program. This disciplined approach ensured that all our key financials improved, including EBITDA, operating working capital and return on investment.

Looking at the businesses themselves, Marine and Protective Coatings had an excellent year, led by a strong sales increase at Protective Coatings. The main driver for this was the increasing global activity in the oil and gas industry, to which we are a major supplier. Our Chartek range of fire protection coatings in particular benefited significantly. This momentum is being supported by an ongoing investment program to upgrade our research facilities so that we can continue developing innovative products that are more sustainable, while increasing our competitive advantage. The Marine business, on the other hand, suffered from a major slowdown in new builds, although this was entirely expected and we were fully prepared in terms of reducing resources to reflect the development of the market. It was a similar story in the vehicle refinish sector, where reduced volumes – especially in Europe – put pressure on our Automotive and Aerospace Coatings business. But again, stringent value engineering, along with stronger activity in high growth markets, ensured that the business was able to make progress.

Industrial Coatings performed very well in 2012, boosted by the previous year's acquisition of Schramm Holding AG and the coatings activities operated by Korean company SSCP. The deal gave us an important global leadership position in the consumer electronics industry and this was reflected in the first full year of results for the integrated business. Wood Finishes and Adhesives also bounced back after a difficult few years. Market conditions have been particularly unfavorable, but the business has undergone a period of restructuring and the benefits of that started to pay off with a marked improvement in results. Powder Coatings was another business to achieve a solid performance, led by stronger focused management and continued improvement in operational excellence.

We have also been very successful in better coordinating our "One AkzoNobel" commercial offer to end-user customer key accounts, particularly in the construction industry. We are building resources and now have a dedicated team who identify major projects that can benefit from our global scale and complete product offering.

Markets are still uncertain, however, and while it has been a strong year, we remain fully focused on continuous improvement and increasing profitability so that we can grow our businesses in line with our strategic agenda.

# Performance coatings market overview

## End-user segment and market sector outlook

The Performance Coatings market represents around 55 percent of the €75 billion global paints and coatings market. It is growing and profitable. However, growth rates and levels of cyclicality and profitability differ somewhat across end-user segments and sub-segments.

### Transportation

Transportation is the largest end-user segment for our Performance Coatings Business Area. For all end-user segments, apart from marine, the outlook is positive in the short to medium term, due to strong automotive demand, recovery from the recession and continued high demand levels in high growth markets. Going forward, growth rates are not expected to reach the levels experienced prior to the economic downturn. However, in this end-user segment, growth rates for coatings can outstrip overall demand where products provide sustainable or other performance benefits. For example, there is strong demand for coatings solutions that reduce energy use and/or help to enhance production efficiency for our customers. It is also possible to differentiate products in terms of functionality for high-end customers, leading to higher margins.

Taking each of the three sub-segments in Transportation in turn:

#### Automotive OEM, parts and assembly

This sub-segment is fairly cyclical and has been recovering well from the substantial market downturn. The large (roughly €7 billion) automotive OEM coatings market sector serves this end-user sub-segment. AkzoNobel's participation is limited, however, as we do not sell liquid automotive body coatings for original equipment manufacture. Our involvement is focused on commercial vehicle OEM coatings, powder coatings and specialty finishes, generally for plastic automotive components. We expect these sectors to experience above average growth due to underlying end-user segment growth.

#### Automotive repair

This is a more stable and less cyclical sub-segment, but has lower growth rates. We sell automotive refinishes into this sub-segment and our expectation is that growth rates will remain average in this market sector, as the vehicle car park increases while repair rates decrease.

#### Marine and air transport

This sub-segment can be highly cyclical as shipping rates and air travel tend to reduce dramatically during economic downturns. However, given the long lead times involved in shipbuilding and aircraft construction, downturns in new construction often occur quite late in the cycle and some balance in demand is created by the existence of both new build and maintenance markets. Currently, very low shipping rates are putting pressure on demand for marine coatings, even for maintenance. We sell both marine and aerospace coatings into this end-user sub-segment and expect little or no growth in the marine coatings market sector, while in aerospace, we anticipate average to above average growth.

### Consumer Goods

The Consumer Goods end-user segment is only slightly smaller than Transportation for our Performance Coatings Business Area. The outlook is relatively positive, as we see some demand growth in mature markets and reasonably high demand growth in high growth markets, driven by increases in wealth and population. Growth rates vary, however, with higher growth in consumer electronics and domestic appliances and lower growth in furniture and food and beverage. In addition, as is the case in Transportation, our expectation is that growth rates will be lower in the short to medium term than they were prior to the recession.

There are two sub-segments in Consumer Goods – Consumer durables and Consumer packaged goods.

#### Consumer durables

Consumer durables can be relatively cyclical, but the outlook for growth is generally positive, with some growth in mature regions and higher growth rates elsewhere. Growth levels can be tempered by the switch in product mix – in both mature and high growth countries, the highest growth levels tend to be in lower end segments. Growth rates also vary, with some consumer durables (such as consumer electronics) enjoying a very positive outlook, while others (such as furniture) have much lower growth expectations. As a result of these differing underlying segment growth patterns, we expect above average growth in the powder coatings and specialty finishes market sectors and lower growth (average at best) in the wood finishes market sector.

#### Consumer packaged goods

This is a slower growing, but less cyclical, sub-segment. We sell packaging coatings into this sub-segment and expect growth in this market sector to be somewhat below the average for the performance coatings market.

### Buildings and Infrastructure

Many parts of this end-user segment have been badly affected by the recent recession. The expectation is that the underlying issues will continue to exist in the short to medium term, particularly in mature regions in Europe. However, growth rates are increasing in the United States and will remain high in high growth regions.

#### Building products and components

The vast majority of our revenues in the Buildings and Infrastructure end-user segment come from this sub-segment. In terms of outlook, we expect continued growth in high growth geographies, but not at pre-recession levels. In more mature regions, a very moderate return to growth is expected, created by maintenance rather than new build demand, and oriented towards non-residential building components. For example, we are expecting some mature market growth in areas such as doors and windows, which are maintenance-oriented and used in a broad range of building applications. We also expect reasonable growth rates in coil and powder coatings from high growth geographies due to the non-residential profile of these market sectors. Growth rates for the more residentially-oriented wood finishes and adhesives market sector will be lower.

#### New build projects and Maintenance, renovation and repair

In the other two sub-segments of New build projects and Maintenance, renovation and repair, the general outlook is for

low levels of growth as housing markets continue to experience considerable issues, particularly in mature Europe. However, our Performance Coatings revenues in these two end-user sub-segments generally come from large building projects and infrastructure (e.g. bridges, stadia, airports), rather than housing. Typically, investments in infrastructure continue, and even accelerate, during economic downturns as governments use these kinds of projects as an economic stimulus. Furthermore, many high value infrastructure projects are over multiple years and are difficult to bring to a halt during a recession. Demand is, therefore, generally expected to remain strong for protective coatings, which are sold into these two sub-segments for non-residential applications.

**Industrial**

Many parts of this end-user segment can be quite cyclical. However, domestic high growth market demand means that, on a global basis, the downturn had less of an impact than might be expected due to the recent recession. Oil, gas, energy and utilities were particularly strong and growth is expected to continue at above GDP levels going forward in all geographies. We serve this end-user segment through protective coatings and some powder coatings, both of which are strongly oriented towards the higher growth applications. As a result, we are expecting above average market sector growth in this segment.

## Strategic direction

Our vision for Performance Coatings specifically is to be the leading business-to-business coatings company. To us, leadership in business-to-business coatings means that we must have strong processes and capabilities in terms of:

- Industrial key account management
- Technical support and service
- Design, color and color matching
- Continuous innovation in terms of functionality and efficiency in use
- Sustainable and safe product and service solutions
- Product and margin management

To capture market opportunities while ensuring that we continue to have strong processes and capabilities in the above areas, we have four main strategic priorities. These strategic priorities are:

1. Given the breadth of opportunities for this Business Area, we plan to grow organically in all market sectors and countries/regions. This is likely to mean different things for different market sectors.

2. To ensure that our end-user segment focus provides true benefits on a market sector level, we will need to pursue a cross-business approach for key segments and accounts. This means that we will need to work across Powder Coatings and Specialty Finishes, for example, to provide the best solution for our customers in the domestic appliance and consumer electronics areas of the Consumer Goods end-user segment.

3. We must continue to focus our RD&I agenda on improving functionality and sustainability. In practice, this will mean focusing and prioritizing innovations that reduce the use of materials of concern, that increase the renewability of our raw materials and that help our customers to use less energy, improve their carbon footprint, increase safety and health and wellness, increase their market share and/or improve their process efficiency.

4. We will continuously improve operational excellence across all functions and businesses. This includes everything from capabilities in terms of pricing and formulation management (which are key components of product and margin management), to manufacturing and distribution network optimization, integrated business planning and purchase-to-pay processes.

## Key actions going forward

- Complete manufacturing expansion for automotive refinish in China
- Complete Schramm/SSCP integration
- Launch various new projects
- Continue product line rationalization
- Continue ERP consolidation

## 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 |
| **4th** | Automotive plastic coatings |

Industrial Coatings

| | |
|---|---|
| **1st** | **Coil and extrusion coatings** |
| | **Specialty plastics coatings** |
| **2nd** | Packaging coatings |

Powder Coatings

| | |
|---|---|
| **1st** | **Powder coatings** |

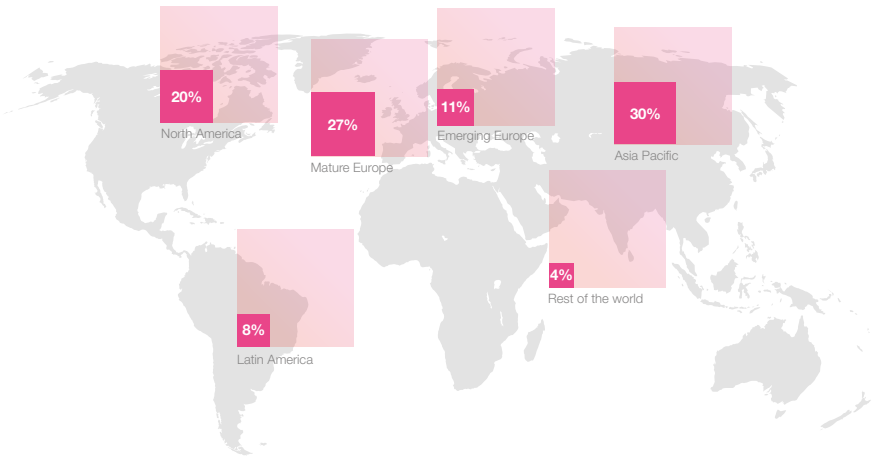
Wood Finishes and Adhesives

| | |
|---|---|
| **1st** | **Industrial wood finishes** |
| **2nd** | Industrial wood adhesives |

# Key developments 2012

- Expanded our technology partnership with McLaren Automotive to include road cars
- Schramm/SSCP acquisition integration on track
- Opened a new manufacturing facility in Vietnam
- Realigned the Business Area to four business units (from five)
- Secured multiple stadium contracts for London Olympics and future events in Brazil
- Reorganized European activities in several businesses
- Began supplying products for Shell's Prelude floating liquefied natural gas facility off the north west coast of Western Australia
- Introduced GreenCoat, a coil coating topcoat made with a bio-based solvent which is a derivative of rapeseed oil

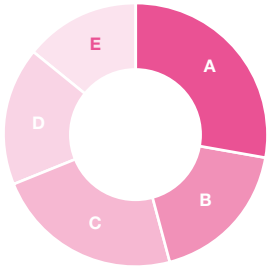
## Geo-mix revenue by destination




## **Key figures** in € millions

| | 2011 | 2012 |
|---|---|---|
| Revenue | 5,170 | 5,702 |
| EBITDA | 611 | 769 |
| EBITDA margin (in %) | 11.8 | 13.5 |
| EBIT | 495 | 638 |
| EBIT margin (in %) | 9.6 | 11.2 |
| Operating income | 458 | 542 |
| Moving average ROI (in %) | 22.0 | 25.6 |

## **Revenue breakdown by business unit** in %

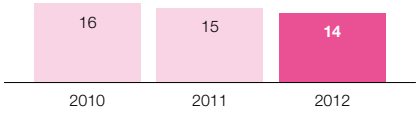



| | |
|---|---|
| A Marine and Protective Coatings | 28 |
| B Automotive and Aerospace Coatings | 18 |
| C Industrial Coatings | 23 |
| D Powder Coatings | 17 |
| E Wood Finishes and Adhesives | 14 |

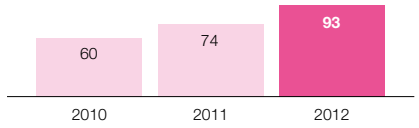
## **Employees by region** at year-end

| | 2011 | 2012 |
|---|---|---|
| North America | 3,100 | 3,100 |
| Latin America | 1,800 | 1,700 |
| Mature Europe | 7,000 | 6,700 |
| Emerging Europe | 1,100 | 1,100 |
| Asia Pacific | 8,500 | 8,100 |
| Other countries | 500 | 600 |
| **Total** | **22,000** | **21,300** |

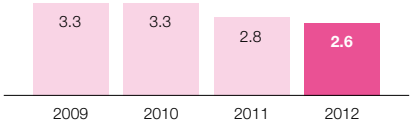
## **Eco-premium solutions** % of revenue




## **Key value chains with carbon footprint assessment**




## **Total reportable rate of injuries** per million hours



# AkzoNobel Marine and Protective Coatings

"We are more focused on the global needs of our customers"

**Rob Molenaar**
Managing Director

## Overview

We had an outstanding year, helped by the fact that we organized the business into three distinct global market segments (Marine, Protective Coatings and Yacht). By aligning ourselves in this way, we are more focused on the global needs of our customers and better equipped to anticipate the different dynamics so that we can accelerate in sectors where we see opportunities. The reorganization resulted in a significant reduction in operating expenses.

## Analysis

Most of the growth we achieved was generated by our Protective Coatings activities. The oil and gas sector was particularly strong throughout the year, due to the high level of investment being made by the major players all over the world. There was also significant demand for our Chartek fire protection coatings. Our Marine business had to cope with very difficult market conditions brought about by a dramatic decline in ship new builds, but that was offset by growth in other sectors. In Yacht, the economic recession impacted our volumes. As a result of our new global organization, we were able to generate efficiencies in manufacturing, RD&I and procurement, which in turn helped us to take a significant step forward.

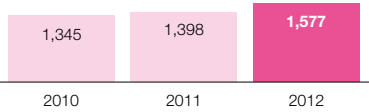
## Highlights

The performance of our Chartek range of fire protection coatings was particularly impressive as it built up considerable momentum in the marketplace. Specifically formulated to protect structural steel elements from hydrocarbon fire exposure, it is used extensively in the oil and gas industry and for high value infrastructure projects. In fact, demand has been so great that we are expanding production. Also notable was a cross-business cooperation we had with AkzoNobel Surface Chemistry. Teams of scientists worked together on developing patented technologies for a revolutionary new antifouling, which is close to being launched. We are by far the world leader in developing and supplying fouling control technology and this will be a further addition to what is already the broadest portfolio available on the market. On an organizational level, we confirmed the three HQs of our global business operations as the UK for Protective Coatings, Houston in Texas for Yacht and Singapore for Marine.

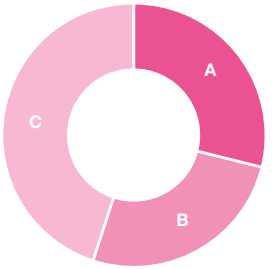
## Developments

We began supplying products for Shell's Prelude floating liquefied natural gas facility off the north west coast of Western Australia, which will be the world's largest floating LNG platform. Other major landmarks coated with our products included the Shanghai Tower – which will be the tallest building in China when completed – as well as various venues used at the 2012 Olympic Games. During the year we also made good progress in terms of safety, beating the corporate ambition level for total reportable rate of injuries. This was particularly pleasing given the attention we have paid to raising awareness and improving our all-round HSE performance.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 28 |
| **B** Americas | 26 |
| **C** Asia Pacific | 46 |

### Main products

- Marine coatings
- Yacht coatings
- Protective coatings

### Key markets

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

### Key brands

International · AWLGRIP · DEVOE · NAUTICAL · Chartek®

# AkzoNobel Automotive and Aerospace Coatings

"We successfully kept a tight control on costs while effectively managing our raw material spend"

**Jim Rees**
Managing Director

## Overview

It was a very challenging year, in Europe especially, but we achieved growth in many of our key countries and in all market segments. We focused on running a tight, efficient business in order to withstand the economic headwinds and we successfully kept a tight control on costs while effectively managing our raw material spend through value engineering.

## Analysis

The European automotive aftermarket was heavily impacted by the weak economy, with the drop in miles driven and accident and repair rates putting pressure on volumes at our vehicle refinish business. We didn't lose market share, if anything we gained slightly, but there was a major slowdown, particularly in Eastern and Mediterranean Europe. Nevertheless, we did achieve growth – albeit off a smaller base – in Turkey and Russia, as well as the Middle East and Africa. Growth also continued across Asia, although somewhat slower than in recent years, while North America was a little sluggish. Having turned in a very good 2011, our Automotive Specialty Plastics business put in another strong performance, notably in North America, where it had its best ever year in terms of growth. We effectively leveraged the business' global footprint to take advantage of a big uplift in unit builds. Aerospace, meanwhile, continued to gain momentum and achieved another record year by growing ahead of the market on some strong leading indicators in the OEM new build sector and with many of our key airline and general aviation customers.

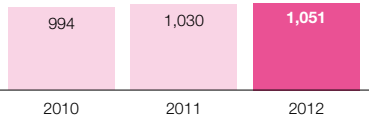
## Highlights

We maintained focus on improving our product and services offer and the introduction of our click&go technology was a significant development for our bodyshop customers. The system is made up of a special frame which holds disposable paint pouches. Ready in seconds, it allows for perfect mixing ratios, reduces waste and can be fitted directly onto a spray-gun. We also continued to invest in our ongoing efforts to digitize color. Our IT experts and color researchers have been working together to ensure that we continue to deliver perfect matches for our customers while doing away with traditional tools such as color fans. We now use sophisticated technology to digitally measure color with a system which provides all the relevant technical data, as well as the mixing formula. Another important highlight was the expansion of our technology partnership with McLaren Automotive to include road cars. It builds on the success of our existing corporate partnership as the official supplier of innovative paint solutions to the Vodafone McLaren Mercedes Formula 1™ team.

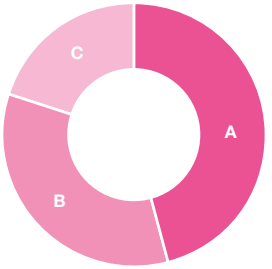
## Developments

Our stickerfix quick repair solution continued to do well and we launched a pilot internet shop for the consumer market in the Netherlands which has proved to be very successful. We expect to roll out more shops in the US and Asia Pacific in 2013. In China, we broke ground on our new plant in Changzhou, which is expected to start production in early 2014. In addition, we received bodyshop approvals from several car manufacturers, including Peugeot in Brazil and Nissan in India, while our Aerospace business launched a new Aerofine range of interior cabin coatings. We are also preparing to launch a best-in-class global ERP system across the business, which will make things more efficient for us and for our customers.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 46 |
| **B** Americas | 34 |
| **C** Asia Pacific | 20 |

### 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

aeroBASE, sikkens, DYNA COAT, aeroWAVE, WANDA, stickerfix, aeroDUR, LESONAL

# AkzoNobel Industrial Coatings

"The high growth markets now account for more than 50 percent of our business' overall revenue"

**Conrad Keijzer**
Managing Director

## Overview

We once again achieved record earnings, driven by continued revenue growth, margin improvements and cost control. Most of our revenue growth came from Asia, boosted by last year's acquisition of Schramm Holding AG and the coatings activities of Korean company SSCP.

## Analysis

This was the first full reporting year with the acquired Schramm and SSCP activities and the combined business outperformed its revenue targets, strengthened by the continued success of the Korean electronics industry. We are now supplying coatings for Samsung's Galaxy series of smartphones and have become global market leader in supplying products for mobile phones and tablet devices. Our Specialty Finishes business therefore had a strong year in Asia, as did Packaging Coatings with our market-leading retortable coatings, while our Coil Coatings activities performed particularly well in high growth markets such as Russia, Turkey and India. The high growth markets now account for more than 50 percent of our business' overall revenue. North America held up reasonably well during the year, but Europe was somewhat slower, due mainly to a sluggish automotive sector and less activity in the construction industry. We kept a tight control on costs and stepped up our efforts to introduce manufacturing efficiencies at sites around the world.

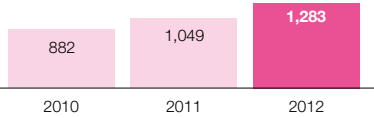
## Highlights

Several investments were made during the year as we looked to make further progress with our strategic growth ambitions. We expanded our resin capacity in Songjiang, China, with two new reactor lines and strengthened our research capability at the site's RD&I center. This will enable us to better meet local market needs as we develop specific technology for the Chinese mid-market. Expansions also took place at our Ansan and Jinyoung sites in Korea, where we develop and manufacture innovative products for the country's rapidly growing electronics industry. We also invested in our Thane facility in India to establish local manufacturing for packaging coatings, with a specific focus on coatings for food, caps and closures and the general line market in India. Safety also remained a priority during the year, while more than 140 operational eco-efficiency improvement projects are in progress across our sites.

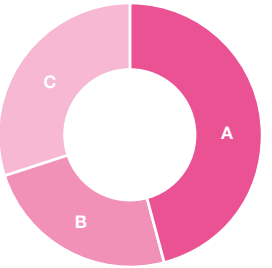
## Developments

We gained approvals from the major can makers and key brand owners for our next generation packaging coatings technology. We also developed new inks for two-piece metal cans that have a unique capability to consistently match very bright colors. This was the latest innovation to stem from the integration of the Lindgens Metal Decorating Coatings and Inks business, which we acquired in 2010. Another exciting new product is GreenCoat, a coil coating topcoat made with a bio-based solvent which is a derivative of rapeseed oil. The product was developed through a partnership with SSAB and the Federation of Swedish Farmers and several successful commercial trials have already taken place. One notable product launch which took place in 2012 was for our Evcote range of grease and moisture barrier coatings. It is used on packaging such as paper cups, French fry cartons and freezer bags and, because the technology is based on recycled PET, it means the packaging can be recycled or composted. The product was introduced on fast food packaging at the London Olympics.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 46 |
| **B** Americas | 24 |
| **C** Asia Pacific | 30 |

### 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 cans
- Consumer electronics such as cell phones and laptops
- Construction industry

### Key brands

AkzoNobel

# AkzoNobel Powder Coatings

"We grew the business in Asia more than 10 percent compared with the previous year"

**AB Ghosh**
Managing Director

## Overview

It was a good year in terms of revenue and profit generation, despite overall volumes being down. Conditions in Europe were challenging and raw material prices continued to have an impact, but a sharper focus on our target market segments ensured that we almost reached the revenue landmark of one billion euros.

## Analysis

We grew the business in Asia – more than 10 percent compared with the previous year – and gained market share. We also achieved double digit growth rates in Turkey, Russia, Egypt and India, while volumes and revenue increased in the US. Europe, as expected, was somewhat weaker than 2011 (notably in the appliance and furniture markets), but overall we grew in line with the global market. The biggest growth in segment terms came in automotive components, due mainly to the general uptake in the industry, notably in China and the US. Europe was also doing well until the second half of the year, when it started to struggle. Architectural was another solid segment with good growth, while our functional sales were strong, especially interior pipe coatings. It was a slower year in the appliance sector, partly because we made strategic moves to focus more on customers where we can add value. This was also the first full year that we were able to reap the synergies from the 2010 acquisition of the powder business of Rohm & Haas, which has significantly contributed to us almost doubling our revenue in the last three years.

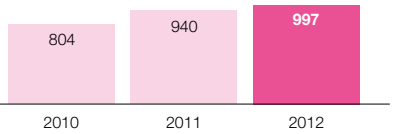
## Highlights

In order to support our growth strategy we bought out our joint ventures in South Africa and Dubai. We also authorized the construction of a new factory in Dubai, which should be ready at the end of 2013. In Italy, we streamlined our operations by switching production from Cernobbio to the more modern facilities in Como, where capacity will be increased and we will achieve cost and resource efficiency benefits. We also plan to expand the R&D facility there and create a European Powder Technology Center. Another highlight was the opening of a powder coating line at Tata's new factory in Dharwad, India. The plant has already produced more than 1,000 powder coated vehicles. We now have two powder coating lines at Tata plants for coating their Ace, Ace Zip and Iris vehicles. In addition, we opened the first dedicated Cromadex center in Ireland, which will serve industrial coatings customers in the region, while in China we signed an agreement with XingFa – one of the country's top five aluminum extrusion companies – to supply their factories in Chengdu, Yichun and Sangshui.

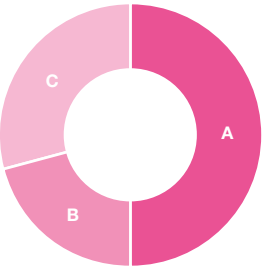
## Developments

Having launched our approach to the market for coatings for agricultural, construction and earthmoving equipment (ACE) during the last 12 months, 2012 saw us pick up several major approvals, including four for Caterpillar in Europe and our first with Japanese construction and mining equipment giant Komatsu. We now have a dedicated global product range for the entire agricultural, construction and earthmoving equipment sector, which is a huge market and is steadily moving towards powder for cost and sustainability reasons. Our coatings were also used on the athletes' village and several stadia at the London Olympics, as well as on the Shard, the tallest building in Western Europe, which was inaugurated in London in July. We also launched Interpon D2000 Brilliance, a super-durable, bright sparkling metallic powder coating for architecture, and Interpon HT, a range of heat resistance products for use on items such as barbecues and stoves.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| A EMEA | 50 |
| B Americas | 21 |
| C Asia Pacific | 29 |

### Main products

- Powder coatings

### Key markets

- ACE (agriculture, construction and earth-moving equipment)
- Architectural
- Automotive
- Domestic appliance
- Functional
- Furniture
- General industrial
- General trade coaters
- IT

### Key brands

Interpon · cromadex · RESICOAT

# AkzoNobel Wood Finishes and Adhesives

"The business environment remained tough, but it was a better year from a financial performance perspective"

**John Wolff**
Managing Director

## Overview

It was another very challenging year, with little promise for improvement from a flat global market. But by focusing hard on costs and responding to the difficult trading conditions, we were able to protect our market share and improve our overall business results.

## Analysis

After two very challenging years, the business environment remained tough, but it was a better year from a financial performance perspective. We were encouraged by the slow but steady improvement in US housing starts during the course of the year, which is one of the key drivers of our business. Underlying demand increased and the trend line in North America finally started moving in the right direction. Asia was essentially flat, but we were able to right-size the business to improve financial performance and allow us to more directly focus on our growth agenda. Volumes declined in Europe, partly because several large customers reduced manufacturing activities in line with reduced demand from a sluggish economy. There was some volume growth, notably in Russia and Turkey, but Europe remained a very uncertain market. Despite these unfavorable conditions, we effectively responded to the challenges we faced by managing our costs, strengthening our product mix and capturing synergies across the business to improve our results.

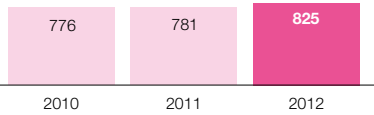
## Highlights

We officially opened our new Vietnam site in June. The plant, in Amata near Ho Chi Minh City, includes a new color studio, which will serve the export and domestic markets for wood furniture, flooring and cabinetry and provide a base for support to our customers in other countries in South East Asia. We also invested in our site in Dongguan, China, where a new lab for product and styling development was commissioned. These investments are very much in line with our strategic plan to align our business for growth in key high growth markets. They also emphasize our commitment to become strategic partners to our large OEM customers, such as the big furniture manufacturers in China and Vietnam. Supplying smaller custom workshops is also fundamental to our strategy and we are working hard to increase our industrial distribution channels around the world to better service these customers and grow our share in this segment. Another key development took place in Europe, where we integrated our adhesives and coatings activities under one management team to better drive performance and realign the business to what we anticipate will be the new norm once Europe settles down.

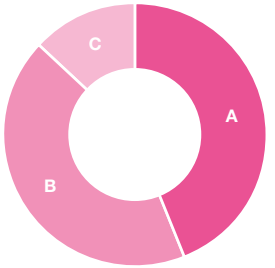
## Developments

One of the real growth areas we have identified is in flat line (or flat pack) furniture. These are products the consumer purchases in a box and assembles themselves. We continue to invest in technology and styling developments focused on creating new products for this market. Consumers are increasingly demanding more sustainable end products, which in turn dictates our product offering. This includes coatings and adhesives with lower VOC, reduced $CO_2$ emissions and reduced use of hazardous materials. The market has responded favorably to a new line of sustainable products we launched in North America as part of our Chemcraft brand. Airguard includes both GREENGUARD certified and formaldehyde-free finishes which provide sustainable alternatives for office furniture and kitchen cabinets. A number of new eco-premium adhesives were also introduced, which helped our customers achieve their sustainability objectives.

**Revenue** in € millions




**Geo-mix revenue by destination** in %




| | |
|---|---|
| **A** EMEA | 44 |
| **B** Americas | 43 |
| **C** Asia Pacific | 13 |

### Main products

- Wood coatings
- Wood adhesives and board resins

### Key markets

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

### Key brands

AkzoNobel, sikkens, ICLA, ZWEIHORN, Chemcraft

**Restoring former glories**

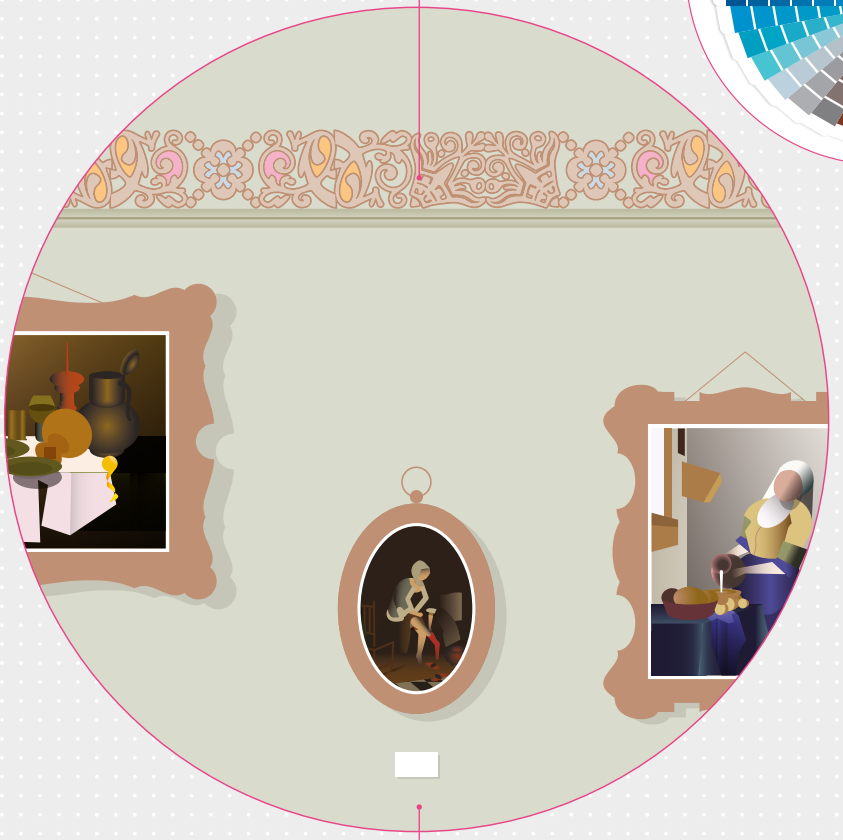
When a world famous museum housing priceless works of art undergoes a major restoration, it goes without saying that every single nuance of every last detail has to be perfect. Such is the case at Amsterdam's Rijskmuseum in the Netherlands, home to prized paintings including Rembrandt's stunning The Nightwatch.

Designed by architect Pierrre Cuypers, the original building opened in 1885, but after more than a century of intensive use, it required a radical makeover. Work on a ten-year program of improvements began in 2004, with the new-look museum fully opening its doors again in April 2013. During that time, extensive remodeling and restoration has taken place, all designed to faithfully restore the building and make it fit for modern-day demands.

Head architects for the €375 million renovation were Antonio Cruz and Antonio Ortiz. Together with designer Jean-Michel Wilmotte (famous for the interior of Musée du Louvre), they worked with Dutch conservation studio SRAL to compose a palette of colors that closely matched those originally selected by Cuypers. They also selected a new palette of colors for all the other walls and ceilings. To create all of these, they turned to AkzoNobel's Sikkens brand, which is backed by more than two centuries of experience and expertise.

After analyzing samples of the original paintwork, color matching experts at Sikkens reproduced more than 60 of the authentic 1885 colors, along with eight brand new colors, and the main building's wall and ceiling decorations have now been returned to their former glory. AkzoNobel, through its Sikkens brand, also became the official supplier of all paint and decorative products used for the Rijksmuseum renovation, with more than 8,000 liters having been used throughout the building, both inside and out.

Sikkens reproduced more than 60 of the authentic colors from 1885



**8,000** liters

8,000 liters of paint have been used throughout the building, both inside and out

# AkzoNobel Decorative Paints

## "We continued to right-size, reduce complexity and simplify our global operations"

**Tex Gunning**
Member of the Board of Management and the Executive Committee member responsible for Decorative Paints

Although 2012 was a year in which we faced challenges in markets across the world, our Decorative Paints business continued to make excellent progress on its journey to becoming a global business with a global mission, strategy, organization, brands, systems and processes.

Conditions were particularly tough in Europe, but other regions also experienced declining markets brought about by ongoing economic instability. Latin America, for example, had to deal with weakening currencies and high inflation, while there was also a downturn in Vietnam, reflecting the more general slowdown across much of Asia. China continued to do well, however, as did India, and we remain confident that we will continue to benefit from our strategic investments in high growth markets.

The mature markets are likely to remain challenging, which is why we have been paying close attention to our European activities for some time. The final phase of a major organizational change took place during the year when we restructured our operations in Europe to create four customer-facing units, which are supported by global functions. This will help us to focus on building our brands, increase market penetration and enable us to better use our scale to become more competitive and cost effective.

It was also the year when we decided that the time was right to divest our North American activities. We've been improving the business for several years in order to create the right value and put in place the right brands and customers. But given the market realities we face, we made a strategic decision to focus AkzoNobel's Decorative Paints business on key markets in Europe and the strong positions we have in high growth regions. I'm pleased that we were able to find the right buyer in PPG Industries, Inc., who are well placed to take the North American business forward.

It was a major geographical portfolio choice which will help to shape our business as we continued to right-size, reduce complexity and simplify our global operations through various ongoing programs and initiatives. All of these projects moved forward during 2012, despite markets not being in our favor. Our brand mission in particular gathered momentum through the global Let's Colour campaign, while the global brand identity roll-out and product portfolio rationalization made good progress. An exciting innovation roadmap has also been developed for every region and our commitment to investing in our people, brands and capabilities remains as strong as ever.

We realize that market conditions are likely to remain challenging, particularly in Europe, but we are strengthening our relative market share positions and have developed an effective organizational model which will allow us to make full use of our scale while continuing to inspire consumers to live more colorful lives.

# Decorative paints market overview

## End-user segment and market sector analysis

The decorative paints market is roughly 45 percent of the €75 billion global paints and coatings market. Decorative Paints differs from our other Business Areas in that all revenues come from just one end-user segment – Buildings and Infrastructure. All revenues also come from only two of the three sub-segments – New build projects, and Maintenance, renovation and repair.

### Buildings and Infrastructure

All three sub-segments of the Buildings and Infrastructure end-user segment were negatively affected by the recent economic slump. This was due not only to normal economic cycles, but also resulted from the global boom within the Buildings and Infrastructure sector prior to the recession. The crisis prompted both a normal cyclical downturn and a massive global correction in property and property-related markets. For our Decorative Paints Business Area, the Maintenance, renovation and repair sub-segment is more important than the New build projects sub-segment. This is positive news in terms of the relevant market growth for our business, as the recovery in New build projects has been even weaker than in Maintenance, renovation and repair. Taking each of the sub-segments in turn:

#### Maintenance, renovation and repair

For the important residential component of this sub-segment, the market is strongly correlated to house moves, as people often renovate both before and after moving home. House moves are, in turn, related to house sales, which are connected to factors such as mortgage availability and general consumer confidence. Due to the recent recession, issues involving the housing market have been considerable and some geographic regions have yet to recover. We are seeing signs of a recovery in North America, but given the divestment of our North American Decorative Paints business to PPG Industries, Inc., we are expecting modest growth in this sub-segment. This modest recovery is reflected in the outlook for our Business Area, as is the buoyant forecast for this sub-segment in high growth markets. In these regions, growth reflects both the underlying general economic outlook and an emerging cultural shift towards maintenance and renovation. It is also worth noting that, for Decorative Paints, while residential markets have been badly affected by the recession, the impact on commmercial and infrastructure markets has been somewhat different. Commercial markets experienced a negative impact, but often late in the cycle, as this market takes longer to adjust than the residential sector. The Infrastructure market (for example, airports, stadia, railway stations) is often somewhat counter-cyclical, as governments invest to support economic development. The outlook for these markets also assumes modest growth going forward.

#### New build projects

Although the vast majority of our revenues in Decorative Paints come from the Maintenance, renovation and repair sub-segment, this sub-segment represents a significant proportion of the Business Area. This is important because the New build projects end-user sub-segment has been badly affected by the recent recession. Some question whether a full recovery is underway, particularly in the residential component of the sub-segment, with analysts forecasting flat growth at best, evidenced by projections for residential housing units completion. The outlook for non-residential sections of this market is better, but only in high growth markets.

## Strategic direction

The vision for our Decorative Paints Business Area is to be the leading decorative paints company globally by inspiring consumers and customers around the world to transform dull grey spaces into colorful environments, lifting people's spirits and satisfying their need for constant renewal.

Achieving this will require us to have strong processes and capabilities in terms of:

- Branding
- Distribution, wholesale retail management
- Understanding and serving professional painters
- Consumer inspiration
- Quality management, including product portfolio management

We have five strategic priorities for the Decorative Paints Business Area. These are:

1. We will continue to restructure and grow market share in Europe. Since the ICI acquistion in 2008, we have extensively restructured our Decorative Paints business in Europe, both to capture synergies and to adjust our business model to reflect difficult market conditions. Given the very modest growth outlook, we must continue to restructure, but also need to ensure that we build our market share for the future.

2. We will continue to grow our market share in the high growth markets of China, India, South East Asia and Latin America. We have been building aggressively in all aspects of our business, from manufacturing, to distribution, to

sales force, to advertising and promotion and our market share is increasing as a result. We will accelerate this drive going forward.

**3.** To support our continued transformation from multi-local to global – allowing us to benefit from our global scale – we will continue to build people, brands and competencies. We made a substantial step forward with the global roll-out of our Let's Colour flourish, but there is still more to do.

**4.** In line with the company's sustainability strategy, we will continue to reduce resource intensity across the full decorative paints value chain, incorporating suppliers, our own operations, customers, consumers and end-of-life. It is essential that we take a broad view in decorative paints, where resource intensity challenges/opportunities lie mostly outside our own operations.

**5.** As part of the multi-local to global transformation, we need to build a collaborative, interdependent culture within the Business Area. We have made great strides in this respect, based on our leadership journey approach.

### Key actions going forward

- Manufacturing capacity expansion in China and India
- Expand market presence in emerging Europe and the Middle East
- Complete the divestment of the North American business
- Launch new products for high growth markets
- Deliver on European realignment of the organization

### Key raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

### Price drivers

- Energy, oil and raw material prices
- Steel prices

### Market leadership positions

Decorative Paints Europe

| | |
|---|---|
| **1st** | **Continental Europe** |
| | **Northern and Eastern Europe** |
| | **UK, Ireland and South Africa** |

Decorative Paints Latin America

| | |
|---|---|
| **2nd** | Latin America |

Decorative Paints Asia

| | |
|---|---|
| **1st** | **South East Asia and Pacific** |
| **2nd** | China and North Asia |
| **3rd** | India and South Asia |

# Key developments 2012

- Announced the divestment of the North American business to PPG Industries, Inc.
- Launched the Dulux Let's Colour flourish brand globally, along with a worldwide campaign to inspire customers
- Expanded our stores network in China and India
- Realigned and resturctured our European business
- In Latin America, the Tudo de Cor Para Você program (All the Colors For You) continued to be successful
- Modernized our retail Dulux Decorator Centers in India

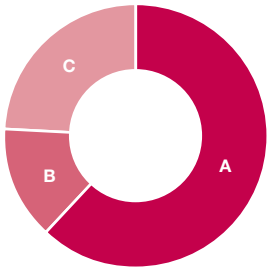
**Key figures** in € millions

| | 2011 | 2012 |
|---|---|---|
| Revenue | 4,201 | 4,297 |
| EBITDA | 479 | 425 |
| EBITDA margin (in %) | 11.4 | 9.9 |
| EBIT | 327 | 249 |
| EBIT margin (in %) | 7.8 | 5.8 |
| Operating income | 235 | (2,012) |
| Moving average ROI (in %) | 5.9 | 4.8 |

**Employees by region** at year-end

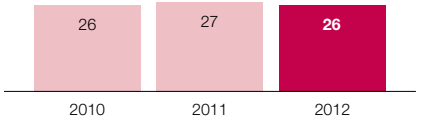
| | 2011 | 2012 |
|---|---|---|
| Latin America | 1,800 | 1,800 |
| Mature Europe | 8,600 | 8,400 |
| Emerging Europe | 1,500 | 1,400 |
| Asia Pacific | 4,200 | 4,500 |
| Other countries | 1,000 | 900 |
| **Total** | **17,100** | **17,000** |

**Revenue breakdown by business unit**
in %

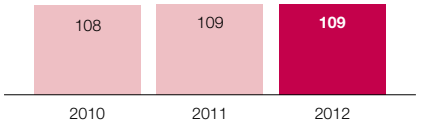



| | |
|---|---|
| **A** Decorative Paints Europe | 61 |
| **B** Decorative Paints Latin America | 14 |
| **C** Decorative Paints Asia | 25 |

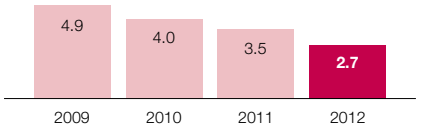
**Eco-premium solutions**
% of revenue



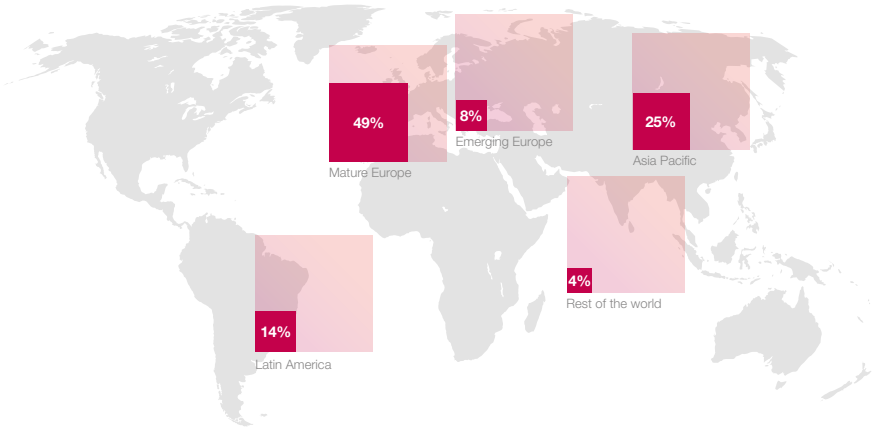

**Key value chains with carbon footprint assessment**




**Total reportable rate of injuries**
per million hours




**Geo-mix revenue by destination**



# AkzoNobel Decorative Paints Europe

From left to right:

**Jan Piet van Kesteren**
Regional Director Eastern Europe and Africa

**Kees Ekelmans**
Regional Director Western Europe

**Peter van Campen**
Regional Director Southern Europe

**Guy Williams**
Regional Director Northern Europe

## Overview

Overall, 2012 was another challenging year for the business in the EMEA region. The slowdown in markets we identified in the fourth quarter of the previous year materialized as expected. Volumes were under pressure across Europe, mainly due to low consumer confidence and austerity measures starting to impact. Costs in general were well controlled, supported by the company's performance improvement program.

## Analysis

Despite declining volumes in most mature markets, our revenues in those sectors were mostly flat or slightly up on the back of pricing activities and targeted market share gains. We experienced substantial raw material and packaging inflation, offset by price initiatives during the year. Key growth markets such as Russia and South Africa showed accelerated growth, although sales in Turkey were impacted by a significant slowdown and de-stocking by wholesalers. The UK and Tunisia contributed positively to our results, but sales in southern Europe were hit particularly hard, due to very poor economic conditions and the euro crisis. There was also a trend of down-trading evident in the markets.

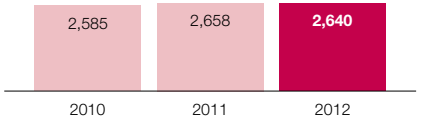
## Highlights

We were focused on building our brands throughout the region during the year. A notable highlight was the launch of the consumer flourish brand in various countries across Europe and Africa, which supported our efforts to build a global, powerful identity with brands such as Dulux, Levis, Bruguer, Flexa and Marshall. This included successful Let's Colour projects in Belgium, the Netherlands, Poland and Ireland. Our professional brands also achieved a number of successes, such as the launch of the Sikkens Hotel and Leisure concept. This aims to develop and communicate a specific proposition for property owners and maintenance managers. We also launched Dulux Trade Pyroshield Durable Eggshell, which reduces the spread of flame along interior walls, allowing occupants more time to escape in case of fire.

## Developments

In order to further improve our customer focus, we have set up four customer-facing units, as well as a European supply chain organization which will drive efficiency, operational excellence and increase our focus on health, safety and the environment. A lot of activity associated with the company's performance improvement program also took place throughout the year and they brought about some significant benefits. A project targeting working capital reduction was particularly successful, leading to significant improvement in stock level management, as well as an eventual reduction in external warehousing costs. We also initiated several other projects, which included streamlining production and our marketing organization. Among many efficiency improvements, we introduced a reduction in batch cycle time at the Gebze plant in Turkey and increased productivity and waste reduction at Mégrine in Tunisia. In addition, we've been busy making our operations more sustainable and cost efficient. For example, in Italy, our Castelletto site needed a new roof so we took the opportunity to install 200 kilowatts of solar cells. It's the first site within the whole company to be using solar cells on such a large scale and they now supply 15 percent of the plant's total annual energy consumption. Meanwhile, in the Netherlands, we built a new 13,000 m² logistics center which complies with strict environmental standards.

**Revenue** in € millions




**Key brands**

Bruguer · Dulux · Flexa · Marshall · Sadolin · Levis · Herbol · sikkens · Nordsjö

# AkzoNobel Decorative Paints Americas

From left to right:

**Bob Taylor**
Managing Director
North America

**Jaap Kuiper**
Managing Director
Latin America

## Overview

Challenging market conditions throughout the Americas affected our overall financial performance during the year. But by implementing new growth programs, aggressive cost management and introducing various improvement initiatives we were able to partly mitigate the adverse impact as we prepared the business for renewed growth. In North America, the effort resulted in sales and profit increases for the year.

## Analysis

The economy grew less than projected in Latin America, in contrast to 2011, when the area was more resistant to the slowdown. Argentina was hit particularly hard while Brazil was more or less flat, with the paint market throughout the region remaining sluggish at best. The strong US dollar also had a negative effect. In North America, we combined our activities in the US and Canada into one business. After a difficult first quarter, our performance in the US grew stronger as the year progressed, largely due to intensive efforts to structurally improve the business. This included complexity reduction programs and a keen focus on margin management. In Canada, where we hold the number one position, we achieved market share growth and strengthened our brand portfolio. New growth opportunities were also identified, as well as excellent potential to benefit from cost synergies. During the year, we began implementing a standard ERP system at sites throughout the Americas, a major program which had an associated cost impact. Meanwhile, the continued rationalization of our manufacturing footprint included closing our Rio de Janeiro warehouse, a manufacturing facility in Pontiac, Michigan, and preparing the sale of our Raposo Tavares site in São Paulo.

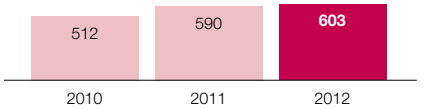
## Highlights

We announced the divestment of our North American business to PPG Industries, Inc., in order to allow the company to focus on key markets in Europe and high growth regions. In Latin America, the Tudo de Cor Para Você program (All the Colors For You), continued its success. The initiative, part of our Let's Colour campaign, involves painting deprived neighborhoods. More than 1,000 events run by customers in Brazil have now taken place. This is helping to boost sales of our Coral brand, as well as building brand equity. Coral also launched a new product concept called 3 in 1 which has multiple benefits for the consumer. In addition, an entire favela of 1,500 dwellings (Santa Marta in Rio de Janeiro), is being painted with Coral products by members of the community who have been given special training. In Canada, we opened a new R&D center in Longueuil and a state-of-the-art distribution center in Toronto, while the Sico brand marked its 75th anniversary and Glidden celebrated 55 years in Puerto Rico.

## Developments

We received a number of awards during the year, including the coveted Walmart sustainability award, Supplier of the Year from The Home Depot, Canada, and five important "best buy" designations for Glidden. It was a relatively busy year for product launches, notably CIL Premium and CIL DUO in Canada, the Flood brand's OneCoat waterproofing finish and Glidden DUO Paint + Primer. We also introduced the Glidden on the go mobile app for smartphones, which means selecting the perfect color and paint is now just a tap away. In Latin America, former tennis star Gustavo Kuerten helped to promote the Coral brand's premium Decora range in Brazil. We used life-size displays of him in over 700 stores and sold 15 percent more of the product in these outlets.

**Revenue*** in € millions




*Excludes North American revenues

**Key brands**

Coral
Dulux
CIL
sikkens
Sparlack
DEVOE HIGH PERFORMANCE COATINGS
LIQUID NAILS

# AkzoNobel Decorative Paints Asia

From left to right:

**Jeremy Rowe**
Managing Director
South East Asia
and Pacific

**Amit Jain**
Managing Director
India and South Asia

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

## Overview

Our Asian business experienced mixed fortunes as market conditions fluctuated between the regions. China posted record profits despite difficult market conditions, while India and South Asia also had a strong year, but the situation was more challenging in South East Asia and Pacific (SEAP). Overall, we made good progress, with the company's performance improvement program helping to generate significant savings.

## Analysis

To combat the slower economic growth in China, we tightened our cost control and made a number of strategic investments in several areas, including the redecoration market and our mass market product range. This helped to give us some momentum as we achieved significant market share growth and improved overall profitability. In India and South Asia, the business continued to outpace the market, despite subdued trading conditions, particularly in the highly competitive professional segment. Sri Lanka continued to do well with a market share of more than 40 percent. This performance in India and South Asia was led by multiple initiatives, including a 30 percent capacity expansion, productivity improvements and innovative product launches. Strong profitability was also achieved in SEAP, despite challenging market conditions, especially in Vietnam, where a prolonged economic and construction downturn continued. However, Thailand bounced back after last year's floods, while our mass market Dulux offerings continued to grow strongly across the region.

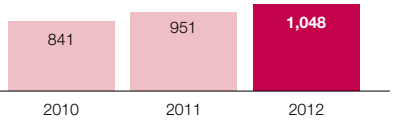
## Highlights

In China, we opened a number of new stores and strengthened our e-commerce to help increase coverage in the mass distribution channel. We also grew our project channel business by more than 30 percent and launched a campaign to motivate Chinese consumers to redecorate. In line with this, we doubled the size of our Easy Paint Service business, which provides reliable and trained painters to consumers. All AkzoNobel's offices in Shanghai were consolidated into one, eco-certified building, housing up to 700 employees. We also established a regional HQ in Singapore, bringing together a number of AkzoNobel businesses under one roof. The eco-certified building consolidates our RD&I expertise and provides a base for our new global exterior walls expertise group. In India, we modernized our retail Dulux Decorator Centers and grew well ahead of the competition. We also entered the fast-growing interior regions by expanding our distribution footprint. Our latest loyalty program for contractors – Dulux Colour Guru – leverages mobile technology platforms to build a community of Dulux ambassadors.

## Developments

In China, we further strengthened our well-being portfolio with the launch of a full non-additive product range. We also activated our Let's Colour campaign to bring color to disadvantaged communities. Our India and South Asia business won an award for Best Talent Management Organization 2012 at the World HRD Congress. This was welcome recognition and a testimony to the investments being made to grow the capability and skills of our employees. Good progress was also made to reduce waste generation, while the business' overall $CO_2$ emissions fell 7 percent. Dulux was recognized as the most preferred paint brand by Franchise India, while notable product launches in SEAP included the next generation of our market-leading Weathershield exteriors offering in Indonesia and Vietnam, and our Inspire interior paints for the mass market across the region. In Singapore, Dulux was awarded Superbrand status as the leading decorative paints brand.

**Revenue** in € millions




**Key brands**

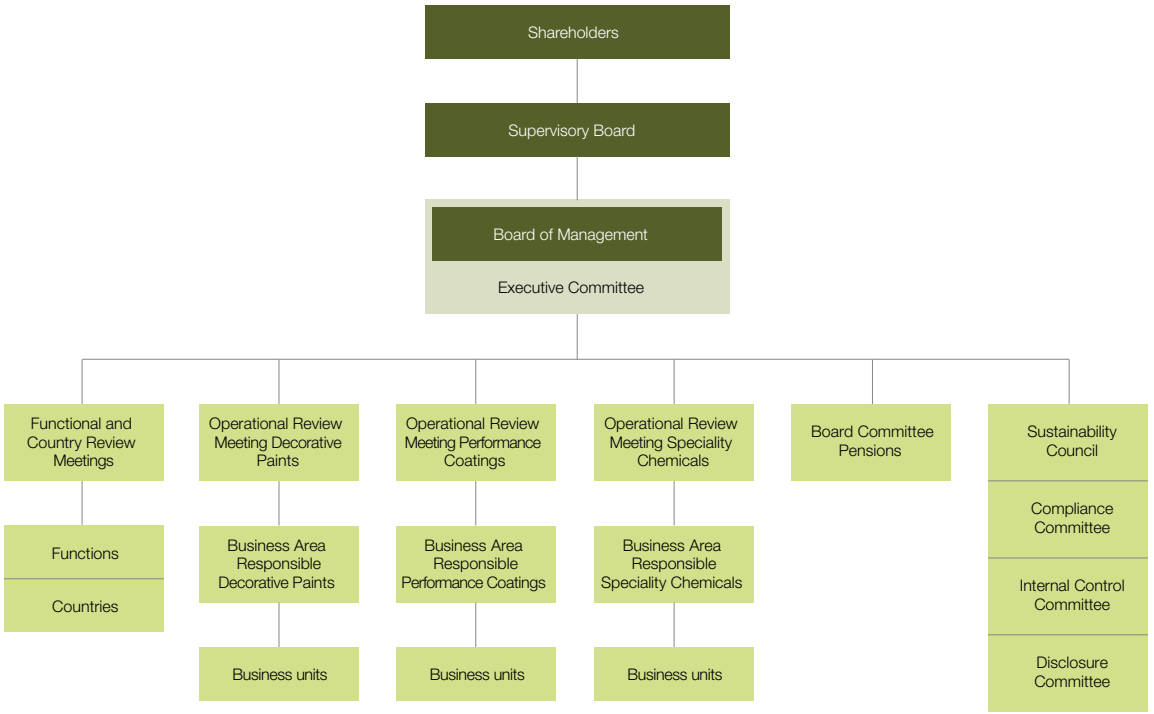
Dulux 多乐士 Glaxo

# Governance and compliance

In this section, we outline our corporate governance structure and explain the remuneration of our Board of Management. Information about compliance and integrity management and AkzoNobel on the capital markets is also included.


| | |
|---|---|
| Corporate governance statement | 82 |
| Remuneration report | 90 |
| Compliance and integrity management | 98 |
| AkzoNobel on the capital markets | 102 |

# Corporate governance statement




### Major external regulations

- Dutch Civil Code
- Dutch Act on financial supervision and other applicable securities laws
- NYSE Euronext Amsterdam listing rules
- Dutch Corporate Governance Code

### Major internal regulations

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

AkzoNobel aspires to high standards of corporate governance. Over the last decade, we have sought to consistently enhance and improve our corporate governance standards and framework, emphasizing transparency, in accordance with applicable laws and regulations. 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 Supervisory Board supervises the Board of Management and ensures that external experience and knowledge are embedded in the company's conduct. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders (AGM) for the performance of their functions.

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. AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US.

Our corporate governance framework is based on the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code adopted in 2003 and amended in 2008 (the Code), applicable securities laws, 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, such as the Code of Conduct and the Share Dealing Code. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations, including a complaints procedure. To safeguard consistency and coherence for the total organization, the Executive Committee has established corporate directives which provide a set of mandatory internal rules and regulations that must be adhered to.

The company's Articles of Association were most recently amended and adopted at the 2012 AGM, inter alia to comply with changes in Dutch legislation (the Securities Giro Act (Wet giraal effectenverkeer) and the Act on Management and Supervision (Wet bestuur en toezicht)).

The Supervisory Board confirms that throughout the year, the company has complied with the Code. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code – currently the company deviates from the Code's provisions III.3.5 and IV.1.1 – are explained in accordance with the Code's "apply or explain" principle. With the exception of those aspects of our governance structure which can only be amended with the approval of the AGM, 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 interests of the company. If adjustments are made, they will be published and reported in the annual report for the relevant year.

## Board of Management and Executive Committee

### General

The Board of Management is entrusted with the management of the company. As of January 1, 2011, the Board of Management operates in the context of an Executive Committee. The Executive Committee comprises the members of the Board of Management, business leaders and leaders with functional expertise, allowing both the functions and the Business Areas to be represented at the highest level in the company. The functions currently represented in the Executive Committee are HR and Organizational Development, Research, Development and Innovation, Legal, and Supply Chain/Sourcing (including Sustainability and Health, Safety, Environment and Security).

In performing its duties, the Executive Committee is guided by the interests of the company and its affiliated enterprises, 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.

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 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 AGM. The Executive Committee members who are not also a member of the Board of Management report to the Chief Executive Officer (CEO).

The CEO leads the Executive Committee in its overall management of the company to achieve its performance goals and objectives. 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 activities into three Business Areas: Decorative Paints, Performance Coatings and Specialty Chemicals. Each Business Area is represented by a responsible member of the Executive Committee. To manage our business in a more operational way, in 2012 we introduced a new Operational Control Cycle. For each Business Area, there is an Operational Review Meeting which provides a forum for a more in-depth operational discussion on subjects relevant to the Business Area. In addition, a Functional and Country Review Meeting has been introduced to review upcoming proposals and progress on the respective functional agendas.

The Managing Directors of our business units, the Country Directors 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.

The Board Committee Pensions, chaired by the CFO, oversees the general pension policies (to be) implemented in the various pension plans of the company.

The company has 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 sustainability performance. The council is chaired by the CEO and includes Executive Committee members, business unit Managing Directors and Directors of Strategy, Sustainability/

Health Safety Environment and Security, Sourcing and Communications. Progress regarding sustainability objectives, development, target setting and implementation is reviewed quarterly by the Executive Committee and semi-annually by the Supervisory Board, and is verified annually by the external auditor. Our sustainability framework is further explained in the Sustainability statements section.

The company has a Compliance Committee to support the Executive Committee with its responsibility in assuring and managing compliance, and reporting to the Supervisory Board. The Compliance Committee systematically identifies material compliance risks, assists in assurance of compliance with laws, regulations and ethical standards, monitors compliance and reports findings and recommendations to the Executive Committee. The Compliance Committee consists of the General Counsel (chair), Corporate Secretary and Corporate Directors of Internal Audit, Corporate Control, Compliance and Human Resources. Our compliance and integrity management system is explained in more detail in the Compliance and integrity management chapter.

**Authority schedule**
To reflect the Operational Control Cycle, the internal authority schedule was amended in 2012. The authority of the Supervisory Board, Executive Committee, Operational Review Meetings, Business Area responsibles and the Board Committee Pensions is laid down in the revised internal authority schedule, in accordance with the Articles of Association of the company.

**Rules of Procedure for the Board of Management and the Executive Committee**
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 have been reviewed and approved by the Supervisory Board and are available on our corporate website.

Representative authority, including the signing of documents, is vested in at least two members of the Board of Management jointly. The Board of Management has appointed corporate agents, including members of the Executive Committee who are not also members of the Board of Management. The list of authorized signatories is publicly available.

**Appointment**
Board of Management members are appointed to, and removed from, office by the AGM. The other members of the Executive Committee are appointed by the CEO subject to the approval of the Supervisory Board.

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.

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 AGM 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 89. 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 that meet the requirements laid down in the Articles of Association are also entitled to nominate Supervisory Board or Board of Management members for appointment. 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.

Board of Management appointments 2012:

- Mr. Nichols was reappointed as a member of the Board of Management for a four-year term
- Mr. Darner was reappointed as a member of the Board of Management for a two-year term

Mr. Wijers and Mr. Frohn stepped down as members of the Board of Management effective April 23, 2012, and May 1, 2012, respectively. As per the latter date, the Board of Management consists of four members. As from the 2013 AGM, when Mr. Darner and Mr. Gunning will step down, the Board of Management will consist of two members.

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) and the Act on Management and Supervision, 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 such supervisory board membership or non-executive directorship in order to allow them to prepare for retirement, provided that 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, which authority has been delegated to the Chairman of the Supervisory Board. With respect to the members of the Board of Management, it is noted that Mr. Gunning is a member of the supervisory boards of Royal Friesland Campina N.V. and TNT Express N.V. In 2012, the Board of Management was not composed of at least 30 percent female members as set out in the Act on Management and Supervision that came into force on January 1, 2013. In the event that candidates for new appointments to the Board of Management must be selected, the Supervisory Board will duly consider the relevant diversity standards and requirements for an internationally operating listed company.

**Conflict of interest**

The handling of (potential) conflicts of interest between the company and members of the Board of Management is governed by the Articles of Association and by the Rules of Procedure for the Board of Management and Executive Committee. A member of the Board of Management and the other members of the Executive Committee shall not participate in the discussions and decision-making on a subject or transaction in relation to which he has a conflict of interest with the company. Decisions to enter into transactions under which Board of Management and other Executive Committee members have conflicts of interest that are of material significance to the company, and to the relevant Board of Management or Executive Committee member, require the approval of the Supervisory Board. Any such decisions involving members of the Board of Management will be recorded in the annual report for the relevant year, with reference to the conflict of interests and a declaration that the relevant best practice provisions of the Code have been complied with. In 2012, no transactions were reported under which a member of the Board of Management had a conflict of interest that was of material significance to the company.

**Remuneration**

In line with the remuneration policy adopted by the AGM, 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 also decides on the remuneration of the other 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 21). The contracts of the members of the Board of Management do not contain change of control provisions and are compliant with the Code. The main elements of the contracts of Board of Management members are available on our corporate website.

## 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 oversee 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.

**Composition**

The Supervisory Board endorses the principle that 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 and carrying out its duties properly. The Supervisory Board – which currently consists of nine 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 list of current Supervisory Board members, including their biographies, is given in the Our Supervisory Board chapter, in the Our leadership section.

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 Code, which ensures that its composition better reflects both society at large and the markets in which the company operates. The Supervisory Board understands that the current gender balance does not meet the requisite minimum of 30 percent female representation, as set out in the Act on Management and Supervision. However, when nominating and selecting new candidates for the Supervisory Board in the future, these requirements will be taken into account.

**Rules of Procedure of the Supervisory Board**
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.

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 and Executive Committee. He also initiates the evaluation of the functioning of the Supervisory Board and its committees, its individual members, and the functioning of the Board of Management. He additionally chairs the AGM. The Chairman of the Supervisory Board is Mr. Vuursteen.

The Supervisory Board is assisted by the Corporate Secretary. All members have access to the advice and services of the Corporate 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.

Resolutions of the Supervisory Board must be adopted by absolute majority of the votes cast. The Chairman, or in his absence the Deputy Chairman, shall cast the deciding vote in the event of a tie.

**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. As a general rule, based on a rotation schedule (available on our corporate website), a Supervisory Board member's tenure is four years. In principle, members are eligible for re-election twice, each time for a period not exceeding 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.

Board appointments 2012 (all for four-year terms):

- Mr. Van den Brink was reappointed as a member of the Supervisory Board
- Sir Peter Ellwood was reappointed as a member of the Supervisory Board
- Ms. Baldauf was appointed as a member of the Supervisory Board
- Mr. Verwaayen was appointed as a member of the Supervisory Board

In 2013, no appointments or re-appointments to the Supervisory Board are currently scheduled to be proposed to the AGM. However, the Supervisory Board would like to state that future (re)appointments will be in accordance with the provisions of the Act on Management and Supervision that limits the number of supervisory board positions that supervisory directors may hold. The Supervisory Board will also seek to avoid a situation in which reappointments occur simultaneously, while further taking into account the Supervisory Board's succession planning.

**Induction and training**
Following appointment to the Supervisory Board, members receive a comprehensive induction tailored to their individual needs. This includes a documentation package containing relevant information on the company and its corporate governance and compliance systems, as well as meetings with senior management. This enables them to build up an understanding of AkzoNobel's businesses and strategy, and the key risks and issues the company faces. Throughout the year, regular updates on legal matters, corporate governance, accounting, investor relations and compliance are provided to the Super-visory Board.

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

**Conflict of interest**
The Articles of Association and 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. A member of the Supervisory Board shall not participate in the discussions and decision-making on a subject or transaction in relation to which he/she has a conflict of interest with the company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the company, and to the relevant Supervisory Board member, require the approval of the Supervisory Board. Any such decisions will be recorded in the annual report for the relevant year, with reference to the conflict of interests and a declaration that the relevant best practice provisions of the Code have been

complied with. In 2012, 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 AGM. More information on the remuneration of the members of the Supervisory Board can be found in Note 21 to 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 committee members' attendances in 2012 are shown in the Report of the Supervisory Board.

**Audit Committee**
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 other members – Mr. Hughes, Mrs. Bruzelius and Sir Peter Ellwood – all of whom have accounting and financial management expertise. Sir Peter Ellwood became a member of the Audit Committee on May 1, 2012. As a rule, the CEO, CFO, Corporate Director Control, Corporate Director Internal Audit and the lead partner of the external auditor, KPMG, attend all regular meetings. After every Audit Committee meeting, members hold a separate meeting with only the internal auditor present, and a separate meeting with only the external auditor present. Other members of management attend as and when requested. The General Counsel reports to the Audit Committee on compliance related matters at every regular meeting of the committee. The chairman of the Audit Committee initiates the evaluation of the functioning of the Audit Committee and its individual members, without the Board of Management being present.

**Nomination Committee**
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 and 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. Ms. Baldauf, Mr. Verwaayen and Mr. Burgmans are the other members of the Nomination Committee.

**Remuneration Committee**
The Remuneration Committee is responsible for making proposals to the Supervisory Board on the remuneration policy for the Board of Management, for overseeing the remuneration of its individual members and the remaining members of the Executive Committee and for overseeing the remuneration schemes for AkzoNobel executives involving the company's shares. The committee conducts the periodic review of the performance of the members of the Board of Management and the Executive Committee. The committee also reviews the remuneration package of the members of the Supervisory Board and prepares proposals for adjustments if necessary. The Remuneration Committee consists of four members and is chaired by Mr. Burgmans. Ms. Baldauf, Mr. Verwaayen and Mr. Vuursteen are the other members of the committee.

Baroness Bottomley stepped down as a Supervisory Board member of the company, and as a member of the Nomination and Remuneration Committees, after the 2012 AGM. Sir Peter Ellwood stepped down as a member of the Nomination and Remuneration Committees on May 1, 2012. Ms. Baldauf and Mr. Verwaayen replaced them.

Further information on the work of the committees is set out in the Report of the Supervisory Board, while details of the remuneration of all Supervisory Board members are set out in Note 21 of the Financial statements.

**Auditors**
The external auditor is appointed by the AGM on 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 AGM. During 2012, besides the annual internal quality review on services provided by the external auditor, the Audit Committee has kept itself abreast of international discussions on auditor independence. As a result, the Audit Committee has recommended to the Supervisory Board not to propose a change in the external auditor's appointment for 2013. 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 AGM 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 comment and respond to this information.

### Non-audit services

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. Examples of non-permitted services are actuarial services and book-keeping 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 internal control

Internal control and risk management systems are in place. Our risk management system is explained in more detail in the Strategy 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.

An Internal Control committee is responsible for maintaining the company's internal control framework. The company-wide internal control self-assessment process was improved in 2012 and the outcome was presented to the Audit Committee. An area of continued focus in 2012 has been the control standards for our key IT systems and to make more use of automated controls in these systems.

Synergies are created between the internal control and compliance function, where the company-wide internal control self-assessment tool is strengthened by a company-wide compliance monitoring tool to discuss and monitor progress with respect to compliance-related issues. More detail on the so-called non-financial letter of representation process is available in the Compliance and integrity management chapter.

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

### Code of Conduct and complaints procedure

AkzoNobel has established a comprehensive Code of Conduct and complaints procedure, pursuant to which employees have the possibility of reporting alleged irregularities within the company. More information can be found in the Compliance and integrity management chapter.

### Share Dealing Code

Members of the Board of Management, the Executive Committee and the Supervisory Board are subject to the AkzoNobel Share Dealing Code, which limits their opportunities to trade in AkzoNobel securities. In accordance with Dutch law and regulations, transactions in AkzoNobel shares carried out by Board of Management, Executive Committee and Supervisory Board members are, as and when required, notified to the Dutch Authority for the Financial Markets.

The Board of Management, Executive Committee and Supervisory Board members require authorization from the General Counsel prior to carrying out any transactions in respect of AkzoNobel securities, even in a so-called open period.

### Share classes and major shareholders

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 Receiptrepresenting one-third of a common share). On December 31, 2012, a total of 239,047,452 common shares and 48 priority shares had been issued.

By December 31, 2012, MFS Investment Management held more than 5 percent of the company's share capital.

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, as well as 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 23, 2012, 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.

**Annual General Meeting of shareholders (AGM)**
Presently, 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 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 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

**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 members of the Board of Management in 2012.

The remuneration 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. The remuneration policy was first adopted by the Annual General Meeting of Shareholders (AGM) in 2005 and has been amended several times thereafter, most recently in 2011. The performance share plan described below was approved by the AGM in 2004, when AkzoNobel was still listed at Nasdaq, under the then prevailing rules of Nasdaq. It has been amended two times thereafter, in accordance with article 2:135 of the Dutch Civil Code, most recently in 2010. The share matching plan described below was approved by the AGM 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 (the Code).

In order to enhance the visibility of the elements that constitute the remuneration policy and the way in which the policy has been applied during the reporting year, the Supervisory Board has decided to make a clearer distinction between the two. The first part of this report describes the remuneration policy as it has been adopted over time, while the second part describes the implementation of the policy in 2012 and proposals for 2013.

## Remuneration policy

Our remuneration policy has the objective of providing remuneration in a form which will attract, retain and motivate members of the Board of Management as top managers of a major international company, while protecting and promoting the company's objectives. The aim is to provide remuneration at the median level of the external market.

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

- Base salary
- Performance-related short-term incentive (STI), with shareholding requirement related share matching opportunity
- Performance-related long-term incentive (LTI) in the form of shares
- Pensions and similar retirement provisions
- Other benefits

The various elements of the remuneration package are set out in more detail below.

**Base salary**

The base salary is determined by the Supervisory Board.

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

The target STI is 100 percent of the base salary for the CEO and 65 percent of the base salary for the other members. The threshold for pay-out is the achievement of 80 percent of the targeted financial performance criteria. The pay-out is maximized at 150 percent of the base salary for the CEO and at 100 percent of the base salary for the other members. The STI 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. The specific targets are determined by the Supervisory Board.

**Long-term incentive**
The LTI consists of performance-related shares. 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 performance targets during a three-year period. Achievement of the performance targets is determined by the Supervisory Board in the first quarter of the year following the three-year performance period. The number of vested shares is adjusted for dividends paid over the three-year performance period. 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. For the 2011 grant and onwards, the sustainability performance is measured as AkzoNobel's average score in the SAM ranking during the three-year performance period. 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 a defined peer group. This peer group and the vesting scheme are determined by the Supervisory Board. In each case, the maximum at vesting is 150 percent of the relevant part of the conditional grant.

**Shareholding requirements and share matching**
As of 2012, the CEO and other members of the Board of Management are 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 their minimum shareholding 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 up to 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, on the condition that the Board member still holds these shares and showed a sustained performance during the three-year period, as determined by the Supervisory Board.

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 and that no shares will be matched to the extent that shares were purchased with more than two-thirds of the Board member's net annual short-term incentive.

**Pension and similar retirement provisions**
Members of the Board of Management receive a contribution towards pension and similar retirement benefits, as determined by the Supervisory Board.

**Other benefits**
Other benefits – such as a company car and allowances – are determined by the Supervisory Board.

**Claw back and value adjustment**
The Supervisory Board may 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 Code, the Supervisory Board has the power to adjust the outcomes of the STI or the LTI 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.

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

### Implementation of the remuneration policy in 2012

The Supervisory Board ensures that the remuneration policy is aligned with the objectives of the company also in its implementation. 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. Performance targets must be realistic and sufficiently stretching and – particularly in respect of the variable remuneration components – the Supervisory Board ensures that 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 Code, the Remuneration Committee, before setting the targets to be proposed for adoption by the Supervisory Board, has carried out scenario analyses of the possible financial outcomes of meeting target levels, as well as maximum performance levels, and how they may affect the level and structure of the remuneration of the members of the Board of Management.
As stated in the remuneration policy, we aim to maintain overall remuneration levels that are at the median level of the external market. For benchmarking purposes, a peer group has been defined by the Supervisory Board. Following a review in 2012, two companies (Wolters Kluwer, Reed Elsevier) were removed from the peer group and four companies (Arkema, Henkel, Lafarge and Reckitt Benckiser) were added. The review focused on the size of the group, as well as on the geographical and industry fit. The peer group now consists of the following companies:

- Clariant
- Royal DSM
- Heineken
- Royal KPN
- Royal Philips
- Solvay
- Arkema
- Henkel
- Royal Ahold
- Reckitt Benckiser
- Lafarge
- Randstad

The Remuneration Committee consults professional independent remuneration experts to ensure an appropriate comparison. It further reviews the impact on pay differentials within the company, which is taken into account by the Supervisory Board when the overall remuneration is determined. When other benefits are granted, the Supervisory Board ensures that these are in line with market norms.

For communication purposes, the table "Compensation overview members of the Board of Management 2012" presents a summarizing overview of the remuneration of the current members of the Board of Management. Reference is made to Note 21 of the Financial statements for more details.

**Base salary**
The base salaries of members of the Board of Management increased by 1.8 percent in 2012.

**Short-term incentive (annual bonus)**
The objectives of the short-term incentive in 2012 were 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. On the outcome of the three short-term incentive elements (EVA, EBITDA and personal targets), the Supervisory Board applies a reasonableness test, in which the actual ambition level of the performance targets is assessed critically 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 prevailing market conditions.

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 that investors expect. The target EVA and EBITDA are determined annually by the Supervisory Board. Qualitative targets are set in the context of the medium-term objectives of the company. AkzoNobel will not disclose all the targets as these are considered commercially sensitive information. However, the targets for 2012 included goals set with respect to delivering on the performance improvement program.

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. EVA and EBITDA are based on the company's financial results in constant currencies. In 2012, the minimum threshold for payout regarding the EVA target was not met, whereas for EBITDA the performance outcome was above the threshold and payout came out at 60 percent of target. 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 performance improvement program and strategic ambitions, decided not to make any adjustment on the financial metrics. The Supervisory Board has reviewed the overall short-term performance of Mr. Büchner considering his absence for a three-month period. Based on this review, it was decided to reduce the bonus by 25 percent. Considering that the CFO, Mr. Nichols, also assumed responsibilities of the CEO during his absence, the Supervisory Board decided to adjust the outcome of his personal objectives upward.

**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 – and 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. Performance-related shares are considered to provide a strong 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.

## Compensation overview members of the Board of Management 2012

| in € | Ton Büchner[1] Chief Executive Officer 2012 | Keith Nichols Chief Financial Officer 2012 | Leif Darner Board member Performance Coatings 2012 | Tex Gunning Board member Decorative Paints 2012 | Hans Wijers[2] Chief Executive Officer 2012 | Rob Frohn[3] Board member Specialty Chemicals 2012 |
|---|---|---|---|---|---|---|
| Base salary | 534,700 | 602,000 | 602,000 | 602,000 | 267,700 | 200,700 |
| Short-term incentive | 170,900 | 224,500 | 200,100 | 200,100 | 267,700 | 130,400 |
| Share awards[4] | 399,500 | 880,400 | 1,248,600 | 951,300 | 1,661,900 | 1,245,500 |
| Post-employment benefits | – | 109,100 | 229,500 | 236,700 | 213,100 | 73,100 |
| Other post-employment benefits | 128,900 | 78,000 | – | – | – | – |
| Other emoluments[6] | 5,700 | 110,300 | 6,000 | 6,000 | 2,000 | 2,800 |
| Other compensation[7] | – | 72,100 | 683,500 | 578,600 | – | – |
| Termination benefits[8] | – | – | 796,300 | – | 1,130,600 | 602,000 |
| **Total remuneration** | **1,239,700** | **2,076,400** | **3,766,000** | **2,574,700** | **3,543,000** | **2,254,500** |

[1] As per April 23, 2012.
[2] Until April 23, 2012.
[3] Until May 1, 2012.
[4] Costs relating to share awards (Performance Share Plan and Share Matching Plan) are non-cash and relate to the expenses following IFRS2.
[5] Other post-employment benefits refer to payments intended for building up retirement benefits other than those included in Post-employment benefits.
[6] Other emoluments refers to social security cost. For Mr. Nichols, this refers to the employer's contribution in the UK.
[7] Other compensation refers to compensation for living expenses and home leave allowances.
For Mr. Darner this refers to the regular expatriate support benefits for 2012, as well as the gross cost for repatriation support in 2013 following his retirement.
[8] Termination benefits for Mr. Darner refers to costs incurred in 2012 which will be paid in 2013.

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**

As stated in the remuneration policy, vesting of 50 percent of the shares conditionally granted under the performance share plan is linked to AkzoNobel's relative sustainability performance by taking AkzoNobel's average score in the relevant Dow Jones Sustainability Index (DJSI) for conditional grants made up to 2011, and the SAM ranking for conditional grants made as of 2011, 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 all conditional grants, the vesting schedule has been determined by the Supervisory Board as follows:

**Average position in DJSI/SAM[1] during performance period**

| | Vesting (as % of half of conditional grant) |
|---|---|
| 1 | 150% |
| 2 | 125% |
| 3 | 100% |
| 4 – 6 | 75% |
| 7 – 10 | 50% |
| 11 – 15 | 25% |
| Below 15 | 0% |

[1] 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 grant the average ranking of the company in the relevant Dow Jones Sustainability Index (DJSI) remains the sustainability performance measure.

AkzoNobel ranked first in 2012 and second in 2010 and 2011 in the relevant SAM and DJSI indices. As a result, AkzoNobel's sustainability performance over the period 2010 through 2012 resulted in a vesting of 133 percent for this part of the long-term incentive.

The remaining 50 percent is linked to AkzoNobel's relative Total Shareholder Return (TSR) performance compared with the companies in a defined 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 a peer group as determined by the Supervisory Board.

The peer group currently consists of the following companies:

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

This peer group is reviewed on a regular basis to ensure that the companies in the group remain appropriate peers. Occasionally, changes need to be made, particularly if one of the companies in the peer group is taken over. The Supervisory Board will see to it that, to the extent reasonably possible, a replacement has no impact on the company's relative TSR ranking.

The following vesting scheme has been applied 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 2010 through 2012 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 2010 conditional grant after including the dividend yield at December 31, 2012, which was determined to be 10.42 percent, equaled 73.61 percent. This resulted in the following definitive awards of shares under the 2010 plan: 17,962 for the former CEO and 13,471 shares for the other members of the Board of Management. 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 under the 2012 plan amounted to 31,900 for the CEO

and 23,900 for the other members of the Board of Management. The former CEO and former member of the Board of Management that left the company during 2012 received pro-rata awards under the plan.

In accordance with provision II.2.13d of the Code, the schedule at the end of this remuneration report sets out for 2007 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 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 approved, respectively, by the AGM. The Supervisory Board has decided that where, in the event of a takeover, the payout 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 vesting 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.

**Claw back and value adjustment**
In 2012 there was no cause for a claw back or value adjustment by the Supervisory Board.

**Shareholding requirements and share matching**
Reference is made to the table under Note 21 of the Financial statements for the number of shares that were held at year-end 2012 and 2011 by the members of the Board of Management. In the table below, an overview is given of the shares acquired by the relevant members of the Board of Management in 2012 that would, subject to the conditions of the share matching plan, qualify for matching by the company:

**Qualifying shares**

| Board members | Qualifying shares acquired in 2012 |
|---|---|
| Ton Büchner | – |
| Keith Nichols | – |
| Tex Gunning | 1,002 |
| Leif Darner | – |

Shares obtained by members of the Board of Management under the performance share plan are taken into account for share ownership purposes (but not for matching purposes) as soon as they have become unconditional. This includes vested shares that are to be retained during the blocking period of two years after vesting.

At the time of his appointment to CEO, Mr. Büchner owned 10,810 shares in Akzo Nobel N.V. which are subject to a matching feature in line with the contractual arrangements as discussed during the 2012 AGM.

**Pension contributions**
The contributions for the members of the Board of Management are defined as a percentage of income as determined by the Supervisory Board. Currently they are based on age. In principle, the premiums are paid over the base salary in the current year (which may include base salary payments to Board members who step down or have agreed to step down prior to their regular retirement age for effective succession planning as described under "Employment agreements") and the short-term incentive of the previous year. The premiums will therefore vary depending on the performance during the previous year and the age of the Board member. External reference data can be used in determining market competitive levels of pension arrangements.

The pension entitlements at pension age depend on the premiums received and the investment results during the period. Depending on whether the pension entitlements qualify as a pension under the Dutch Pension Act, they are reported as "post-employment benefits" (pension) or "other post-employment benefits" (similar post-employment benefits).

### Leaving arrangements and other special remuneration paid during 2012
In 2012, Mr. Wijers and Mr. Frohn stepped down from the Board of Management. As announced in anticipation of the AGM in 2012, each received compensation equal to one year's base salary. In addition, because Mr. Wijers' retirement was advanced, he was entitled to, and received, the regular pension contribution in respect of the one year's base salary.

### Employment agreements
Agreements for members of the Board of Management are concluded for a period not exceeding four years in accordance with the 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.

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 the "fixed" remuneration component until the date of retirement.

Reference is made to Note 21 in the Financial statements section for an overview of the payments made to former Board members in 2012.

During 2013, Mr. Darner will retire from the company. Details concerning his retirement were concluded in 2012 and accruals have been made accordingly; reference is made to Note 21 in the Financial statements section, as well as the table "Compensation overview members of the Board of Management 2012" in this chapter.

A conditional special award was made to Mr. Gunning in 2008 as part of the remuneration package in connection with his appointment as member of the Board of Management in 2009, to a maximum of one annual base salary (averaged over the performance period). This special award was subject to performance conditions in connection with the integration of the ICI acquisition. The Supervisory Board has reviewed these conditions and also considered the performance of Mr. Gunning under extraordinary circumstances in connection with the turn around and subsequent sale to PPG of the North American Decorative Paints business. Based on this review, the Supervisory Board has decided to approve payout of the award.

### Strategic objectives and (future) remuneration

When properly applied at the appropriate levels in the organization, variable remuneration can be an important tool for achieving the strategic objectives of the company (see the Strategy section). As regards the short-term incentive (STI), the current remuneration policy particularly incentivizes economic value creation (EVA) and growth in EBITDA. While the Supervisory Board recognizes that each of these elements of the company's objectives is important, it is also recognized that circumstances change, and may do so rapidly. To ensure continued alignment between incentive metrics and the company's strategy, greater flexibility with respect to the short-term incentives for the Board of Management is required in order to be able to respond adequately to the challenges the company is facing. In addition, the Supervisory Board prefers to use a limited number of easily quantifiable and identifiable metrics that meet the financial priorities of the company and is of the opinion that EVA is no longer a metric on which to measure the performance of the Board of Management. The following changes to the remuneration policy will therefore be proposed for adoption by the AGM in 2013:

Firstly, the Supervisory Board, having regard to inter alia the existing financial situation of the company and the external markets it operates in, will decide annually on two to three financial metrics and determine their relative weighting from the following six financial metrics:

- EBITDA
- EBIT
- Operating income
- Net income (to shareholders)
- Operating cash flow
- Return on investment

These metrics are used and/or defined in the company's annual report (subject to minor adjustments if required in order to provide a better indicator of management's performance).

The Supervisory Board will set the performance ranges, i.e. the values below which no payout will be made (the threshold), the "at target" value and the maximum above which the payout will be capped, it being noted that the STI awards will not exceed 150 percent of the base salary for the CEO and 100 percent of the base salary for the other members of the Board of Management.

The chosen metrics will link remuneration with a focus on the company's financial priorities and will, together with their weighting, be published in the annual report. Performance targets may qualify as sensitive information and will therefore, in principle, not be published. Subject to adoption of this amendment by the AGM in 2013, the Supervisory Board has set the financial metrics to be applied in the STI for 2013 as follows:

- 20 percent of STI opportunity will be linked to a target for ROI
- 20 percent of STI opportunity will be linked to a target for operating income
- 30 percent of STI opportunity will be linked to a target for operating cash flow

The remaining 30 percent of the STI opportunity will, as before, be used for personal objectives.

Secondly, in connection with the recent strategy update, the Supervisory Board is currently finalizing a review of the long-term incentive plan, with a particular focus on the performance metrics to be applied going forward. This review may result in a proposal to the AGM in April 2013. During that meeting, the AGM will also be requested to approve a continuation of the current performance share plan.

## Valuation[1] shares Board of Management

### Unconditional shares, vested

| Series 2007–2009 | Conditional share grant | | Number of vested shares | | End of lock up period (2012) | |
|---|---|---|---|---|---|---|
| Number of shares | **Number** | **Value at grant** in € | **Number** | **Value at vesting** in € | **Number** | **Value** in € |
| Keith Nichols | 4,250 | 196,265 | 6,408 | 297,331 | 3,626 | 135,467 |
| Leif Darner | 15,100 | 697,318 | 22,768 | 1,056,435 | 14,689 | 548,781 |

| Series 2008–2010 | Conditional share grant | | Number of vested shares | | End of lock up period (2013) | |
|---|---|---|---|---|---|---|
| Number of shares | **Number** | **Value at grant** in € | **Number** | **Value at vesting** in € | **Number** | **Value** in € |
| Keith Nichols | 8,733 | 478,481 | – | – | – | – |
| Leif Darner | 11,600 | 635,564 | – | – | – | – |
| Tex Gunning | 3,867 | 211,873 | – | – | – | – |

| Series 2009–2011 | Conditional share grant | | Number of vested shares | | End of lock up period (2014) | |
|---|---|---|---|---|---|---|
| Number of shares | **Number** | **Value at grant** in € | **Number** | **Value at vesting** in € | **Number** | **Value** in € |
| Keith Nichols | 27,400 | 806,656 | 19,125 | 714,510 | 9,563 | NA |
| Leif Darner | 27,400 | 806,656 | 19,125 | 714,510 | 12,432 | NA |
| Tex Gunning | 27,400 | 806,656 | 19,125 | 714,510 | 12,432 | NA |

| Series 2010–2012 | Conditional share grant | | Number of vested shares | | End of lock up period (2015) | |
|---|---|---|---|---|---|---|
| Number of shares | **Number** | **Value at grant** in € | **Number** | **Value at vesting** in € | **Number** | **Value** in € |
| Keith Nichols | 18,300 | 849,120 | 13,471 | 670,182 | – | NA |
| Leif Darner | 18,300 | 849,120 | 13,471 | 670,182 | – | NA |
| Tex Gunning | 18,300 | 849,120 | 13,471 | 670,182 | – | NA |

### Conditional shares, not vested

| Series 2011–2013 | | Conditional share grant at target | Vesting at min. performance | Vesting at max. performance |
|---|---|---|---|---|
| Number of shares | **Number** | **Value at grant** in € | **Number** | **Number** |
| Keith Nichols | 18,600 | 864,714 | – | 27,900 |
| Leif Darner | 18,600 | 864,714 | – | 27,900 |
| Tex Gunning | 18,600 | 864,714 | – | 27,900 |

| Series 2012–2014 | | Conditional share grant at target | Vesting at min. performance | Vesting at max. performance |
|---|---|---|---|---|
| Number of shares | **Number** | **Value at grant** in € | **Number** | **Number** |
| Ton Büchner | 31,900 | 1,191,784 | – | 47,850 |
| Keith Nichols | 23,900 | 892,904 | – | 35,850 |
| Leif Darner | 23,900 | 892,904 | – | 35,850 |
| Tex Gunning | 23,900 | 892,904 | – | 35,850 |

[1] Values based on the share price on January 1 of the relevant financial year (face value).

# Compliance and integrity management

A compliance framework supported by implementation processes and monitoring and control procedures, based on a comprehensive Code of Conduct and assesed by the Supervisory Board, is one of the essential foundations of good corporate governance and social responsibility. In everything we do we aim for the highest standards of performance and behavior. Our conduct must be exemplary wherever we operate.

**Compliance framework**

| | | | | |
|---|---|---|---|---|
| Competition law | Anti-bribery | Export control | HSE&S | Treatment of employees |
| Share dealing | Privacy | Information security | Human rights | Fraud |

### AkzoNobel Code of Conduct

The Code of Conduct serves as a common reference document which reflects our values and sets out our fundamental principles and rules for doing business. The code applies equally to our corporate actions and the behavior of individual employees, regardless of the market segment, function or country in which we operate. The code is supported by a cascaded structure of internal regulations in the form of corporate directives, policies, practical manuals and guidelines that are applicable to all employees and guide them in their day-to-day decisions. The Code of Conduct is available in 27 languages, is regularly distributed in paper form and is widely available online.

AkzoNobel is subject to local, regional and international laws and regulations, regulatory controls and customs and practices in the countries in which we do business. Our legal and compliance experts are monitoring and adapting to significant and rapid changes in a wide range of legal and compliance areas, to ensure that the code and our internal regulations remain suited for purpose and are properly applied.

### Code of Conduct for joint ventures, acquisitions and our supply chain

We have a task to ensure that all employees – including those at joint ventures we operate and at newly acquired companies – are aware of, and comply with, laws and regulations that are relevant to their specific role, as well as the Code of Conduct and related internal regulations. In those joint ventures we do not control, we encourage our partners to consistently apply the values and principles reflected in our code when doing business.

AkzoNobel expects employees of newly acquired companies to adhere to the Code of Conduct in their daily actions and to live up to our strategic values, our fundamental principles and rules for doing business. They receive extensive training which

enables them to fully acquaint themselves with the compliance framework and the code.

The code also governs the behavior of our suppliers, agents, distributors, contractors and other trading partners with whom we work. This is directly reflected in what is called our Vendor Policy. This policy asserts that we want a sustainable supply chain and therefore do business with trading partners who comply with our integrity values and our social and environmental standards. Those partners are required to sign the AkzoNobel Vendor Policy Declaration, which is rooted in our 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. See the Sustainability statements section.

### Code of Conduct training, communication and awareness

We appreciate that raising awareness through effective communication and training is pivotal to our compliance framework, and assists us in protecting the company and our employees against economic and reputational harm. Communication on the Code of Conduct starts for new employees from the moment they join AkzoNobel and includes online and classroom training. By the end of 2012, we had invited all employees with access to our intranet to complete the Code of Conduct training module. Our employee completion rates (at 96 percent in 2012) are monitored monthly and form an element of the annual Performance and Development Dialog discussion. The compliance training curriculum also offers specialized training to improve critical competencies and skills to a designated group of employees on topics such as competition law, anti-bribery, export control, privacy, fraud awareness, anti-harassment, careful communications and trade secrets.

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

We value an open dialog on integrity and responsibility in our actions with our employees worldwide. We investigate all alleged breaches of our code and apply appropriate measures when complaints turn out to be substantiated. Our employees are encouraged to report their views on processes and practices to their manager or the relevant business level compliance committee, the compliance department or the Compliance Committee. A global reporting helpline is permanently available to our employees to report, confidentially and, if so desired, anonymously, breaches of our Code of Conduct. These reporting mechanisms are part of the complaints procedure and are described in our SpeakUp! policy and manual. We seek to ensure that lessons learned from the SpeakUp! procedure are addressed in the form of case studies in our compliance training curriculum, to reflect as much as possible our day-to-day business reality.

In 2012, a total of 295 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 131 dismissals on grounds related to breaches of the Code of Conduct (2011: 99). The results are addressed in the non-financial letter of representation process (see later in this section). Although the issues reported were not material for AkzoNobel, we are conscious of the need to continue to conduct root cause analyses and take appropriate actions.

### Compliance governance

The compliance department, in close collaboration with the Compliance Committee, provides an adequate compliance framework and assures its enforcement via various methods. These methods include the application of monitoring and reporting tools, developing the compliance training curriculum and managing the corporate complaints procedure as a whole, including root cause analyses. The Compliance Committee assists the Executive Committee in its ultimate responsibility to report to the Audit Committee of the Supervisory Board.

The Compliance Committee comprises the General Counsel (chair), Secretary to the Executive Committee, and Corporate Directors of Compliance, Internal Audit, Control and HR, and Legal Counsel Compliance. A total of 24 alleged complaints that were possibly material in character were handled at the level of the Compliance Committee (2011: 24). Of these, three are still under review. Only part of those investigated complaints were substantiated and the Compliance Committee took appropriate actions. However, none of those were considered material for AkzoNobel.

Business unit management and corporate staff departments are responsible and accountable for awareness raising and compliance within their respective businesses and departments. We have appointed BU compliance officers in each of the businesses. A compliance officer assesses the main risks, improves and monitors compliance and its effectiveness and trains the relevant employees. The compliance officers investigate alleged breaches of the Code of Conduct and report their findings and lessons learned to the relevant business unit management team. The management team then takes appropriate action.

### Compliance and integrity reporting and monitoring

AkzoNobel has developed a set of corporate reporting and monitoring tools to manage compliance and integrity at the company. The compliance department manages these tools and reports on outcome and effectiveness to the Compliance Committee.

## Integrity management

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **Code of Conduct complaints reporting** | | | | |
| Number of alleged complaints reported | 198 | 260 | 245 | 295 |
| Breakdown of reported complaints | | | | |
| Health and Safety | 22 | 22 | 18 | 42 |
| Business integrity | 72 | 122 | 112 | 152 |
| Treatment of employees | 103 | 113 | 112 | 101 |
| Other | 1 | 3 | 3 | – |
| **Code of Conduct investigation** | | | | |
| Alleged complaints investigated (in %) | 100 | 100 | 100 | 100 |
| Alleged complaints handled by the Compliance Committee (in numbers) | 18 | 23 | 24 | 24 |
| Alleged complaints handled by the relevant business (in numbers) | 180 | 237 | 221 | 271 |
| Substantiated Code of Conduct complaints after investigation (of total number of alleged complaints) | 127 | 170 | 149 | 163 |
| Number of dismissals for Code of Conduct violations | 69 | 118 | 99 | 131 |
| **Compliance monitoring** | | | | |
| Competition Law Compliance Declaration (number of targeted employees) | 10,000 | 13,000 | 14,400 | 15,900 |
| Non-financial letter of representation (% of operational managers) | 100 | 100 | 100 | 100 |
| Share Dealing Code Statement (% of designated employees, members of Board of Management, Executive Committee and Supervisory Board) | 100 | 100 | 100 | 100 |
| **Code of Conduct training** | | | | |
| Trained (% employees with access to our intranet) | 95 | 95 | 95 | 96 |

**Code of Conduct complaints procedure (SpeakUp!)**
This is a permanently available internal system which encourages employees to report alleged breaches of the Code of Conduct. The system is also available for temporary employees and third parties with whom AkzoNobel has a business relationship (such as customers, suppliers and agents). The outcome of the reports and root cause analyses are reported to the Compliance Committee and General Counsel and appropriate actions are undertaken.

**Competition law compliance declaration**
Employees who have contact with customers, suppliers or competitors confirm their adherence to the Competition Law Compliance Manual through an annual declaration. Any possible concerns are reported to the General Counsel and actions are taken. In 2012, 15,900 employees signed this declaration.

**Non-financial letter of representation (NFL)**
At the end of each year, the General Manager of each business signs the NFL to confirm compliance with the Code of Conduct and other corporate non-financial requirements. The outcome is reviewed with the responsible member of the Executive Committee 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. 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.

**Share Dealing Code statement**
Members of the Board of Management, Executive Committee and Supervisory Board, along with certain designated employees, annually confirm awareness of their obligations under the AkzoNobel Share Dealing Code and the Disclosure Controls and Procedures and agree to comply with such obligations.

### Specific compliance areas

Our Code of Conduct covers the various areas where risks can arise for our businesses. Those areas are addressed by specific programs to guide our employees in abiding by the code. In 2012, we continued to adapt our compliance programs to ongoing changes and kept them up-to-date. We also trained our employees and businesses to be aware of risks that can arise in the various areas. Special attention is given to competition law compliance during the compliance training program.

As part of the actions to further implement anti-bribery regulations into our compliance framework, we developed a new online training program for an appropriate number of employees in 2012. This program provides guidance on the ban on facilitation payments and sets out norms on gifts and hospitality. We also updated the AkzoNobel Share Dealing Code, as well as the disclosure controls and procedures, in order to comply with new Dutch legislation.

Our Export Control program contains procedures and training that provide up-to-date guidance to employees on regulatory and enforcement activities, especially those coming from the US and the EU and including rules with extra-territorial effect. In addition, a global network of export control officers has been established to support the businesses in implementing and complying with the Export Control program. Business unit management, including the BU compliance officers, the BU export control officers and corporate staff departments, are supported by the Compliance department.

To confirm our commitment that every employee is entitled to be treated with dignity and respect as an individual, and the obligation of every employee to uphold high standards of personal conduct at work, a new corporate directive on anti-harassment was launched in 2012. A self-assessment was held to ensure continued compliance with privacy and data protection laws for our data management systems in the Netherlands. This, as well as the implementation of various new information management tools and applications, led to improvement measures and required privacy and data protection training of specifically targeted employees.

The Code of Conduct also sets out our approach to human and labor rights. This approach is based on the principles of the United Nations Universal Declaration of Human Rights, the key conventions of the International Labor Organization and the OECD Guidelines for Multinational Enterprises. In addition, we continue to integrate into our strategy and operations the principles on human rights, labor, environment and anti-corruption of the United Nations Global Compact, to which AkzoNobel is a signatory. As a critical element of being a socially responsible company, our businesses and employees are required to respect the human rights of other employees and the communities in which we operate. Our code pays particular attention to the company's presence and operations in emerging markets, as compliance frameworks risk being less advanced in emerging, as compared to mature economies. For more information on stakeholder engagement and our environmental strategy, please turn to the Sustainability statements section.

# AkzoNobel on the capital markets

During 2012, our share price increased 33 percent to €49.75

New €750 million bond issued at 2.625 percent, with a maturity of ten years

Total proposed dividend of €1.45 per share, on a par with 2011

## Close dialog with the capital markets

We attach great value to maintaining an open dialog with the financial community in order to promote transparency. During 2012, management gave presentations at a number of industry conferences, as well as during meetings with investors and analysts. 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.

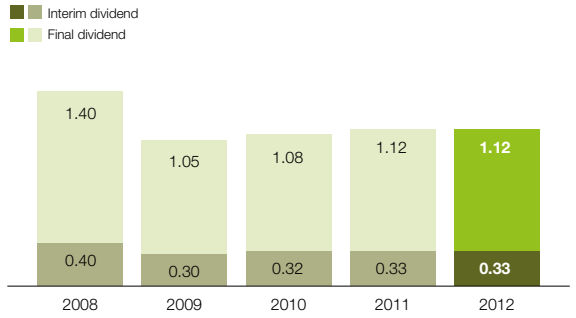
## Dividend policy

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.

## Total proposed dividend of €1.45 per share

The Board of Management proposes a total dividend of €1.45 per common share. AkzoNobel's shares will be trading ex-dividend as of April 30, 2013. In compliance with the listing requirements of Euronext Amsterdam, the record date will be May 3, 2013. The final dividend as proposed to the 2013 Annual General Meeting of shareholders will be payable as of May 29, 2013. The dividend paid over the last five years is shown in the graph on this page.

**Dividend paid** in € per share




## Share price performance

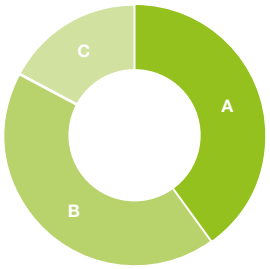
Our share price increased 33 percent in 2012, outperforming both the DJ Stoxx Chemicals and AEX indices. The share price performance relative to these indices for a one-year and a five-year period is shown in the graphs on the following page.

## Analyst recommendations

At year-end 2012, AkzoNobel was covered by 30 equity brokers and the following analyst recommendations were applicable (see diagram on the following page):

**Analyst recommendations** in %

| | |
|---|---|
| A Buy | 40 |
| B Hold | 43 |
| C Sell | 17 |




## Listings

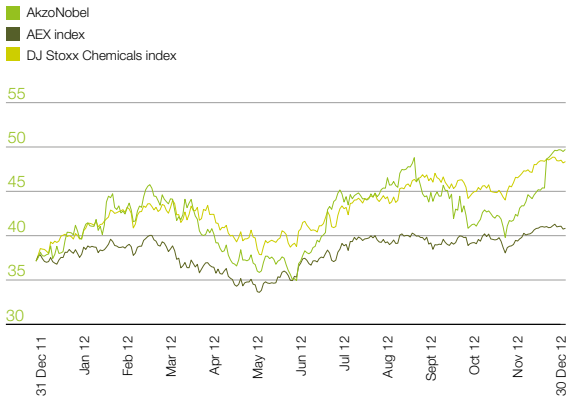
AkzoNobel's common shares are listed on the stock exchange of Euronext Amsterdam. AkzoNobel is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 4.45 percent at year-end 2012. In 2012, 241 million AkzoNobel shares were traded on Euronext Amsterdam (2011: 290 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 |

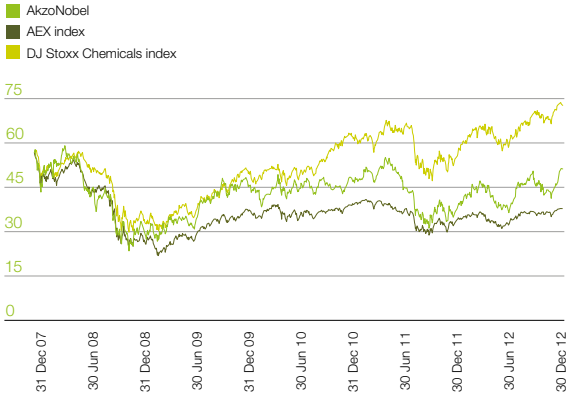
**Share price performance 2012**

AkzoNobel share price in €




**Share price performance 2008-2012**

AkzoNobel share price in €

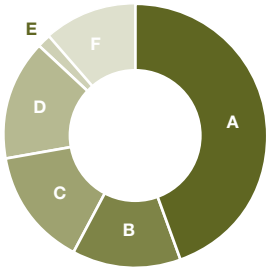



**Key share data**

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Year-end (share price in €) | 46.49 | 37.36 | 49.75 |
| Year-high (share price in €) | 47.70 | 53.74 | 49.75 |
| Year-low (share price in €) | 37.18 | 29.25 | 35.16 |
| Year-average (share price in €) | 43.39 | 42.20 | 42.23 |
| Average daily trade (in € millions) | 52.1 | 47.5 | 39.6 |
| Average daily trade (in millions of shares) | 1.2 | 1.1 | 0.9 |
| Number of shares outstanding at year-end (in millions) | 233.5 | 234.7 | 239.0 |
| Market capitalization at year-end (in € billions) | 10.9 | 8.8 | 11.9 |
| Net income per share (in €) | 3.23 | 2.04 | (9.14) |
| Dividend per share (in €) | 1.40 | 1.45 | 1.45 |
| Dividend yield (in %) | 3.2 | 3.4 | 3.4 |

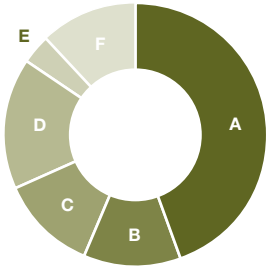
**Distribution of shares 2011** at year-end in %

| | |
|---|---|
| **A** North America | 45 |
| **B** UK/Ireland | 13 |
| **C** The Netherlands | 14 |
| **D** Rest of Europe | 15 |
| **E** Rest of world | 2 |
| **F** Undisclosed | 11 |




**Distribution of shares 2012** at year-end in %

| | |
|---|---|
| **A** North America | 45 |
| **B** UK/Ireland | 12 |
| **C** The Netherlands | 12 |
| **D** Rest of Europe | 16 |
| **E** Rest of world | 3 |
| **F** Undisclosed | 12 |




## AkzoNobel in key sustainability indices

For the seventh year in succession, AkzoNobel was included in the Dow Jones Sustainability World Index (DJSI World). In 2012, we were ranked number one, being the Chemicals supersector leader. We received particular recognition for our risk and crisis management, innovation management and human capital development. We were also again represented in the Carbon Disclosure Project, which 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 2013 showed that at 45 percent, the US and Canada make up the largest regional group of investors. Investors from the UK and Ireland hold 12 percent. Shareholders from the Netherlands hold 12 percent of AkzoNobel shares, while a further 16 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 39 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 and Governance) issues in some capacity is around 29 percent.

## Credit rating and outlook

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

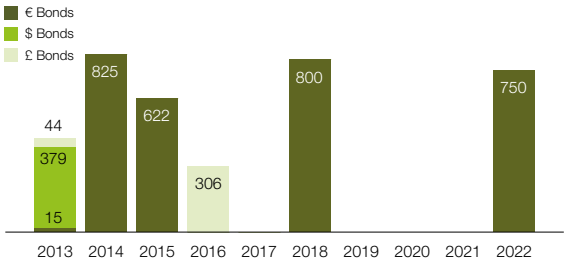
| Rating agency | Long-term rating | Outlook |
|---|---|---|
| Moody's[1] | Baa[1] | Review for downgrade |
| Standard & Poor's[2] | BBB+ | Stable |

[1] Rating affirmed on October 25, 2012.
[2] Rating affirmed on December 26, 2012.

## Bonds

In 2012, we issued a €750 million bond at a 2.625 percent coupon and a maturity of ten years. For a full overview of our bonds, please visit the Bond & Credit Information in the Investors section of our corporate website or see Note 16 in the Financial statements section.

**Debt maturity** in € millions (nominal amounts)



## 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.

We communicate with our investors and analysts by organizing or attending meetings such as the Annual General Meetings of shareholders, our Capital Market Days, roadshows and broker conferences. More information on these meetings, as well as the presentation materials, can be found on our website. Furthermore, we publish an annual report, quarterly reports, the AkzoNobel Fact File and press releases, which are also available on our 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 website. Meetings with investors (bilateral and general) are held to ensure that the investment community receives a balanced and complete view of our 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 our website.

Analysts’ reports and valuations are not assessed, commented upon or corrected, other than factually, by the company. We do 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:

**AkzoNobel Investor Relations**
Strawinskylaan 2555
1077 ZZ Amsterdam
The Netherlands
www.akzonobel.com/investor_relations
T +31 20 502 7854
F +31 20 502 7605
E investor.relations@akzonobel.com

Holders of ADRs in the US can contact our Transfer and Register Agent:

**Deutsche Bank Shareholder Services**
American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
New York, NY 10272-2050
www.adr.db.com
T +1 800 937 5449 (toll-free number)
T +1 718 921 8124
E DB@amstock.com

# Financial statements


| | | |
|---|---|---|
| Consolidated statement of income | | 108 |
| Consolidated statement of comprehensive income | | 109 |
| Consolidated balance sheet | | 109 |
| Consolidated statement of cash flows | | 110 |
| Consolidated statement of changes in equity | | 111 |
| Segment information | | 112 |

**Notes to the consolidated financial statements**

| | | |
|---|---|---|
| Note 1 | Summary of significant accounting policies | 113 |
| Note 2 | Scope of consolidation | 121 |
| Note 3 | Operating income | 123 |
| Note 4 | Financing income and expenses | 125 |
| Note 5 | Income tax | 126 |
| Note 6 | Intangible assets | 129 |
| Note 7 | Property, plant and equipment | 131 |
| Note 8 | Investments in associates and joint ventures | 132 |
| Note 9 | Other financial non-current assets | 132 |
| Note 10 | Inventories | 133 |
| Note 11 | Trade and other receivables | 133 |
| Note 12 | Cash and cash equivalents | 134 |
| Note 13 | Group equity | 134 |
| Note 14 | Post-retirement provisions | 136 |
| Note 15 | Other provisions | 140 |
| Note 16 | Long-term borrowings | 140 |
| Note 17 | Short-term borrowings | 141 |
| Note 18 | Trade and other payables | 141 |
| Note 19 | Contingent liabilities and commitments | 142 |
| Note 20 | Related party transactions | 143 |
| Note 21 | Remuneration of the Supervisory Board and the Board of Management | 144 |
| Note 22 | Financial risk management | 148 |

| | | |
|---|---|---|
| Company financial statements | | 153 |
| Note A | General information | 153 |
| Note B | Financial non-current assets and provisions for subsidiaries | 155 |
| Note C | Trade and other receivables | 155 |
| Note D | Cash and cash equivalents | 155 |
| Note E | Shareholders' equity | 155 |
| Note F | Long-term borrowings | 156 |
| Note G | Short-term debt | 156 |
| Note H | Financial instruments | 157 |
| Note I | Contingent liabilities | 157 |
| Note J | Auditor's fees | 157 |

**Other information**

| | | |
|---|---|---|
| Independent auditor's report | | 158 |
| Result allocation and distributions | | 159 |

# Consolidated statement of income

| In € millions | Note | | 2011[1] | | 2012 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenue | | 14,604 | | 15,390 | |
| Cost of sales | 3 | (9,035) | | (9,596) | |
| **Gross profit** | | | 5,569 | | **5,794** |
| Impairment | 3 | – | | (2,106) | |
| Selling expenses | 3 | (2,943) | | (3,199) | |
| General and administrative expenses | 3 | (1,142) | | (1,277) | |
| Research and development expenses | 3 | (349) | | (387) | |
| Other operating income/(expenses) | 3 | 10 | | (69) | |
| | | | (4,424) | | **(7,038)** |
| **Operating income** | | | 1,145 | | **(1,244)** |
| Financing income | 4 | 57 | | 59 | |
| Financing expenses related to pensions | 4 | (57) | | (65) | |
| Other financing expenses | 4 | (336) | | (261) | |
| Results from associates and joint ventures | 8 | 24 | | 13 | |
| **Profit/(loss) before tax** | | | 833 | | **(1,498)** |
| Income tax | 5 | | (233) | | (172) |
| **Profit/(loss) from continuing operations** | | | 600 | | **(1,670)** |
| **Discontinued operations** | | | | | |
| Profit/(loss) for the period from discontinued operations | 2 | | (59) | | (436) |
| **Profit/(loss) for the period** | | | 541 | | **(2,106)** |
| **Attributable to** | | | | | |
| Shareholders of the company | | | 477 | | (2,169) |
| Non-controlling interests | | | 64 | | 63 |
| **Profit/(loss) for the period** | | | 541 | | **(2,106)** |
| **Earnings per share, in €** | | | | | |
| Continuing operations | | | | | |
| Basic | 13 | | 2.29 | | (7.30) |
| Diluted | 13 | | 2.27 | | (7.30) |
| Discontinued operations | | | | | |
| Basic | 13 | | (0.25) | | (1.84) |
| Diluted | 13 | | (0.25) | | (1.84) |
| Total operations | | | | | |
| Basic | 13 | | 2.04 | | (9.14) |
| Diluted | 13 | | 2.02 | | (9.14) |

[1] Restated to present Decorative Paints North America as a discontinued operation.

# Consolidated statement of comprehensive income

| In € millions | 2011 | 2012 |
|---|---|---|
| **Profit/(loss) for the period** | **541** | **(2,106)** |
| **Other comprehensive income** | | |
| Exchange differences arising on translation of foreign operations | 55 | 8 |
| Cash flow hedge reserve | (55) | (7) |
| Income tax relating to other comprehensive income | 9 | 5 |
| **Other comprehensive income for the period (net of tax)** | **9** | **6** |
| **Comprehensive income for the period** | **550** | **(2,100)** |
| **Comprehensive income attributable to** | | |
| Shareholders of the company | 486 | (2,146) |
| Non-controlling interests | 64 | 46 |
| **Comprehensive income for the period** | **550** | **(2,100)** |

# Consolidated balance sheet
## at year-end, before result allocation

| In € millions | Note | | 2011 | | 2012 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 6 | 7,392 | | 4,454 | |
| Property, plant and equipment | 7 | 3,705 | | 3,739 | |
| Deferred tax assets | 5 | 813 | | 830 | |
| Investment in associates and joint ventures | 8 | 198 | | 185 | |
| Other financial non-current assets | 9 | 1,187 | | 1,748 | |
| **Total non-current assets** | | | **13,295** | | **10,956** |
| **Current assets** | | | | | |
| Inventories | 10 | 1,924 | | 1,545 | |
| Current tax assets | 5 | 98 | | 91 | |
| Trade and other receivables | 11 | 2,937 | | 2,698 | |
| Cash and cash equivalents | 12 | 1,635 | | 1,752 | |
| Assets held for sale | 2 | – | | 921 | |
| **Total current assets** | | | **6,594** | | **7,007** |
| **Total assets** | | | **19,889** | | **17,963** |
| **Equity and liabilities** | | | | | |
| **Equity** | | | | | |
| Shareholders' equity | 13 | 9,212 | | 6,892 | |
| Non-controlling interests | | 531 | | 465 | |
| **Group equity** | | | **9,743** | | **7,357** |
| **Non-current liabilities** | | | | | |
| Post-retirement benefit provisions | 14 | 1,053 | | 982 | |
| Other provisions | 15 | 664 | | 735 | |
| Deferred tax liabilities | 5 | 567 | | 442 | |
| Long-term borrowings | 16 | 3,035 | | 3,388 | |
| **Total non-current liabilities** | | | **5,319** | | **5,547** |
| **Current liabilities** | | | | | |
| Short-term borrowings | 17 | 494 | | 662 | |
| Current tax liabilities | 5 | 413 | | 390 | |
| Trade and other payables | 18 | 3,369 | | 3,242 | |
| Current portion of provisions | 15 | 551 | | 455 | |
| Liabilities held for sale | 2 | – | | 310 | |
| **Total current liabilities** | | | **4,827** | | **5,059** |
| **Total equity and liabilities** | | | **19,889** | | **17,963** |

# Consolidated statement of cash flows

| In € millions | Note | | 2011 [1] | | 2012 |
|---|---|---|---|---|---|
| **Profit/(loss) for the period** | | **541** | | **(2,106)** | |
| Income from discontinued operations | 2 | 59 | | 436 | |
| **Adjustments to reconcile earnings to cash generated from operating activities** | | | | | |
| Amortization/depreciation | 6,7 | 565 | | 635 | |
| Impairment losses | 6,7,10 | 12 | | 2,160 | |
| Financing income and expenses | 4 | 336 | | 267 | |
| Results from associates and joint ventures | 8 | (24) | | (13) | |
| Pre-tax result on divestments | | (23) | | 28 | |
| Income tax | | 233 | | 172 | |
| Changes in working capital | 12 | (331) | | 251 | |
| Changes in provisions | | (484) | | (688) | |
| Interest paid | | (282) | | (231) | |
| Income tax paid | 5 | (227) | | (209) | |
| Other | | 21 | | 35 | |
| **Net cash from operating activities** | | | **396** | | **737** |
| Capital expenditures | 12 | (658) | | (826) | |
| Interest received | | 39 | | 48 | |
| Dividends from associates and joint ventures | 8 | 10 | | 9 | |
| Acquisition of consolidated companies | 2 | (205) | | (94) | |
| Proceeds from divestments | | 49 | | 216 | |
| Other changes | | (47) | | (79) | |
| **Net cash from investing activities** | | | **(812)** | | **(726)** |
| Proceeds from borrowings | 17 | 911 | | 1,583 | |
| Borrowings repaid | 17 | (1,381) | | (1,013) | |
| Acquisition of non-controlling interests | | (8) | | (51) | |
| Issue of shares for stock option plan | 3 | 15 | | 8 | |
| Dividends | | (362) | | (256) | |
| **Net cash from financing activities** | | | **(825)** | | **271** |
| **Net cash used for continuing operations** | | | **(1,241)** | | **282** |
| Cash flows from discontinued operations | | | (96) | | (53) |
| **Net change in cash and cash equivalents of continued and discontinued operations** | | | **(1,337)** | | **229** |
| Cash and cash equivalents at January 1 | 12 | | 2,683 | | 1,335 |
| Effect of exchange rate changes on cash and cash equivalents | | | (11) | | (6) |
| **Cash and cash equivalents** | | | **1,335** | | **1,558** |

[1] Restated to present Decorative Paints North America as a discontinued operation.

# Consolidated statement of changes in equity

| In € millions | Attributable to shareholders of the company: 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 | Group equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | **467** | **9** | **29** | **(43)** | **8,522** | **8,984** | **525** | **9,509** |
| Profit/(loss) for the period | – | – | – | – | 477 | 477 | 64 | 541 |
| Reclassification into the statement of income | – | – | (1) | – | – | (1) | – | (1) |
| Other comprehensive income | – | – | (54) | 55 | – | 1 | – | 1 |
| Tax on other comprehensive income | – | – | 17 | (8) | – | 9 | – | 9 |
| **Comprehensive income** | **–** | **–** | **(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) |
| **Balance at December 31, 2011** | **469** | **47** | **(9)** | **4** | **8,701** | **9,212** | **531** | **9,743** |
| | | | | | | | | |
| Profit/(loss) for the period | – | – | – | – | (2,169) | (2,169) | 63 | (2,106) |
| Transfer to goodwill | – | – | (8) | – | – | (8) | – | (8) |
| Reclassification into the statement of income | – | – | 19 | 39 | – | 58 | – | 58 |
| Other comprehensive income | – | – | (18) | (14) | – | (32) | (17) | (49) |
| Tax on other comprehensive income | – | – | (1) | 6 | – | 5 | – | 5 |
| **Comprehensive income** | **–** | **–** | **(8)** | **31** | **(2,169)** | **(2,146)** | **46** | **(2,100)** |
| Dividend paid | 7 | 121 | – | – | (342) | (214) | (42) | (256) |
| Equity-settled transactions | – | – | – | – | 43 | 43 | – | 43 |
| Issue of common shares | 2 | 6 | – | – | – | 8 | – | 8 |
| Acquisitions and divestments | – | – | – | – | (11) | (11) | (70) | (81) |
| **Balance at December 31, 2012** | **478** | **174** | **(17)** | **35** | **6,222** | **6,892** | **465** | **7,357** |

# 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[1]

| | Revenue from third parties | | Group revenue | | EBITDA[2] | | Amortization and depreciation | | Incidentals | | Operating income | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Decorative Paints | 4,189 | 4,246 | 4,201 | 4,297 | 479 | 425 | (157) | (185) | (92) | (2,261) | 235 | (2,012) |
| Performance Coatings | 5,128 | 5,635 | 5,170 | 5,702 | 611 | 769 | (117) | (132) | (37) | (96) | 458 | 542 |
| Specialty Chemicals | 5,270 | 5,504 | 5,335 | 5,543 | 906 | 889 | (279) | (305) | (3) | (83) | 622 | 500 |
| Corporate and other | 17 | 5 | (102) | (152) | (162) | (182) | (12) | (13) | 6 | (80) | (170) | (274) |
| **Total** | **14,604** | **15,390** | **14,604** | **15,390** | **1,834** | **1,901** | **(565)** | **(635)** | **(126)** | **(2,520)** | **1,145** | **(1,244)** |

| | Invested capital | | Total assets | | Total liabilities | | Capital expenditures | | Impairment | |
|---|---|---|---|---|---|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Decorative Paints | 5,673 | 3,387 | 8,429 | 5,776 | 2,150 | 2,059 | 155 | 206 | (5) | (2,115) |
| Performance Coatings | 2,363 | 2,415 | 3,952 | 4,012 | 1,606 | 1,364 | 116 | 123 | (5) | (10) |
| Specialty Chemicals | 3,558 | 3,573 | 4,725 | 4,773 | 1,162 | 1,215 | 365 | 484 | (1) | (19) |
| Corporate and other | 1,019 | 1,655 | 2,783 | 2,480 | 5,228 | 5,658 | 22 | 13 | (1) | (16) |
| Discontinued operations | – | – | – | 922 | – | 310 | – | – | – | (372) |
| **Total** | **12,613** | **11,030** | **19,889** | **17,963** | **10,146** | **10,606** | **658** | **826** | **(12)** | **(2,532)** |

## Regional information[1]

| | Revenue by region of destination | | Intangible assets and property, plant and equipment | | Capital expenditures | |
|---|---|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| The Netherlands | 694 | 745 | 1,105 | 880 | 144 | 110 |
| Germany | 1,284 | 1,258 | 777 | 507 | 31 | 69 |
| Sweden | 515 | 486 | 463 | 433 | 54 | 70 |
| UK | 841 | 901 | 1,257 | 1,006 | 27 | 68 |
| Other European countries | 3,702 | 3,647 | 2,275 | 1,269 | 98 | 85 |
| US and Canada | 2,092 | 2,294 | 2,035 | 1,081 | 67 | 70 |
| Brazil | 949 | 987 | 633 | 524 | 54 | 123 |
| Other Latin American countries | 566 | 636 | 112 | 84 | 12 | 16 |
| China | 1,376 | 1,621 | 1,469 | 1,610 | 96 | 135 |
| India | 359 | 371 | 150 | 152 | 18 | 16 |
| Other Asian countries | 1,559 | 1,716 | 710 | 570 | 46 | 55 |
| Other regions | 667 | 728 | 111 | 77 | 11 | 9 |
| **Total** | **14,604** | **15,390** | **11,097** | **8,193** | **658** | **826** |

[1] 2011 numbers restated to present Decorative Paints North America as a discontinued operation.
[2] EBITDA is operating income before incidentals and amortization/depreciation.

# Notes to the consolidated financial statements

## 1 Note 1: Summary of significant accounting policies

### 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 19, 2013, 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

The accounting pronouncements which became effective for 2012, had no material impact on our consolidated financial statements.

### Discontinued operations (Note 2)

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 statements 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.

In December 2012, we announced the divestment in 2013 of the North American Decorative Paints business, subject to approval of the antitrust authorities. As a consequence, this business has been reclassified as a discontinued operation.

### 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 6, 7)**
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 5)**
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 (Notes 14, 15)**
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 post-retirement benefits (Note 14)**
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 2012. 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 | |
|---|---|---|---|---|
| | 2011 | 2012 | 2011 | 2012 |
| US dollar | 1.291 | 1.319 | 1.392 | 1.285 |
| Pound sterling | 0.838 | 0.816 | 0.868 | 0.811 |
| Swedish krona | 8.944 | 8.593 | 9.030 | 8.705 |
| Chinese yuan | 8.127 | 8.217 | 9.001 | 8.109 |

### 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.

### Post-retirement benefits (Note 3, 14)

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 employee benefits (Note 3, 15)**

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-rated 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 3)**

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 ultimately receive depends for 50 percent on our relative Total Shareholder Return (TSR) performance over a three-year period compared with the peer group and for 50 percent on the ranking of the company in the Sustainability Asset Management (SAM) benchmark.

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 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. The fair value for the TSR-linked vesting condition is measured using the Monte Carlo simulation model. 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 5)**

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 other comprehensive income. 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, 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 6)

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 not 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 licenses, know-how, 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 ten to forty 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 7)

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 6, 7)

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 7, 19)

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.

### Associates and joint ventures (Note 18)

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.

### Inventories (Note 10)

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 13)

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 15)

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
- 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 22)**

Derivative financial instruments include forward exchange contracts, interest rate derivatives and commodity contracts, as well as non-closely related 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 attributable to the hedged risk 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 highly probable 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.

**Other financial non-current assets (Note 9)**
Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

**Trade and other receivables (Note 11)**
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 12)**
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 16, 17, 22)**
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 expense 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 interest at the reporting date.

**Trade and other payables (Note 18)**
Trade and other payables are measured at amortized cost, using the effective interest method.

## New IFRS accounting standards

IFRSs and interpretations thereof not yet in force have been assessed for their potential impact on our consolidated financial statements for 2013 and beyond.

**Amendments to IAS 19, Employee benefits**
The amendments to IAS 19 "Employee Benefits" have become effective as of January 1, 2013 and will be applied in our 2013 financial reports. The amendments include the requirement that actuarial gains and losses are recognized in other comprehensive income, thus removing the corridor method which we have applied so far. In addition, the expected return on plan assets recognized in the statement of income is calculated based on the rate used to discount the defined benefit obligation, instead of applying an expected rate of return on plan assets, as is required up until our financial statements 2012.

As from 2013, we will recognize administration costs as expense as incurred with the exception that administration costs related to the management of plan assets will be recorded in other comprehensive income. In addition, past service costs will be recognized in the statement of income in full as incurred.

We have made a preliminary assessment of the effect of the implementation of these amendments on our consolidated financial statements for 2012. The outcome of this preliminary assessment is disclosed in Note 14.

## Other new IFRS accounting standards

| Standard | Published | Implementation date in the standard | Endorsed by the European Union | Anticipated impact |
|---|---|---|---|---|
| IFRS 9 Financial Intruments | November 12, 2009 and subsequent amendments on December 16, 2011 | January 1, 2015, earlier adoption permitted | Postponed | IFRS 9 introduces 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 years, we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate. |
| Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities | December 16, 2011 | January 1, 2014 | December 29, 2012 | These amendments clarify that the right to offset must not be contingent on a future event; and must be legally enforceable. We will assess the effect of this standard on our consolidated financial statements during 2013. |
| IFRS 10 Consolidated Financial Statements | May 12, 2011 | January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted | December 29, 2012 | This standard addresses the accounting of joint arrangements and eliminates proportionate consolidation. As we do not apply this method, there is no impact on our consolidated financial statements from the elimination of proportionate consolidation. We will assess any further effect of this standard on our consolidated financial statements during 2013. |
| IFRS 11 Joint Arrangements | May 12, 2011 | January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted | December 29, 2012 | This standard addresses the accounting of joint arrangements and eliminates proportionate consolidation. As we do not apply this method, there is no impact on our consolidated financial statements from the elimination. |
| IFRS 12 Disclosure of Interests in Other Entities | May 12, 2011 | January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted | December 29, 2012 | This standard contains the disclosure requirements for interests in subsidiaries, joint ventures, associates and other unconsolidated interests. It may affect some disclosures in our consolidated financial statements. |
| IFRS 13 Fair Value Measurement | May 12, 2011 | January 1, 2013 | December 29, 2012 | IFRS 13 replaces the fair value measurement guidance contained in existing IFRS with a single source of fair value measurement guidance. Except for certain pension plan assets, this standard is not expected to materially impact our consolidated financial statements. In 2013 we will assess the final effect of this standard on our consolidated financial statements. |
| Amendments to IAS 27, Separate Financial Statements | May 12, 2011 | January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted | December 29, 2012 | These amendments address the requirements for separate financial statements (which are not the company financial statements). As we do not prepare separate financial statements, this standard is not applicable. |
| Amendments to IAS 28, Investments in Associates and Joint Ventures | May 12, 2011 | January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted | December 29, 2012 | These amendments address the criteria and measurement of associates and joint ventures that qualify as held for sale. It is not expected to materially affect our consolidated financial statements. |
| Amendments to IAS 1, Presentation of Financial Statements | June 16, 2011 | January 1, 2013 | June 5, 2012 | These amendments concern a requirement to group items presented in other comprehensive income on the basis of potential reclassification to profit or loss. As the amendments do not address which items are presented in other comprehensive income, they will only affect the order of items in the disclosures in our consolidated financial statements. |

In early 2012, we acquired 100 percent of Boxing Oleochemicals in Specialty Chemicals – the leading supplier of nitrile amines and derivatives in China and throughout Asia. On December 28, 2012, we completed the divestment of Chemicals Pakistan, which was subsequently deconsolidated. This divestment resulted in a loss of €36 million, due to foreign currency translation differences in equity which need to be transferred to the statement of income at divestment.

The acquisitions in 2012 both individually and in total, were deemed immaterial in respect of IFRS 3 disclosure requirements. Pre-acquisition carrying amounts were not gathered. Revenue in 2012 was impacted by acquisitions for an amount of €236 million.

In 2012, the scope of consolidation for the Consolidated financial statements encompassed 396 companies (2011: 435). Of this number, 9 companies were first-time consolidations (2011: 15). Since the beginning of 2012, 48 companies were deconsolidated due to divestment, merger, liquidation or immateriality (2011: 36). First-time consolidations in 2012 comprised 4 companies in conjunction with the acquisition of Boxing.

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.

## Recognized values at acquisition

| In € millions | Boxing | Other acquisitions | Total |
|---|---|---|---|
| Goodwill | 48 | 10 | 58 |
| Other intangible assets | 27 | (3) | 24 |
| Property, plant and equipment | 29 | 2 | 31 |
| Inventories | 17 | 3 | 20 |
| Trade and other receivables | 18 | 6 | 24 |
| Cash and cash equivalents | 10 | – | 10 |
| Provisions | – | (1) | (1) |
| Deferred tax assets/(liabilities) | (7) | 4 | (3) |
| Long-term borrowings | (3) | – | (3) |
| Trade and other payables | (34) | – | (34) |
| **Net identifiable assets and liabilities** | **105** | **21** | **126** |
| Recognized in the statement of income | – | – | – |
| **Consideration paid** | **105** | **21** | **126** |
| Cash and cash equivalents acquired | (10) | – | (10) |
| To be paid in 2013 and later years | (26) | (1) | (27) |
| Payments related to previous years | – | 5 | 5 |
| **Net cash outflow** | **69** | **25** | **94** |

## Changes in scope of consolidation

| Number of subsidiaries | 2011 | Europe | North America | Latin America | Asia Pacific | Other countries | 2012 |
|---|---|---|---|---|---|---|---|
| Consolidated companies as of January 1 | 456 | 243 | 24 | 35 | 114 | 19 | 435 |
| First-time consolidations | 15 | 4 | – | 1 | 4 | – | 9 |
| Deconsolidations | (36) | (23) | (2) | (7) | (15) | (1) | (48) |
| **Consolidated as of December 31** | **435** | **224** | **22** | **29** | **103** | **18** | **396** |

## Assets and liabilities held for sale

| In € millions | 2012 |
|---|---|
| Property, plant and equipment | 187 |
| Intangible assets | 377 |
| Other assets | 357 |
| **Total assets** | **921** |
| Total non-current liabilities | 117 |
| Total current liabilities | 193 |
| **Total liabilities** | **310** |

## Discontinued operations

In December 2012, we announced the divestment of the North American Decorative Paints business. The operating results for 2012 were a loss of €417 million after taxes. This includes the goodwill impairment charge of €372 million, recorded in the third quarter of 2012. We assessed the carrying value of the assets of Decorative Paints North America in light of the divestments and concluded that no impairment is necessary.

For 2012, we also incurred €19 million related to further settlements and tax-related costs from the divestments of businesses (Organon BioSciences, ICI businesses we acquired for resale to Henkel, National Starch) in previous years.

## Discontinued operations

| In € millions | 2011 | 2012 |
|---|---|---|
| Revenue | 1,094 | 1,190 |
| Expenses | (1,200) | (1,255) |
| Impairment | – | (372) |
| **Results from operating activities** | **(106)** | **(437)** |
| Income tax | 39 | 20 |
| **Results from operating activities after tax** | **(67)** | **(417)** |
| Results related to discontinued operations in previous years | (3) | (16) |
| Tax related to discontinued operations in previous years | 11 | (3) |
| **Profit for the period/(loss)** | **(59)** | **(436)** |

## Cash flows from discontinued operations

| In € millions | 2011 | 2012 |
|---|---|---|
| Net cash from operating activities | (73) | (27) |
| Net cash from investing activities | (23) | (26) |
| Net cash from financing activities | – | – |
| **Net cash from discontinued operations** | **(96)** | **(53)** |

## Costs per category

| In € millions | 2011 Employee benefits | 2011 Amortization | 2011 Depreciation | 2011 Incidentals | 2012 Employee benefits | 2012 Amortization | 2012 Depreciation | 2012 Incidentals |
|---|---|---|---|---|---|---|---|---|
| Cost of sales | (935) | (9) | (314) | (50) | (996) | (6) | (339) | (118) |
| Impairment | – | – | – | – | – | – | – | (2,106) |
| Selling expenses | (989) | (98) | (58) | (64) | (1,097) | (118) | (78) | (135) |
| General and administrative expenses | (611) | (30) | (35) | (24) | (724) | (30) | (38) | (93) |
| Research and development expenses | (230) | (7) | (14) | (9) | (247) | (8) | (18) | (12) |
| Other operating income/(expenses) | – | – | – | 21 | – | – | – | (56) |
| **Subtotal** | **(2,765)** | **(144)** | **(421)** | **(126)** | **(3,064)** | **(162)** | **(473)** | **(2,520)** |
| Discontinued operations | – | (26) | (30) | – | – | (26) | (30) | – |
| **Total** | **(2,765)** | **(170)** | **(451)** | **(126)** | **(3,064)** | **(188)** | **(503)** | **(2,520)** |

### Incidental items

In 2012, we incurred higher restructuring costs mainly in mature markets, as we implement the performance improvement program. Restructuring activities are ongoing across the businesses, but in particular, we stepped up restructuring in the European businesses in Decorative Paints.

In 2011, the incidental gains and losses related, besides restructuring charges of €129 million, mainly to results from acquisitions and divestments (Schramm, Boxing) and a release from an antitrust provision.

## Revenue and cost by nature

| In € millions | 2011 | 2012 |
|---|---|---|
| Revenue | 14,604 | 15,390 |
| Variable selling cost | (712) | (709) |
| Materials and energy | (7,193) | (7,552) |
| Amortization & Depreciation | (565) | (635) |
| Employee benefits | (2,765) | (3,064) |
| Impairment | – | (2,106) |
| Other | (2,224) | (2,568) |
| **Operating income** | **1,145** | **(1,244)** |

### Employee benefits income

## Salaries, wages and other employee benefits in operating income

| In € millions | 2011 | 2012 |
|---|---|---|
| Salaries and wages | (2,106) | (2,354) |
| Pension and other post-retirement cost | (247) | (294) |
| Other social charges | (412) | (416) |
| **Total** | **(2,765)** | **(3,064)** |

## Employees

| Average number during the year | 2011 | 2012 |
|---|---|---|
| Decorative Paints | 17,100 | 17,200 |
| Performance Coatings | 21,300 | 21,700 |
| Specialty Chemicals | 11,300 | 11,800 |
| Corporate and other | 1,400 | 1,500 |
| **Total** | **51,100** | **52,200** |

At year-end 2012, we employed 50,610 staff for ongoing activities (year-end 2011: 52,020 employees). The net increase was due to:

- A net decrease of 540 due to acquisitions and divestments, mainly from the Boxing acquisition (620 employees) and the divestment of Chemicals Pakistan (1,100 employees).
- A decrease of 1,450 employees due to ongoing restructuring.
- An increase of 580 employees, mainly due to new hires in high growth markets.

The average number of employees working outside the Netherlands was 47,100 (2011: 46,100).

## Share-based compensation

Share-based compensation relates to the performance-related share plan. Charges recognized in the 2012 statement of income for share-based compensation amounted to €43 million and are included in salaries and wages (2011: €32 million). Under the performance-related share plan, a number of conditional shares are granted to the members of the Board of Management, members of the Executive Committee and executives each year. The number of participants of the performance-related share plan at year-end 2012 was 656 (2011: 636).

The conditional grant of shares is linked for 50 percent to the ranking of the company in the Dow Jones Sustainability Indexes and the remaining 50 percent to the relative TSR performance of the company compared with a peer group. As from the series 2011-2013, the grant is linked for 50 percent to the Sustainable Asset Management (SAM) benchmark.

The shares of the series 2009-2011 have vested and were delivered to the participants in 2012.

The conditional shares vested in 2012 as follows:

- our TSR performance over 2010-2012 series resulted in an 11th 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 1.67th position within the ranking

As a result, the conditional shares of the 2010-2012 series vested for 66.67 percent (series 2009-2011: 62.5 percent), including dividend shares of 10.42 percent, the final vesting percentage amounted to 73.61 percent (series 2009-2011: 69.80 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 fair value was €38.79 per performance-related share (without a holding restriction) conditionally granted in 2012 (2011: €46.91).

The share price of a common AkzoNobel share at year-end 2012 amounted to €49.75 (2011: €37.36).

For further details on our performance-related share plan, refer to the Remuneration report.

### Performance-related shares

| Series | Balance per January 1, 2012 | Granted in 2012 | Vested in 2012 | Forfeited in 2012 | Dividend in 2012 [1] | Balance at December 31, 2012 | Vested on January 1, 2013 |
|---|---|---|---|---|---|---|---|
| 2009 – 2011 | 755,484 | – | (755,484) | – | – | – | – |
| 2010 – 2012 | 780,400 | 2,234 | – | (274,637) | 29,003 | 537,000 | 537,000 |
| 2011 – 2013 | 866,104 | 1,214 | – | (8,100) | 32,121 | 891,339 | – |
| 2012 – 2014 | – | 1,043,250 | – | (7,895) | 38,929 | 1,074,284 | – |
| **Total** | **2,401,988** | **1,046,698** | **(755,484)** | **(290,632)** | **100,053** | **2,502,623** | **537,000** |

[1] Equivalent in shares related to accumulated dividend, which is included in the balances on balance sheet date.

### 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.

For stock options exercised during 2012, the weighted average of the actual share price at date of exercise amounted to €43.21 (2011: €49.71). A number of 0.5 million of outstanding stock options are non-dilutive but could potentially dilute basic earnings per share in the future.

### Stock options

| Year of issue | Exercise price in € | Outstanding per January 1, 2012 | Exercised in 2012 | Expired in 2012 | Forfeited in 2012 | Outstanding at December 31, 2012 | Expiry date |
|---|---|---|---|---|---|---|---|
| 2002 | 46.53 | 107,250 | – | (107,250) | – | – | April 25, 2012 |
| 2005 | 31.98 | 202,760 | (202,135) | (625) | – | – | April 24, 2012 |
| 2006 | 46.46 | 397,478 | (39,842) | – | – | 357,636 | April 26, 2013 |
| 2007 | 58.89 | 496,489 | – | – | – | 496,489 | April 26, 2014 |
| **Total** | | **1,203,977** | **(241,977)** | **(107,875)** | **–** | **854,125** | |

### Number and weighted average exercise price stock options

| | Number of options | Weighted average exercise price in € |
|---|---|---|
| **Balance at January 1, 2011** | **1,611,181** | **45.80** |
| Forfeited during the period | (12,205) | 47.69 |
| Exercised during the period | (394,999) | 35.53 |
| **Balance at December 31, 2011** | **1,203,977** | **49.15** |
| Expired during the period | (107,875) | 46.45 |
| Exercised during the period | (241,977) | 34.36 |
| **Balance at December 31, 2012** | **854,125** | **53.69** |

### Financing income and expenses

| In € millions | 2011 | 2012 |
|---|---|---|
| Financing income | 57 | 59 |
| Financing expenses | (302) | (239) |
| **Net interest on net debt** | **(245)** | **(180)** |
| **Other interest movements** | | |
| Financing expenses related to pensions | (57) | (65) |
| Interest on provisions | (46) | (29) |
| Other items | 12 | 7 |
| **Net other financing charges** | **(91)** | **(87)** |
| **Net financing expenses** | **(336)** | **(267)** |

Net financing charges for the year decreased by €69 million from €336 million to €267 million. Significant variances are:

- Financing expenses on net debt decreased by €63 million to €239 million (2011: €302 million) mainly due to a reported loss of €67 million on buy-back of bonds in December 2011
- Interest on provisions decreased by €17 million to €29 million (2011: €46 million) due to higher discount rates applied in 2012
- Financing expenses related to pensions increased by €8 million to €65 million (2011: €57 million) due to lower expected return on assets
- Other items decreased by €5 million to €7 million (2011: €12 million), mainly explained by lower interest on discounted long term receivables (€3 million)

A reduction of €8 million (2011: €4 million) was included in the interest expenses of capital investment projects under construction. The average interest rate used for capitalization of these borrowing costs was 6.1 percent.

Pre-tax income from continued operations amounted to a loss of €1,498 million (2011: profit €833 million). The net tax charges related to continuing operations are included in the statement of income as follows:

### Classification of current and deferred tax result

| In € millions | 2011 | 2012 |
|---|---|---|
| **Current tax expense for** | | |
| The year | (229) | (257) |
| Adjustments for prior years | 9 | 31 |
| | **(220)** | **(226)** |
| **Deferred tax expense for** | | |
| Origination and reversal of temporary differences and tax losses | (21) | 51 |
| Changes in tax rates | 7 | (2) |
| Tax losses recognized or unrecognized | 1 | 5 |
| | **(13)** | **54** |
| **Total** | **(233)** | **(172)** |

The total tax charge, including discontinued operations was €155 million (2011:€183 million).

### Effective tax rate reconciliation

The effective income tax rate based on the consolidated statement of income is 11 percent negative. It is negative because a tax charge was recorded despite a loss incurred for the period, mainly attributable to the largely non-tax-deductible impairment charges.

Excluding the impairment loss on intangibles of €2,106 million, pre-tax income totaled a profit of €608 million. The tax expense excluding the impairment of intangibles amounted to €193 million, thus resulting in an effective consolidated tax rate of 31.7 percent. The effective tax rate in 2012 was affected by several adjustments to prior years. In addition, the geographical mix of taxable income affected the tax charge. The effective tax rate in 2011 was affected by several adjustments to prior years and by tax-exempt gains, the main one being a release of an antitrust provision. In addition, the geographical mix of taxable income affected the tax burden.

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. The impact for 2012 is exceptionally high because of an anticipated extraordinary dividend.

### Effective consolidated tax rate

| in % | 2011 | 2012 |
|---|---|---|
| Corporate tax rate in the Netherlands | 25.0 | 25.0 |
| Effect of different tax rates in certain countries | 3.9 | 3.8 |
| Tax exempt income/non-deductible expenses | 0.2 | 3.2 |
| Non-taxable income from investment in associates and joint ventures | (0.7) | (0.7) |
| Changes in enacted tax rates (reductions in tax rate) | (0.9) | 0.4 |
| Recognition of previously unrecognized tax losses | (0.1) | (0.8) |
| Current year losses for which no deferred tax asset was recognized | 0.3 | 1.5 |
| Current year profits for which no deferred tax asset was recognized | 0.0 | (0.2) |
| Under/(over)-provided in prior years | (1.1) | (5.1) |
| Non-refundable withholding taxes | 1.4 | 4.7 |
| Other | – | (0.1) |
| **Effective consolidated tax rate[1]** | **28.0** | **31.7** |

[1] Excluding impairment.

### Deferred tax assets and liabilities

In the deferred tax asset for other provisions (€326 million), an amount of €189 million (2011: €213 million) is related to interest expense carried forward. From the total amount of recognized net deferred tax assets, €527 million (2011: €513 million) is related to entities that have suffered a loss in either 2012 or 2011 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. Deferred tax assets not recognized on the balance sheet are partly related to capital losses which cannot be offset against operational taxable profits.

### Income tax recognized directly in equity

| In € millions | 2011 | 2012 |
|---|---|---|
| **Current tax for** | | |
| Currency exchange differences on intercompany loans of a permanent nature | (3) | 4 |
| | **(3)** | **4** |
| **Deferred tax for** | | |
| Share-based compensation | (3) | – |
| Hedge accounting | 17 | (1) |
| Currency exchange differences on intercompany loans of a permanent nature | (5) | 2 |
| | **9** | **1** |
| **Total** | **6** | **5** |

### Unrecognized deferred tax assets

| In € millions | 2011 | 2012 |
|---|---|---|
| Capital losses | 268 | 267 |
| Tax losses | 23 | 21 |
| Deductible temporary differences | 124 | 123 |
| **Total** | **415** | **411** |

The loss carryforward recognized in the balance sheet and its usage in the coming years has a decreasing impact on the cash tax rate in coming years.

### Loss carryforwards recognized in the balance sheet

| In € millions | 2013 | 2014 | 2015 | 2016 | 2017 | Later | Unlimited | Total |
|---|---|---|---|---|---|---|---|---|
| Total loss carryforwards | 821 | 20 | 31 | 50 | 66 | 326 | 2,150 | 3,464 |
| Loss carryforwards not recognized in deferred tax assets | (751) | (7) | (13) | (26) | (38) | (7) | (16) | (858) |
| **Total** | **70** | **13** | **18** | **24** | **28** | **319** | **2,134** | **2,606** |

### Movement in deferred tax in 2011

| In € millions | Net balance January 1, 2011 | Changes in exchange rates | Acquisitions/ divestments | Recognized in income | Recognized in equity | Net balance December 31, 2011 | Assets | Liabilities |
|---|---|---|---|---|---|---|---|---|
| Intangible assets | (713) | (5) | (19) | 36 | – | (701) | 61 | 762 |
| Property, plant and equipment | (96) | 1 | (4) | 5 | – | (94) | 62 | 156 |
| Inventories | 28 | – | – | 1 | – | 29 | 33 | 4 |
| Trade and other receivables | 2 | 1 | 2 | 9 | – | 14 | 31 | 17 |
| Share-based payments | 11 | – | – | 4 | (3) | 12 | 12 | – |
| Provisions for post-retirement benefits | 134 | (1) | – | (77) | – | 56 | 247 | 191 |
| Restructuring provisions | 14 | – | – | 1 | – | 15 | 15 | – |
| Other provisions | 331 | 8 | – | (26) | – | 313 | 345 | 32 |
| Other items | 150 | 1 | – | 15 | 12 | 178 | 194 | 16 |
| Net operating loss carryforwards | 752 | 27 | 5 | 55 | – | 839 | 839 | – |
| Deferred tax assets not recognized | (408) | (14) | – | 7 | – | (415) | (415) | – |
| **Tax assets/liabilities** | **205** | **18** | **(16)** | **30** | **9** | **246** | **1,424** | **1,178** |
| Set-off of tax | – | – | – | – | – | – | (611) | (611) |
| **Net deferred taxes** | **205** | **18** | **(16)** | **30** | **9** | **246** | **813** | **567** |

## Movement in deferred tax in 2012

| In € millions | Net balance January 1, 2012 | Changes in exchange rates | Acquisitions/divestments | Recognized in income | Recognized in equity | Held for sale | Net balance December 31, 2012 | Assets | Liabilities |
|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | (701) | 12 | (6) | 65 | – | 83 | (547) | 71 | 618 |
| Property, plant and equipment | (94) | – | 10 | 28 | – | 9 | (47) | 84 | 131 |
| Inventories | 29 | – | – | – | – | (5) | 24 | 27 | 3 |
| Trade and other receivables | 14 | – | – | 9 | – | (2) | 21 | 26 | 5 |
| Share-based payments | 12 | – | – | 3 | – | – | 15 | 15 | – |
| Provisions for post-retirement benefits | 56 | (7) | – | (133) | – | (11) | (95) | 223 | 318 |
| Restructuring provisions | 15 | – | – | 14 | – | (2) | 27 | 28 | 1 |
| Other provisions | 313 | (4) | – | (25) | – | (7) | 277 | 320 | 43 |
| Other items | 178 | (2) | – | 9 | – | (4) | 181 | 214 | 33 |
| Net operating loss carryforwards | 839 | (1) | (1) | 105 | 1 | – | 943 | 943 | – |
| Deferred tax assets not recognized | (415) | 9 | 1 | (6) | – | – | (411) | (411) | – |
| **Tax assets/liabilities** | **246** | **7** | **4** | **69** | **1** | **61** | **388** | **1,540** | **1,152** |
| Set-off of tax | – | – | – | – | – | – | – | (710) | (710) |
| **Net deferred taxes** | **246** | **7** | **4** | **69** | **1** | **61** | **388** | **830** | **442** |

## Intangible assets

| In € millions | Goodwill | Brands | Customer lists | Other intangibles | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2011** | | | | | |
| 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) |
| **Carrying value** | **3,819** | **2,323** | **819** | **347** | **7,308** |
| **Movements in 2011** | | | | | |
| Acquisitions through business combinations | 49 | 10 | 74 | 15 | 148 |
| Other investments – including internally developed intangibles | 1 | – | – | 54 | 55 |
| Amortization[1] | – | (18) | (107) | (45) | (170) |
| Changes in exchange rates | (4) | 39 | 7 | 9 | 51 |
| **Total movements** | **46** | **31** | **(26)** | **33** | **84** |
| **Balance at December 31, 2011** | | | | | |
| 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) |
| **Carrying value at year-end 2011** | **3,865** | **2,354** | **793** | **380** | **7,392** |
| **Movements in 2012** | | | | | |
| Acquisitions through business combinations | 58 | 1 | 16 | 7 | 82 |
| Other investments – including internally developed intangibles | (6) | – | – | 79 | 73 |
| Transfer assets held for sale | (96) | (180) | (76) | (25) | (377) |
| Divestments | (40) | – | (2) | (1) | (43) |
| Impairment | (2,450) | (27) | (6) | – | (2,483) |
| Amortization[1] | – | (19) | (112) | (57) | (188) |
| Changes in exchange rates | 21 | (11) | (18) | 6 | (2) |
| **Total movements** | **(2,513)** | **(236)** | **(198)** | **9** | **(2,938)** |
| **Balance at December 31, 2012** | | | | | |
| Acquisition cost | 4,102 | 2,226 | 1,030 | 445 | 7,803 |
| Cost of internally developed intangibles | – | – | – | 166 | 166 |
| Accumulated amortization/impairment | (2,750) | (108) | (435) | (221) | (3,514) |
| **Carrying value at year-end 2012** | **1,352** | **2,118** | **595** | **389** | **4,454** |

[1] Including Decorative Paints North America.

## Goodwill and other intangibles per segment

| | Goodwill | | Brands with indefinite useful lives | | Other intangibles with finite useful lives | | Total intangibles | |
|---|---|---|---|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Decorative Paints | 2,079 | 17 | 1,904 | 1,881 | 453 | 398 | 4,436 | 2,296 |
| Performance Coatings | 678 | 686 | – | – | 354 | 330 | 1,032 | 1,016 |
| Specialty Chemicals | 655 | 649 | 25 | – | 493 | 493 | 1,173 | 1,142 |
| Discontinued operations | 453 | – | – | – | 298 | – | 751 | – |
| **Total** | **3,865** | **1,352** | **1,929** | **1,881** | **1,598** | **1,221** | **7,392** | **4,454** |

## Average revenue growth rates per forecast period

| In % per year | 2013-2017 | 2018-2022 |
|---|---|---|
| Decorative Paints | 5.2 | 4.0 |
| Performance Coatings | 5.1 | 3.1 |
| Specialty Chemicals | 4.8 | 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, emission rights and development cost. Both at year-end 2012 and 2011, 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. The economic circumstances triggered an impairment test in Q3. We have undertaken a prudent review, excluding restructuring effects, of the balance sheet, taking into account lower expected growth rates. This has resulted in a non-cash impairment charge against our Decorative Paint assets, primarily in Europe. In Europe, we recognized an impairment charge of €1,948 million and in South America €158 million. The total of €2,106 million is disclosed on a separate line in the consolidated statement of income. The impairment of Decorative Paints North America of €372 million is included in results from discontinued operations.

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 8.6 percent to 14.3 percent, with a weighted average of 9.9 percent.

Reducing growth assumptions by 50 percent maintains comfortable headroom in all businesses, except for those which were impaired. We have calculated the sensitivity for 50 percent lower growth or a one percentage point higher discount rate. The combined effect of the Decorative Paints businesses in Europe and Latin America would result in a recoverable amount around €180 million to €375 million below the carrying amount.

## 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 |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | | | | | | |
| Cost of acquisition | 2,254 | 5,654 | 664 | 279 | 33 | 8,884 |
| Accumulated depreciation/impairment | (1,059) | (3,908) | (508) | – | (25) | (5,500) |
| **Carrying value** | **1,195** | **1,746** | **156** | **279** | **8** | **3,384** |
| **Movements in 2011** | | | | | | |
| 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[1] | (80) | (313) | (57) | – | (1) | (451) |
| Impairment | (2) | (6) | – | – | – | (8) |
| Changes in exchange rates | 4 | 21 | – | – | 1 | 26 |
| **Total movements** | **48** | **86** | **38** | **149** | **–** | **321** |
| **Balance at December 31, 2011** | | | | | | |
| Cost of acquisition | 2,330 | 5,906 | 750 | 428 | 28 | 9,442 |
| Accumulated depreciation/impairment | (1,087) | (4,074) | (556) | – | (20) | (5,737) |
| **Carrying value at year-end 2011** | **1,243** | **1,832** | **194** | **428** | **8** | **3,705** |
| **Movements in 2012** | | | | | | |
| Acquisitions through business combinations | 7 | 19 | 1 | 4 | – | 31 |
| Transfer to assets held for sale | (82) | (88) | – | (15) | (2) | (187) |
| Divestments | 5 | (64) | (5) | (22) | 1 | (85) |
| Capital expenditures | 62 | 327 | 91 | 371 | 1 | 852 |
| Transfer between categories | 31 | 64 | 2 | (100) | 3 | – |
| Depreciation[1] | (89) | (345) | (68) | – | (1) | (503) |
| Impairment | (10) | (11) | (6) | (5) | (2) | (34) |
| Changes in exchange rates | (10) | (14) | 5 | (21) | – | (40) |
| **Total movements** | **(86)** | **(112)** | **20** | **212** | **–** | **34** |
| **Balance at December 31, 2012** | | | | | | |
| Cost of acquisition | 2,295 | 5,943 | 818 | 648 | 30 | 9,734 |
| Accumulated depreciation/impairment | (1,138) | (4,223) | (604) | (8) | (22) | (5,995) |
| **Carrying value at year-end 2012** | **1,157** | **1,720** | **214** | **640** | **8** | **3,739** |

[1] Including Decorative Paints North America.

### Capital expenditures

- In Decorative Paints, we are investing to expand our production capacity to meet the growing demand of China's western region
- In Performance Coatings, we are investing in multiple projects, with the largest being the increase in the production capacity of our Automotive and Aerospace Coatings business in China to meet rising demand
- In Specialty Chemicals, we are investing in facilities being built in Brazil to supply the world's largest pulp mill in Eldorado as well as a pulp mill in Suzano. We are also investing in Ningbo, China, and in our chlorine plant in Frankfurt, Germany, to convert to membrane electrolysis technology

### Impairments

In 2012, impairment charges have been recognized for an amount of €34 million (2011: €8 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 €52 million (2011: €9 million) which is related to buildings and land, €1 million to plant and equipment and machinery. Purchase commitments for property, plant and equipment totaled €89 million (2011: €49 million).

## 8 Note 8: Investments in associates and joint ventures

At year-end 2012, the carrying value of investments in associates amounted to €83 million (2011: €90 million) and in joint ventures €102 million (2011: €108 million).

In 2012, the results from associates and joint ventures amounted to a profit of €13 million (2011: €24 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), 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

| | Associates | | Joint ventures | |
|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 |
| **Condensed statement of income** | | | | |
| Revenue | 113 | 126 | 673 | 545 |
| Income before tax | 15 | 18 | 39 | 14 |
| Net income | 10 | 12 | 29 | 9 |
| **Condensed balance sheet** | | | | |
| Current assets | 101 | 116 | 191 | 183 |
| Non-current assets | 128 | 77 | 192 | 158 |
| **Total assets** | **229** | **193** | **383** | **341** |
| Current liabilities | 38 | 41 | 92 | 89 |
| Non-current liabilities | 29 | 28 | 79 | 49 |
| Shareholders' equity | 162 | 124 | 212 | 203 |
| **Total liabilities and equity** | **229** | **193** | **383** | **341** |

## 9 Note 9: Other financial non-current assets

### Other financial non-current assets

| In € millions | 2011 | 2012 |
|---|---|---|
| Loans and receivables | 294 | 287 |
| Other than financial instruments | 893 | 1,461 |
| **Total** | **1,187** | **1,748** |

The loans and receivables include the subordinated loan of €75 million granted to the 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 €133 million, invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund from the escrow account is £25 million (€31 million).

Other financial non-current assets include an amount of €1,292 million related to pension plans in an asset position (2011: €712 million).

## 10 Note 10: Inventories

Of the total carrying value of inventories at year-end 2012, €50 million is measured at net realizable value (2011: €68 million). In 2012, €39 million was recognized in the statement of income for the write-down of inventories (2011: €25 million), while €28 million of write-downs were reversed (2011: €17 million). There are no inventories subject to retention of title clauses.

### Inventories

| In € millions | 2011 | 2012 |
|---|---|---|
| Raw materials and supplies | 649 | 519 |
| Work in progress | 91 | 81 |
| Finished products and goods for resale | 1,177 | 944 |
| Inventory prepayments | 7 | 1 |
| **Total** | **1,924** | **1,545** |

## 11 Note 11: Trade and other receivables

### Trade and other receivables

| In € millions | 2011 | 2012 |
|---|---|---|
| Trade receivables | 2,370 | 2,174 |
| Prepaid expenses | 123 | 72 |
| Tax receivables other than income tax | 154 | 172 |
| Receivables from associates and joint ventures | 39 | 31 |
| FX and commodity contracts | 28 | 16 |
| Other receivables | 223 | 233 |
| **Total** | **2,937** | **2,698** |

Trade receivables are presented net of an allowance for impairment of €100 million (2011: €108 million). In 2012, €46 million of impairment losses were recognized in the statement of income (2011: €36 million).

### Ageing of trade receivables

| In € millions | 2011 | 2012 |
|---|---|---|
| Performing accounts receivable | 2,092 | 1,903 |
| **Past due accounts receivables and not impaired** | | |
| < 3 months | 227 | 226 |
| 3 – 6 months | 10 | 11 |
| 6 – 9 months | 4 | – |
| 9 – 12 months | – | – |
| > 12 months | 2 | 3 |
| Impaired accounts receivables | 143 | 131 |
| Allowance for impairment | (108) | (100) |
| **Total trade receivables** | **2,370** | **2,174** |

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 | 2011 | 2012 |
|---|---|---|
| Opening balance | 114 | 108 |
| Additions charged to income | 36 | 46 |
| Release of unused amounts | (14) | (18) |
| Acquisition/divestment | 6 | (3) |
| Utilization | (32) | (25) |
| Transfer to assets held for sale | – | (6) |
| Currency exchange differences | (2) | (2) |
| **Closing balance** | **108** | **100** |

The addition 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 trade receivables. We do not have a significant customer concentration.

## 12 Note 12: Cash and cash flows

### Cash and cash equivalents

| In € millions | 2011 | 2012 |
|---|---|---|
| Short-term investments | 343 | 301 |
| Cash on hand and in banks | 1,292 | 1,451 |
| **Included under cash and cash equivalents in the balance sheet** | **1,635** | **1,752** |
| Debt to credit institutions | (300) | (194) |
| **Total per cash flow statement** | **1,335** | **1,558** |

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings and marketable securities immediately convertible into cash. For more information on credit risk management, see Note 22.

At December 31, 2012, an amount of €119 million in cash and cash equivalents was restricted (2011: €125 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

### Changes in working capital

| In € millions | 2011 | 2012 |
|---|---|---|
| Trade and other receivables | (160) | (18) |
| Inventories | (210) | 108 |
| Trade and other payables | 39 | 161 |
| **Total** | **(331)** | **251** |

### Changes in provisions

| In € millions | 2011 | 2012 |
|---|---|---|
| Pension provisions | (403) | (607) |
| Restructuring | – | 51 |
| Other provisions | (81) | (132) |
| **Total** | **(484)** | **(688)** |

### Cash flow and net debt

Operating activities in 2012 resulted in a cash inflow of €737 million (2011: €396 million). The change is mainly due to a net effect of:

- Higher cash inflow from working capital, which was mainly realized in Q4

Partly offset by:

- Higher payments related to provisions (mainly in relation to pensions)

Net debt increased in 2012 to €2,298 million (2011: €1,895 million) as higher cash flows from operating activities were more than offset by higher capital expenditures.

## 13 Note 13: Group equity

### 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 | 478,094,904 |
| **Total** | **1,600,019,200** | **478,114,104** |

### Outstanding common shares

| Number of shares | 2011 | 2012 |
|---|---|---|
| **Outstanding at January 1** | **233,530,454** | **234,688,341** |
| Issued in connection to stock options exercised and performance shares granted | 1,157,887 | 4,359,111 |
| **Balance at year-end** | **234,688,341** | **239,047,452** |

### Weighted average number of shares

| Number of shares | 2011 | 2012 |
|---|---|---|
| **Issued common shares at January 1** | **233,530,454** | **234,688,341** |
| Issued common shares during the year | 409,553 | 2,551,704 |
| **Shares for basic earnings per share for the year** | **233,940,007** | **237,240,045** |
| **Effect of potentially dilutive shares**[1] | | |
| For stock options | 73,906 | 12,233 |
| For performance-related shares | 1,735,998 | 2,113,705 |
| **Shares for diluted earnings per share** | **235,749,911** | **239,365,983** |

[1] All potentially dilutive shares are non-dilutive for 2012 due to the loss.

**Subscribed share capital**
For further details on subscribed share capital, see Note E in the company financial statements.

**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 €1 million negative (2011: €17 million positive).

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 €6 million positive (2011: €8 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 3.

**IAS 19**
As from 2013, the amended IAS 19 on pensions will become effective. Implementation of this amendment will result in including the pension deficit in other comprehensive income in shareholders' equity. The impact is disclosed in Note 14.

## Non-controlling interests

| | | 2011 | | 2012 | |
|---|---|---|---|---|---|
| | | | Equity stake | | Equity stake |
| Group equity | Partner | % | € mln | % | € mln |
| Akzo Nobel Swire Paints (Shanghai) Limited, Shanghai, China | Swire Pacific Limited, China | 30.00 | 170 | 30.00 | 170 |
| Akzo Nobel India Ltd, Kolkata, India | Privately held, India | 43.60 | 109 | 27.04 | 73 |
| ICI Pakistan Limited, Karachi, Pakistan | Privately held, Pakistan | 24.19 | 50 | – | – |
| PT ICI Paints Indonesia, Jakarta, Indonesia | PT DWI Satrya Utama, Indonesia | 45.00 | 44 | 45.00 | 38 |
| ICI Paints (Malaysia) Sdn Bhd, Kuala Lumpur, Malaysia | Privately held, Malaysia | 40.05 | 32 | 40.05 | 33 |
| Akzo Nobel Swire Paints (Guangzhou) Limited, China | Swire Pacific Limited, Industrial Development Co. Ltd of Guanzhou, China | 46.00 | 26 | 46.00 | 36 |
| International Paint (Korea) Ltd, Busan, South Korea | Noroo Holdings, South Korea | 40.00 | 20 | 40.00 | 24 |
| Kayaku Akzo Corp, Tokyo Japan | Nippon Kayaku Co., Ltd., Japan | 25.00 | 12 | 25.00 | 10 |
| Akzo Nobel Kemipol AS, Izmir, Turkey | Privately held, Turkey | 49.00 | 9 | 49.00 | 14 |
| Marshall Boya, Dilovasi-Kocaeli, Turkey | Marshall Employees Foundation, Privately held, Turkey | 11.75 | 6 | 11.75 | 6 |
| Akzo Nobel Boya Sanayi ve Ticaret A.S. (PC), Izmir, Turkey | Privately held, Turkey | 25.00 | 5 | 25.00 | 6 |
| Akzo Nobel Pakistan Limited | Privately held, Pakistan | | | 24.19 | 16 |
| Others | | | 48 | | 39 |
| **Total** | | | **531** | | **465** |

## Post-retirement benefit provisions

Post-retirement benefits comprise defined benefit pensions and other post-retirement benefits, including healthcare or welfare plans. 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 defined benefit 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.

In line with our pension risk management policy, in May 2012 a longevity swap was transacted with a third party by the AkzoNobel (CPS) Pension Scheme. The insurance contract covers €1.75 billion of UK pension liabilities relating to almost 17,000 current pensioners and their dependants and helps protect AkzoNobel against future increases in life expectancy. Later in 2012 a program in the US was implemented, offering certain deferred members payment of benefits as a lump sum in December 2012. This is expected to reduce employer contribution requirements into those plans in future years. A number of smaller pension plans have been curtailed during the year, including plans in Canada, South Africa and Pakistan. As a result of the announced Decorative Paints divestment in 2013, €51 million of post-retirement balance sheet provisions with an associated funded status of €111 million are classified as held for sale at the end of 2012.

### Movements in post-retirement benefit provisions

| | Pensions | | Other post-retirement benefits | | Total | |
|---|---|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| **Defined benefit obligation** | | | | | | |
| **Balance at beginning of year** | (14,171) | (15,110) | (394) | (421) | (14,565) | (15,531) |
| Acquisitions/divestments/transfers | 9 | 34 | – | 3 | 9 | 37 |
| Curtailments | – | 9 | – | – | – | 9 |
| Settlements | 16 | 66 | – | – | 16 | 66 |
| Past service cost | (6) | (18) | (5) | 1 | (11) | (17) |
| Current service costs | (51) | (53) | (6) | (8) | (57) | (61) |
| Contribution by employees | (4) | (4) | (2) | (2) | (6) | (6) |
| Interest costs | (725) | (697) | (18) | (18) | (743) | (715) |
| Benefits paid | 919 | 1,024 | 31 | 31 | 950 | 1,055 |
| Actuarial gains/(losses) | (715) | (1,411) | (16) | (1) | (731) | (1,412) |
| Changes in exchange rates | (382) | (304) | (11) | 7 | (393) | (297) |
| **Defined benefit obligation at year-end** | (15,110) | (16,464) | (421) | (408) | (15,531) | (16,872) |
| **Plan assets** | | | | | | |
| **Balance at beginning of year** | 13,122 | 14,605 | – | – | 13,122 | 14,605 |
| Acquisitions/divestments | (6) | (25) | – | – | (6) | (25) |
| Settlements | (16) | (58) | – | – | (16) | (58) |
| Contribution by employer | 502 | 738 | 29 | 29 | 531 | 767 |
| Contribution by employees | 4 | 4 | 2 | 2 | 6 | 6 |
| Benefits paid | (919) | (1,024) | (31) | (31) | (950) | (1,055) |
| Expected return on plan assets | 684 | 650 | – | – | 684 | 650 |
| Actuarial gains/(losses) | 840 | 158 | – | – | 840 | 158 |
| Changes in exchange rates | 394 | 330 | – | – | 394 | 330 |
| **Plan assets at year-end** | 14,605 | 15,378 | – | – | 14,605 | 15,378 |
| **Funded status** | (505) | (1,086) | (421) | (408) | (926) | (1,494) |
| Unrecognized net loss/(gain) | 491 | 1,671 | 10 | 8 | 501 | 1,679 |
| Unrecognized past service costs | 5 | 3 | (17) | (11) | (12) | (8) |
| Restriction on asset recognition | (3) | (8) | – | – | (3) | (8) |
| Medicare receivable | – | – | (4) | (3) | (4) | (3) |
| **Net balance sheet provisions** | (12) | 580 | (432) | (414) | (444) | 166 |
| **Recorded under** | | | | | | |
| Provisions for pensions and other post-retirement benefits | (653) | (634) | (400) | (348) | (1,053) | (982) |
| Other financial non-current assets | 712 | 1,292 | – | – | 712 | 1,292 |
| Current portion | (71) | (69) | (32) | (24) | (103) | (93) |
| Held for sale | – | (9) | – | (42) | – | (51) |
| **Total** | (12) | 580 | (432) | (414) | (444) | 166 |

## DBO at funded and unfunded pension plans

| In € millions | 2011 | 2012 |
|---|---|---|
| Wholly or partly funded plans | 14,812 | 16,116 |
| Unfunded plans | 298 | 348 |
| **Total** | **15,110** | **16,464** |

## Funded status in earlier years at December 31

| | Pensions | | | Other post-retirement benefits | | |
|---|---|---|---|---|---|---|
| In € millions | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Defined benefit obligation | (11,468) | (13,688) | (14,171) | (441) | (393) | (394) |
| Plan assets | 10,480 | 11,821 | 13,122 | – | – | – |
| **Funded status** | **(988)** | **(1,867)** | **(1,049)** | **(441)** | **(393)** | **(394)** |

## Actuarial gains and losses

| | Pensions | | | | | Other post-retirement benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| In € millions | 2008 | 2009 | 2010 | 2011 | 2012 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Defined benefit obligation** | | | | | | | | | | |
| Due to experience | (147) | 331 | (92) | (98) | 22 | (5) | 5 | 23 | 11 | – |
| Due to change in assumptions | 1,624 | (2,034) | (158) | (617) | (1,433) | 5 | (12) | (19) | (27) | (1) |
| **Plan assets** | | | | | | | | | | |
| Due to experience | (1,445) | 614 | 652 | 840 | 158 | – | – | – | – | – |
| **Total** | **32** | **(1,089)** | **402** | **125** | **(1,253)** | **–** | **(7)** | **4** | **(16)** | **(1)** |

## Net periodic costs

| | | Pensions | | Other post-retirement benefits |
|---|---|---|---|---|
| In € millions | 2011 | 2012 | 2011 | 2012 |
| Service costs for benefits earned during the period | (51) | (53) | (6) | (8) |
| Interest costs on defined benefit obligations | (725) | (697) | (18) | (18) |
| Expected return on plan assets | 684 | 650 | – | – |
| Amortization of unrecognized net losses | (31) | (36) | (2) | – |
| Amortization of past service costs | (6) | (17) | (2) | 6 |
| Change of restriction of asset recognition | – | (5) | – | – |
| Settlement/curtailment gain | 1 | (7) | – | – |
| **Total** | **(128)** | **(165)** | **(28)** | **(20)** |

## Weighted average assumptions at year-end

| | Pensions | | Other post-retirement benefits | |
|---|---|---|---|---|
| In % | 2011 | 2012 | 2011 | 2012 |
| **Pension benefit obligation** | | | | |
| Discount rate | 4.6 | 3.9 | 4.4 | 3.5 |
| Rate of compensation increase | 3.7 | 3.4 | | |
| **Net periodic pension costs** | | | | |
| Discount rate | 5.4 | 4.6 | 4.9 | 4.4 |
| Rate of compensation increase | 4.6 | 3.7 | | |
| Expected return on plan assets | 5.3 | 4.3 | | |

The remaining plans primarily represent defined contribution plans. This includes, among others, the Pension Fund APF 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 2012 were €10 million (2011: €10 million). Alecta's target funding ratio in 2012 was 140 percent although the actual ratio at September 2012 stood at 123 percent. There is also a small number of multi-employer plans in the US in which AkzoNobel participates with annual contributions totalling less than €1 million. These are also accounted for as defined contribution plans. The expenses of plans classified as defined contribution plans in AkzoNobel totaled €180 million in 2012 (2011: €154 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 post-retirement benefits of €65 million (2011: €59 million), see Note 4.

### Life expectancy

| | At December 31 | |
|---|---|---|
| In years | 2011 | 2012 |
| **Currently aged 60** | | |
| Male | 26.1 | 26.2 |
| Female | 28.5 | 28.7 |
| **Currently aged 45, at age 60** | | |
| Male | 27.2 | 27.3 |
| Female | 29.5 | 29.9 |

### 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 2012 and 2011, 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 2012 and 2011, and the target allocation for 2013 for the pension plans by asset category are as follows:

### Plan asset allocation

| | Plan assets at December 31 | | Target |
|---|---|---|---|
| In % | 2011 | 2012 | 2013 |
| Equity securities | 15 | 15 | 14–16 |
| Long-term interest earning investments | 73 | 72 | 72–75 |
| Real estate | 2 | 2 | 1–2 |
| Other | 10 | 11 | 9–11 |
| **Total** | **100** | **100** | **100** |

At year-end 2012, an amount of £133 million (€163 million; 2011: £143 million or €170 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 (€31 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 9.

Weighted average assumptions for the other post-retirement benefit plans were as follows:

### Assumed healthcare cost trend rates at year-end

| In %/year | 2011 | 2012 |
|---|---|---|
| Healthcare cost trend rate assumed for next year | 6.6 | 5.9 |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 4.0 | 3.8 |
| Year that the rate reaches the ultimate trend rate | 2019–2030 | 2019–2032 |

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 | (1) | 1 |
| (Increase)/decrease on post-retirement benefit obligations | (14) | 12 |

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 €3 million at year-end 2012 (year-end 2011: €4 million).

### Cash flows

We expect to contribute €388 million to our defined benefit pension plans in 2013. This includes a top-up payment of £135 million (€165 million) for the ICI Pension Fund. For other post-retirement benefit plans the contribution for 2013 is expected to be €26 million.

The figures in the table below are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

### Expected benefit payments

| In € millions | Pensions | Other post-retirement |
|---|---|---|
| 2013 | 978 | 27 |
| 2014 | 972 | 27 |
| 2015 | 975 | 27 |
| 2016 | 979 | 27 |
| 2017 | 985 | 27 |
| 2018 - 2022 | 4,985 | 128 |

The amendments to IAS 19 "Employee Benefits" have become effective as of January 1, 2013 and will be applied in our 2013 financial reports. We have made a preliminary assessment of the effect of the implementation of these amendments on our consolidated financial statements for 2012, as follows in the table below.

### Effect of the implementation of the amendment to IAS 19

| In € millions | 2012 | 2012 restated |
|---|---|---|
| **Consolidated statement of income** | | |
| Operating income | (1,244) | (1,198) |
| Financing expenses related to pensions | (65) | (3) |
| Income tax | (172) | (203) |
| Profit/(loss) for the period | (2,106) | (2,029) |
| **Attributable to** | | |
| Shareholders of the company | (2,169) | (2,092) |
| Non-controlling interests | 63 | 63 |
| **Consolidated statement of comprehensive income** | | |
| Actuarial gains and losses, and other items relating to post-retirement benefits | – | (1,298) |
| Income tax relating to other comprehensive income | – | 249 |
| Other comprehensive income for the period | 6 | (1,043) |
| Comprehensive income for the period | (2,100) | (3,072) |
| **Attributable to** | | |
| Shareholders of the company | (2,146) | (3,118) |
| Non-controlling interests | 46 | 46 |
| **Balance sheet** | | |
| Deferred tax assets | 830 | 1,144 |
| Other financial non-current assets | 1,748 | 1,297 |
| Total post-retirement benefit provisions | 1,126 | 2,140 |
| Deferred tax liabilities | 442 | 420 |
| Shareholders' equity | 6,892 | 5,764 |
| Non-controlling interests | 465 | 464 |

## 15 Note 15: Other provisions

### Movements in other provisions

| In € millions | Restructuring of activities | Environmental costs | Other | Total |
|---|---|---|---|---|
| **Balance at January 1, 2012** | **135** | **414** | **563** | **1,112** |
| Additions made during the year | 204 | 46 | 109 | 359 |
| Utilization | (143) | (33) | (167) | (343) |
| Amounts reversed during the year | (9) | (21) | (23) | (53) |
| Unwind of discount | 1 | 17 | 8 | 26 |
| Acquisitions/divestments | – | 1 | – | 1 |
| Transfer to assets held for sale | (4) | – | (2) | (6) |
| Changes in exchange rates | – | – | 1 | 1 |
| **Balance at December 31, 2012** | **184** | **424** | **489** | **1,097** |
| | | | | |
| Non-current portion | 42 | 368 | 325 | 735 |
| Current portion | 142 | 56 | 164 | 362 |
| **Balance at December 31, 2012** | **184** | **424** | **489** | **1,097** |

**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 19.

**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 2012, the provision for antitrust cases amounted to €21 million (2011: €134 million), see Note 19. Folllowing the judgment in the Metacrylates case by the General Court in June 2012 we paid €113 million.

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.

**Current portion of provisions**
Current portion of post-retirement provisions (€93 million) and other provisions (€362 million) adds up to €455 million (2011: €551 million).

## 16 Note 16: Long-term borrowings

### Long-term borrowings

| In € millions | 2011 | 2012 |
|---|---|---|
| Debt issued | 2,941 | 3,289 |
| Debt to credit institutions | 15 | 10 |
| Other borrowings | 79 | 89 |
| **Total** | **3,035** | **3,388** |

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 22. During 2012, the average effective interest rate was 5.24 percent (2011: 6.22 percent).

### Debt issued

| In € millions | 2011 | 2012 |
|---|---|---|
| 5 5/8 % 2003/13 ($500 million) | 387 | – |
| 7 3/4 % 2008/14 (€825 million ) | 822 | 823 |
| 7 1/4 % 2009/15 (€621 million) | 634 | 630 |
| 8 % 2009/16 (£250 million) | 297 | 305 |
| 4 % 2011/18 (€800 million) | 790 | 792 |
| 2 5/8 % 2012/22 (€750 million) | – | 739 |
| Other | 11 | – |
| **Total** | **2,941** | **3,289** |

### Aggregated maturities of long-term borrowings

| In € millions | 2014 – 2017 | After 2017 |
|---|---|---|
| Debt issued | 1,758 | 1,531 |
| Debt to credit institutions | 9 | 1 |
| Other borrowings | 44 | 45 |
| **Total** | **1,811** | **1,577** |

## 17 Note 17: Short-term borrowings

We have a €1.8 billion multi-currency revolving credit facility originally expiring in 2016. In 2012 the maturity of €1.7 billion of this facility has been extended with an additional year to 2017. At year-end 2012 and 2011, this facility had not been drawn. At year-end 2012 and 2011, none of the borrowings was secured by collateral.

In 2011, a bond was issued with a nominal amount of €800 million maturing December 2018 at a coupon of 4 percent. In 2012, a bond was issued with a nominal value of €750 million maturing in 2022 at a coupon rate of 2.625 percent.

Financial lease liabilities are included in other borrowings and aggregated €52 million. An amount of €6 million will mature within one year and €17 million will mature in the period 2014 through 2017 and €29 million after 2017.

### Short-term borrowings

| In € millions | 2011 | 2012 |
|---|---|---|
| Debt to credit institutions | 300 | 194 |
| Current portion long-term borrowings | 194 | 468 |
| **Total** | **494** | **662** |

In 2012, bonds of $133 million and €26 million matured. In December 2013 a bond totaling $0.5 billion will mature and is classified as a short-term borrowing.

We have US dollar and euro commercial paper programs in place, which can only be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2012 and 2011.

## 18 Note 18: Trade and other payables

### Trade and other payables

| In € millions | 2011 | 2012 |
|---|---|---|
| Suppliers | 2,130 | 1,990 |
| Amounts payable to employees | 234 | 258 |
| Derivatives | 22 | 12 |
| Taxes and social security contributions | 227 | 230 |
| Payable to customers | 142 | 156 |
| Dividends | 30 | 19 |
| Payable to associates and joint ventures | 38 | 32 |
| Other liabilities | 546 | 545 |
| **Total** | **3,369** | **3,242** |

**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 15, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated €424 million at year-end 2012 (2011: €414 million). The provision has been discounted using an average pre-tax discount rate of 2.9 percent (2011: 3.4 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.

**Claims and litigations**
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. An appeal by the company is pending with the General Court against the decision by the European Commission to impose fines on the company for violations of EU competition laws regarding Heat Stabilizers. The Commission's fine imposed for this case has been provided for.

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.

Provisions are recognized when an outflow of economic benefits for settlement is probable and the amount is reliably estimable. It should be understood that, in light of possible future developments, such as (a) potential additional lawsuits, (b) possible future settlements, and (c) rulings or judgments in pending lawsuits, certain 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. While the outcome of said cases, 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 €89 million at year-end 2012 (2011: €49 million).

**Maturity operational lease contracts**

| In € millions | 2011 | 2012 |
|---|---|---|
| Payments due within one year | 159 | 166 |
| Payments between one and five years | 358 | 354 |
| Payments due after more than five years | 197 | 199 |
| **Total** | **714** | **719** |

In the 2012 figures, €156 million is included for operational lease commitments of the North American Decorative Paints business, which has been classified as held for sale (payments due within one year €39 million, payments between one and five year €88 million and payments due after more than five years €29 million).

Guarantees related to investments in associates and joint ventures totaled €10 million (December 31, 2011: €13 million).

## 20 Note 20: Related party transactions

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 2012, a significant related party transaction was a €115 million gas supply (2011: €204 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 included in Note 14.

- At year-end 2012, AkzoNobel had a loan to the Pension Fund APF in the Netherlands of €75 million (2011: €81 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 (€165 million) in 2013, followed by payments of £178.5 million (€219 million) in each year from 2014 to 2017
- 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 £42 million (€51 million) in each year from 2013 to 2018. In addition, contributions of at least £25m (€31 million) will be paid each year from the escrow account (see Notes 9 and 14) 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 a top-up contribution of £4 million in 2013
- In recognition of a funding deficit in the JP McDougall Pension Scheme in the UK, the company has agreed to make top-up contributions of £2 million in each year from 2013 to 2020
- In recognition of funding deficits at several pension plans in the US, the company has agreed to make top-up contributions of $25 million in 2013

During 2012, 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 21. 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 2012. 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.

## 21 Note 21: Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €24.1 million (2011: €15.4 million), which is inclusive of €1.7 million related to Dutch crisis tax (of which €1.4 million related to members of Board of Management. Payments to the members of the Supervisory Board did not exceed the threshold for crisis tax). €10.4 million related to short-term employee benefits (2011: €7.6 million); €1.5 million to post-employment benefits and other post-employment compensation (2011: €2.1 million), €8.1 million to share based compensation (2011: €5.7 million) and €2.5 million relates to payments upon termination of employment. The members of the Executive Committee which are not a member of the Board of Management 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.

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 2011 | Remuneration | Attendance fee | Committee fee | Employer's charges | Total remuneration 2012 |
|---|---|---|---|---|---|---|
| Karel Vuursteen, Chairman | 122,600 | 100,000 | 2,500 | 15,000 | 3,600 | 121,100 |
| Sari Baldauf[1] | – | 33,300 | 10,000 | 6,700 | 2,400 | 52,400 |
| Uwe-Ernst Bufe, Deputy Chairman | 80,100 | 60,000 | 15,000 | – | 3,600 | 78,600 |
| Virginia Bottomley[2] | 82,600 | 16,700 | 5,000 | 3,300 | 1,200 | 26,200 |
| Dolf van den Brink | 75,000 | 50,000 | 2,500 | 20,000 | – | 72,500 |
| Peggy Bruzelius | 175,600 | 50,000 | 12,500 | 15,000 | 17,000 | 94,500 |
| Antony Burgmans | 70,000 | 50,000 | 2,500 | 15,000 | – | 67,500 |
| Peter Ellwood | 77,600 | 50,000 | 17,500 | 13,800 | 3,600 | 84,900 |
| Louis Hughes | 92,600 | 50,000 | 25,000 | 15,000 | 3,600 | 93,600 |
| Ben Verwaayen[1] | – | 33,300 | 10,000 | 6,700 | 2,400 | 52,400 |
| **Total** | **776,100** | **493,300** | **102,500** | **110,500** | **37,400** | **743,700** |

[1] As of May 1, 2012.
[2] Until May 1, 2012.

### Shares held by the members of the Supervisory Board

| Number of shares at year-end | 2011 | 2012 |
|---|---|---|
| Karel Vuursteen | 400 | 400 |
| Sari Baldauf | – | – |
| Uwe-Ernst Bufe | 500 | 500 |
| Dolf van den Brink | 500 | 500 |
| Peggy Bruzelius | 500 | 500 |
| Antony Burgmans | 500 | 500 |
| Peter Ellwood | 500 | 500 |
| Louis Hughes | 500 | 500 |
| Ben Verwaayen | – | – |

## 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 incentives for 2012 are 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.

### 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 (€110,300) related to employer's contribution in the UK. Costs for Mr. Darner (amounting to €689,500) related to compensation for living expenses, home leave allowances and relocation. Costs for Mr. Nichols (€72,100) related to living expenses and home leave allowances. A special award (€578,600) to Mr. Gunning concerned a conditional cash payment relating to the period 2009-2011 and subject to pre-defined objectives focusing on the integration of the ICI activities into the AkzoNobel group companies.

### Post-employment benefits and other post-employment compensation

Other post-employment compensation are payments to a person intended for building up retirement benefits other than those included in Post-employment benefits. Pension contributions were calculated over the 2012 remuneration. These amounts together with the contributions over the 2012 short-term incentives are included in the post-employment benefits and other post-employment compensation.

### Share-based compensation

The costs for share-based compensation are non-cash and related to the performance-related share plan and the share matching plan following IFRS 2. 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 fair value was €31.15 per performance-related share conditionally granted in 2012 for those members of the Board of Management facing a two-year holding restriction (2011: €46.91) and €38.79 for those members whose holding restriction will lapse after the end of their Board member's term. The fair value for the shares related to the share matching plan amounted to €39.72 and the fair value for the matching arrangement for Mr. Büchner amounted to €37.92.

### Termination benefits

Termination benefits include costs that have been incurred in 2012 relating to leaving arrangements.

## Former members of the Board of Management

In 2012, charges for former members of the Board of Management amounted to €18,000 (2011: €21,000).

### Board remuneration 2011

| In € | Salary | Short-term incentives | Other short-term benefits | Post-employment benefits | Share-based compensation | Total remuneration |
|---|---|---|---|---|---|---|
| Keith Nichols | 591,500 | 206,400 | 238,900 | 198,200 | 848,500 | 2,083,500 |
| Leif Darner | 591,500 | 206,400 | 154,200 | 217,900 | 848,500 | 2,018,500 |
| Tex Gunning | 591,500 | 206,400 | 4,900 | 240,800 | 848,500 | 1,892,100 |
| Hans Wijers | 788,700 | 423,500 | 4,900 | 482,900 | 1,132,100 | 2,832,100 |
| Rob Frohn | 591,500 | 206,400 | 7,400 | 185,800 | 848,500 | 1,839,600 |
| **Total** | **3,154,700** | **1,249,100** | **410,300** | **1,325,600** | **4,526,100** | **10,665,800** |

### Board remuneration 2012

| In € | Salary | Short-term incentives | Other short-term benefits | Post-employment benefits | Other post-employment compensation | Share-based compensation | Termination benefits | Total remuneration |
|---|---|---|---|---|---|---|---|---|
| Ton Büchner[1] | 534,700 | 170,900 | 5,700 | – | 128,900 | 399,500 | – | 1,239,700 |
| Keith Nichols | 602,000 | 224,500 | 182,400 | 109,100 | 78,000 | 880,400 | – | 2,076,400 |
| Leif Darner | 602,000 | 200,100 | 689,500 | 229,500 | – | 1,248,600 | 796,300 | 3,766,000 |
| Tex Gunning | 602,000 | 200,100 | 584,600 | 236,700 | – | 951,300 | – | 2,574,700 |
| Hans Wijers[2] | 267,700 | 267,700 | 2,000 | 213,100 | – | 1,661,900 | 1,130,600 | 3,543,000 |
| Rob Frohn[3] | 200,700 | 130,400 | 2,800 | 73,100 | – | 1,245,500 | 602,000 | 2,254,500 |
| **Total** | **2,809,100** | **1,193,700** | **1,467,000** | **861,500** | **206,900** | **6,387,200** | **2,528,900** | **15,454,300** |

[1] As of April 23, 2012.
[2] Until April 23, 2012.
[3] Until May 1, 2012.

**Performance-related shares**
With regard to the performance related shares granted to the members of the Board of Management in 2010, the final vesting percentage of the series 2010-2012 equaled 66.67 percent (series 2009-2011: 62.5 percent), including dividend shares 73.61 percent. The members of the Board of Management will retain the shares for a minimum period of two years after vesting or (if shorter) for the duration of their tenure as member of the Board of Management.

**Share matching plan**
The CEO and other members of the Board of Management are 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. Under certain conditions, members who invest part of their short term incentives in AkzoNobel shares may have such shares matched by the company. See the Remuneration report.

**Number of performance-related shares**

| | Series | Balance at January 1, 2012 | Granted in 2012 | Vested in 2012 | Forfeited in 2012 | Dividend in 2012 | Balance at December 31, 2012 | Vested on January 1, 2013 |
|---|---|---|---|---|---|---|---|---|
| Ton Büchner | 2012 – 2014 | – | 31,900 | – | – | 1,199 | 33,099 | – |
| | | | | | | | | |
| Keith Nichols | 2009 – 2011 | 19,125 | – | (19,125) | – | – | – | – |
| | 2010 – 2012 | 19,473 | – | – | (6,736) | 734 | 13,471 | 13,471 |
| | 2011 – 2013 | 19,173 | – | – | – | 722 | 19,895 | – |
| | 2012 – 2014 | – | 23,900 | | | 899 | 24,799 | – |
| | | | | | | | | |
| Leif Darner | 2009 – 2011 | 19,125 | – | (19,125) | – | – | – | – |
| | 2010 – 2012 | 19,473 | – | – | (6,736) | 734 | 13,471 | 13,471 |
| | 2011 – 2013 | 19,173 | – | – | – | 722 | 19,895 | – |
| | 2012 – 2014 | – | 23,900 | – | – | 899 | 24,799 | – |
| | | | | | | | | |
| Tex Gunning | 2009 – 2011 | 19,125 | – | (19,125) | – | – | – | – |
| | 2010 – 2012 | 19,473 | – | – | (6,736) | 734 | 13,471 | 13,471 |
| | 2011 – 2013 | 19,173 | – | – | – | 722 | 19,895 | – |
| | 2012 – 2014 | – | 23,900 | – | – | 899 | 24,799 | – |
| | | | | | | | | |
| Hans Wijers | 2009 – 2011 | 25,547 | – | (25,547) | – | – | – | – |
| | 2010 – 2012 | 25,964 | – | – | (8,981) | 978 | 17,961 | 17,962 |
| | 2011 – 2013 | 25,564 | – | – | – | 962 | 26,526 | – |
| | 2012 – 2014 | – | 10,700 | | | 402 | 11,102 | – |
| | | | | | | | | |
| Rob Frohn | 2009 – 2011 | 19,125 | – | (19,125) | – | – | – | – |
| | 2010 – 2012 | 19,473 | – | – | (6,736) | 734 | 13,471 | 13,471 |
| | 2011 – 2013 | 19,173 | – | – | – | 722 | 19,895 | – |
| | 2012 – 2014 | – | 8,000 | – | – | 301 | 8,301 | – |

## Shares held by the Board of Management

| Number of shares at year-end | 2011 | 2012 |
|---|---|---|
| Ton Büchner | – | 10,810 |
| Keith Nichols | 7,069 | 16,632 |
| Leif Darner | 46,162 | 48,594 |
| Tex Gunning | – | 14,435 |

## Stock options

| | Year of issue | Exercise price in € | Outstanding at January 1, 2012 | Forfeited in 2012 | Exercised in 2012 | Outstanding at December 31, 2012 | Expiry date |
|---|---|---|---|---|---|---|---|
| Keith Nichols | 2006 | 46.46 | 3,000 | – | – | 3,000 | April 26, 2013 |
| | 2007 | 58.89 | 3,750 | – | – | 3,750 | April 26, 2014 |
| Leif Darner | 2006 | 46.46 | 13,000 | – | – | 13,000 | April 26, 2013 |
| | 2007 | 58.89 | 13,000 | – | – | 13,000 | April 26, 2014 |
| Hans Wijers | 2002 | 46.53 | 14,850 | (14,850) | – | – | April 25, 2012 |
| | 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 |
| Rob Frohn | 2006 | 46.46 | 13,000 | – | – | 13,000 | April 26, 2013 |
| | 2007 | 58.89 | 13,000 | – | – | 13,000 | April 26, 2014 |

## 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. We centrally identify, evaluate and hedge financial risks , and monitor compliance with the corporate policies approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation and hedging in the businesses. We have treasury hubs located in Brazil, Asia and the US that are primarily responsible for regional cash management and short-term financing. We do not allow for extensive treasury operations at subsidiary level directly with external parties

## 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 2012, we had €1.8 billion available as cash and cash equivalents (2011: €1.6 billion), see Note 12. In addition, we have a €1.8 billion multi-currency revolving credit facility originally expiring in 2016. In 2012 the maturity of €1.7 billion of this facility has been extended with an additional year to 2017. At year-end 2012 and 2011, this facility had not been drawn. We have US dollar and euro commercial paper programs in place, which can only be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2012 and 2011. 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 one year | Between one and five years | Over five years |
|---|---|---|---|
| **At December 31, 2011** | | | |
| Borrowings | 489 | 2,219 | 812 |
| Interest on borrowings | 178 | 382 | 64 |
| Finance lease liabilities | 5 | 3 | 1 |
| Trade and other payables | 3,369 | – | – |
| **Fx contracts (hedges)** | | | |
| Outflow | 2,676 | – | – |
| Inflow | (2,687) | – | – |
| **Other derivatives** | | | |
| Outflow | 19 | 14 | – |
| Inflow | (11) | – | – |
| **Total** | **4,038** | **2,618** | **877** |
| **At December 31, 2012** | | | |
| Borrowings | 656 | 1,794 | 1,548 |
| Interest on borrowings | 211 | 332 | 121 |
| Finance lease liabilities | 6 | 17 | 29 |
| Trade and other payables | 3,242 | – | – |
| **Fx contracts (hedges)** | | | |
| Outflow | 2,380 | – | – |
| Inflow | (2,417) | – | – |
| **Other derivatives** | | | |
| Outflow | 12 | 14 | – |
| Inflow | – | – | – |
| **Total** | **4,090** | **2,157** | **1,698** |

## 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 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 financial 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. We set limits per counterparty for the different types of financial instruments we use. We closely monitor the acceptable financial 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. The credit risk from trade receivables is measured and analyzed at a local operating entity level, mainly by means of ageing analysis, see Note 11.

Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets in the balance sheet.

At year-end 2012, the credit risk on consolidated level was €4.5 billion (2011: €4.6 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 €230 million at year-end 2012.

## Foreign exchange risk management

### Trade and financing transactions

We operate in a large number of countries, where we have clients and suppliers, many of whom are outside of the local functional currency environment. This creates currency exposure which is partly netted out on consolidation.

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**

| | Buy | Sell | Buy | Sell |
|---|---|---|---|---|
| In € millions | 2011 | 2011 | 2012 | 2012 |
| US dollar | 619 | 1,062 | 273 | 616 |
| Pound sterling | 222 | 501 | 68 | 541 |
| Swedish krona | 306 | 6 | 275 | 58 |
| Other | 445 | 334 | 273 | 517 |
| **Total** | **1,592** | **1,903** | **889** | **1,732** |

### Investments in foreign subsidiaries, associates and joint ventures

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 2012 the hedge was fully effective.

In 2011 and 2012 we applied cash flow hedge accounting of CNY793 million for an acquisition of which CNY242 million was still outstanding at the end of 2012. There was no material gain/loss in 2012 on the effective hedges (2011: €11 million gain). An amount of €8 million has been recognized as consideration paid in Note 2. In the cash flow hedge reserve the remaining 2011 gain of €3 million was recorded, which will be included in the consideration paid in 2013 and 2014.

The foreign exchange and interest rate risks related to divestments amounting to $201 million and CAD190 million were hedged using forward contracts and cash flow hedge accounting was applied. The gain on the effective hedges amounted to €5 million of which €2 million relates to a divestment completed in 2012 which is included in the net cash flow in Note 2. The remaining €3 million gain in the cash flow hedge reserve will be included in the net cash flow on divestments in 2013.

## 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 Chlor Alkali activity in the Netherlands mitigates price risks related to electricity by concluding electricity futures to gradually cover the expected use over future periods. We apply cash flow hedge accounting to these futures. All contracts qualified as effective for hedge accounting. The fair value of the contracts outstanding at year-end 2012 amounted to a loss of €10 million, net of tax (year-end 2011: a loss of €7 million, net of tax). In the cash flow hedge reserve a loss of €10 million net of tax was recorded (year-end 2011: a loss of €11 million net of tax), which is expected to affect profit within the next three years.

In order to hedge the oil price risk, we have entered into oil/gas swap contracts. At the end of 2012, the fair value of these contracts amounted to a loss of €4 million net of tax (year-end 2011: €3 million loss net of tax). We did 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 2013 – 2017. 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 €10 million loss net of tax in equity (2011: €9 million net deferred loss), which are expected to affect operational cost within the next five years. All hedges were effective in 2012 and 2011.

## 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 94 percent fixed at year-end 2011 to 88 percent fixed at year-end 2012. During 2012, 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 €13 million was amortized to the statement of income in 2012 on the interest line. The effective interest rate (excluding hedge results) over 2012 was 5.63 percent (2011: 6.60 percent). Combined with the amortization of interest rate swaps closed out in 2011, the effective interest rate was 5.24 percent (2011: 6.22 percent).

## 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 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 other companies 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 2012 at year-end amounted to 0.30 (2011: 0.34). 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 2012, a bond was issued with a nominal value of €750 million maturing in 2022 at a coupon rate of 2.625 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 and electricity 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)

Level 1 fair valuation methods were used for €3.6 billion of the long-term borrowings and €0.5 billion of the short-term borrowings. All other fair values were determined using level 2 fair valuation methods.

## Fair value per financial instruments category

| In € millions | Carrying amount | Out of scope of IFRS 7 | Carrying value per IAS 39 category: Loans and receivables/ other liabilities | Carrying value per IAS 39 category: At fair value through profit or loss | Total carrying value | Fair value |
|---|---|---|---|---|---|---|
| **2011 year-end** | | | | | | |
| Other financial non-current assets | 1,187 | 860 | 327 | – | 327 | 338 |
| Trade and other receivables | 2,937 | 277 | 2,632 | 28 | 2,660 | 2,660 |
| Cash and cash equivalents | 1,635 | – | – | 1,635 | 1,635 | 1,635 |
| **Total financial assets** | **5,759** | **1,137** | **2,959** | **1,663** | **4,622** | **4,633** |
| Long-term borrowings | 3,035 | – | 3,035 | – | 3,035 | 3,341 |
| Short-term borrowings | 494 | – | 494 | – | 494 | 496 |
| Trade and other payables | 3,369 | 1,217 | 2,130 | 22 | 2,152 | 2,152 |
| **Total financial liabilities** | **6,898** | **1,217** | **5,659** | **22** | **5,681** | **5,989** |
| **2012 year-end** | | | | | | |
| Other financial non-current assets | 1,748 | 1,428 | 320 | – | 320 | 335 |
| Trade and other receivables | 2,698 | 244 | 2,438 | 16 | 2,454 | 2,454 |
| Cash and cash equivalents | 1,752 | – | – | 1,752 | 1,752 | 1,752 |
| **Total financial assets** | **6,198** | **1,672** | **2,758** | **1,768** | **4,526** | **4,541** |
| Long-term borrowings | 3,388 | – | 3,388 | – | 3,388 | 3,713 |
| Short-term borrowings | 662 | – | 662 | – | 662 | 678 |
| Trade and other payables | 3,242 | 1,240 | 1,990 | 12 | 2,002 | 2,002 |
| **Total financial liabilities** | **7,292** | **1,240** | **6,040** | **12** | **6,052** | **6,393** |

## Sensitivities

| Sensitivity object | Sensitivity, measured at year-end 2012 | Hypothetical impact, net of tax |
|---|---|---|
| **Foreign currencies:**<br>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. | A 10 percent strengthening of the euro versus US dollar | Profit: €4 million (2011: €nil)<br>Equity: €nil (2011: €nil) |
| | A 10 percent strengthening of the euro versus the pound sterling | Profit: €5 million (2011: €1 million)<br>Equity: €nil (2011: €nil)<br><br>Net investment hedge accounting is applied to GBP250 million, which results in a sensitivity on equity of nil. |
| **Commodity prices:**<br>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. | **Electricity price Specialty Chemicals Netherlands:**<br>A 10 percent change in the forward price of electricity (€5 per MWh) as compared with the market prices (up/down) | Equity: €10 million. (2011 €11 million). (up/down)<br>We apply cash flow hedge accounting to the fair value changes of electricity futures). |
| | **Electricity price Specialty Chemicals Sweden and Finland:**<br>A 10 percent change in the forward price on the Nord Pool exchange electricity (€3.76 per MWh) as compared with the market prices (up/down) | Equity: €10 million. (2011 €7 million). (down/up)<br>We apply cash flow hedge accounting to the fair value changes of electricity futures). |
| | **Oil price Specialty Chemicals Netherlands:**<br>A 10 percent change in price of oil (€8 per barrel) as compared with market prices (up/down) | Profit: €8 million (2011: €6 million. (down/up)<br>Over the full term of the (partially long-term) contracts, net impact on profit will be €nil. |
| **Interest rates:**<br>We perform interest rate sensitivity analysis by applying an adjustment to the interest rate curve prevailing at year-end. This adjustment is based on observed changes in the interest rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all interest bearing assets and liabilities. | A 100 basis points increase of EURIBOR interest rates | Profit: €6 million (2011: €2 million). |
| | A 100 basis points increase of US LIBOR interest rates | Loss: €4 million (2011: €1 million). |
| | A 100 basis points increase of GBP LIBOR interest rates | Loss: €nil million (2011: €2 million). |

# Company financial statements

## Statement of income

| In € millions | 2011 | 2012 |
|---|---|---|
| Net income from subsidiaries, associates and joint ventures | 538 | (2,308) |
| Other net income/(loss) | (61) | 139 |
| **Total net income/(loss)** | **477** | **(2,169)** |

## Balance sheet as of December 31, before result allocation

| In € millions | Note | | 2011 | | 2012 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Non-current assets | | | | | |
| Financial non-current assets | B | 16,120 | | 14,486 | |
| **Total non-current assets** | | | **16,120** | | **14,486** |
| Current assets | | | | | |
| Trade and other receivables | C | 124 | | 80 | |
| Cash and cash equivalents | D | 205 | | 473 | |
| **Total current assets** | | | **329** | | **553** |
| **Total assets** | | | **16,449** | | **15,039** |
| **Equity and liabilities** | | | | | |
| Equity | | | | | |
| Subscribed share capital | | 469 | | 478 | |
| Additional paid-in capital | | 47 | | 174 | |
| Change in fair value of derivatives | | (9) | | (17) | |
| Other statutory reserves | | 240 | | 264 | |
| Cumulative translation reserves | | 4 | | 35 | |
| Other reserves | | 8,061 | | 8,205 | |
| Undistributed results | | 400 | | (2,247) | |
| **Shareholders' equity** | E | | **9,212** | | **6,892** |
| Non-current liabilities | | | | | |
| Provision for subsidiaries | B | 304 | | 454 | |
| Long-term borrowings | F | 6,618 | | 7,345 | |
| **Total non-current liabilities** | | | **6,922** | | **7,799** |
| Current liabilities | | | | | |
| Other short-term debt | G | 315 | | 348 | |
| **Total current liabilities** | | | **315** | | **348** |
| **Total equity and liabilities** | | | **16,449** | | **15,039** |

## 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 21 of the Consolidated financial statements section.

## Statement of changes in shareholders' equity

| In € millions | Subscribed share capital | Additional paid-in capital | Statutory reserves: Cash flow hedge reserve | Statutory reserves: Other Statutory reserves | Statutory reserves: Cumulative translation reserves | Other reserves | Undistributed results | Shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | **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 |
| **Comprehensive income** | **–** | **–** | **(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) | – |
| Acquisitions and divestments | – | – | – | – | – | (1) | – | (1) |
| **Balance at December 31, 2011** | **469** | **47** | **(9)** | **240** | **4** | **8,061** | **400** | **9,212** |
| Changes in fair value of derivatives | – | – | (8) | – | – | – | – | (8) |
| Changes in exchange rates in respect of subsidiaries, associates and joint ventures | – | – | – | – | 31 | – | – | 31 |
| Net loss | – | – | – | – | – | – | (2,169) | (2,169) |
| **Comprehensive income** | **–** | **–** | **(8)** | **–** | **31** | **–** | **(2,169)** | **(2,146)** |
| Dividend paid | 7 | 121 | – | – | – | – | (342) | (214) |
| Equity-settled transactions | – | – | – | – | – | 43 | – | 43 |
| Issue of common shares | 2 | 6 | – | – | – | – | – | 8 |
| Addition to other reserves | – | – | – | 24 | – | 112 | (136) | – |
| Acquisitions and divestments | – | – | – | – | – | (11) | – | (11) |
| **Balance at December 31, 2012** | **478** | **174** | **(17)** | **264** | **35** | **8,205** | **(2,247)** | **6,892** |

## B Note B: Financial non-current assets and provisions for subsidiaries

### Movements in financial non-current assets

| In € millions | Subsidiaries | | | |
|---|---|---|---|---|
| | Share in capital | Loans[1] | Other financial non-current assets | Total |
| **Balance at January 1, 2011** | **9,729** | **7,056** | **89** | **16,874** |
| 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) |
| Transfer to provision for subsidiaries | 15 | – | – | 15 |
| **Balance at December 31, 2011** | **10,741** | **5,289** | **90** | **16,120** |
| Acquisitions/capital contributions | 156 | – | – | 156 |
| Divestments/capital repayments | – | – | (2) | (2) |
| Net income from subsidiaries, associates and joint ventures | (2,308) | – | – | (2,308) |
| Equity-settled transactions | 35 | – | – | 35 |
| Change in fair value of derivatives | 3 | – | – | 3 |
| Loans granted | – | 1,856 | – | 1,856 |
| Repayment of loans | – | (1,422) | – | (1,422) |
| Changes in exchange rates | 52 | 6 | – | 58 |
| Other changes | (153) | – | (7) | (160) |
| Change to provisions for subsidiaries | 150 | – | – | 150 |
| **Balance at December 31, 2012** | **8,676** | **5,729** | **81** | **14,486** |

[1] Loans to these companies have no fixed repayment schedule.

## C Note C: Trade and other receivables

### Trade and other receivables

| In € millions | 2011 | 2012 |
|---|---|---|
| Receivables from subsidiaries | 46 | 25 |
| Receivable from associates and joint ventures | 14 | 14 |
| FX contracts | 19 | 6 |
| Other receivables | 45 | 35 |
| **Total** | **124** | **80** |

## D Note D: Cash and cash equivalents

### Cash and cash equivalents

| In € millions | 2011 | 2012 |
|---|---|---|
| Short-term investments | 41 | 21 |
| Cash on hand and in banks | 164 | 452 |
| **Total** | **205** | **473** |

## E Note E: Shareholders' equity

### 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 2012 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.

We held no common shares at year-end 2012 or 2011.

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year.

Of the shareholders' equity of €6.9 billion, an amount of €6.2 billion (2010: €8.5 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 | 2011 | 2012 |
|---|---|---|
| Shareholders' equity at year-end | 9,212 | 6,892 |
| Subscribed share capital | (469) | (478) |
| Subsidiaries' restrictions to transfer funds | (158) | (181) |
| Statutory reserve due to capital reduction | (61) | (61) |
| Reserve for development costs | (15) | (16) |
| **Unrestricted reserves** | **8,509** | **6,156** |

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 €16 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates, and joint ventures after 1983.

### Dividend

We will propose to the Annual General Meeting on April 26, 2013 a 2012 final dividend of €1.12 per share, which would make a total 2012 dividend of €1.45 per share (2011: €1.45). During 2012, we paid the 2011 final dividend of €1.12 and the 2012 interim dividend of €0.33.

## F Note F: Long-term borrowings

### Long-term borrowings

| In € millions | 2011 | 2012 |
|---|---|---|
| Debentures | 1,721 | 1,726 |
| Debt to subsidiaries | 4,858 | 5,619 |
| Other borrowings | 39 | – |
| **Total** | **6,618** | **7,345** |

For the fair value of the debenture loans and the related interest-rate derivatives, see Note 22 of the Consolidated financial statements section.

### Debentures

| In € millions | 2011 | 2012 |
|---|---|---|
| 71/4% 2009/15 (€975 million) | 634 | 630 |
| 8% 2009/16 (£250 million) | 297 | 305 |
| 4 % 2011/18 (€800 million) | 790 | 791 |
| **Total** | **1,721** | **1,726** |

We have a €1.8 billion multi-currency revolving credit facility originally expiring in 2016. In 2012 the maturity of €1.7 billion of this facility has been extended with an additional year to 2017. At year-end 2012 and 2011, this facility had not been drawn. At year-end 2012 and 2011, none of the borrowings was secured by collateral. Interest charged on these borrowings averaged 0.1 percent in 2012 (2011: 0.9 percent).

## G Note G: Short-term debt

### Short-term debt

| In € millions | 2011 | 2012 |
|---|---|---|
| Current portion long-term borrowings | 48 | 58 |
| Debt to subsidiaries | 8 | 8 |
| FX contracts | 12 | 10 |
| Borrowings from associates and joint ventures | 37 | 27 |
| Short-term bank loans | 21 | 3 |
| Debt related to pensions | 10 | 8 |
| Debt related to other suppliers | 32 | 68 |
| Other liabilities | 147 | 166 |
| **Total** | **315** | **348** |

We have US dollar and euro commercial paper programs, in place which can only be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no paper outstanding at year-end 2012 and 2011.

## H Note H: Financial instruments

At year-end 2012, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €0.9 billion (year-end 2011: €1.6 billion), while contracts to sell currencies totaled €1.7 billion (year-end 2011: €1.9 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 22 of the consolidated financial statements.

## I Note I: 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 2012, aggregating €0.5 billion (2011: €0.4 billion), are included in the consolidated balance sheet. Additionally, at year-end 2012, guarantees were issued on behalf of consolidated companies for an amount of €2.9 billion (2011: €2.1 billion), iincluding 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 19 of the consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €10 million (2011: €13 million).

## J Note J: Auditor's fees

**Auditor's fees**

| In € millions | In the Netherlands | Network outside the Netherlands | Total 2011 | In the Netherlands | Network outside the Netherlands | Total 2012 |
|---|---|---|---|---|---|---|
| Audit | 3.2 | 6.8 | 10.0 | 2.9 | 8.2 | 11.1 |
| Audit-related | 0.4 | 0.3 | 0.7 | 0.2 | 0.1 | 0.3 |
| Tax | – | 0.3 | 0.3 | – | 0.2 | 0.2 |
| Other services | 0.3 | – | 0.3 | – | – | – |
| **Total** | **3.9** | **7.4** | **11.3** | **3.1** | **8.5** | **11.6** |

Amsterdam, February 19, 2013

**The Board of Management**
Ton Büchner
Keith Nichols
Leif Darner
Tex Gunning

**The Supervisory Board**
Karel Vuursteen
Uwe-Ernst Bufe
Sari Baldauf
Dolf van den Brink
Peggy Bruzelius
Antony Burgmans
Peter Ellwood
Louis Hughes
Ben Verwaayen

# 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 2012 of Akzo Nobel N.V., Amsterdam, as set out on pages 107 to 157. 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, 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and the 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, 2012, 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 these 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, 2012 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, 2012 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 whether 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 106, 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 19, 2013
**KPMG Acountants N.V.**

E.H.W. Weusten RA

# Result allocation and distributions

## Statutory provisions

**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 result allocation

With due observance of Dutch law and the Articles of Association, it is proposed that the loss of €2,169 million is charged against 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 €347 million (to be increased by dividend on shares issued in 2013 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 on May 29, 2013.

## 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.

# Sustainability statements


| | |
|---|---|
| **2020 Sustainability strategy** | 163 |
| **Consolidated Sustainability statements** | 164 |
| Note 1: Managing our values | 165 |
| Note 2: Reporting principles | 167 |
| Note 3: Stakeholder engagement | 170 |
| **Safety** | 171 |
| Note 4: People health and safety | 172 |
| Note 5: Process safety | 173 |
| Note 6: Product stewardship | 174 |
| Note 7: HSE management | 175 |
| **Employees** | 178 |
| Note 8: Our people | 179 |
| Note 9: Restructuring | 181 |
| Note 10: Community | 181 |
| **Value chain** | 183 |
| Note 11: Climate change | 184 |
| Note 12: Products and solutions | 185 |
| Note 13: Supply chain | 186 |
| **Environment** | 188 |
| Note 14: Energy | 189 |
| Note 15: Greenhouse gas emissions | 189 |
| Note 16: Local air quality | 190 |
| Note 17: Raw materials efficiency | 191 |
| Note 18: Water | 191 |
| Note 19: Soil and ground water remediation | 192 |
| **Independent assurance report** | 193 |


**Additional sustainability information**

**In this report**


| | |
|---|---|
| Case studies | 4 |
| Our ambitions and strategy | 10 |
| Risk management | 22 |
| Report of the Board of Management | 34 |
| Business performance | 51 |
| Corporate governance statement | 82 |
| Compliance and integrity management | 98 |
| AkzoNobel on the capital markets | 102 |


**On our website** (www.akzonobel.com/sustainability)
Additional information on processes, detailed data and contacts is available to support:

| | |
|---|---|
| Note 1: | Managing our values |
| Note 2: | Reporting principles |
| Note 3: | Stakeholder engagement |
| Notes 4–7: | Safety performance |
| Notes 8–10: | Employee/community performance |
| Notes 11–13: | Value chain processes and performance |
| Notes 14–19: | Environmental performance |

This Sustainability statements section of the Report 2012 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. 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**

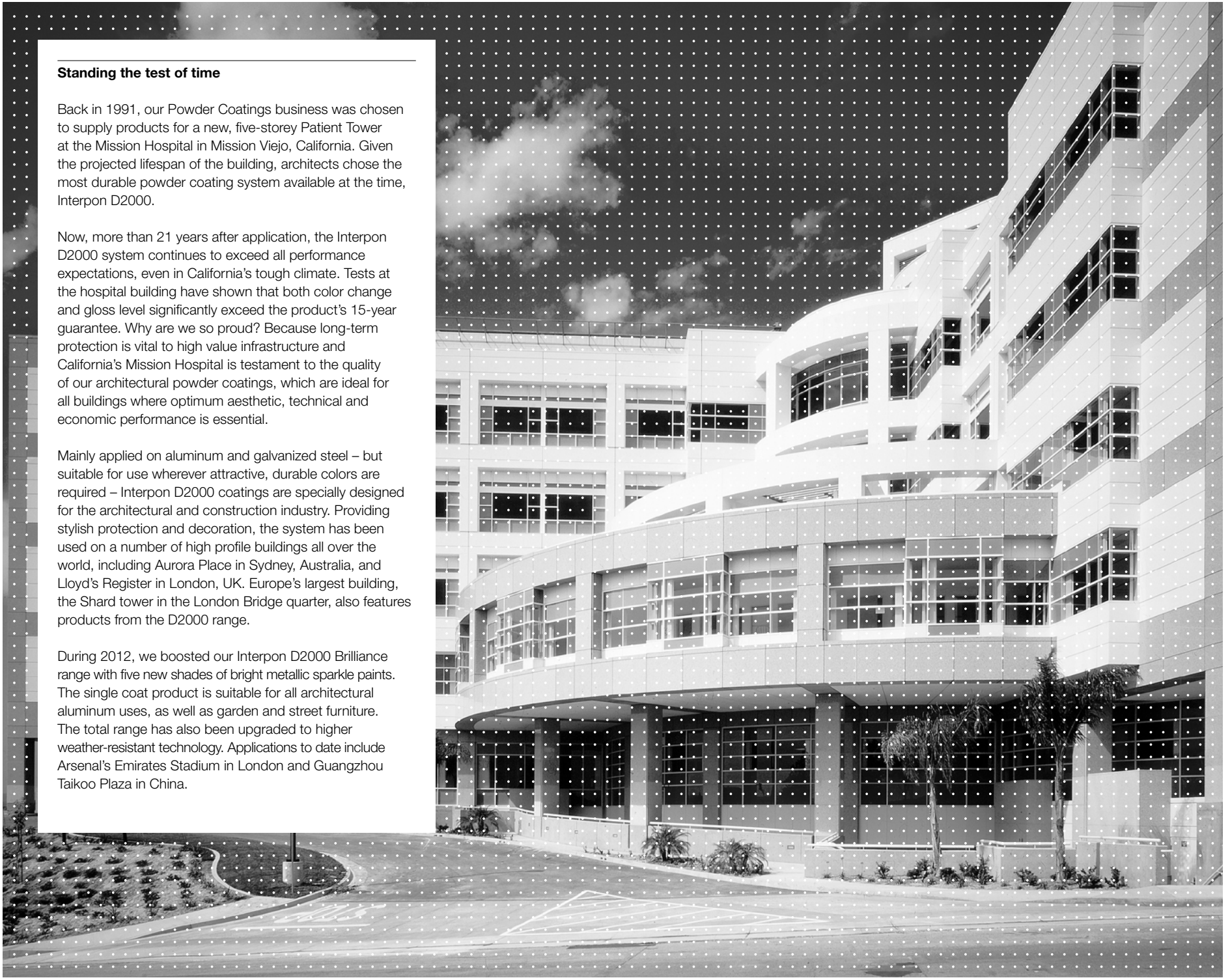
**Standing the test of time**

Back in 1991, our Powder Coatings business was chosen to supply products for a new, five-storey Patient Tower at the Mission Hospital in Mission Viejo, California. Given the projected lifespan of the building, architects chose the most durable powder coating system available at the time, Interpon D2000.

Now, more than 21 years after application, the Interpon D2000 system continues to exceed all performance expectations, even in California's tough climate. Tests at the hospital building have shown that both color change and gloss level significantly exceed the product's 15-year guarantee. Why are we so proud? Because long-term protection is vital to high value infrastructure and California's Mission Hospital is testament to the quality of our architectural powder coatings, which are ideal for all buildings where optimum aesthetic, technical and economic performance is essential.

Mainly applied on aluminum and galvanized steel – but suitable for use wherever attractive, durable colors are required – Interpon D2000 coatings are specially designed for the architectural and construction industry. Providing stylish protection and decoration, the system has been used on a number of high profile buildings all over the world, including Aurora Place in Sydney, Australia, and Lloyd's Register in London, UK. Europe's largest building, the Shard tower in the London Bridge quarter, also features products from the D2000 range.

During 2012, we boosted our Interpon D2000 Brilliance range with five new shades of bright metallic sparkle paints. The single coat product is suitable for all architectural aluminum uses, as well as garden and street furniture. The total range has also been upgraded to higher weather-resistant technology. Applications to date include Arsenal's Emirates Stadium in London and Guangzhou Taikoo Plaza in China.



# 2020 Sustainability strategy

Over the past decade, AkzoNobel has built a very strong foundation for sustainability and is recognized as a leader in its industry, as demonstrated by a consistently high position on the Dow Jones Sustainability Index (DJSI) and by the number one position achieved in 2012 for the DJSI Chemicals supersector.

However, if we are to maintain our leadership position and take advantage of business growth opportunities, we must accelerate the pace of our commitment. Building on firm foundations already in place, a new approach to sustainability has been developed by our Business Areas, together with input from external stakeholders. This new approach is focused on getting more value from fewer resources.

Achieving longer term business success for AkzoNobel and its business partners relies on the ability to get the greatest positive impact out of products and services, from the fewest resources possible. Focusing on more effective use of scarce natural resources will contribute to cost savings and will generate revenue growth for AkzoNobel and for its business partners across the entire value chain.

For AkzoNobel, we believe sustainability leadership will require an ever more external focus as the most significant contribution to sustainable development we can make is the positive impact of our products for our four end-user segments: Building and Infrastructure, Transportation, Consumer Goods and Industrial.

By doing more with less, sustainability value will be fundamentally connected to business value. We are making sustainability profitable by tailoring solutions to our customers' needs today and in the future and by future-proofing our supply chain.

## Strategy 2020 elements

**Sustainable business** – creating business value through products and solutions which provide both functionality and other sustainability benefits, as well as cost savings from operational efficiencies.

Examples include:
- Innovative coating solutions with lower curing temperatures – which also last longer in service
- Low friction coatings which reduce energy requirement in use

Ambition:
- We will increase the revenue from downstream eco-premium solutions (that generate direct resource and energy benefits for our customers, consumers and users) to 20 percent of our revenues by 2020

**Resource efficiency** – accelerating resource efficiency improvements across the value chain.

Examples include:
- Manufacturing excellence delivering yield improvements and cost savings at our plants
- Lowest imaginable cost formulations
- Increased use of renewable materials and energy in our suppliers and our own operations

Ambition:
- We will substantially reduce our carbon emissions through the cradle-to-grave value chain by 25–30 percent per ton by 2020 (2012 base)
- As of 2014, we will report on an index measuring how we improve resource efficiency across the full value chain, compared with the value we generate

**Capable engaged people** – engaging our people and partnering with our suppliers and customers to deliver significant changes.

Ambition:
- Sustainability is an integral part of business and culture in all parts of our organization
- Suppliers and customers are fully engaged in developing innovative, sustainable solutions

**Maintain strong existing foundations** – maintain excellence in people and process safety, product stewardship, integrity management, training and development and community involvement.

## End-user segment drivers

Based on the World Business Council for Sustainable Development Vision 2050 work, we have developed scenarios for our end-user segments. A common feature is that resource scarcity (energy and raw materials) will drive major changes in these segments. This will create significant business opportunities for AkzoNobel, particularly when we look across the full value chain.

### Buildings and Infrastructure
- Mandatory thermal integrity standards
- 70 percent of the world's population will live in urban areas
- 95 percent of new building stock using zero net energy
- Huge increase in energy efficiency retrofitting
- <6 percent of buildings heated with fossil fuels

### Transportation
- Universal access to low carbon transport
- Super efficient and aerodynamic planes
- Reductions in carbon emissions:
  - 80 percent reduction in light duty vehicles
  - 50 percent reduction in shipping/freight

### Consumer Goods
- People will use only five tons of non-renewable materials per year (down from 85 in the US)
- Customers will expect long-lasting, efficient products
- Recycling or products and packaging integrated into business models

### Industrial
- Four to ten-fold improvement in eco-efficiency of resources and materials from 2000
- Closed loop processes, making landfill obsolete
- Cooperation across sectors the norm

# Consolidated Sustainability statements

Sustainability topics have been integrated into all sections of the AkzoNobel Report 2012. 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

## Consolidated Sustainability statements

| | Note | 2009 | 2010 | 2011 | 2012 | Ambition 2012 | Ambition 2013 | Ambition 2015 |
|---|---|---|---|---|---|---|---|---|
| **Top quartile safety performance** | | | | | | | | |
| Total reportable injury rate employee/supervised contractors (per million hours) | 4 | 3.7 | 3.6 | 3.1 | 2.4 | 2.5 | 2.0 | <2.0 |
| Manufacturing sites with BBS program (% sites) | 4 | – | 72 | 76 | 76 | 100 | 100 | 100 |
| **Top three in sustainability** | | | | | | | | |
| Position in SAM sustainability assessment | | 2 | 2 | 2 | 1 | Top 3 | Top 3 | Top 3 |
| **Top quartile employee engagement** | | | | | | | | |
| Employee engagement (mean score out of five)[1] | 8 | 80 | 3.56 | 3.74 | 3.80 | – | – | 4.33 |
| % internal promotion into executive level | 8 | 80 | 74 | 80 | 70 | – | – | 80 |
| % cross BU moves of leadership talents | 8 | 5 | 5 | 6 | 5 | – | – | – |
| % executives women | 8 | 10 | 12 | 13 | 15 | 14 | – | 20 |
| % executives high growth markets | 8 | 11 | 12 | 13 | 13 | 14 | – | 20 |
| **Top quartile eco-efficiency improvement rate** | | | | | | | | |
| Eco-premium solutions (% total revenue) | 12 | 18 | 21 | 22 | 22 | 23 | 25 | 30 |
| Carbon value chain assessments | 11 | 158 | 286 | 330 | 366 | – | – | – |
| Greenhouse gas emissions per unit product (cradle-to-gate) (% reduction from 2009) | 11 | – | 2 [2] | 3 [2] | 3 | 5 | 5 | 10 |
| Sustainable fresh water management (% manufacturing sites) | 18 | 38 | 48 | 74 | 83 | 70 | 80 | 100 |
| Operational eco-efficiency footprint measure (% reduction from 2009) | 14-18 | – | 7 | 11 | 13 | 15 | – | 30 |

[1] From 2010, employee survey changed from % favorable to Gallup GrandMean: average of mean scores for each question (out of five).
[2] 2010 and 2011 data restated, see Note 11.

The blue pages in the AkzoNobel Report 2012 describe the sustainability processes and activities that span our businesses. The strategic ambitions in place in 2012 are listed in the table on this page and in detail throughout this section.

### Safety
Expressed by the strategic objective Top quartile safety performance. Details of our people, process and product safety performance can be found in Notes 4–7 of this section.

### Employees
Expressed by the strategic objective Top quartile performance in employee engagement, diversity and talent development. Details of our people performance can be found in Notes 8–10 of this section.

### Value chain
Expressed by the strategic objective Top quartile eco-efficiency improvement rate. Details of our environmental and social performance and improvement activities across the value chain can be found in Notes 11–13 of this section.

### Environment
Expressed by the strategic objective Top quartile eco-efficiency improvement rate. Details of our environmental performance and improvement activities for our own operations can be found in Notes 14–19 of this section.

### Integrity
All our sustainability activities are underpinned by integrity management. Details of our compliance performance and improvement activities can be found in the Governance and compliance section of this report, in the Compliance and integrity management chapter.

We define top quartile at the start of each sentence and in the glossary.

## Strategic focus

Our sustainability agenda incorporates economic, environmental and social aspects. We consider the drivers to be the global mega-trends, population growth and the new middle class, long-term scarcity of natural resources and the impact of climate change.

The importance of sustainability to running our business is firmly integrated into the AkzoNobel strategy. It helps us enhance our existing business, create new business opportunities and minimize risks. 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

These are underpinned by the company value of integrity in all that we do.

During 2012 we reviewed and updated the company and sustainablity strategies (see Strategy section and 2020 Sustainability strategy in this section for details).

The Executive Committee monitors the company's financial and sustainability performance using dashboards, which specify indicators – both leading and lagging – against strategic objectives. For most key performance indicators we have announced 2015 ambitions. Other short-term and long-term ambitions are set at business level.

The Notes in the Sustainability statements and other elements of this report illustrate our performance against these goals.

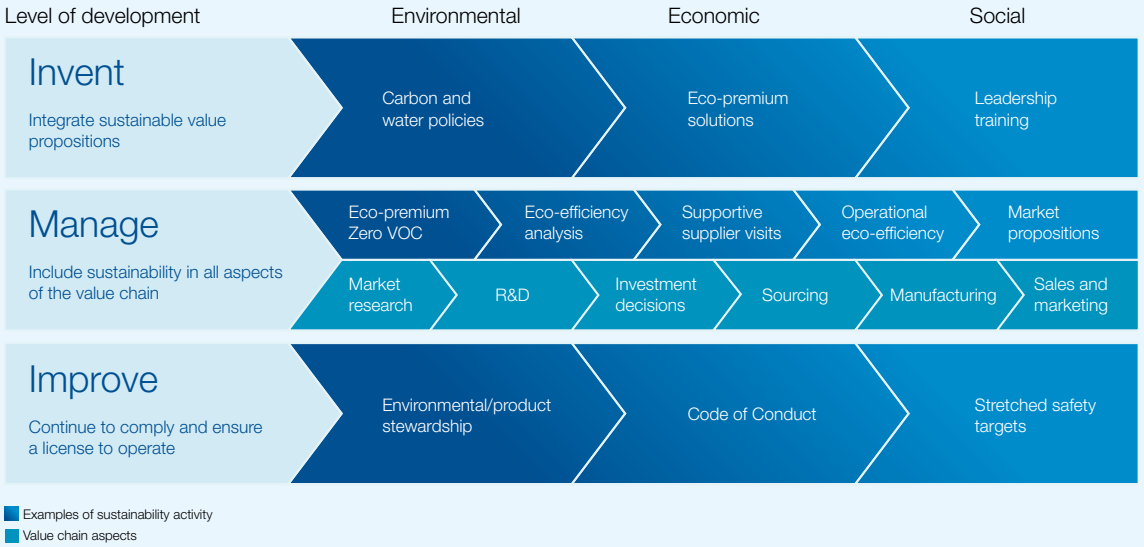
## Sustainability framework

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 with our standards and applicable laws and regulations, 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**



## Management structure

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 and the Corporate Directors of Strategy, Sustainability and 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.

The compliance framework and the management structure for integrity and compliance aspects is detailed in the Governance and compliance section under Compliance and integrity management.

## 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 subject matter expert. 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.

In 2012, we have taken these results together with functional management review processes to form our view. The results indicate that sustainability processes are "in place" or "mostly in place" in all businesses. Embedding of sustainability processes continues to be highest in the compliance aspects such as risk management, Code of Conduct, health and safety and reporting. During the year, there were encouraging improvements in product stewardship and the newer areas of carbon and eco-premium solutions, due to concerted company level programs, and in marketing and sales through specific business activities.

We strive to empower all employees to contribute and be accountable for our sustainability performance, using training and other engagement processes, including site level activity, web-based resources and, in 2012, a Global Sustainability Day. This responsibility continues to be anchored in the personal targets and remuneration packages of managers and employees. Since 2009, half of the conditional grant of shares for Board members and all executives has been based on AkzoNobel's performance in the SAM (Sustainability Asset Management) assessment over a three-year period (see Remuneration report chapter in the Governance and compliance section).

The main corporate monitoring processes for sustainability items are:

**Non-financial letter of representation (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 2012 (for more information see Compliance and intergrity management chapter in the Governance and compliance section).

**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**
These include sustainability and compliance issues. The outcomes are shared with the Audit Committee and Sustainability Council. Our processes for managing sustainability were reviewed as part of our 2012 external assurance activity. At functional level, these are supplemented by specialist audits, for example compliance and HSE.

## Reporting scope

The Report 2012 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 operational eco-efficiency, carbon emission reduction, eco-premium solutions and people development and engagement.

The information in this Report offers an update on our implementation of the ten principles of the United Nations Global Compact (UNGC). More sustainability information, including an index of all Global Reporting Initiative (GRI) indicators and a summary of our UNGC progress is available on our corporate website.

The topics of this Report were selected on the basis of the sustainability aspects of our strategy, the GRI guidelines and input from various external stakeholders. These include our engagement with:

- Shareholders
- Customers
- Employees
- Rating organizations, notably Sustainable Asset Management (SAM) – the rating agency for the Dow Jones Sustainability Indices – and the Carbon Disclosure Project
- Sustainability organizations such as the World Business Council for Sustainable Development (WBCSD), the World Resources Institute (WRI), Forum for the Future and the International Integrated Reporting Council

## 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. There have been no significant changes from 2011. A summary of the process is available on our website.

### Reporting boundaries

The AkzoNobel Report 2012 integrates sustainability aspects of our processes and business operations in each section, in particular the Strategy, Our leadership, Business performance and Governance and compliance sections.

This Sustainability statements section summarizes the global, cross-business elements of the sustainability agenda and company performance. It includes quantitative and qualitative information relating to the calendar year 2012 and comparative data for 2011, 2010 and 2009. 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. We include data from Chemicals Pakistan (which was sold at the end of 2012 and had its own management board), and Decorative Paints North America, which is classified as discontinued operations in the Financial statements section. Reporting for Chemicals Pakistan has been limited to HSE and compliance issues.

### Comparability

Previously, our policy was to report acquisitions within one calendar year. From 2010, we report from the date of purchase, recognizing that reporting improvements may be required at these facilities. A significant change reflected in 2011 data is the acquisition of the Schramm/SSCP businesses, and for 2012 data the Boxing Oleochemicals acquisition and our new facilities at Ningbo, both in China.

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.

Our value chain (cradle-to-gate) carbon footprint is measured per metric ton of product sales leaving AkzoNobel. In 2012, the definition of product was clarified to reduce variability in the indicator. It now excludes sold by-products and sold energy. Previous years' data has been restated on the same basis. This has resulted in an increase in quoted kg $CO_2$(e) per ton for 2009–2011, but there was no notable percentage change from 2009–2012, which therefore remains at 3 percent. For our own operations, environmental impact and improvements are quoted relative to production quantity, i.e. the product volumes leaving every manufacturing plant. There is no change in this indicator.

We identify issues which affect comparability in the text or footnotes.

## Reporting process and assurance

The reporting period is 2012. 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. These processes continue to be updated and improved. Data collection for the newer value chain reporting aspects is carried out using standard templates and procedures. More details on all reporting processes are available on our website.

We are confident in the overall reliability of the data reported, but recognize that some of the information is subject to an element of uncertainty, inherent to limitations associated with measuring and calculating data.

Senior managers approved the content and the quantitative data used in the Sustainability statements 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 statements 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 at the end of this section.

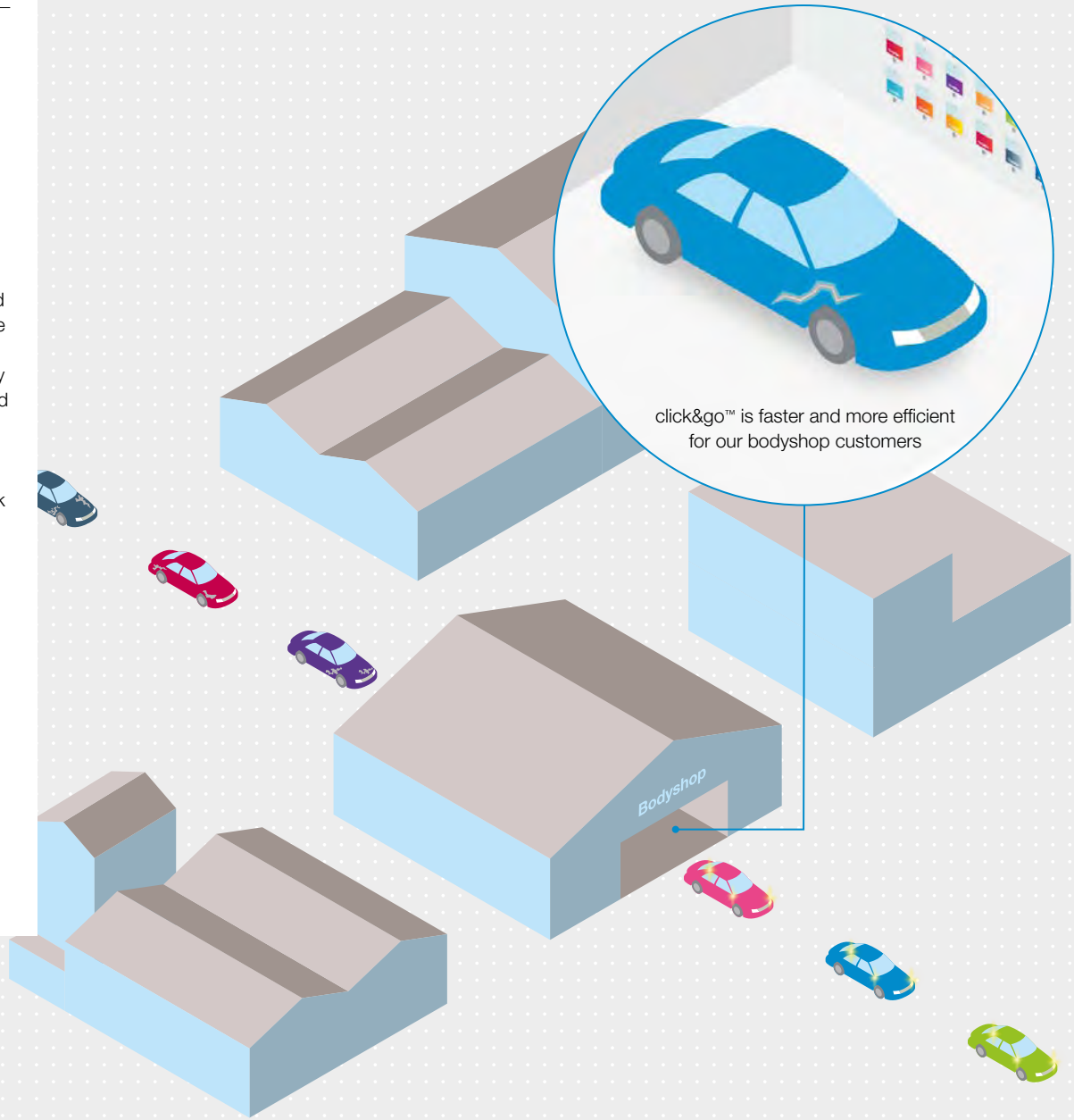
**The fastest spray gun...**

Revolutions in the way bodyshops operate are fairly rare, so in recent years there have been very few radical changes to the way in which vehicles are re-sprayed. The traditional refinish application process requires bodyshop personnel to precisely measure each component to ensure a correct mixture of clearcoat and hardener. As well as being relatively time-consuming, it can result in spills and mixing errors.

In an effort to make this process faster, more efficient and more reliable for its bodyshop customers, our Automotive and Aerospace Coatings business has developed an ingenious packaging solution called click&go. Deceptively simple to use, the system uses disposable, pre-measured pouches that fit into a special frame.

Painters first allow the two components to merge by opening the frame. You then click it closed, give it a quick ten-second shake to activate the clearcoat and it's ready to go. The system is then attached directly to the spray gun for immediate use. Once application is complete, the pouch is simply detached from the frame and thrown away. The plastic frame can even be recycled.

There's no spillage, less waste, no need for mixing because the clearcoat and hardener are pre-measured (eliminating mixing errors), no exposure to fumes and product behavior is more consistent. An ideal solution for bodyshops that want to maximize productivity and efficiency and a perfect example of how AkzoNobel is actively seeking new ways to support the growth and sustainability of its customers.




click&go™ is faster and more efficient for our bodyshop customers

# click&go™

A simple system using disposable, pre-measured pouches, making the process of re-spraying faster, more efficient and more reliable for bodyshop customers.

## 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 strategic ambitions
- Management of risks and opportunities

Our key stakeholders are employees, customers, suppliers, investors, communities, specific sustainability/research organizations and NGOs. This section includes some highlights. There are more details in the Strategy and other sections of this report:

- Communities: Note 10 of this section
- Customers: Business performance section
- Employees: Note 8 of this section
- Investors: Governance and compliance section
- Suppliers: Note 13 of this section
- Specific sustainability/research organizations and NGOs: Note 3 of this section

## Stakeholder engagement in 2012

### Our commitment and primary partners

We support a number of charters and external organizations 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 UN Declaration of Human Rights, the Responsible Care® Global Charter and the CEO Water Mandate, where we are represented on the steering group. As part of a joint PRI-UN Global Compact initiative designed to improve company-investor communications on ESG information, AkzoNobel is hosting one of the pilot presentations designed to test and refine the ESG Investor Briefing concept.

### 2020 strategy development

We received input from customers, suppliers, employees and NGOs during the development of our strategy.

### Product-related partnerships

We have some notable NGO partnerships linked to product areas. Through the Amsterdam Initiative on Malnutrition (AIM), the Global Alliance for Improved Nutrition (GAIN) and the project Smarter Futures, our Ferrazone iron fortificant is making an important contribution to the Millennium Development Goals of the United Nations. Activities during 2012 included support for the GAIN Netherlands office and the AIM secretariat, as well as participation in a cassava fortification project and QC/QA laboratories. The winners of the internal AkzoNobel Sustainability Award contributed their prize money to Smarter Futures to develop an instrument which can monitor the amount of Ferrazone in wheat/flour – important for the future development of this application.

Following our 2010 partnership agreement 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 and the FSC's national offices to promote awareness of the FSC and the use of wood and paper from sustainably-managed forests. We have eight active partnerships in the Netherlands, UK, Germany, Switzerland, Czech Republic, Brazil, Russia and the Nordics. In 2013, we will also set up local partnerships in Poland, Belgium, Argentina and Canada. In Brazil, the program has included communication to the sales team, clients and consumers, training for painters and sales clerks, as well as involvement in FSC Friday and the smallholders certification program.

### Employee engagement

During 2012, we held our first Global Sustainability Day, engaging employees from around the world on the theme: If sustainability is the answer, what is the question? Employees were encouraged to get involved and ask questions via a range of activities including site/team meetings, community activities, exhibitions at more than 50 sites, a special CEO video and live Q&A sessions with company experts. The questions were focused on six areas (customers, strategy, environment, community, products and suppliers). This initiative helped to build on a range of other activities where employees are setting the local agenda and driving improvement, for example through local green teams and community activities around the world.

### Customers and suppliers

Involvement of customers and suppliers is crucial to our value chain approach to sustainability. We encourage customers to challenge us and work with us on more sustainable product propositions. There are many specific examples in the case studies and Business performance section of this Report. Our key supplier contracts include sustainability aspects and we have had detailed discussions to identify joint development areas with some of our biggest suppliers during the year. One specific project is a detailed review of titanium dioxide with value chain partners to identify joint improvement opportunities.

### Shareholders and analysts

We continued to develop engagement with shareholders on sustainability aspects by taking part in five conferences during the year, as well as answering questions in telephone briefings and questionnaires. Questions during 2012 continued to focus on financial benefits from sustainability activity and solutions for customers, raw materials supply, carbon policy and specialist topics, for example nanotechnology. Sustainability aspects of business are also included in many analyst and general shareholder presentations.

See also the AkzoNobel on the capital markets chapter in the Governance and compliance section.

### Supporting our development areas

We continue to develop our biodiversity priorities working with the IUCN Leaders for Nature Inspirational Programme on Ecosystems and Young Leaders for Nature program in the Netherlands. Current focus is to identify "hot spots" in some of our key value chains, to identify a quick scan process which

# Safety

could be integrated with other environmental assessments and to develop case studies to raise awareness.

To help us further develop reporting and transparency, AkzoNobel is one of more than 80 pilot companies in the International Integrated Reporting Council program to create a forward-looking company reporting framework.

**Developing good practice**

In the field of carbon management we co-chair the WBCSD Chemicals Sector Working Group. Together with peers, we have developed chemicals sector guidelines to drive consistent reporting of Scope 1 and 2, as well as Scope 3 up and downstream emissions. The current focus is to explore how we can best address so-called avoided or Scope 4 emissions – the emissions avoided by the use of our products through, for example, energy or resource efficiency improvements.

To enhance the importance and development of sustainable value chains, we again supported the organization of the International Supply Management Congress in Amsterdam. This was a joint initiative with ADC Performance Improvement, IDH (the Dutch Sustainable Trade Initiative), KPMG, NEVI (Dutch knowledge network for purchasing and supply management), Rabobank, Shell and Unilever. The event is a meeting point for sharing knowledge, experience and best practices across supply chain professionals, NGOs and thought leaders. The focus for 2012 was creating scale through pre-competitive cooperation: Experience the impact of supply chains.

**Indices and recognition**

During 2012, we achieved a number one position on the Dow Jones Sustainability Index in the Chemicals supersector. We continued to be included in the FTSE4Good index and to take part in the Carbon Disclosure project. We were also one of three chemical companies given “prime” status in the Oekom investment universe. In the Netherlands, we were shortlisted in the Transparency benchmark (top three).

**Key performance indicators – safety**

| | 2009 | 2010 | 2011 | 2012 | Ambition 2012 | Ambition 2013 | Ambition 2015 |
|---|---|---|---|---|---|---|---|
| **People** | | | | | | | |
| Total reportable injury rate employee/supervised contractors (per million hours) | 3.7 | 3.6 | 3.1 | 2.4 | 2.5 | 2.0 | <2.0 |
| Manufacturing sites with BBS program (% sites) | – | 72 | 76 | 76 | 100 | 100 | 100 |
| **Process** | | | | | | | |
| Regulatory actions (Level 3) | 3 | 4 | 0 | 3 | 0 | 0 | 0 |
| Significant loss of containment (Level D) | 1 | 0 | 2 | 0 | 0 | 0 | 0 |
| **Product** | | | | | | | |
| Priority substances with management plan (%) | – | – | 23 | 42 | 40 | 60 | 100 |
| REACH compliance Tier 2 (%) | – | 8 | 44 | 83 | 80 | 100 | 100 |
| **Management** | | | | | | | |
| Safety incidents (Level 3) | 9 | 10 | 8 | 3 | 0 | 0 | 0 |
| HSE audits | 66 | 61 | 66 | 61 | – | – | – |

The AkzoNobel HSE vision of zero injuries, waste and harm is based on our company strategy. The HSE Agenda for 2011 to 2015 sets the targets and milestones for achieving our ambition to be in the top quartile of peer companies. Top quartile performance is measured by comparing the total reportable rate (TRR) for incidents with eight comparable companies.

As well as focusing on management leadership, behavior-based improvement processes and operational discipline, the company has launched a standard set of improvement programs which are common across the company – the HSE Common Platform. By working to improve through common programs, we aim to achieve consistency, high effectiveness and efficiency. The businesses have taken responsibility for implementing these programs. Leading units are providing experience and best practice, which can be shared with others in order to accelerate progress.

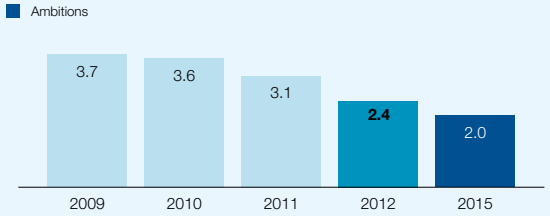
Management focus and employee engagement at every level have delivered a reduction of 23 percent in the total reportable injury rate. Specifically, the tailor-made approaches of our Behavior-Based Safety program, and the focus and support for sites that have consistently fallen short in performance (so-called safety roadmap sites), mainly contributed to meeting our milestones. In order to step up process safety, a Process Safety Excellence program will be introduced on a global basis.

An improvement program for people safety is in place at our businesses and related ambitions have been set for 2015. Overall, performance indicators for people safety show that the company continues to structurally improve. In general, the number of incidents is going down, while at the same time new initiatives help us to accelerate improvement.

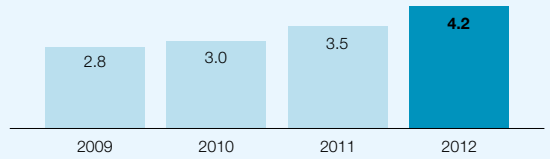
## Employee and contractor safety

Even with a general downward trend in reportable incidents in 2012, the company continues to strive for zero incidents in order to become a leading company in safety performance. The downward trend is reflected in both the total number of injuries to employees and supervised contractors, as well as in the number of 13.4 safety incidents.

**Employee and supervised contractors total reportable injuries** injury rate




**Independent contractors total reportable injuries** injury rate




The total reportable rate (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 total reportable rate of injuries for employees and supervisors dropped from 3.6 (2010) and 3.1 (2011) to 2.4 in 2012. This correlates with a decrease in the number of 13.4 safety incidents from 36 in 2011 to 23 in 2012
- However, the improved safety performance does not extend to independent contractors. More independent contractors were injured in 2012 than in the previous year, demonstrating the need to refocus more on contractor safety management and the involvement of independent contractors in our safety improvement programs in 2013
- There was a stronger focus in 2012 on operational discipline and a strict adherence to the intrinsic company safety value. This was supported by the launch of the TakeCare program and our Life-Saving Rules, which were formally announced during a global Safety Day. With full implementation to be completed in 2013, the focus on personal accountability and safety priority is expected to facilitate a continued decrease in incidents and injuries
- The steady improvement in our injury rate was supported by management focus and employee engagement in the form of a Behavior-Based Safety (BBS) program. During 2012, AkzoNobel signed a sole, global supplier agreement with Behavioral Science Technology Inc. for the supply of best practice behavioral safety methodology to all businesses. BBS has now been implemented at 76 percent of our manufacturing sites, with the remaining facilities (mostly newly-acquired units) due to be included during 2013

## Employee health

Not only do we ensure a safe working environment, but we also foster employee health and well-being, as well as managing illness absenteeism.

**Employee health**

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Total illness absence rate | 1.9 | 2.0 | 2.0 |
| Occupational illness rate | 0.3 | 0.3 | 0.2 |
| Wellness Checkpoint use | >5,000 | >8,800 | >11,300 |

- The total illness absence rate remains stable at 2.0 percent (2011: 2.0 percent). We continue to monitor this indicator for the whole company, aiming to stay at a level around 1.9 percent, but will not set new long-term ambitions
- The occupational illness rate for employees and supervised contractors stands at 0.2 illnesses per million hours worked (2011: 0.3). With our continued expansion in high growth countries, we recognize that there are challenges associated with cultural aspects (such as health beliefs and the emphasis on group importance), and differences in healthcare systems which may discourage illness reporting or impact the comparability of reporting
- Our health risk appraisal tool, the Wellness Checkpoint, is appreciated and being used by an increasing number of employees and their families. By the end of 2012, more than 11,000 people had joined the program
- Occupational hygiene workshops for people in HSE critical roles have been delivered in each of the three regions

## Safe driving

In 2012, AkzoNobel recorded fewer total motor vehicle incidents resulting in injury and fatalities than in previous years. However, this subject remains high on our agenda.

**Motor vehicle incidents**

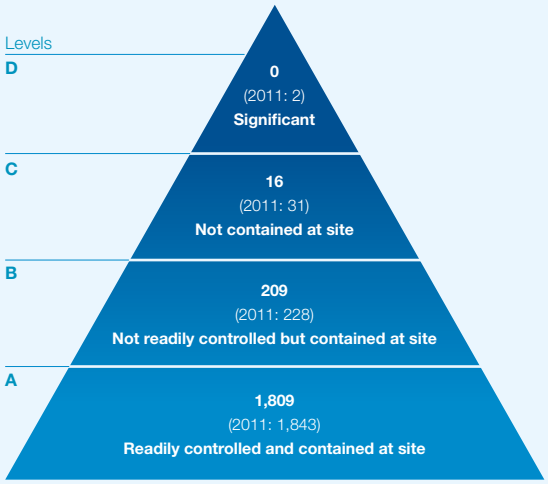
| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Incidents with injury | 34 | 29 | 28 |
| Fatalities – employees | 1 | 0 | 1 |

- In 2012, we recorded fewer motor vehicle incidents with injury – from 34 and 29 in 2010 and 2011 respectively to 28 in 2012. Tragically, one motor vehicle incident involved an AkzoNobel employee fatality (see Note 7)
- The company continues to monitor safe driving performance and strives for improvement. This year, a Safe Driving training program was developed, parallel to ongoing training initiatives. The program will result in a pilot in 2013, followed by company-wide implementation.

We continue to 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.

**Loss of containment incidents**




Comparing 2012 with 2011, no significant change in the loss of containment figures can be observed, apart from a downward trend in Level C and D incidents. We expect several Common Platform projects which began in 2012 (Process Safety Management, embedding the Self-Assessment Questionnaire) to offer significant help in achieving the process safety performance goals set in the Common Platform Agenda 2011–2015.

### Process safety management

An integrated approach to process safety management was developed during the year for all manufacturing operations, from low to high hazard sites. This resulted in a Process Safety Management Framework, which describes the process safety management elements in a uniform manner, uniting production, maintenance and engineering disciplines. In parallel with this policy, a new set of Process Safety Management Standards and Guidance Notes have been developed, which describe the AkzoNobel requirements and best practices for process safety management.

The project will be aligned with process safety improvement initiatives to ensure an integrated approach, share best practices and engage with local sites across our businesses.

### Self-assessment questionnaire (SAQ)

A project has been launched to reposition the HSE annual self-assessment questionnaire (SAQ) as the company-wide HSE improvement planning tool. Specific focus was put on high hazard sites to ensure they achieve reference level in all process safety elements. These reference levels are defined in the company’s HSE management system and are set to achieve the level of top quartile safety performance. Currently, 52 percent of high hazard sites have achieved reference level.

A dedicated emphasis program has been rolled out to support sites facing difficulties in achieving these high ambitions. Follow-up and dedicated management attention and professional support are given to these sites to bring them to the desired performance level.

Our ambition is to be in the top quartile of companies in our peer group for product stewardship. Based on the product stewardship objectives included on our HSE Agenda 2011–2015, our focus has been on HSE Common Platform programs during 2012.

## Priority substance management

We have identified a list of 146 priority substances by scoring all hazardous substances used in AkzoNobel products and processes. Scores are allocated to substances on the basis of their human and environmental hazard (under the GHS system) and where societal concern exists over their use. Substances with higher scores are designated as AkzoNobel priority substances and are subject to review by our experts.

Where possible, priority substances are removed from our products and substituted with more sustainable materials.

Where possible, priority substances are removed from our products and substituted with more sustainable materials. If this is not possible, a full review of the substance is performed following state-of-the-art risk assessment techniques from the EU REACH regulations. Only when safe use of a priority substance can be demonstrated is it allowed for use in our products and processes.

In 2012, we set a target to review and risk manage 40 percent, or 58, of our priority substances. We achieved this objective and 40 priority substances will no longer be permitted for use in AkzoNobel products and will be removed or substituted with more sustainable alternatives. An example of a group of priority substances to be phased out is a group of seven phthalates used in coatings as plasticisers, where there are concerns over their toxicity. This group of phthalates will be phased out and substituted with more sustainable alternatives from the end of 2014.

Going forward, our target is to review and risk manage all our priority substances by 2015, with 60 percent complete by the end 2013 and 80 percent by the end of 2014.

### Distribution incidents

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Road | 44 | 82 | 67 | 44 |
| Sea | 7 | 5 | 3 | 2 |
| Rail | 1 | 4 | 10 | 0 |
| Air | 0 | 0 | 0 | 0 |
| **Total** | **52** | **91** | **80** | **46** |

### Product distribution

We insist that our products are transported and distributed safely by our contractors, so we audit their performance and monitor and record incidents involving distribution of our products. In 2012, we prepared a comprehensive guidance note for our businesses to raise the profile of safe product distribution, which included a risk management tool. During the year, a significant drop in these incidents was observed.

### Product stewardship summaries

We continue to develop product stewardship summaries on a voluntary basis for the substances we manufacture under the Responsible Care® initiative. These documents communicate hazards and give advice to customers on the safe use of our products. In 2012, more than 100 substance summaries were posted on the website of the American Chemicals Council (ACC) and International Council of Chemical Associations (ICCA).

## Regulatory affairs

In addition to complying with regulations that impact on our products and processes, we carefully monitor changes and prepare ourselves for new regulations that will affect our businesses. In 2012, our primary activities included:

### REACH

We are on schedule to submit dossiers for registration of AkzoNobel substances in June 2013 in accordance with the REACH regulations. We have also continued to provide additional information and answer questions from the authorities on registration dossiers for substances registered in 2010.

### Classification and labelling of AkzoNobel products

Through the introduction and use of common software in our chemicals and coatings businesses, we are harmonizing the way product material safety data sheets are generated. We are on schedule with implementation of the Global Harmonized System (GHS) for labelling of chemical substances and products.

### Advocacy

We are active in industry associations at a local, regional and global level. Our aim is to establish equitable and sustainable standards in our industry that protect human health and the environment. Participation in this way also gives us an opportunity to engage in a dialog with regulators before changes in new rules impacting our products are finalized.

For example, in China we provided advice to Chinese government officials drafting the Chinese Green Label standard for antifouling paints through our participation in the Association of International Chemical Manufacturers in China (AICM) and the International Paint and Printing Ink Council (IPPIC). We also assisted the Chinese authorities in the development of a new national standard for transportation of organic peroxides to optimize safe transport of these substances in China.

We continue to promote harmonization between countries and the implementation of changes in chemical substance regulations through our representatives in trade associations such as the International Council of Chemical Associations (ICCA).

**High production volume (HPV) program**
In 2012, we continued to participate in the extended HPV program, a voluntary industry initiative to ensure sufficient data is available to assess the hazards of substances. Working through the American Chemicals Council (ACC), we ensured appropriate information and data were generated and supplied to the US government. We will continue to participate in this work.

The aim of our Product Stewardship program is not only to comply with all rules and regulations that impact on our products, but to also, where possible, go beyond legislation. By working in this way, we promote a high level of sustainability, human and environmental safety and make sure our products are future-proof in advance of legislative change.

## Management systems

Operational excellence at our sites is supported by risk-based management systems that 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, OHSAS-18001. Validation of our process safety management standards with PAS 55 (public standard for process safety) will take place in 2013. 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 | **2012** |
|---|---|---|---|
| ISO-14001/RC-14001 | 72 | 73 | 75 |
| OHSAS-18001/RC-14001 | 35 | 37 | 42 |

## Common Platform

A Common Platform of HSE programs has been launched in order to achieve company-wide consistency in all our HSE management systems. For the first time, AkzoNobel now has:

- Transparency of performance information
- Delivery of process safety excellence in line with current PSM practices
- A best practice people (behavioral) safety methodology
- A global approach to managing priority substances
- A common HSE leadership training program

The Common Platform has given complete clarity to line managers and HSE professionals about what to focus on in order to deliver top quartile performance. Management focus and employee engagement at every level have delivered a reduction of 23 percent in the total reportable injury rate in 2012.

The common HSE systems initiative will continue to evaluate and implement effective common systems for AkzoNobel in 2013. Examples include the One Incident Reporting System.

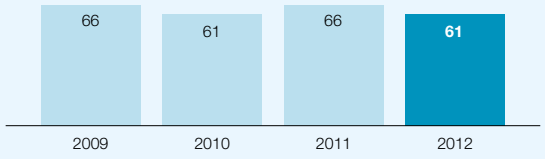
## HSE audit

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.

During 2012, we carried out 56 corporate HSE audits (2011: 62) and five reassurance audits (2011: 4), which are required for sites with high risk findings. Learnings from the 2012 audits indicate that we need to continue to improve our management of occupational health, asset integrity and, to a lesser extent, security.

In 2012, the number of HSE lead auditors was increased. We run yearly 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.

**Management audits** number of audits



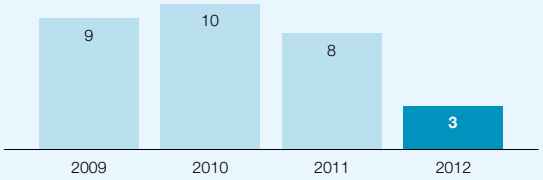

## Safety incidents

The company continues to strive for zero injuries and zero 13.4 safety incidents. We classify incidents based on severity of outcome, from local impact (Level 1) to the highest category (Level 3). The number of Level 1, 2 and 3 safety incidents totaled 23 (2011: 36). The number of Level 3 safety incidents dropped from eight in 2011 to

three in 2012. However, we regret that two employees and five members of the public died as a result of these incidents. More focus has been put on the follow-up of incident investigation findings and recommendations, while both investigation process and follow-up are consistently tracked. Regional pools of experienced investigators are being set up to assist in local incident investigations and share investigation knowledge and experience.

- One employee died after a fall from a platform while carrying out maintenance work at the Sheikupura site in Pakistan
- One employee, a sales representative, died in a motor vehicle incident near Frankfurt, Germany
- Five members of the public died when a site boundary wall, adjacent to where they had built makeshift shelters, collapsed during extreme rainfall in Hyderabad, India

**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.

## Regulatory actions

We have defined three categories of regulatory actions, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3).

There were three Level 3 regulatory actions in 2012.

**Regulatory actions**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Regulatory actions Level 3 | 3 | 4 | 0 | 3 |

Regulatory Action Level 3: a formal notice of a criminal prosecution or penalty greater than €10,000.

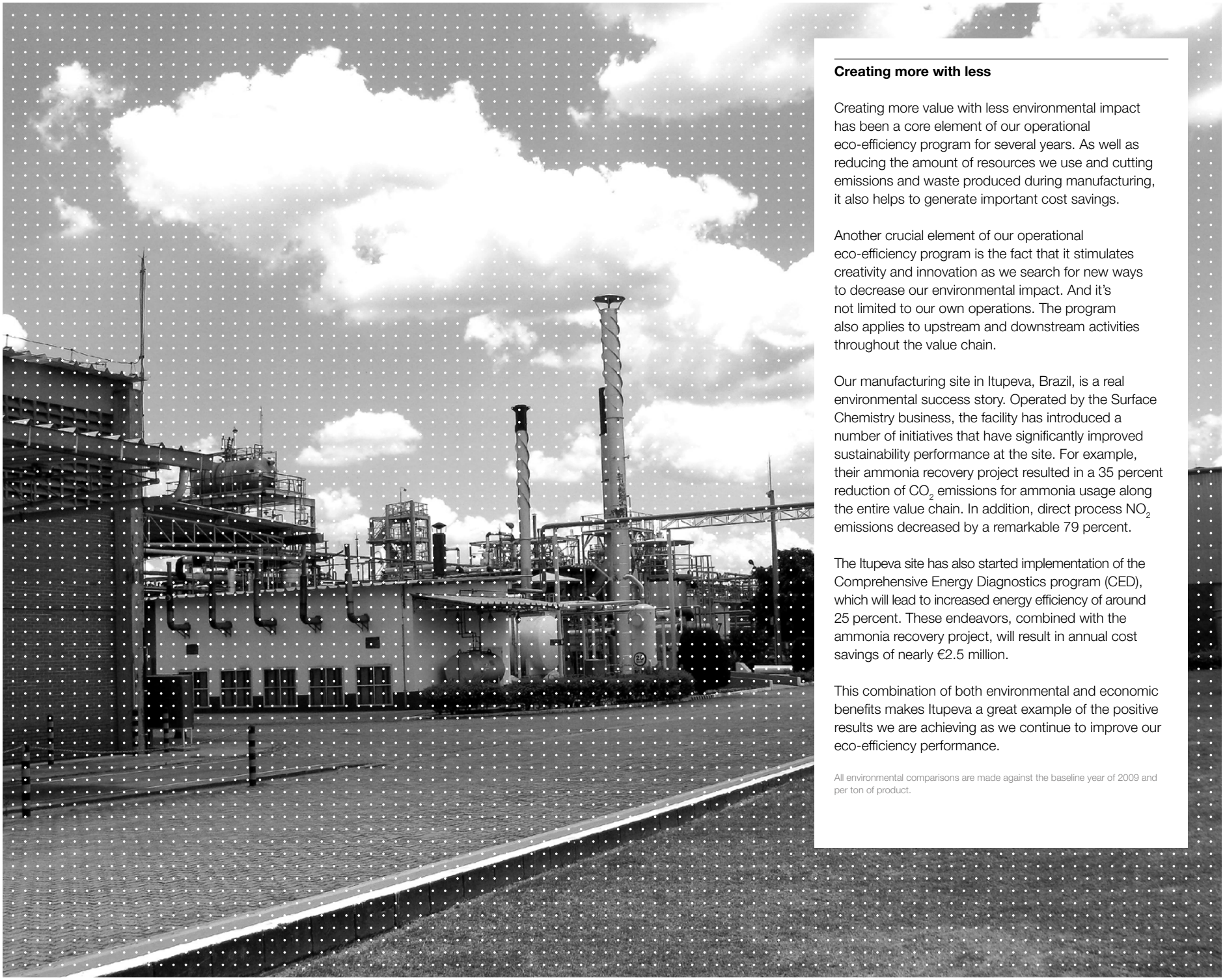
## Security management

Security of people, assets and information are pivotal factors to the success of our business and therefore remain an integral part of our HSE management system. Ongoing security assessments help our sites to identify risk and put in place advanced security protection.

## HSE capability development

The HSE function has adopted the competency framework of the Integrated Supply Chain. The framework incorporates all HSE competencies required by HSE professionals and line managers with critical HSE functions. The profiles of key roles have been defined, including required competencies and proficiency levels.

An HSE Faculty was established in 2012 as part of the AkzoNobel Academy, providing core training and development programs for line managers, HSE and PS&RA professionals. The curriculum for line managers with critical HSE functions has been based on the competency framework, with special emphasis on training line managers in HSE leadership, asset integrity and hazard study. HSE professionals are included in the line management training, while product safety specialists have been trained in substance risk assessment. In depth modules will be developed during 2013 to meet the specialist needs of both groups.



**Creating more with less**

Creating more value with less environmental impact has been a core element of our operational eco-efficiency program for several years. As well as reducing the amount of resources we use and cutting emissions and waste produced during manufacturing, it also helps to generate important cost savings.

Another crucial element of our operational eco-efficiency program is the fact that it stimulates creativity and innovation as we search for new ways to decrease our environmental impact. And it's not limited to our own operations. The program also applies to upstream and downstream activities throughout the value chain.

Our manufacturing site in Itupeva, Brazil, is a real environmental success story. Operated by the Surface Chemistry business, the facility has introduced a number of initiatives that have significantly improved sustainability performance at the site. For example, their ammonia recovery project resulted in a 35 percent reduction of $CO_2$ emissions for ammonia usage along the entire value chain. In addition, direct process $NO_2$ emissions decreased by a remarkable 79 percent.

The Itupeva site has also started implementation of the Comprehensive Energy Diagnostics program (CED), which will lead to increased energy efficiency of around 25 percent. These endeavors, combined with the ammonia recovery project, will result in annual cost savings of nearly €2.5 million.

This combination of both environmental and economic benefits makes Itupeva a great example of the positive results we are achieving as we continue to improve our eco-efficiency performance.

All environmental comparisons are made against the baseline year of 2009 and per ton of product.

# Employees

## Key performance indicators – employees

| | 2009 | 2010 | 2011 | 2012 | Ambition 2015 |
|---|---|---|---|---|---|
| **People data** | | | | | |
| Employees | 54,700 | 55,600 | 57,240 | 55,272 | NA |
| **Employee engagement** | | | | | |
| ViewPoint score | | 3.56 | 3.74 | 3.80 | Top quartile[1] |
| **Talent management** | | | | | |
| % internal promotion into executive level | 80 | 74 | 80 | 70 | 80 |
| % cross BU moves of leadership talents | 5 | 5 | 6 | 5 | 10 |
| % online P&D Dialog participation | 72 | 76 | 78 | 84 | 95 |
| % retention of leadership talent (overall) | 98 | 97 | 96 | 96 | 95 |
| % retention of leadership talent (women/high growth markets employees) | 96 | 96 | 94 | 97 | 95 |
| # managers joined Managers Essentials Program, per region: | | | | | 95% (MEP/ AMP) |
| Europe | 732 | 2,039 | 2,562 | 3,008 | |
| Americas | 796 | 968 | 1,341 | 1,496 | |
| Asia | 728 | 1,212 | 1,642 | 1,566 | |
| Other | 0 | 135 | 151 | 81 | |
| **Total** | 2,256 | 4,354 | 5,696 | 6,151 | |
| # managers joined Advanced Management Program, per region: | | | | | 95% (MEP/ AMP) |
| Europe | 199 | 441 | 695 | 833 | |
| Americas | 80 | 201 | 309 | 348 | |
| Asia | 173 | 172 | 298 | 283 | |
| Other | 0 | 59 | 69 | 59 | |
| **Total** | 452 | 873 | 1371 | 1,523 | |
| Ranking of engagement index on Learning and Growth (Q12) | | 3.61 | 3.80 | 3.85 | Top quartile[1] |

[1] We define top quartile in the glossary.

| | 2009 | 2010 | 2011 | 2012 | Ambition 2015 |
|---|---|---|---|---|---|
| **Diversity and inclusion** | | | | | |
| % of women executives | 10 | 12 | 13 | 15 | 20 |
| % of executives from high growth markets | 11 | 12 | 13 | 13 | 20 |
| % of women executive potentials | NA | 27 | 26 | 27 | 30 |
| % of executive potentials from high growth markets | NA | 26 | 31 | 31 | 30 |
| Executive diversity: women in % per area | | | | | |
| General management/Sales | 3 | 3 | 3 | 4 | |
| Support | 18 | 24 | 24 | 28 | |
| Marketing | 12 | 15 | 22 | 27 | |
| Manufacturing | 10 | 8 | 10 | 7 | |
| RD&I/Technology | 7 | 13 | 14 | 14 | |
| Other | 14 | 13 | 13 | 14 | |
| **Total AkzoNobel** | 10 | 12 | 13 | 15 | |
| Executive diversity: people from high growth markets in % per area | | | | | |
| General management/Sales | 19 | 18 | 20 | 21 | |
| Support | 9 | 12 | 12 | 12 | |
| Marketing | 8 | 10 | 5 | 9 | |
| Manufacturing | 7 | 5 | 10 | 12 | |
| RD&I/Technology | 4 | 5 | 5 | 4 | |
| Other | 5 | 4 | 6 | 11 | |
| **Total AkzoNobel** | 11 | 12 | 13 | 13 | |

HR at AkzoNobel is fully dedicated to serving the needs of both our individual businesses and the company as a whole. To support us in this regard, and in addition to our operational activities, at the end of 2011 we set a new HR functional excellence agenda, which was aligned with the company's performance improvement program. This is directed at delivering strong succession in line with our diversity and inclusion objectives and achieving internal and external recognition as an employer of choice. To that end, we defined five key focus areas:

- Put in place OneHR Services in our key countries, serving all businesses within those countries
- Develop a strong talent pipeline based on an integrated talent management approach
- Implement an AkzoNobel Academy to underpin functional and operational excellence
- Professionalize recruitment and retention to become the employer of choice in key countries
- Deliver a step change in HR capabilities and expertise levels

In 2012, we made significant progress, a fact underlined by the outcome of the 2012 SAM benchmark. Indeed, the social dimension of the SAM benchmark places AkzoNobel in number one position in the Chemicals supersector, in areas such as human capital development, labor practice and human rights.

### HR Services

For basic HR administration, we are driving towards a standardized OneHR Services way of working and organization across the company, based on three linked elements: standardized processes, executed on a standardized IT platform (myHR), by HR staff in an HR Service Center. This will enable us to provide a consistent and quality service across our ten key countries, while reducing costs to benchmark levels. In addition, the OneHR Services project is also absolutely central to removing the different systems that exist in the function today and provides the foundation on which we can focus on our core challenge: putting in place a healthy talent pipeline and strong succession planning. Good progress has been made in 2012. Our new OneHR infrastructure went live in China, with the next rollouts planned for Brazil and India in Q1 2013.

In addition, in 2012, we decided to take an integral Talent Management Suite (TMS) approach to HR IT in the following areas: Recruitment; Learning and Development; Compensation and Benefits; and Performance Management. In other words, we will be pursuing the implementation of a coherent IT solution to address all four HR domains, further reducing the fragmentation in our IT landscape.

### Talent management

With the basics of OneHR Services falling into place, we are taking action to create a healthy talent pipeline with strong succession planning in line with our diversity and inclusion ambitions. Using a clear definition of what it is to be a leader at AkzoNobel, we are aiming to have talent pipelines with two or three immediate successors to key positions. We will achieve this by managing the careers of our key talents in a more proactive manner and linking succession planning to career planning, with clearly aligned learning and development opportunities, mentoring and coaching facilities, and career development possibilities.

**Key actions in 2012**

- Use of Matching Forums at Business Area and Function level to regularly discuss upcoming vacancies with potentials in the company
- Individual Development Plans (IDPs) for key talents
- Improved Leadership Talent Review process, with more focus on an individual's future potential and capabilities, and ensuring that we identify and assess potential earlier in the careers of our talents
- Continued use of our two main management 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
- AkzoNobel Academy to enable functional and operational excellence. The Academy is the key enabler to drive and facilitate capability build; incorporate internal and external best practices and best practice sharing; offer courses that are directly linked to key areas that drive our functional and operational excellence ambition in a sustainable way; ensure that our courses, standards, improvement methodologies and tools are easily accessible across the organization and benchmarked against world class standards. Each function now has its own Faculty Leader to define capability need/competencies and the associated curriculum to grow these capabilities. In addition, we have now launched a catalog of best practice courses for key functional areas and defined the curricula for 2013, which is aimed at improving identified capabilities
- Continued use of our 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

### Diversity and Inclusion

Our talent management activities are aligned with our diversity and inclusion ambitions: at AkzoNobel, 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 and 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 – something which has been highlighted by our success in filling senior level appointments with candidates from our focus groups (women or people who come from high growth markets). For example, of the total number of senior level positions that were filled last year, 33 percent of the external recruitments and 24 percent of the internal moves were female. In addition, 29 percent of external and 18 percent of internal placements were from high growth markets.

In addition, 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 15 percent of the total population in 2012. 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 13 percent.

In 2012, 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 its first phase in 2015
- We have also invested considerably in D&I awareness training for managers in the skills needed to create and sustain diverse teams. In total, 4,700 of our managers have already completed the training and D&I e-learning module for all employees, while nearly 25,000 employees globally have completed the online training program
- Establishment of a company-wide diversity and inclusion policy
- Establishment of a company-wide anti-harassment directive

### Recruitment

To support us in attracting the talent we need to achieve our ambitions, we are driving towards becoming an employer of choice in our key countries, targeting, for example, a top 100 position in China and a top ten position in the Netherlands. This should lead to recruiting better talents at lower cost. To support us in this, we have established recruitment “centers of expertise” in our top ten key countries to help us leverage the scale of AkzoNobel as an employer and to serve our businesses more efficiently and effectively.

**Key actions in 2012:**

- Established recruitment centers of expertise in our top ten key countries
- Improved attractiveness (and reduced cost) of AkzoNobel as an employer through a One AkzoNobel Employee Value Proposition – Where your ideas go far

### HR training

Achieving all of the actions on our agenda will require the support of a suitably qualified HR organization. We have therefore set about delivering a step change in HR capabilities and expertise levels. Guided by a new HR competency framework and development center, HR employees are now being offered the learning opportunities they need to be a strategic partner to their organization.

**Key actions in 2012**

- Rolled out the HR Development Center to help our people develop the capabilities required to deliver functional and operational excellence across the company
- Defined an HR curriculum within the AkzoNobel Academy to strengthen capabilities, based on a clearly defined competency framework
- Launched the HR Business Partner program to strengthen the ability of this key group to be strategic partners to the business. In 2012, we rolled out the program to various countries and trained more than 100 HR professionals across AkzoNobel

### Employee engagement

In addition to underpinning our ambition to become an employer of choice with our talent management and diversity and inclusion activities, 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 Employee Engagement Survey to monitor progress. This is based on the Gallup Q12 survey and provides a comparison against nearly 500 organizations.

Our overall engagement score went up only slightly this year, as did the scores for each of the questions on the survey. While there were positives, there are a number of areas where action needs to be taken and plans to remedy the gaps are already in place, including:

- Introduction of HR Coaches program to ensure HR business partners can coach managers to improve people management skills, especially in the area of performance management and employee engagement. Sixty HR business partners have been trained so far
- Introduction of Engagement Catalysts program to enable people managers to further strengthen their engagement expertise and to enable them to act as trusted advisors to (low performing) people managers. In total, 89 people managers have been trained so far
- Introduction of global webinars for all people managers to improve best practice sharing and help managers raise engagement levels in their teams. Twelve webinars have been held so far

## 9 Note 9: Restructuring

In 2012, we continued to restructure our business to meet the needs of our customers and deliver our company strategy. As a responsible employer, 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.

## 10 Note 10: Community

Community involvement is an integral part of the social pillar in our strategic 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:

- Support to community/social development through the AkzoNobel Community Program and AkzoNobel Education Fund
- Improve prosperity in society through products and partnerships
- 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 encourages 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 seven 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 9,000 volunteers from 50 countries have worked on around 2,000 projects, representing approximately €13 million of investment. Our sites initiate over 250 projects each year, with little variation in the regional spread. Nearly 70 percent of projects have supported educational/employability and healthcare/well-being activities, with environmental and housing projects also well represented. The economic slowdown has prompted more focus on projects benefiting deprived, socially disadvantaged groups. For example,

**Employee survey scores for each engagement item**

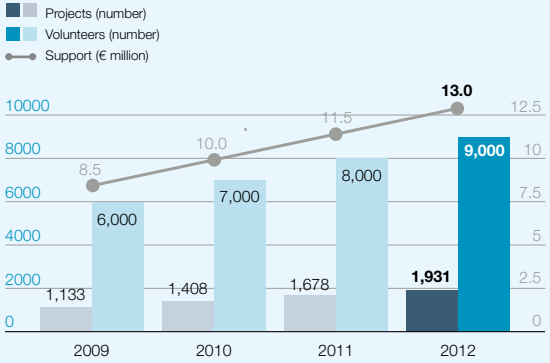
| | | Percentile | Mean |
|---|---|---|---|
| **GrandMean** | 2010 | 23 | 3.56 |
| | 2011 | 33 | 3.74 |
| | **2012** | **37** | **3.80** |
| Learn and grow | 2010 | 25 | 3.61 |
| | 2011 | 33 | 3.80 |
| | **2012** | **37** | **3.85** |
| Progress | 2010 | 24 | 3.41 |
| | 2011 | 32 | 3.67 |
| | **2012** | **35** | **3.75** |
| Best friend | 2010 | 23 | 3.19 |
| | 2011 | 32 | 3.45 |
| | **2012** | **37** | **3.57** |
| Quality | 2010 | 34 | 3.84 |
| | 2011 | 40 | 3.96 |
| | **2012** | **46** | **4.02** |
| Mission/Purpose | 2010 | 28 | 3.67 |
| | 2011 | 33 | 3.80 |
| | **2012** | **33** | **3.82** |
| Opinions count | 2010 | 33 | 3.46 |
| | 2011 | 39 | 3.61 |
| | **2012** | **42** | **3.67** |
| Development | 2010 | 23 | 3.37 |
| | 2011 | 32 | 3.59 |
| | **2012** | **37** | **3.68** |
| Cares | 2010 | 22 | 3.60 |
| | 2011 | 29 | 3.81 |
| | **2012** | **33** | **3.88** |
| Recognition | 2010 | 21 | 2.98 |
| | 2011 | 33 | 3.30 |
| | **2012** | **37** | **3.41** |
| Do best | 2010 | 26 | 3.65 |
| | 2011 | 31 | 3.77 |
| | **2012** | **35** | **3.82** |
| Materials and equipment | 2010 | 31 | 3.77 |
| | 2011 | 38 | 3.88 |
| | **2012** | **38** | **3.91** |
| Expectations | 2010 | 28 | 4.18 |
| | 2011 | 32 | 4.24 |
| | **2012** | **34** | **4.27** |

involvement in the set up and running of soup kitchens, shelters and daycare centers for the homeless and vocational training for unemployed youngsters and women are taking place on a continuous basis in various parts of the world.

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 2012, almost 50 percent of the workforce in Adria, Italy, helped restore a hospital for disabled elderly and Alzheimer patients in Emilia Romagna, which was severely hit by a major earthquake. Other post-relief aid actions took place in Thailand, which experienced its worst floods in 50 years. Our employees teamed up to help children resume their education as soon as possible by cleaning, repairing and renovating a school. Meanwhile, in the US, relief aid was provided after a tornado hit the Mid-West.

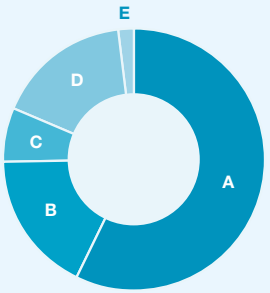
In 2012, 253 new projects were initiated, while almost 3,000 employees voted for their favorite entries in our annual Community Program Best Practice contest. First prize went to employees at Marine and Protective Coatings in Seoul, South Korea, and their "Dream-helpers make dreams of disabled children come true" project. Our volunteers helped set up a one-on-one buddy system for 30 disabled children at the Hanwoori Community Welfare Center.

**Cumulative Community Program involvement**




**2012 projects** by region

| | |
|---|---|
| **A** Europe | 144 |
| **B** North America | 43 |
| **C** Latin America | 14 |
| **D** Asia | 48 |
| **E** Other regions | 4 |




## 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 ranging from school renovation in Burkina Faso, to improving sanitation and hygiene conditions at schools in Vietnam, and improving the capabilities of primary school teachers in Brazil.

Several thousand children aged three to 16 have directly benefited from quality pre-school and primary education provided by the Education Fund.

A special fundraising campaign staged in 2011 raised around €140,000, providing around 500 young people, mainly girls, in Vietnam, India and Brazil with vocational training opportunities. In 2012, our support continued to focus on vocational training to help deprived young people find decent and safe employment which offers them long-term prospects.

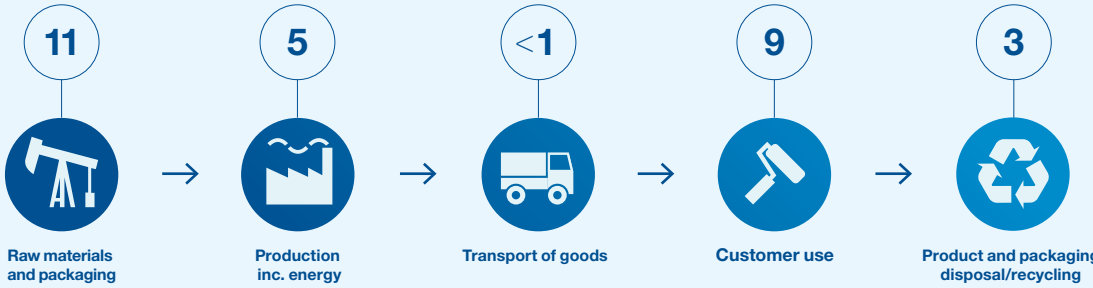
# Value chain

## Key performance indicators – value chain

| | 2009 | 2010 | 2011 | 2012 | Ambition 2012 | Ambition 2013 | Ambition 2015 |
|---|---|---|---|---|---|---|---|
| Carbon footprint cradle-to-gate/per ton of product (% reduction from 2009) | – | 2 [1] | 3 [1] | 3 | 5 | 5 | 10 |
| **Products** | | | | | | | |
| Eco-premium solutions (% of revenue) | 18 | 21 | 22 | 22 | 23 | 25 | 30 |
| VOC in product (% reduction from 2009) | – | < 5 | 6 | – | | | |
| **Raw materials and suppliers** | | | | | | | |
| Raw materials suppliers Vendor Policy signed (% of spend) | 85 | 91 | 95 | 97 | 96 | 96 | 96 |
| NPR[2] suppliers Vendor Policy signed (% of spend) | | 57 | 77 | 80 | 80 | 80 | 80 |
| Suppliers on SSV program since 2007 | 185 | 266 | 304 | 373 | – | – | – |
| Critical spend covered by supplier management framework (% of PR[3] spend in high growth markets) | | | | | | 80 | |
| **Own operations** | | | | | | | |
| Sustainable fresh water management (% of manufacturing sites) | 38 | 48 | 74 | 83 | 70 | 80 | 100 |
| Operational eco-efficiency footprint measure (% reduction from 2009) | – | 7 | 11 | 13 | 15 | 20 | 30 |
| Greenhouse gas emissions per unit of production | 272 | 267 | 256 | 257 | | | 245 |
| Carbon footprint own operations (Mton) | 4.7 | 5.2 | 4.8 | 4.7 | – | – | < 4.6 |

[1] 2010, 2011 figures restated, see Note 11.
[2] Non-product related.
[3] Product related (raw materials and packaging).

## AkzoNobel carbon footprint in Mton $CO_2$(e)




AkzoNobel product related carbon footprint based on 366 key value chains: includes emissions of six main greenhouse gases. In the use phase there are also 3 Mton $CO_2$(e) emissions due to VOCs. Excludes non-product categories, e.g. employee travel, capital, investments.

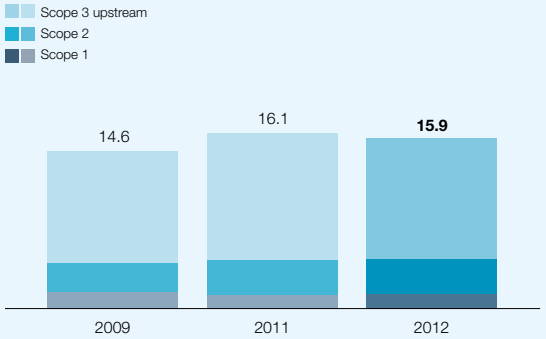
This chapter shows our sustainability performance and improvement activities to reduce our impact across the value chain. Our ambition is to achieve top quartile eco-efficiency improvement rates compared with peer companies. Current top quartile definition is based on our own operations (see Environment chapter in this section).

Lifecycle thinking is the basis for all our sustainability work. It is included in many of our processes, including:

- **Product development**
  The eco-premium solutions concept includes sustainability aspects along the value chain. It encourages the development of more innovative, sustainable products. We aspire to achieve zero environmental footprint across our value chain with our products
- **Eco-premium assessment**
  We use lifecycle assessments to review the environmental and ecological aspects of products. This data is used in the annual eco-premium solution assessment
- **Investment decisions**
  Since 2008, it has been mandatory to include an eco-efficiency assessment for investment proposals exceeding €5 million
- **Carbon footprint assessment**
  We measure the carbon footprint of all our key value chains (366 in 2012) using a full cradle-to-grave, or screening, lifecycle assessment

Eco-Efficiency Analysis (EEA) is our standard assessment method, based on a combination of lifecycle assessments and lifecycle costing. Assessment work is carried out by business and corporate specialists and based on a corporate lifecycle assessment database.

**Cradle-to-gate carbon footprint** in million tons of $CO_2$(e)




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 on our website. The cradle-to-gate assessment excludes Chemicals Pakistan: the Performance summary includes Scope 1 and 2 emissions from this business. 2009 and 2011 cradle-to-gate data has been restated to reflect changes in raw material data.

The AkzoNobel Carbon Policy confirms the business opportunity and the societal imperative of managing our climate impact throughout our product chains through innovative products, technology and energy management. It sets cradle-to-gate carbon footprint intensity targets (10 percent reduction by 2015, and 20-25 percent reduction by 2020, both with a 2009 baseline) and states our ambition to control absolute emissions from our own operations no higher than 2008 levels.

We have assessed the cradle-to-gate footprint of our operations since 2009. We have now assessed 366 key value chains. This year indicates a total footprint of around 15.9 million tons of $CO_2$(e) assessed cradle-to-gate for our ongoing businesses. There was an additional 0.35 million tons of $CO_2$(e) in Scope 1 and 2 reported from Chemicals Pakistan (divested by year-end). As in previous years, the cradle-to-gate assessment indicated that 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.

**All Scope 3 categories** million tons $CO_2$(e)

| | |
|---|---|
| Purchase goods and services* | 11 |
| Capital goods | 0.7 |
| Fuel and energy-related activities* | 0.4 |
| Upstream transportation* | 0.1 |
| Waste generated in operations* | 0.2 |
| Business travel | 0.2 |
| Employee commuting | 0.1 |
| Upstream leased assets | <0.01 |
| Downstream transportation | 0.2 |
| Processing of sold products/Use of sold products | 9 |
| End of life treatments of sold products | 3 |
| Downstream leased assets | <0.01 |
| Franchises | <0.02 |
| Investments | 0.4 |
| **Total** | 25 |

*Included in cradle-to-gate product footprint.
More information on the assessment can be found on our corporate website.

- The results of the cradle-to-gate assessments show a reduction of approximately 3 percent, from about 980 kg/ton (2009) to around 950 kg/ton in 2012 on a comparable basis. We have achieved reductions as a result of steam supplies with lower carbon footprint, reformulation of products and different product mix. However, new facilities and acquisitions in China have increased the carbon footprint
- 2012 absolute scope 1 and 2 emissions were 4.7 million tons of $CO_2$(e) (2008 baseline: 4.6 million)

## Scope 3 upstream and downstream

This year we have assessed all Scope 3 categories according to the GHG Protocol Scope 3 standard, taking into account guidance on measurement and reporting developed by the WBCSD Chemical Sector Working Group. The results are summarized in the table and diagram on the previous page.

## Management

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 quantified and summarized at a company level to manage and follow up carbon reduction targets. Examples of programs in place include the following elements found in Notes 11–18 of this Report:

- 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 and Scope 4 emissions. 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).

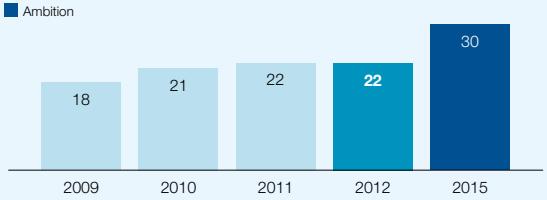
AkzoNobel's challenging target to increase the percentage of eco-premium solutions to 30 percent of revenues by 2015 involves teamwork and cooperation with stakeholders across the entire value chain. Sustainability and the reduction of our ecological footprint are embedded in AkzoNobel's strategy for RD&I and these aspects are inherent throughout the innovation process. Our sales and marketing professionals have a pivotal role to play in engaging with customers to identify products to meet their immediate functional needs, and to deliver against immediate and longer term sustainability requirements.

## Eco-premium solutions

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. We seek to offer solutions that allow our customers, their customers, or the end-users, to minimize their environmental or safety impacts. We also achieve improvements by working with our suppliers to reduce their eco-footprints. Our innovations are focused on identifying new and lower footprint product formulations, processes and applications with the aim of serving our customers' needs with as little environmental and safety impact as possible.

We have an ambition to increase the share of revenue from eco-premium solutions year-on-year to at least 30 percent. This is a challenging goal because the assessments are made against equivalent mainstream, or standard, products in the market, which is a moving target. Since 2008, our businesses have carried out annual assessments of their product and RD&I project portfolios. In 2012, total revenue from eco-premium solutions was about €3.5 billion. We have maintained the proportion of revenue from eco-premium solutions for the company as a whole, which stayed flat at 22 percent despite tough trading conditions, cost pressure and product downtrading. This figure is the composite of revenues achieved by Specialty Chemicals (25 percent), Performance Coatings (14 percent) and Decorative Paints (26 percent).

**Eco-premium solutions** in % of revenue




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.

## VOC in products

AkzoNobel remains committed to taking a leadership role in the reduction of VOCs within the coatings industry and we are beginning to see the impact of substantial RD&I effort in reducing the VOC content of our products. In view of changing market dynamics, we have adopted a renewed implementation mode in our strategy for reducing the use of VOCs in our products. We will focus on implementing our VOC reduction projects on a regional basis, and to that end we will continue to use the comprehensive model created by a cross-functional group of RD&I, marketing and product stewardship in order to track and quantify the progress of our projects.

The world has changed substantially since we initiated this program in 2009. Our sales forecasts are showing that the balance of growth is beginning to shift. We are now expecting to see less growth in waterborne wall paint products globally, but on the other hand, we expect higher growth in China, where historically market conditions have been more favorable towards a product portfolio that is on average higher in VOC content.

Our resolve to reduce the use of VOCs remains strong; we will focus heavily on Europe and North America, where we are in the process of implementing the highly promising results of RD&I projects that resulted in reformulated products, reducing or even eliminating VOCs. In 2011, the Decorative Paints business managed to reduce the average VOC content in its products by 18 percent and 15 percent in Europe and North America, respectively (compared with the 2009 baseline). Total VOC content in all our products sold in these markets has dropped by 17 percent and 22 percent, respectively. Our forecasts show that this reduction trend will continue in the future.

We are making technological progress in reducing VOCs in products sold in China, but we must also keep up with the market and match our product offering to customer demand. It is a feature of the coatings market in China that customers are not migrating as quickly as customers elsewhere towards low or zero VOC products. We have key projects in place to mitigate the absolute output of VOCs, but we forecast strong growth in product categories that are comparatively high in VOC content. Therefore, we will not be able to reach the same level of VOC content reduction that we have set out to achieve in other markets.

Despite the changes in our global sales mix, we are already seeing results of our RD&I projects. We will continue to measure and analyze the VOC content in our products on an annual basis. Our evaluation of the 2011 position shows that against the 2009 baseline, we have realized a 6 percent reduction in average VOC content across our coatings and paints product ranges.

## Risk management

Our main objective is to create a sustainable supplier base, supporting our license to operate. In 2012, we continued to optimize our supplier management processes, aiming to secure supply of the materials we need for the products for our customers, as well as contributing to the continuous reduction of our footprint. We have specified two supplier segments:

- Critical suppliers – suppliers in emerging countries supplying products for which no technical alternative products are available, or for which no commercially attractive alternative suppliers are known. We want to ensure that the labor conditions, environmental conduct and business integrity of these suppliers is in line with the standards of our Vendor Policy and the AkzoNobel Code of Conduct
- Key suppliers – specified because of their importance to our business, based on the level of spend, the risk for the business or business dependency, and the level of cooperation and innovation potential

These supplier segments form the highest risk for our business in terms of our manufacturing sites' production capacity and/or our company's reputation.

## Supplier management

The supplier management processes we have in place are:

- Vendor Policy, which covers 97 percent of the product related (PR) spend, including all critical suppliers and key suppliers
- Supplier Support Visits, which include all critical suppliers, represents 14 percent of our PR spend in high growth countries
- Key supplier management, for all key suppliers covers 38 percent of our global PR spend

**Supplier management**

| % of spend value | 2009 | 2010 | 2011 | 2012 | Ambition 2012 | Ambition 2013 | Ambition 2015 |
|---|---|---|---|---|---|---|---|
| Product related suppliers Vendor Policy signed | 85 | 91 | 95 | 97 | 96 | 96 | 96 |
| NPR[1] business suppliers Vendor Policy signed | – | 62 | | | | | |
| NPR[1] centrally contracted suppliers Vendor Policy signed | 89 | 100 | 77 | 80 | 80 | 80 | 80 |
| Suppliers on SSV program since 2007 | 185 | 266 | 304 | 373 | – | | – |

[1] Non-product related. From 2011 we have combined the NPR supplier reporting.

From 2013, we will use a new KPI: Critical PR spend covered by supplier management framework, which gives a better view of the spend impact of the capability and capacity building efforts with our suppliers. Our 2013 ambition is 80 percent. The supplier management framework includes our key supplier management process, our Supplier Support Visit process, as well as our Vendor Policy process. It provides an overall framework to select the most effective process for each of our suppliers, focused on emerging markets.

### Vendor Policy

Our aim is to have all our suppliers sign the AkzoNobel Vendor Policy, which includes our Code of Conduct. We have signed agreements with 97 percent of product related and 80 percent of centally contracted non-product related suppliers (by spend value), in which they confirm their compliance with environmental, social and governance factors. This covers about 92 percent of our total spend.

### Supplier Support Visits

In 2007, we implemented Supplier Support Visits. These visits focus on critical suppliers and are carried out by teams from Procurement and HSE. The Supplier Support Visits program remains highly successful, with 373 visits having been conducted since the start of the program. Of all Supplier Support Visits, 46 percent have resulted in a developmental score, which means actions have been formulated and discussed with the supplier. Follow up visits are arranged to verify implementation and progress.

### Key suppliers

In 2012, as part of the operational effectiveness program, we further developed our key supplier management process. This involved implementing a Supplier Sustainability Decision Tree and process flow. Decision criteria include signing of the Vendor Policy, spend value, critical spend, eco-footprint and the capability to collaborate in sustainable innovation opportunities. This new process for key supplier management was introduced and piloted at the top three key suppliers.

The existing process has focused primarily on suppliers of value today. In the new process, we will define and identify suppliers that are critical to AkzoNobel today and in the future and manage them in a differential way. These suppliers are essential to supporting us in realizing our strategic objectives.

## Collaborative initiatives

We are a founding member of the International Supply Chain Management Congress in Amsterdam. In 2012, we were again part of the leadership for the organization, sponsorship and support for the congress, which is recognized as a valuable contributor to the development of sustainability thinking and supply chain processes.

Our activities do not target specific suppliers, but rather the value chains in which we participate as a whole.

### Strategies going forward

The procurement strategy for the coming years is to move further beyond availability-price-synergy towards cross-functional sourcing, integration and value chain orientation. Buying on price moves towards total cost of ownership. Supplier relationships move towards cooperation and partnering. We see this as a way to leverage the size and scope of our global business, our position with suppliers and to drive competitive advantage.

Cross-functional (Procurement, RD&I, Supply Chain and Operations) initiatives including suppliers are increasing in number and impact. An integral part of the key supplier approach is to structure cooperation and joined innovation so that a cross-functional approach is critical.

We continued the development and implementation of the raw material strategies for $TiO_2$, resins and latex. These strategies include elements such as material resource planning, capacity and supply cover, supplier selection and sourcing plans per region, “make” versus “buy” and renewable materials. They are also an instrumental tool in reducing the footprint of our global value chains. In 2012, we focused on making the strategies more robust through thorough review in an integrated cross-functional Process Management Office, run bi-weekly, to embed the overall process and strategy. This process also ensures that we have taken into account interdependencies with a forward-looking perspective, including sustainability.

One outcome of the $TiO_2$ strategy process is the decision to participate in the building of a $TiO_2$ manufacturing site in China. This will mitigate risks by securing part of our supply, understanding the mechanics of that market, having direct contact with the ore suppliers (backward integration) and enabling less price volatility.

We concluded the formulation of our solvent strategy, including the sustainability profile of the solvents we use, especially the VOC and GHG footprint, and the application of bio-based solvents. We have a number of opportunities in scope for evaluating renewable and bio-based raw materials, especially in the solvents and resins supply chains.

### Complexity reduction

So-called slates of raw materials in key areas of spend are being developed. These slates define a core list of preferred materials/suppliers. Sustainability aspects such as carbon footprint and product safety are key criteria applied. The objective is to migrate our materials/suppliers over time onto these core materials, making our value chain less complex and more sustainable. The slate approach gives clear information on potential business opportunities to improve our value chains – lower cost, lower carbon footprint and reduced risk. After a first internal phase of analysis, suppliers will become part of the process.

### Logistics/distribution

In our performance improvement program, we have started to manage warehousing and logistics at a regional AkzoNobel level. This will result in a reduction of warehouses and combined transport solutions. It will also have a positive effect on our footprint.

We are involved with Smartway in the US and the EU, focusing on $CO_2$ reduction, and with the Clean Shipping Index in Sweden, Germany and the Netherlands, as well as the Sustainable Shipping Initiative facilitated by Forum for the Future in the UK.

### Car lease

The carbon emission ambition for our own passenger car fleet is 130 g/km. In Europe, we reduced from 143 g/km in 2011 to 136 g/km in 2012.

### Operations management

AkzoNobel is a manufacturing company, so excellence in supply chain management and manufacturing operations is a fundamental requirement for success.
In 2012, the company’s performance improvement program focused on delivering operational excellence in the full supply chain. Based on the Lean Six Sigma improvement thinking, many improvement activities have been initiated in our supply chain and operations:

- More than 50 manufacturing site improvement projects have started
- Supply chain planning processes have been improved and standardized
- Capabilities are being developed through the creation and delivery of the Supply Chain Faculty within the AkzoNobel Academy

Improvement is measured in safety, customer service, cost, quality, working capital and eco-efficiency. Lifecycle assessments have indicated that for most of our businesses, the environmental footprint of our direct activity is low compared with the impact of raw materials and use of our products. However, we see improving operational eco-efficiency as a fundamental element of manufacturing excellence – helping us to achieve cost reduction, environmental protection and more effective use of raw materials and natural resources.

A key initiative is the implementation of the renewable energy strategy at our sites. Together with a partner, in 2013 we will start to assess opportunities for introducing solar, wind or other renewable energy sources at our manufacturing sites.

### Investment decisions

All our major (more than €5 million) investment proposals require a sustainability evaluation alongside the financial case. During 2012, this process was updated to include assessments at different stages in the project

# Environment

development, so that sustainability is considered from the start. At the point of application for capital, the requirements include an eco-efficiency assessment, as well as a full review of health and safety, process and product safety, natural resource/raw material requirements and environmental impacts.

These requirements are fully embedded in the company process for allocating funds for an investment or acquisition. The proposals are reviewed by subject matter experts, who provide comments and advice to the Executive Committee, on both the financial and non-financial issues associated with the investment, to provide a strong basis for the investment decision.

**Key performance indicators – environment**

| | 2009 | 2010 | 2011 | 2012 | Ambition 2012 | Ambition 2013 | Ambition 2015 |
|---|---|---|---|---|---|---|---|
| Operational eco-efficiency footprint measure (% reduction from 2009) | – | 7 | 11 | 13 | 15 | – | 30 |
| Sustainable fresh water management (% manufacturing sites) | 38 | 48 | 74 | 83 | 70 | – | 100 |
| Greenhouse gas emissions per unit of production (own operations) | 272 | 267 | 256 | 257 | – | – | 245 |

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 agenda is to increase raw material efficiency, reduce consumption of energy and decrease emissions and production of waste. Improvements include many small site contributions upgrading existing processes, rationalization of the manufacturing footprint and application of best available technology for new investments. The ambition is to have a top quartile performance, which is defined as belonging to the top 25 percent in the SAM industry benchmark for the OEE criterion.

We measure progress using an internal indicator which combines energy, water, waste and air emissions, as well as cost elements. Between 2009 and 2012, we achieved a reduction of 13 percent in this measurement. Without the acquisition effect of Boxing Oleochemicals, the current OEE footprint improvement would have been 15 percent. Our ambition is to reduce it by 30 percent by 2015, with a baseline of 2009. We will need to strengthen our current target of 5 percent per year improvement in order to achieve this.

To increase the transparency of our OEE performance and its related projects, a new OEE communications platform called EcoXchange was built, in combination with dedicated OEE project tracking.

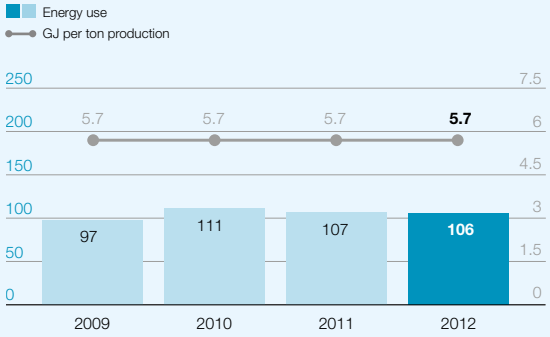
## 14 Note 14: Energy

### Energy use

Energy is a major raw material for some of our Specialty Chemicals businesses, so energy efficiency and carbon efficient energy use are important metrics for these operations.

- Energy use per ton of production is stable at 5.7 GJ/ton (2011: 5.7 GJ/ton). Absolute energy use was down 1 percent at 106,000 TJ (2011: 107,000 TJ) in line with lower production volumes. The total costs of energy used in our production is about €0.6 billion
- More details about energy use per region and energy source can be found on our website

**Energy use** in 1000*TJ




Energy use is the sum of fuels, electricity, steam, hot water and other utilities expressed as fuel equivalents.

Energy reduction for the other sites is supported via a site Energy Diagnostics Methodology. Many production sites have identified improvement projects for energy savings which are being implemented, including Houston and Morris in the US and Stockvik in Sweden.

### Renewable energy

In 2012, a renewable energy strategy was developed. The strategy is based on three pillars:

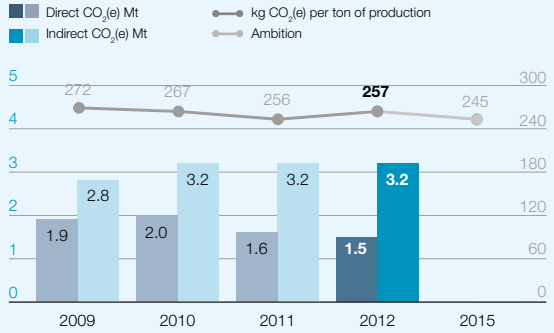
- Protect what we have — current share of renewable energy about 33 percent
- Participate in cost-attractive large energy ventures
- Explore commercially feasible on-site renewable energy options

First actions from this strategy involve our considerations to participate in wind parks. Another action is the installation of a solar roof in Castelletto, Italy, delivering 15 percent of the required energy for this paint production plant.

## 15 Note 15: Greenhouse gas emissions

Greenhouse gas emissions are primarily $CO_2$ related to fuel, but also include some $CO_2$, $CH_4$ and HFC process emissions. This section reflects the performance of all 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 11 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.

- Total greenhouse gas emissions per ton of production increased by 1 percent to 257 kg/ton $CO_2$(e) (2011: 256 kg/ton). Absolute GHG emissions have come down by 1 percent to 4.7 million tons of $CO_2$(e) (2011: 4.8 million tons). The decrease is mainly caused by lower fuel consumption
- More details on the distribution of the various sources for greenhouse gases can be found on our website

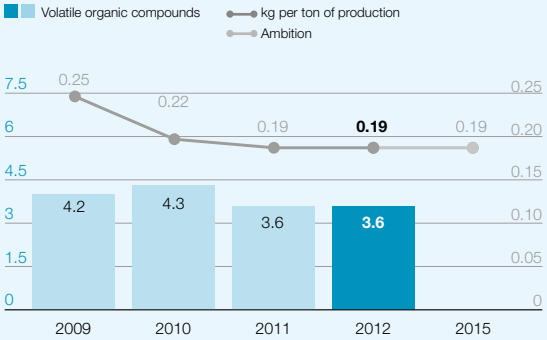
Air monitoring around our operations is focused on volatile organic compound (VOC) and NOx and SOx emissions. We monitor particulates at site level as required.

## Volatile organic compounds (VOC)

VOC emissions from our manufacturing operations 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. The VOC reduction focus for our paints and coatings businesses is increasingly concentrating on low/zero VOC product design, rather than only 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 – VOC in product. (See Note 12 in this section).

VOC emissions per ton of production stayed flat at 0.19 kg/ton (2011: 0.19 kg/ton). Total VOC emissions remained flat at 3.6 kilotons (2011: 3.6 kilotons), primarily because acquisitions offset improvements made at many sites. Focused investigation at these acquisition sites and continued OEE program activities will keep us on target to achieve our ambitions.

**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.

## NOx and SOx

NOx and SOx emissions may have a significant impact on local air quality because of their contribution to acidification. Therefore, these compounds are monitored.

- SOx emissions (from process emissions and energy) per ton of production were stable at 0.41 kg/ton of production (2011: 0.41 kg/ton). Absolute emissions were down 2 percent at 7.6 kilotons (2011: 7.7 kilotons). The emissions per ton for the three sulfur derivatives plants in Germany, the US and Argentina were down, while our Pakistan operation also improved
- NOx emissions from our sites per ton of production were down 6 percent at 0.10 kg/ton (2011: 0.11 kg/ton). Total emissions were down at 1.9 kilotons (2011: 2.0 kilotons)

## Ozone depleting substances

Emissions of ozone depleting substances are at a very low level (2012: 1.75 tons). They are mainly due to Freon22 in older air conditioning and cooling units, which are continuously being replaced (for example in Huron, where an old chiller was replaced by a state-of-the-art model).

**NOx and SOx emissions**

| in kilotons | 2009 | 2010 | 2011 | **2012** |
|---|---|---|---|---|
| NOx | 2.1 | 2.0 | 2.0 | 1.9 |
| NOx kg/ton | 0.12 | 0.10 | 0.11 | 0.10 |
| SOx | 6.2 | 7.1 | 7.7 | 7.6 |
| SOx kg/ton | 0.37 | 0.36 | 0.41 | 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. The total quantitiy of NOx/SOx emissions from manufacturing processes discharged directly to air (e.g. after any abatement process) and the quantity of NOx/SOx emissions calculated from the use of fuels.

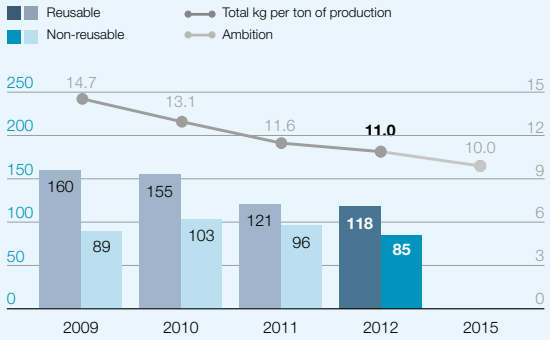
## 17 Note 17: Raw material efficiency

### Waste

Effective waste management helps to increase raw materials efficiency in our manufacturing operations, reduces our environmental footprint and reduces costs. 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.

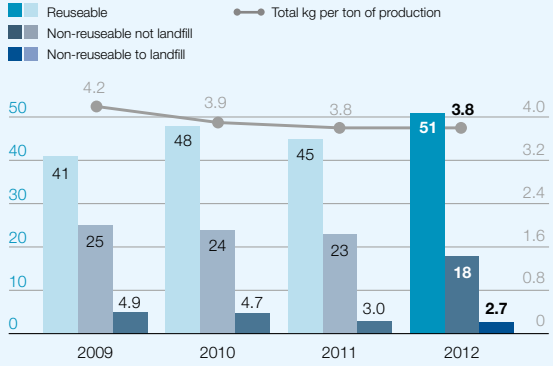
- Total waste per ton of production generated and leaving our sites was down 5 percent to 11.0 kg/ton (2011: 11.6 kg/ton). The total waste volume came down to 203 kilotons (2011: 217 kilotons), a decrease of 6 percent
- We have realized improvements from projects implemented in the OEE program, resulting in a decrease to 85 kilotons of non-reusable waste (2011: 96 kilotons). Non-reusable waste per ton of production generated and leaving our sites was down 10 percent, to 4.6 kg/ton (2011 5.1 kg/ton). An example is the conversion of a sodium sulphate stream to a product which is now being supplied by Pulp and Performance Chemicals (Magog and Valleyfield)
- The program for waste prevention through alternative outlets for obsolete paint materials has been successful. Around 15,000 tons of obsolete materials have been sold as by-product, which is being used as raw material for paint. This material would otherwise have been discarded as waste. Sustainable outlets have also been found for other by-product streams (7,500 tons)
- Hazardous waste per ton of production stayed flat at 3.8 kg/ton (2011: 3.8 kg/ton)
- The non-renewable hazardous waste to landfill was down 9 percent to 2.7 kilotons (2011: 3.0 kilotons)

**Total waste** in kilotons




Waste means any substance or object arising from our routine operations which we discard, or intend to discard. Non-reusable waste is not used for resources, recovery, recycling, reclamation, direct reuse or alternative uses.

**Hazardous waste** in kilotons




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

## 18 Note 18: Water

### Fresh water availability

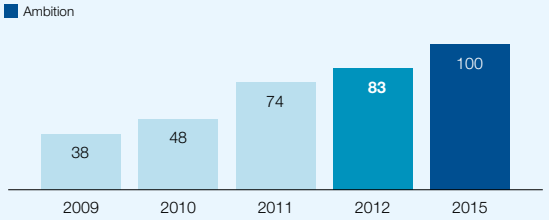
Sustainable water supply is essential to life – and to the sustainability of our business. We rely on water for raw materials production, product formulation and manufacturing, power generation, cooling, cleaning, transporting and for effective use of some products.

Our ambition is to have sustainable fresh water management in place at all our manufacturing sites in 2015.

Around 88 percent of our fresh water intake is from surface water and 87 percent of our intake is used for cooling. In addition to the intake of fresh water, the emission of contaminated water from our sites to surface waters may negatively impact fresh water resources and eco-systems. We continue to reduce the chemical oxygen demand (COD) of our effluent to surface water.

More details on the sources and use of fresh water can be found on our website.

**Sustainable fresh water management**
in % manufacturing sites



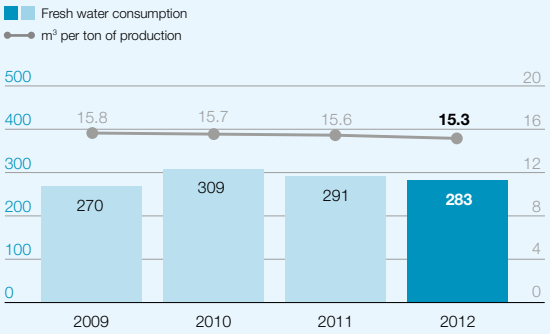

Sustainable fresh water management is defined as a low risk score in all categories in the AkzoNobel sustainable fresh water assessment tool: water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors.

## Water emissions

- 83 percent of sites have sustainable fresh water management in place (2011: 74 percent), as measured by the AkzoNobel fresh water management risk assessment tool
- Fresh water use per ton of production has come down to 15.3 $m^3$/ton (2011:15.6 $m^3$/ton). Total fresh water use was 283 million $m^3$ (2011: 291 million $m^3$), a decrease of 3 percent

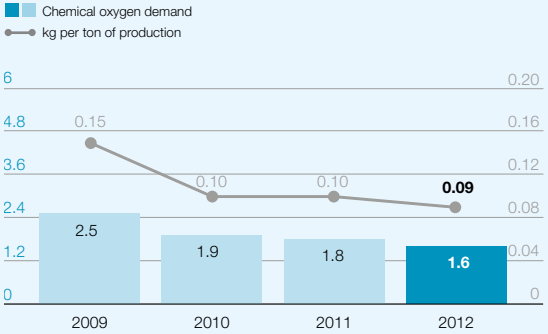
Reductions in COD in effluent are being achieved across the company. The COD load to surface water per ton of production reduced to 0.09 kg/ton (2011: 0.10 kg/ton). The total COD load to surface water was down 12 percent to 1.6 kilotons (2011: 1.8 kilotons). Improvements are due to various initiatives, such as the one at Santo Andre, where a project was approved to connect its operations to the municipal wastewater treatment.

**Fresh water use** in million $m^3$




Total fresh water intake from surface, ground or potable water sources.

**Chemical oxygen demand (COD)** in kilotons




Chemical oxygen demand (COD) is the amount of oxygen required for the chemical oxidation of substances in the wastewater effluent which is directly discharged into surface waters from our facilities. It excludes our effluent treated by others.

## 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 €424 million, which we believe is sufficient for the sites where we have ownership or responsibility (see also Notes 15 and 19 in the Financial statements section).

# Independent assurance report

## To the readers of AkzoNobel's Sustainability statements 2012

We were engaged by the Board of Management of AkzoNobel N.V. (further AkzoNobel) to provide assurance on the sustainability information in the AkzoNobel Report 2012. The Board of Management of AkzoNobel is responsible for the preparation of the AkzoNobel Report 2012, including the identification of material issues. Our responsibility is to issue an assurance report based on the engagement outlined below.

### Scope

Our assurance engagement was designed to provide:

- Limited assurance on whether the information in the Sustainability statements section (further Sustainability statements) and in the Compliance and integrity management chapter of the Governance and compliance section of the AkzoNobel Report 2012 is fairly presented, in all material respects, in accordance with the reporting criteria
- Reasonable assurance on whether the information in the Managing our values paragraph (see Note 1 in the Sustainability statements) is presented, in all material respects, in accordance with the reporting criteria as defined by AkzoNobel

We do not provide any assurance on the achievability of the objectives, targets and expectations of AkzoNobel. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

### Reporting criteria and assurance standard

AkzoNobel applies the Sustainability Reporting Guidelines (G3.1) of the Global Reporting Initiative, supported by internally developed guidelines as described in the Reporting principles paragraph. It is important to view the performance data in the context of these criteria. We believe 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 Engagement (ISAE 3000): Assurance Engagement 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 provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.

### Work undertaken

Our procedures for limited assurance included:

- A risk analysis, including a media search, to identify relevant sustainability issues for AkzoNobel in the reporting period
- Reviewing the suitability of the internal reporting criteria
- Evaluating the design and implementation of the systems and processes for the collection, processing and control of the information in the Sustainability statements, including the consolidation of the data for the Sustainability statements
- Interviewing management at corporate and business level responsible for the sustainability policies, implementation, management, internal controls, monitoring and reporting
- Interviews with relevant staff at corporate and business level responsible for providing the information and consolidating the data for the Sustainability statements
- Evaluating internal and external documentation, based on sampling, to determine whether the information in the Sustainability statements is supported by sufficient evidence
- Joining an audit of HSE&S (Health, Safety, Environment & Security Management) at the Decorative Paints site in Montataire, France
- Reviewing the relevant work of Internal Audit

Our additional procedures for reasonable assurance included:

- Testing the relevant work of Internal Audit in respect of the information in the Managing our values paragraph
- Joining the sustainability assessment questionnaire review at the Automotive and Aerospace Coatings business in Sassenheim, the Netherlands, together with the Internal Audit team to evaluate the implementation and test the operating effectiveness of controls in respect of the information in the Managing our values paragraph at local level

Additionally, we determined, as far as possible, whether the information concerning sustainability in the other sections of the AkzoNobel Report 2012 is consistent with the information in the Sustainability statements.

During the assurance process, we discussed the necessary changes in the information presented in the Sustainability statements and reviewed the final version to ensure that it reflects our findings.

### Conclusions and opinion

Based on our procedures for limited assurance, nothing has come to our attention to indicate that the information in the Sustainability statements and in the Compliance and integrity management chapter of the Governance and compliance section is not fairly presented, in all material respects, in accordance with the reporting criteria.
In our opinion, the information in the Managing our values paragraph is presented, in all material respects, in accordance with the reporting criteria.

We also report, to the extent of our competence, that the information on sustainability in the rest of the AkzoNobel Report 2012 is consistent with the information in the Sustainability statements.

Amsterdam, February 19, 2013

**KPMG Sustainability**
**Part of KPMG Advisory N.V.**

**W.J. Bartels RA, Partner**

# Summaries


| | |
|---|---|
| Financial summary | 196 |
| Sustainability performance summary | 200 |
| Index | 202 |
| Glossary | 203 |
| Financial calendar | 205 |

# Financial summary

## Consolidated statement of income

| In € millions | 2003 [1] | 2004 | 2005 [2] | 2006 | 2007 | 2008 [3] | 2009 | 2010 | 2011 [5] | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 13,106 | 12,833 | 13,000 | 10,023 | 10,217 | 15,415 | 13,028 | 14,640 | 14,604 | 15,390 |
| Operating income | 1,146 | 1,588 | 1,492 | 887 | 778 | (577) | 855 | 1,219 | 1,145 | (1,244) |
| Financing income and expenses | (248) | (205) | (162) | (134) | (151) | (232) | (405) | (327) | (336) | (267) |
| Income tax | (254) | (412) | (338) | (96) | (166) | (260) | (141) | (170) | (233) | (172) |
| Results from associates and joint ventures | 7 | 10 | 6 | 87 | (20) | 25 | 21 | 25 | 24 | 13 |
| **Profit for the period from continuing operations** | **651** | **981** | **998** | **744** | **441** | **(1,044)** | **330** | **747** | **600** | **(1,670)** |
| Minority interests attributable to minority shareholders | (49) | (36) | (37) | (29) | (31) | (65) | (77) | (83) | (64) | (63) |
| Discontinued operations | – | – | – | 438 | 9 | 23 | 32 | 90 | (59) | (436) |
| **Net income, attributable to shareholders** | **602** | **945** | **961** | **1,153** | **419** | **(1,086)** | **285** | **754** | **477** | **(2,169)** |
| Common shares, in millions at year-end | 285.7 | 285.8 | 285.8 | 287.0 | 262.3 | 231.7 | 232.3 | 233.5 | 234.7 | 239.0 |
| Dividend | 343 | 343 | 343 | 344 | 472 | 417 | 325 | 320 | 304 | 214 |
| Number of employees at year-end | 64,600 | 61,400 | 61,300 | 42,700 | 42,600 | 60,000 | 54,700 | 55,600 | 52,020 | 50,610 |
| Average number of employees | 66,400 | 63,600 | 61,400 | 61,900 | 42,600 | 61,300 | 56,300 | 55,100 | 51,100 | 52,200 |
| Employee benefits | 3,505 | 3,216 | 3,221 | 2,158 | 2,215 | 3,022 | 2,955 | 2,980 | 2,765 | 3,129 |
| Average revenue per employee (in €1,000) | 197 | 202 | 212 | 162 | 240 | 252 | 231 | 266 | 286 | 295 |
| Average EBITDA per employee (in €1,000) | 30 | 28 | 34 | 30 | 30 | 31 | 31 | 36 | 36 | 36 |
| **Ratios** | | | | | | | | | | |
| Operating income in % of revenue | 8.7 | 12.4 | 11.5 | 8.8 | 7.6 | –[4] | 6.6 | 8.3 | 7.8 | –[4] |
| Operating income in % of invested capital | 13.6 | 20.8 | 19.4 | 16.3 | 14.6 | –[4] | 7.3 | 9.6 | 9.1 | –[4] |
| Net income in % of shareholders' equity | 26.2 | 40.6 | 32.0 | 30.5 | 122.9 | –[4] | 3.7 | 8.4 | 5.2 | –[4] |
| Employee benefits in % of revenue | 26.7 | 25.1 | 24.8 | 21.5 | 21.7 | 19.6 | 22.7 | 20.4 | 19.3 | 20.3 |
| **Per share information** (in €) | | | | | | | | | | |
| Net income | 2.11 | 3.31 | 3.36 | 4.02 | 33.82 | (4.38) | 1.23 | 3.23 | 2.04 | (9.14) |
| Adjusted earnings | | | | | | | 2.06 | 3.71 | 3.10 | 3.26 |
| Shareholders' equity | 8.76 | 9.12 | 11.95 | 14.44 | 42.06 | 32.21 | 33.47 | 38.48 | 39.25 | 28.84 |
| Highest share price during the year | 32.44 | 33.79 | 40.18 | 49.41 | 65.56 | 57.11 | 46.52 | 47.70 | 53.74 | 49.98 |
| Lowest share price during the year | 16.00 | 24.87 | 30.82 | 38.30 | 44.41 | 22.85 | 26.01 | 37.18 | 29.25 | 34.85 |
| Year-end share price | 30.60 | 31.38 | 39.15 | 46.18 | 54.79 | 29.44 | 46.40 | 46.49 | 37.36 | 49.75 |

[1] The 2003 figures have not been restated to IFRS accounting standards.
[2] The 2003–2005 figures have not been restated for the Organon BioSciences divestment.
[3] Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.
[4] Not meaningful as income was a loss.
[5] Restated to present Decorative Paints North America as a discontinued operation.

## Consolidated balance sheet

| In € millions | 2003 [1] | 2004 | 2005 [2] | 2006 | 2007 | 2008 [3] | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | 590 | 448 | 488 | 682 | 669 | 7,172 | 7,388 | 7,308 | 7,392 | 4,454 |
| Property, plant and equipment | 3,967 | 3,535 | 3,432 | 3,346 | 2,203 | 3,357 | 3,474 | 3,384 | 3,705 | 3,739 |
| Financial non-current assets | 1,866 | 1,418 | 1,800 | 1,706 | 1,402 | 1,848 | 1,783 | 1,977 | 2,198 | 2,763 |
| **Total non-current assets** | **6,423** | **5,401** | **5,720** | **5,734** | **4,274** | **12,377** | **12,645** | **12,669** | **13,295** | **10,956** |
| Inventories | 2,133 | 1,978 | 1,987 | 2,042 | 1,177 | 1,781 | 1,441 | 1,678 | 1,924 | 1,545 |
| Receivables | 2,671 | 2,761 | 2,910 | 2,919 | 2,164 | 2,977 | 2,666 | 2,896 | 3,035 | 2,789 |
| Cash and cash equivalents | 727 | 1,811 | 1,486 | 1,871 | 11,628 | 1,595 | 2,128 | 2,851 | 1,635 | 1,752 |
| Assets held for sale | – | – | 322 | 219 | – | 4 | – | – | – | 921 |
| **Total current assets** | **5,531** | **6,550** | **6,705** | **7,051** | **14,969** | **6,357** | **6,235** | **7,425** | **6,594** | **7,007** |
| Shareholders' equity | 2,502 | 2,605 | 3,415 | 4,144 | 11,032 | 7,463 | 7,775 | 8,984 | 9,212 | 6,892 |
| Minority interests | 140 | 140 | 161 | 119 | 97 | 450 | 470 | 525 | 531 | 465 |
| **Total equity** | **2,642** | **2,745** | **3,576** | **4,263** | **11,129** | **7,913** | **8,245** | **9,509** | **9,743** | **7,357** |
| Provisions | 3,333 | 2,877 | 2,210 | 2,132 | 1,598 | 2,072 | 1,919 | 1,855 | 1,717 | 1,717 |
| Long-term borrowings | 2,717 | 2,392 | 2,702 | 2,551 | 1,954 | 2,341 | 3,641 | 2,880 | 3,035 | 3,388 |
| Other non-current liabilities | 590 | 200 | 183 | 181 | 133 | 715 | 674 | 589 | 567 | 442 |
| **Total non-current liabilities** | **6,640** | **5,469** | **5,095** | **4,864** | **3,685** | **5,128** | **6,234** | **5,324** | **5,319** | **5,547** |
| Short-term borrowings | 441 | 560 | 357 | 410 | 1,635 | 1,338 | 384 | 907 | 494 | 662 |
| Current portion of provisions | – | 500 | 766 | 571 | 518 | 845 | 797 | 593 | 551 | 455 |
| Other current liabilities | 2,231 | 2,677 | 2,571 | 2,652 | 2,276 | 3,510 | 3,220 | 3,761 | 3,782 | 3,632 |
| Liabilities held for sale | – | – | 60 | 25 | – | – | – | – | – | 310 |
| **Total current liabilities** | **2,672** | **3,737** | **3,754** | **3,658** | **4,429** | **5,693** | **4,401** | **5,261** | **4,827** | **5,059** |
| | | | | | | | | | | |
| Invested capital | 8,117 | 7,145 | 8,007 | 8,060 | 5,197 | 13,424 | 11,732 | 12,718 | 12,613 [4] | 11,030 |
| Capital expenditures | 581 | 551 | 514 | 371 | 359 | 534 | 513 | 534 | 658 [4] | 826 |
| Depreciation | 599 | 540 | 528 | 349 | 330 | 453 | 424 | 435 | 419 [4] | 463 |
| OWC | | | | | | 2,359 | 1,691 | 2,016 | 1,891 [4] | 1,659 |
| **Ratios** | | | | | | | | | | |
| Revenue/invested capital | 1.56 | 1.68 | 1.68 | 1.85 | 1.91 | 1.07 | 1.06 | 1.15 | 1.16 [4] | 1.40 |
| Equity/non-current assets | 0.41 | 0.51 | 0.62 | 0.74 | 2.60 | 0.64 | 0.65 | 0.75 | 0.73 | 0.67 |
| Inventories and receivables/other current liabilities | 2.15 | 1.77 | 1.90 | 1.87 | 1.47 | 1.36 | 1.28 | 1.22 | 1.31 | 1.19 |
| Operating working capital as % of revenue | | | | | | 16.5 | 13.7 | 13.9 | 13.2 [4] | 11.2 |

[1] The 2003 figures have not been restated to IFRS accounting standards.
[2] The 2003–2005 figures have not been restated for the Organon BioSciences divestment.
[3] Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.
[4] Restated to present Decorative Paints North America as a discontinued operation.

## Business Area statistics

| In € millions | 2008 | 2009[1] | 2010 | 2011[4] | 2012 |
|---|---|---|---|---|---|
| **Decorative Paints** | | | | | |
| Revenue | 5,006 | 4,573 | 4,968 | 4,201 | 4,297 |
| EBITDA[2] | 598 | 487 | 548 | 479 | 425 |
| EBIT[2] | 401 | 298 | 343 | 327 | 249 |
| Operating income | (669) | 133 | 275 | 235 | (2,012) |
| Invested capital[3] | 6,187 | 6,206 | 6,404 | 5,673 | 3,387 |
| EBIT margin[2] (in %) | 8.0 | 6.5 | 6.9 | 7.8 | 5.8 |
| Capital expenditures | 120 | 112 | 154 | 155 | 206 |
| Average number of employees | 24,600 | 22,900 | 21,800 | 17,100 | 17,200 |
| Average revenue per employee (in €1,000) | 203 | 200 | 228 | 246 | 250 |
| Average EBITDA per employee (in €1,000) | 24 | 21 | 25 | 28 | 25 |
| **Performance Coatings** | | | | | |
| Revenue | 4,575 | 4,112 | 4,786 | 5,170 | 5,702 |
| EBITDA[2] | 566 | 594 | 647 | 611 | 769 |
| EBIT[2] | 467 | 492 | 540 | 495 | 638 |
| Operating income | 444 | 433 | 487 | 458 | 542 |
| Invested capital[3] | 2,004 | 1,817 | 2,122 | 2,351 | 2,415 |
| EBIT margin[2] (in %) | 10.2 | 12.0 | 11.3 | 9.6 | 11.2 |
| Capital expenditures | 89 | 61 | 87 | 116 | 123 |
| Average number of employees | 21,000 | 20,200 | 20,600 | 21,300 | 21,700 |
| Average revenue per employee (in €1,000) | 218 | 204 | 232 | 243 | 263 |
| Average EBITDA per employee (in €1,000) | 27 | 29 | 31 | 29 | 35 |
| **Specialty Chemicals** | | | | | |
| Revenue | 5,687 | 4,359 | 4,943 | 5,335 | 5,543 |
| EBITDA[2] | 909 | 738 | 939 | 906 | 889 |
| EBIT[2] | 605 | 490 | 679 | 625 | 583 |
| Operating income | 130 | 422 | 604 | 622 | 500 |
| Invested capital[3] | 4,055 | 3,106 | 3,457 | 3,620 | 3,573 |
| EBIT margin[2] (in %) | 10.6 | 11.2 | 13.7 | 11.7 | 10.5 |
| Capital expenditures | 305 | 319 | 273 | 365 | 484 |
| Average number of employees | 12,900 | 11,400 | 11,100 | 11,300 | 11,800 |
| Average revenue per employee (in €1,000) | 441 | 382 | 445 | 472 | 470 |
| Average EBITDA per employee (in €1,000) | 70 | 65 | 85 | 80 | 75 |

[1] Restated for transferred businesses and excluding National Starch, divested in 2010.
[2] Before incidentals.
[3] At year-end.
[4] Restated to present Decorative Paints North America as a discontinued operation.

## Regional statistics

| In € millions | 2008 [1] | 2009 | 2010 | 2011 [3] | 2012 |
|---|---|---|---|---|---|
| **The Netherlands** | | | | | |
| Revenue by destination | 867 | 792 | 803 | 694 | 745 |
| Revenue by origin | 1,423 | 1284 | 1,537 | 1,646 | 1,601 |
| Capital expenditures | 86 | 104 | 84 | 144 | 110 |
| Invested capital [2] | 2,007 | 1,489 | 1,266 | 1,477 | 1,168 |
| Number of employees [2] | 5,000 | 4,800 | 5,000 | 5,200 | 5,200 |
| **Germany** | | | | | |
| Revenue by destination | 1,141 | 1,088 | 1,160 | 1,284 | 1,258 |
| Revenue by origin | 1,179 | 1,089 | 1,096 | 1,228 | 1,219 |
| Capital expenditures | 25 | 19 | 22 | 31 | 69 |
| Invested capital [2] | 1,086 | 983 | 915 | 975 | 647 |
| Number of employees [2] | 3,600 | 3,700 | 3,500 | 3,800 | 3,600 |
| **Sweden** | | | | | |
| Revenue by destination | 478 | 423 | 468 | 515 | 486 |
| Revenue by origin | 1,457 | 1,284 | 1,475 | 1,481 | 1,505 |
| Capital expenditures | 50 | 37 | 19 | 54 | 70 |
| Invested capital [2] | 557 | 461 | 542 | 559 | 532 |
| Number of employees [2] | 3,800 | 3,500 | 3,400 | 3,300 | 3,200 |
| **UK** | | | | | |
| Revenue by destination | 1,093 | 768 | 798 | 841 | 901 |
| Revenue by origin | 1,206 | 830 | 854 | 879 | 967 |
| Capital expenditures | 31 | 22 | 28 | 27 | 68 |
| Invested capital [2] | 1,324 | 1,562 | 1,782 | 2,117 | 2,460 |
| Number of employees [2] | 4,200 | 3,800 | 3,900 | 3,900 | 3,800 |

| | 2008 [1] | 2009 | 2010 | 2011 [3] | 2012 |
|---|---|---|---|---|---|
| **Other European countries** | | | | | |
| Revenue by destination | 3,666 | 3,095 | 3,398 | 3,702 | 3,647 |
| Revenue by origin | 2,582 | 2,211 | 2,336 | 2,459 | 2,400 |
| Capital expenditures | 81 | 69 | 83 | 98 | 85 |
| Invested capital [2] | 2,359 | 2,420 | 2,616 | 2,665 | 1,595 |
| Number of employees [2] | 10,100 | 9,400 | 9,100 | 8,900 | 8,500 |
| **US and Canada** | | | | | |
| Revenue by destination | 3,330 | 2,600 | 2,954 | 2,092 | 2,294 |
| Revenue by origin | 3,463 | 2,712 | 3,074 | 2,222 | 2,413 |
| Capital expenditures | 94 | 55 | 63 | 67 | 70 |
| Invested capital [2] | 3,250 | 2,554 | 2,762 | 1,735 | 1,683 |
| Number of employees [2] | 12,000 | 10,100 | 10,300 | 5,100 | 5,100 |
| **Brazil** | | | | | |
| Revenue by destination | 765 | 732 | 844 | 949 | 987 |
| Revenue by origin | 729 | 715 | 815 | 903 | 909 |
| Capital expenditures | 39 | 25 | 23 | 54 | 123 |
| Invested capital [2] | 644 | 783 | 723 | 684 | 558 |
| Number of employees [2] | 3,000 | 2,800 | 2,700 | 2,800 | 2,900 |
| **Other Latin American countries** | | | | | |
| Revenue by destination | 541 | 415 | 550 | 566 | 636 |
| Revenue by origin | 374 | 244 | 353 | 379 | 435 |
| Capital expenditures | 10 | 5 | 7 | 12 | 16 |
| Invested capital [2] | 132 | (16) | 149 | 156 | 170 |
| Number of employees [2] | 1,800 | 1,500 | 1,600 | 1,700 | 1,700 |

| | 2008 [1] | 2009 | 2010 | 2011 [3] | 2012 |
|---|---|---|---|---|---|
| **China** | | | | | |
| Revenue by destination | 1,054 | 997 | 1,249 | 1,376 | 1,621 |
| Revenue by origin | 968 | 929 | 1,177 | 1,361 | 1,699 |
| Capital expenditures | 67 | 143 | 147 | 96 | 135 |
| Invested capital [2] | 861 | 772 | 952 | 1,225 | 1,365 |
| Number of employees [2] | 6,300 | 6,100 | 6,700 | 7,400 | 7,700 |
| **India** | | | | | |
| Revenue by destination | 246 | 249 | 332 | 359 | 371 |
| Revenue by origin | 205 | 200 | 251 | 283 | 288 |
| Capital expenditures | 7 | 6 | 17 | 18 | 16 |
| Invested capital [2] | 140 | 141 | 139 | 121 | 123 |
| Number of employees [2] | 1,400 | 1,400 | 1,600 | 1,700 | 1,800 |
| **Other Asian countries** | | | | | |
| Revenue by destination | 1,620 | 1,336 | 1,448 | 1,559 | 1,716 |
| Revenue by origin | 1,477 | 1,189 | 1,263 | 1,344 | 1,491 |
| Capital expenditures | 36 | 21 | 31 | 46 | 55 |
| Invested capital [2] | 890 | 469 | 627 | 685 | 527 |
| Number of employees [2] | 6,400 | 5,400 | 5,600 | 6,100 | 5,000 |
| **Other regions** | | | | | |
| Revenue by destination | 614 | 533 | 636 | 667 | 728 |
| Revenue by origin | 352 | 341 | 409 | 419 | 465 |
| Capital expenditures | 8 | 7 | 10 | 11 | 10 |
| Invested capital [2] | 174 | 114 | 245 | 214 | 203 |
| Number of employees [2] | 2,400 | 2,200 | 2,200 | 2,100 | 2,100 |

[1] Excluding National Starch, divested in 2010.
[2] At year-end.
[3] Restated to present Decorative Paints North America as a discontinued operation.

# Sustainability performance summary

## Economic/Governance/Social

| Area | | 2008 | 2009 | 2010 | 2011 | 2012 | Ambition 2015 |
|---|---|---|---|---|---|---|---|
| **Product** | | | | | | | |
| Eco-premium solutions[5] | % revenue | 18 | 18 | 21 | 22 | 22 | 30 |
| **Business integrity** | | | | | | | |
| Code of Conduct incidents handled by the Compliance Committee | number | | 19 | 23 | 24 | 24 | |
| Code of Conduct trained | % employees | 31 | 95 | 95 | 95 | 96 | |
| **Health and safety[2]** | | | | | | | |
| Fatalities employees | number | 0 | 0 | 1 | 2 | 2 | 0 |
| Total reportable injury rate employees/supervised contractors | /million hours | 4.6 | 3.7 | 3.6 | 3.1 | 2.4 | <2.0 |
| Lost time injury rate employees/supervised contractors | /million hours | 1.9 | 1.5 | 1.6 | 1.3 | 1.1 | |
| Occupational illness rate employees | /million hours | 0.3 | 0.4 | 0.3 | 0.3 | 0.2 | |
| Total illness absence rate employees | % | 2.2[1] | 2.0 | 1.9 | 2.0 | 2.0 | |
| Fatalities contractors (supervised plus independent) | number | 0 | 3 | 0 | 1 | 0 | |
| Total reportable injury rate independent contractors | /million hours | 5.2 | 2.8 | 3.0 | 3.5 | 4.2 | |
| Manufacturing sites with BBS program[3] | % | | | 72 | 76 | 76 | 100 |
| Distribution incidents | number | | 52 | 91 | 80 | 46 | |
| Motor vehicle incidents with injury | number | | 31 | 34 | 29 | 28 | |
| **Employees[5]** | | | | | | | |
| Employee numbers | number | | 54,700 | 55,600 | 57,240 | 55,272 | |
| Women executives | % | 8 | 10 | 12 | 13 | 15 | 20 |
| High growth country executives | % | 10 | 11 | 12 | 13 | 13 | 20 |
| Online P&D Dialog participation | % | 60 | 72 | 76 | 78 | 84 | 95 |
| Management development program participation | cumulative number | 527 | 2,708 | 5,227 | 7,067 | 7,674 | 8,300 |
| Employee engagement index[7] | % favorable[7] | 78 | 80 | 3.56 | 3.74 | 3.80 | 4.33 |
| Community Program investment | in € millions | 1.5 | 1.4 | 1.5 | 1.5 | 1.5 | |
| **Reliable operations** | | | | | | | |
| Management audits plus reassurance audits | number | 61 | 66 | 61 | 66 | 61 | |
| Safety incidents – Level 3 | number | 2 | 9 | 10 | 8 | 3 | 0 |
| Safety incidents – Level 1, 2, 3 | number | | 33 | 32 | 36 | 23 | |
| Significant loss of containment (Level D) | number | | 1 | 0 | 2 | 0 | 0 |
| Regulatory actions – Level 3 | number | | 3 | 4 | 0 | 3 | 0 |
| **Sourcing[5]** | | | | | | | |
| Raw material suppliers – Vendor Policy signed | % purchases | 82 | 85 | 91 | 95 | 97 | 96 |
| NPR central suppliers – Vendor Policy signed[10] | % purchases | 80 | 89 | 100 | 77 | 80 | 80 |
| NPR business suppliers – Vendor Policy signed[10] | % purchases | | | 62 | | | |
| Supportive Supplier Visits since 2007 | number | 152 | 185 | 266 | 304 | 373 | |

## Environmental

| Area | | 2007 | 2008 | 2009 | 2010 | 2011 | **2012** | Ambition 2015 |
|---|---|---|---|---|---|---|---|---|
| **Raw material efficiency** | | | | | | | | |
| Total waste (excluding Soda Ash process)[4] | kiloton | | 285 | 249 | 258 | 217 | 203 | |
| per ton production | kg/ton | | 15.1 | 14.7 | 13.1 | 11.6 | 11.0 | 10.0 |
| Total hazardous waste | kiloton | | 62 | 71 | 77 | 71 | 71 | |
| per ton production | kg/ton | | 3.3 | 4.2 | 3.9 | 3.8 | 3.8 | |
| Non-reusable waste[4] | kiloton | 84 | 86 | 89 | 103 | 96 | 85 | |
| per ton production | kg/ton | 4.4 | 4.5 | 5.2 | 5.3 | 5.1 | 4.6 | |
| Hazardous non-reusable waste[4] | kiloton | 19 | 23 | 30 | 29 | 26 | 20 | |
| per ton production | kg/ton | 1 | 1.2 | 1.8 | 1.5 | 1.4 | 1.1 | |
| Hazardous waste to landfill | kiloton | | | 4.9 | 4.7 | 3.0 | 2.7 | |
| per ton production | kg/ton | | | 0.29 | 0.24 | 0.16 | 0.15 | |
| **Maintain natural resources/fresh air** | | | | | | | | |
| Fresh water use | million $m^3$ | 304 | 297 | 270 | 309 | 291 | 283 | |
| per ton production | $m^3$/ton | 16.0 | 16.0 | 15.8 | 15.7 | 15.6 | 15.3 | |
| COD emissions | kiloton | 3.1 | 2.9 | 2.5 | 1.9 | 1.8 | 1.6 | |
| per ton production | kg/ton | 0.16 | 0.15 | 0.15 | 0.10 | 0.10 | 0.09 | |
| Manufacturing sites with sustainable fresh water | % | | | 38 | 48 | 74 | 83 | 100 |
| VOC emissions | kiloton | 4.9 | 4.0 | 4.2 | 4.3 | 3.6 | 3.6 | |
| per ton production | kg/ton | 0.26 | 0.22 | 0.25 | 0.22 | 0.19 | 0.19 | 0.19 |
| NOx emissions[9] | kiloton | 0.9 | 1.1 | 2.1 | 2.0 | 2.0 | 1.9 | |
| per ton production | kg/ton | | | 0.12 | 0.10 | 0.11 | 0.10 | |
| SOx emissions[9] | kiloton | 4.1 | 4.8 | 6.2 | 7.1 | 7.7 | 7.6 | |
| per ton production | kg/ton | | | 0.37 | 0.36 | 0.41 | 0.41 | |
| Direct $CO_2$(e) emissions (Scope 1)[6] | million tons | 1.7 | 1.6 | 1.9 | 2.0 | 1.6 | 1.5 | |
| per ton production[6] | kg/ton | 87 | 85 | 110 | 102 | 85 | 82 | -10% |
| Indirect $CO_2$(e) emissions (Scope 2)[6] | million tons | 3.1 | 3.0 | 2.8 | 3.2 | 3.2 | 3.2 | |
| per ton production[6] | kg/ton | 161 | 161 | 162 | 165 | 171 | 175 | -10% |
| Total energy use | 1000TJ | 116 | 115 | 97 | 111 | 107 | 106 | |
| per ton production | GJ/ton | | 6.1 | 5.7 | 5.7 | 5.7 | 5.7 | |
| **Value chain** | | | | | | | | |
| Total $CO_2$(e) emissions (cradle-to-gate)[5] | kiloton | | | 14.6[8] | 15.9[8] | 16.1[8] | 15.9 | |
| per ton product[5] | kg/ton | | | 980[8] | 960[8] | 950[8] | 950 | -10% |

[1] Former AkzoNobel businesses only.
[2] HSE KPIs: from 2009 report employees/supervised contractors (was employees only) and independent contractors (was all contractors).
[3] BBS restated for manufacturing sites only.
[4] In addition to this figure, our Soda Ash facility in Pakistan generated on a dry basis 490 ktons (2011: 495 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.
[5] Excludes Chemicals Pakistan.
[6] Includes Chemicals Pakistan.
[7] From 2010 employee survey changed from % favorable to Gallup Q12 GrandMean: average of mean scores for each question (out of five).
[8] Figures for 2009-2011restated in line with raw material data updates and product definition.
[9] 2007 and 2008 figures include main emmisions only.
[10] From 2011 the NPR supplier data is combined.

# Index


| | |
|---|---|
| Accounting policies | 113 |
| Acquisitions and divestments | 36, 121 |
| Antitrust cases | 142 |
| Audit Committee | 81 |
| Auditor's report | 158 |
| Automotive and Aerospace Coatings | 68 |
| Board of Management | 32 |
| Borrowings | 140, 141 |
| Business Area statistics | 198 |
| Carbon Policy | 184 |
| Cash and cash equivalents | 134 |
| Chairman's statement | 8 |
| Chemicals Pakistan | 61 |
| Code of Conduct | 88, 98 |
| Community Program | 181 |
| Company financial statements | 153–157 |
| Consolidated balance sheet | 109 |
| Consolidated statement of cash flows | 110 |
| Consolidated statement of changes in equity | 111 |
| Consolidated statement of comprehensive income | 109 |
| Consolidated statement of income | 108 |
| Contingent liabilities and commitments | 142 |
| Corporate governance | 81 |
| Decorative Paints | 73 |
| Dividend proposal | 37, 159 |
| Earnings per share | 37, 108 |
| Emissions/waste | 189 |
| Employees | 123, 178 |
| Executive Committee | 32 |
| Financial calendar | 205 |
| Financial instruments | 148 |
| Functional Chemicals | 57 |
| Glossary | 203 |
| Health and Safety | 171 |
| Incidentals | 36, 123 |
| Industrial Chemicals | 58 |
| Industrial Coatings | 69 |
| Intangible assets | 129 |
| Internal controls | 23, 40, 47, 88, 100 |
| Invested capital | 37 |
| Investments in associates and joint ventures | 132 |
| Key developments by Business Area | 56, 66, 76 |
| Marine and Protective Coatings | 67 |
| Net debt and net financing expenses | 38, 134 |
| Nomination Committee | 87 |
| Operating working capital | 37 |
| Outlook | 40 |
| Pensions | 27, 38, 136 |
| Performance Coatings | 63 |
| Performance improvement program | 35 |
| Powder Coatings | 70 |
| Product stewardship | 174 |
| Property, plant and equipment | 131 |
| Provisions | 136, 140 |
| Proxy voting | 89, 102 |
| Pulp and Performance Chemicals | 59 |
| Regional statistics | 199 |
| Remuneration | 90, 144 |
| Remuneration Committee | 87 |
| Report of the Board of Management | 34 |
| Report of the Supervisory Board | 45 |
| Research, Development and Innovation | 20, 25 |
| Result allocation | 159 |
| Risk management | 22 |
| Safe harbor statement | 206 |
| Segment information | 112 |
| Shareholders' equity | 111, 154, 155 |
| Specialty Chemicals | 53 |
| Strategic ambitions | 16 |
| Supervisory Board | 43 |
| Surface Chemistry | 60 |
| Sustainability statements | 164–192 |
| Sustainability framework | 165 |
| Tax | 37, 126 |
| Ten-year financial summary | 196 |
| Wood Finishes and Adhesives | 71 |

# 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.

**$CO_2$(e)**
Carbon dioxide equivalent

**COD**
Chemical oxygen demand is the amount of oxygen required for the chemical oxidation of substances in the wastewater effluent which is directly discharged into surface waters from our facilities.

**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.

**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**
EBIT as percentage of revenue and can refer to margins both before and after incidentals.

**EBITDA**
EBIT before depreciation and amortization. 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**
Central and Eastern Europe (excluding Austria), Baltic States and Turkey.

**Emissions and waste**
We report emissions to air, land and water for those substances which may have an impact on people or the environment: $CO_2$, NOx and SOx, VOCs, COD, hazardous and non-hazardous waste. Definitions are in the Sustainability statements section.

**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.

**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.

**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**
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 working capital (OWC)**
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 and Development Dialog (P&D Dialog) is AkzoNobel's global performance and appraisal system for employees.

**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).

**ROI%**
Calculated as EBIT of the last 12 months divided by average invested capital.

**13.4 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.

**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.

**Top quartile**
Top quartile safety performance: comparing the total reportable rate (TRR) with eight peer chemicals and coatings companies.

Top quartile in sustainablity: a top three position on the Dow Jones Sustainability Index (DJSI) based on SAM assessment.

Top quartile in diversity: 20 percent female executives and 20 percent executives from the high growth markets, based on 2009 benchmark with peers – Chemical Sector and FMCG.

Top quartile talent development: 80 percent internal promotion rate into executive level positions, based on 2012 consultation with talent management experts. 80 percent is seen as best practice in the field because it requires a good and healthy talent management process, as well as opportunities for new hires.

Top quartile eco-efficiency improvement rate: orginally based on 2009 benchmark of operational eco-efficiency targets from peer companies in the chemicals sector (~5 percent p.a.). Revised to top 25 percent in the DJSI (SAM) industry benchmark for the OEE criterion.

Top quartile in sustainablity: a top three position on the Dow Jones Sustainability Index.

Top quartile in employee engagement: top quartile of the Gallup Q12

**Total reportable rate of injuries (TRR)**
The number of injuries per million hours worked. Full definitions are in the Sustainability statements section.

**Total shareholder return (TSR)**
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

## 2013

April 18

**Report for the first quarter**

April 26

Annual General Meeting of shareholders

April 30

Ex-dividend date of 2012 final dividend

May 3

Record date of 2012 final dividend

May 6 – May 23

Election period cash or stock final dividend

May 24

Determination of exchange ratio

May 29

Payment date cash dividend and delivery of new shares

July 18

**Report for the second quarter**

October 21

**Report for the third quarter**

## 2014

February 6

**Report for the year 2013 and the fourth quarter**

These dates are subject to change. For the most accurate information, see the events calendar on our website.

**Disclaimer**
In this Report 2012, 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 Business performance section, they refer to the business concerned.

**Safe harbor statement**
This Report 2012 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 2012 including Sustainability report**
The company’s annual financial report is combined with the sustainability report into one Report 2012. 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 2012 – Dutch version**
A summarized version of the financial statements is also available in Dutch. In the event of any discrepancies between the two versions, the English report will prevail.

**Brands and trademarks**
In this Report 2012, reference is made to brands and trademarks owned by, or licensed to, AkzoNobel. Unauthorized use of these is strictly prohibited.

**Design**
Pentagram, London
AkzoNobel Corporate Communications

**Photography**
Tessa Posthuma de Boer
Additional photography supplied
by AkzoNobel businesses

**Print**
Tesink B.V., Zutphen, the Netherlands

**Paper**
Heaven 42, printed with bio-ink

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 consistently ranked as one of the leaders in the area of sustainability. With operations in more than 80 countries, our 50,000 people around the world are committed to excellence and delivering Tomorrow's Answers Today™.

06734_250213