

AkzoNobel 



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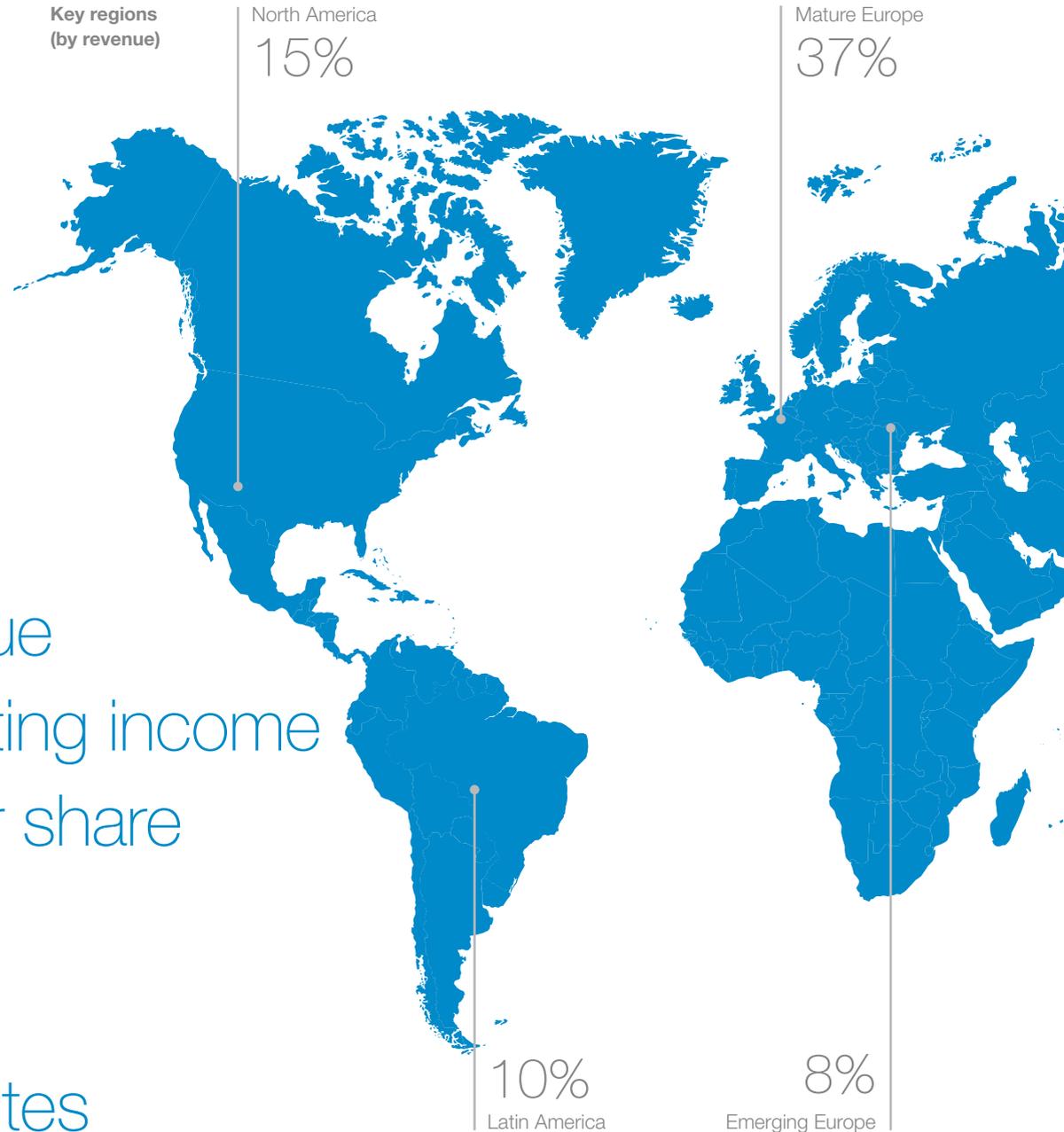
Report

# AkzoNobel 2014 at a glance

Key regions  
(by revenue)

North America  
15%

Mature Europe  
37%



**€14.3** billion revenue

**€987** million operating income

**€2.23** earnings per share

**80+** countries

**47,200** employees

**200+** production sites

# Our businesses

Asia Pacific  
26%



4%  
Other countries

## Decorative Paints

Whether our customers are professional decorators or keen DIY-ers, they want great paint that gives a great finish. We supply a huge variety of quality products for every situation and surface, including paints, lacquers and varnishes. We also offer a range of mixing machines, color concepts and training courses for the building and renovation industry, while our specialty coatings for metal, wood and other critical building materials lead the market.

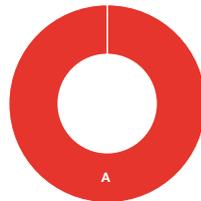
### The business operates three units:

- Decorative Paints Europe, Middle East and Africa
- Decorative Paints Asia
- Decorative Paints Latin America

Brands include Coral, Dulux, Flexa, Hammerite, Sadolin and Sikkens.

Some of our customers: thousands of paint distributors around the world and large retail outlets such as B&Q, Leroy Merlin and OBI.

Decorative Paints 2014 revenue breakdown by end-user segment in %



A Buildings and Infrastructure	100
B Transportation	0
C Consumer Goods	0
D Industrial	0

## Performance Coatings

We're a leading supplier of performance coatings with strong product technologies and brands. Our high quality products are used by customers across the world to protect and enhance everything from vessels, cars, aircraft, yachts and architectural components (structural steel, building products, flooring) to consumer goods (mobile devices, appliances, beverage cans, furniture) and oil and gas platforms.

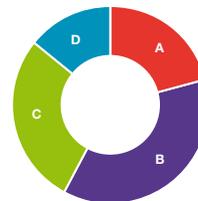
### The business operates four units:

- Automotive and Aerospace Coatings
- Industrial Coatings (e.g. coil, wood and packaging)
- Marine and Protective Coatings
- Powder Coatings

Brands include Awlgrip, International, Interpon and Sikkens.

Some of our customers: Airbus, Boeing, Bosch, Dell, IKEA, Philips, Samsung, Shell, Toyota, Volkswagen and Whirlpool.

Performance Coatings 2014 revenue breakdown by end-user segment in %



A Buildings and Infrastructure	21
B Transportation	37
C Consumer Goods	28
D Industrial	14

## Specialty Chemicals

As a major producer of specialty chemicals with leadership positions in many markets, we make sure that industries worldwide are supplied with high quality ingredients and process aids for the manufacture of life's essentials.

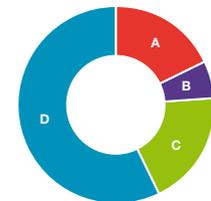
### The business operates four units:

- Functional Chemicals (e.g. chelates, ethylene amines)
- Industrial Chemicals (e.g. chlor-alkali, caustic soda, salt)
- Pulp and Performance Chemicals (e.g. bleaching, colloidal silicas)
- Surface Chemistry (e.g. surfactants, synthetic polymers and bio-polymers)

Brands include AkzoNobel, Bindzil, Biostyle, Dissolvine, Ecosel, Eka, Expancel, Jozo and Kromasil.

Some of our customers: BASF, Bayer, Dow, GE, Huntsman, Momentive, Monsanto, P&G, Shin-Etsu, Stora Enso and Unilever.

Specialty Chemicals 2014 revenue breakdown by end-user segment in %



A Buildings and Infrastructure	18
B Transportation	6
C Consumer Goods	19
D Industrial	57

# COPPER ORANGE

Color of the Year 2015

[www.akzonobel.com/colorfutures](http://www.akzonobel.com/colorfutures)

## Scan and explore

Our Report 2014 is enriched with Layar, an app for smartphones. It brings paper to life and gives you access to extra digital content.

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Our Report 2014 is also available online ([www.akzonobel.com/report](http://www.akzonobel.com/report)) and as an iPad app (<http://bit.ly/ANApp>). The digital versions include integrated videos, an interactive chart generator, data comparison feature, animated charts and diagrams and search-as-you-type capabilities.



AkzoNobel is a leading global paints and coatings company and a major producer of specialty chemicals. Calling on centuries of expertise, we supply industries and consumers worldwide with innovative products and sustainable technologies designed to meet the growing demands of our fast-changing planet. Headquartered in Amsterdam, the Netherlands, we have approximately 47,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as one of the leaders in the area of sustainability, we are committed to making life more liveable and our cities more human.

# Report 2014

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**Human Cities** initiative:

Six ways to improve, energize and regenerate urban communities around the world  
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Picture it  
before you  
paint it  
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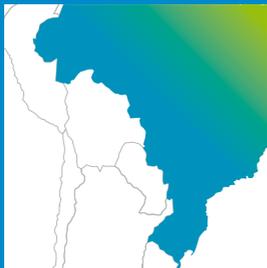
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Sport and leisure



Sustainability



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# How AkzoNobel performed in 2014

## Financial strategic targets

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9.0%

### **Return on sales (ROS)**

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

14.0%

### **Return on investment (ROI)**

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

<2.0

### **Net debt/EBITDA**

Maintain net debt/EBITDA lower than 2.0 by 2015

## Financial progress 2014

---

6.9% ▲

(excluding incidental items: 7.5% ▲)

10.0% ▲

0.95 ▼

## Sustainability strategic targets

20%

**Eco-premium solutions**  
Increase revenue from downstream eco-premium solutions to 20 percent of revenue by 2020

25-30%

**Carbon emissions**  
Reduce our carbon emissions across the value chain by 25 to 30 percent per ton by 2020 (2012 base)

**Resource Efficiency Index**  
Monitor new index, as future indicator for resource efficiency across the full value chain

## Sustainability progress 2014

19% ▲

-4% ▲

96 ▼

# How AkzoNobel created value in 2014

## Economic value: Input

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth and achieve our strategic vision of leading market positions delivering leading performance.

So as well as actively working to reduce our carbon footprint across the value chain – to improve our resource efficiency and reduce our environmental footprint – we’re also creating social value by developing our employees and being active in the communities where we operate. And by continuing to innovate in order to supply more sustainable products and solutions for our customers, we create economic, environmental and social value.

All these initiatives contribute to our financial performance and ultimately lead to more economic value for our investors.

**€6.3 billion**  
group equity

**€3.3 billion**  
borrowings

**€363 million**  
research and development expenses

## Organization

**€14.3 billion**  
revenue

**€987 million**  
operating income

**€811 million**  
cash flow from operations

**€588 million**  
capital expenditures

**€9.9 billion**  
invested capital

We invested in 2014 to keep our facilities in good shape, as well as expanding our manufacturing capability

## Environmental value: Input

**34%**  
renewable energy

**98,000 TJ**  
energy use

**13%**  
renewable raw materials as %  
of organic materials

**€5.5 billion**  
raw materials spend

**10.7 million tons**  
upstream CO<sub>2</sub>(e) emissions

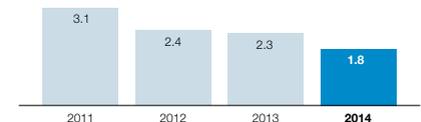
## Social value: Input

**13,500**  
number of volunteers for Community  
Program projects (cumulative since 2005)

## Organization

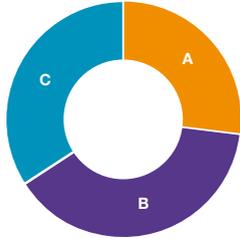
**1.8**  
total reportable rate of injuries

**Employee and supervised contractors  
total reportable rate of injuries**  
Target: <2.0 (2015)



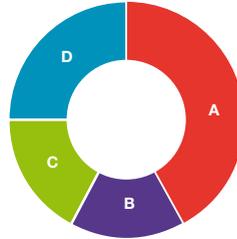
## Outcomes

Revenue breakdown by Business Area  
in %



A	Decorative Paints	27
B	Performance Coatings	39
C	Specialty Chemicals	34

Revenue breakdown by end-user segment  
in %



A	Buildings and Infrastructure	42
B	Transportation	16
C	Consumer Goods	17
D	Industrial	25

**€258 million**  
income tax paid

**€280 million**  
dividend paid

RD&I investments have resulted in 19 percent of revenue derived from eco-premium solutions with customer benefits.

**▲ 6.9% ROS**  
(excluding incidental items: 7.5%▲)

**▲ 10.0% ROI**

**▼ 0.95** net debt / EBITDA

**▲ 19%**  
of revenue from eco-premium solutions

## Organization

**4.0 million tons**  
CO<sub>2</sub>(e) emissions own operations

**24%**  
reduction in operational eco-efficiency footprint (since 2009)

**149 kilotons**  
total waste own operations

## Outcomes

**26.9 million tons** ▲ **4%**  
CO<sub>2</sub>(e) emissions cradle-to-grave  
increase CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

**12.2 million tons** ▼ **96 REI**  
downstream CO<sub>2</sub>(e) emissions  
in resource efficiency index

## Outcomes

**17%**  
female executives

**16%**  
high growth markets executives

**€2.8 billion**  
employee benefits

**3.97**  
employee engagement score

**2,260**  
Community Program projects  
(cumulative since 2005)



## CEO statement

Dear stakeholder,

When I look back at 2014, I see an eventful year, full of economic and market challenges. It was also a year of many changes at AkzoNobel, all of which were designed to make the company an even better place than it already is.

The beginning of the year was very much dominated by unfavorable conditions with regard to currencies, while markets did seem to recover to a certain extent. That changed in the second half of the year when Europe again experienced a lack of growth and the recovery that everyone had hoped for didn't materialize. At the same time, we saw some of the Asian economies and Latin America slow down. These were serious economic challenges that we needed to adapt to.

In terms of financial performance, we saw the first clear proof points that our strategy is working, despite the market headwinds. We achieved continuously improving return on sales and return on investment levels, while the introduction of several commercial excellence initiatives helped to prepare the company for organic growth. The cash position was slightly marred by an unfortunate isolated incident of external fraud in the US, but we remain on track to deliver on our 2015 targets.



Scan and explore

During the course of the year, we focused a lot of attention on transforming AkzoNobel into a more simplified and customer focused organization. The changes we implemented also helped us adapt to the challenging market conditions we were facing. Within the functional areas, we introduced a Global Business Services concept, which is designed to standardize many of our functional processes and make us more agile. In addition, we actively reduced the number of management layers to further streamline our structure and help drive the creation of a high performance culture.

This process of transformation included the ongoing review of our manufacturing footprint and we continued to consolidate facilities during the course of the year. We also invested in a number of new facilities, and are continuing to do so. For example, an automotive and aerospace coatings factory was opened in Changzhou, China, and our new chlor-alkali plant was commissioned in Frankfurt, Germany. Elsewhere, Powder Coatings started operations at a new plant in Dubai in the Middle East and we broke ground at a new site for decorative paints in Chengdu, China. A number of other facilities are under construction which will give further momentum to our growth strategy.

## “We remain on track to deliver on our 2015 targets”

A key influence on our growth ambitions is the fact that more than 50 percent of the world's population currently lives in cities. This is significant, because 60 percent of our revenue is connected to cities. That's why we've launched our Human Cities initiative, which was a major highlight for us in 2014. Introduced to the world in Venice, it explains how AkzoNobel can play an important role in helping the world's cities to meet many of the key challenges of the 21<sup>st</sup> century. Shortly after the Venice launch, we made a commitment to

the Clinton Global Initiative, which involved establishing a partnership with 100 Resilient Cities – pioneered by The Rockefeller Foundation. It will enable us to support these cities in becoming more liveable, more enjoyable and more exciting. We are therefore looking forward to enabling people all over the world to strengthen their emotional connection with the place, neighborhood and environment where they live.

Our strategy of organic growth and operational excellence includes embedding sustainability in everything we do. Sustainability is also one of the main pillars of the Human Cities initiative. It was therefore especially pleasing to be ranked first on the Dow Jones Sustainability Index (in the Materials industry group) for the third year in a row. It was also the ninth consecutive year that we have featured in the top three. This underlines how important sustainability is for AkzoNobel and how it has been fully integrated into the way we run our businesses.

Our innovation in particular is focused strongly on the sustainable benefits we can provide for our customers. Highlights during 2014 included the launch of a new barrier coating which made it possible to create the world's first

fully compostable and recyclable paper cup for cold drinks. Another exciting innovation was launched by our Decorative Paints business. The award-winning Visualizer app enables users to see in real time what a room will look like in a wide range of different colors – before any paint is applied to the wall – making it more fun to interact with the way you decorate your home.

During the course of the year, we welcomed Maëlys Castella as our new CFO, succeeding Keith Nichols. She brings a wealth of operational and financial experience and has been warmly welcomed as part of the Executive Committee. Antony Burgmans succeeded Karel Vuursteen as Chairman of our Supervisory Board. Karel brought a tremendous amount of energy, strategic thinking and support to AkzoNobel and we thank him for all his efforts. Towards the end of 2014, we were also saddened by the passing of Dolf van den Brink, a long-time Supervisory Board member who brought his wisdom and professional expertise to the company for many years. He leaves a big legacy and we will continue to draw on everything we learned from him.

Looking ahead at 2015, we do not expect significant positive changes in the markets. But while we do not anticipate the markets to turn in our favor, we're confident that we have built the foundations to become more successful in 2015 and remain on track to deliver on our targets. We will continue to drive value creation in order to deliver leading performance.

All our employees around the world deserve a tremendous amount of credit for the energy and effort that they have put in amid all the changes that have been taking place. I also want to thank our customers, suppliers and our investors for their trust and cooperation. I'm sure that our leading market positions, products and brands will make it possible for us to continue being successful in 2015.



**Ton Büchner**

CEO and Chairman of the Board of Management and Executive Committee

# Human Cities initiative

Our cities are growing. Estimates suggest that by 2050 – when the world’s population will reach nine billion – around 70 percent of people will live in cities. One of the biggest challenges of our age is to ensure that urban areas can cope with the demands that this will create.



Scan and explore

**Color**

**Heritage**



# Transport



# Education



# Sport and leisure



# Sustainability

In order to respond to the rapid urbanization that is taking place, AkzoNobel launched its Human Cities initiative in June 2014. Based on six key pillars, it's designed to help urban areas become more inspiring, energizing and vibrant for people across the world. We want to go beyond the purely functional or technological aspects and help cities and the people who live there to connect on an emotional level. Or put another way, we want to help cities become more human.

The six pillars we have identified are color, heritage, transport, education, sport and leisure, and sustainability. They build on the fact that around 60 percent of our revenue is connected to cities, reflecting the positive contribution we can make to urban areas across the world.

Our determination to help cities meet the challenges they face was underlined in September when we made a commitment at the Clinton Global Initiative (CGI) Annual Meeting in New York. Designed in collaboration with The Rockefeller Foundation's 100 Resilient Cities program, our commitment includes developing an urban resilience guide for cities and staging special projects in four of the cities involved in the 100 Resilient Cities program.

Ultimately, Human Cities is about making cities more inspiring and enjoyable places to live. By partnering with influential global organizations such as The Rockefeller Foundation, we're underlining our serious commitment to working with partners across the world to tackle the many challenges being faced by some of the biggest urban areas.

# Color

Cities should be more colorful

## Creating character and emotion with color

**Walk around some of the world's cities and it's often the colors you see that inspire an emotional connection. Color gives a city energy and character, while our own research has shown that color plays an important role in giving citizens a sense of place and identity.**

Harnessing the transformative power of color can therefore help to give cities a new lease of life, while staying true to their origins. As one of the world's leading paints and coatings companies, we have a long track record of helping cities around the world to add color and preserve their unique identity, typified by our highly successful Color Plans.

Individually designed by our Sikkens brand in partnership with architects, historians, municipal authorities and local people, a Color Plan is essentially a color collection which is typical of a particular city or part of a city. Based on research into an area's historic use of color going back hundreds of years, the overall aim is to help cities identify, recover and preserve the colors that give them their unique character and appearance.

One of the more recent Color Plans we developed was for Bergamo in Italy. Working in collaboration with the Italian Ministry of Heritage, architects Riccardo Zanetta and Domenico Egizi, as well as the University of Bergamo, a color collection was created which is now being used as one of the key reference points for restoration and exterior redecoration projects.

Our work in Bergamo follows on from Color Plans that have been developed for various Italian and Spanish cities, including Rome, Barcelona, Portofino, Malaga, Naples and Zaragoza. Color collections have also been created for cities in Austria and the Netherlands.



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# Heritage

Urban heritage needs to be embraced

## Making the past part of the future

**In an increasingly urbanized world, how can we make sure that the cities we live in have meaning and provide people with a sense of place and space? At AkzoNobel, we believe that balancing old and new is key to creating more Human Cities. Protecting our heritage can also have important long-term benefits for urban environments, such as attracting tourism and stimulating local development.**

To fully appreciate the positive impact that safeguarding the past can have, you only need to look at Malacca in Malaysia. Declared a UNESCO World Heritage site in 2008, the town's unique architecture is being preserved through a partnership with AkzoNobel's Dulux paint brand.

The project, which will run until 2019, involves Dulux providing technical and design support, as well as supplying suitable paints and coatings to help preserve the uniqueness and originality of the colors on 26 heritage buildings and monuments.

Once a thriving center for trade and cultural exchange between East and West, Malacca is a remarkable example of an historic colonial town. It's easy to understand why local residents are so fiercely proud of its history and remain keen to preserve its architecture and culture, as well as their collective identity.

"History is a living process," explains Serge Jardon, a Malacca resident for more than 25 years. "Each stone will tell you a story if you take time to listen. That's why it's important to preserve our heritage for the next generation, so that they can learn."

Adds Jeremy Rowe, Managing Director of AkzoNobel Decorative Paints South East and South Asia: "People love these buildings. They're a symbol of the past, but they're also a symbol of freedom, independence and liberation and that's why people look at them with fondness and treasure them as part of their heritage."

The work taking place in Malacca is a testament to those who remain committed to protecting our past and serves to remind planners and architects that Human Cities are those that make the past a part of the future.



Scan and explore

# Transport

People must connect to make cities come alive

## Connecting people and the planet

**Traveling within and between cities has come a long way since the days of the horse and cart and spending months at sea. We live in an age of hi-tech transportation hubs, which play a crucial role in ensuring the fast and efficient movement of goods and people.**

With the world's population continuing to grow and our cities expanding at a rapid rate, maintaining safe, efficient and sustainable transport links and embedding them into city infrastructure is becoming ever more important. Because effective transportation systems don't just keep people properly connected, they can also make or break a city, depending on how well they function.

AkzoNobel has a proud track record of supplying major transportation projects all over the world. From airports in Hong Kong, London and Brazil to metro systems in Dubai and Shanghai, our products and expertise are being used to meet the tough demands of getting people and cargo from place to place.

To help keep these transportation hubs safe and comfortable, we supply a wide range of high performance products, such as fire protection coatings and decorative paints. Our contribution doesn't stop at buildings and installations, however. We're also a leading supplier of coatings for planes, high speed trains, rapid bus transport and metro cars. Our durable powder coatings, for example, are used on the inside and outside of trains and metro vehicles, while our high quality vehicle refinishes are applied to trains.

Whatever the type of surface, our key focus is to keep our cities moving and make transport safer, better protected, more sustainable, better looking and more affordable for everyone.



Scan and explore

# Education

Education should be a city's lifeblood

## Unlocking potential to build a better future

**Cities are more than just a collection of buildings; they are ever-evolving organisms that flourish or fail depending on how successfully they foster human innovation.**

At AkzoNobel, we therefore believe that providing decent education for young people should be a fundamental concern for those who live in, work in, or are connected to cities. As a company that depends on innovation, we also believe that investing in a quality labor market makes good business sense.

That's why we have long been involved in programs and initiatives designed to give children the education and training they deserve. We work together with educational organizations in all of our key markets, including globally with Plan; with the Dream Center in China; the Rijksmuseum, the Dutch-Asia Honors Summer School and Giving Back in the Netherlands; and The Courtauld Institute of Art in the UK.

Another important partnership is with the Haberdashers' Company, which plays a major role in providing best-in-class education to children across the UK via its network of schools. In 2014, we teamed up to establish the AkzoNobel/Haberdashers' Science Scholarship program. It is designed to promote the study of science at university, particularly among disadvantaged groups with little previous tradition of entering higher education. The scholarship is part of a broader science aspiration agenda that we are both working on. It also includes a national science in schools competition, a shadowing day and an annual reception for our scholars.

The partnership is just one way in which we are investing in the education of young people all over the world.



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# Sport and leisure

Citizens need space to rest and play

## Refreshing the soul of a city

**A city's ability to thrive can hinge on many things, but one of the most important is providing enough space for people to enjoy their leisure time. As well as enhancing an area's appeal, creating open spaces can also encourage social interaction and help residents to adopt a healthier lifestyle.**

The Singapore government grasped this concept perfectly as part of a strategy designed to transform Singapore from a garden city, to a city in a garden. The aim was to raise the quality of life by enhancing the amount of green space in the city. The result was the stunning Gardens by the Bay.

Spanning 101 hectares of reclaimed land, the complex features two conservatories housing Mediterranean and semi-arid subtropical ecosystems – the Flower Dome and the Cloud Forest – which are among the world's largest climate-controlled glass houses. Outside, 18 “supertrees” dominate the landscape, providing a home to various exotic plants, while 11 of them also serve environmental functions such as harvesting solar energy.

The conservatories and the supertrees are protected with a high performance coatings system supplied by AkzoNobel's International brand. More than 50,000 liters of paint was used on the structural steelwork to protect the substrate from the effects of corrosion. The three-part system was chosen both for its anticorrosive properties and its high quality aesthetic finish.

First opened in 2011, Gardens by the Bay was named World Building of the Year 12 months later, attracting nearly four million people by the end of March 2013. Its Chairman, Theresa Foo-Yo Mie Yoen, sums up its appeal: “At its heart, Gardens by the Bay is the people's garden. A space for all to enjoy the beauty of nature within the city.”



Scan and explore

# Sustainability

Urban design must consider climate change

## Bright ideas for more efficient living

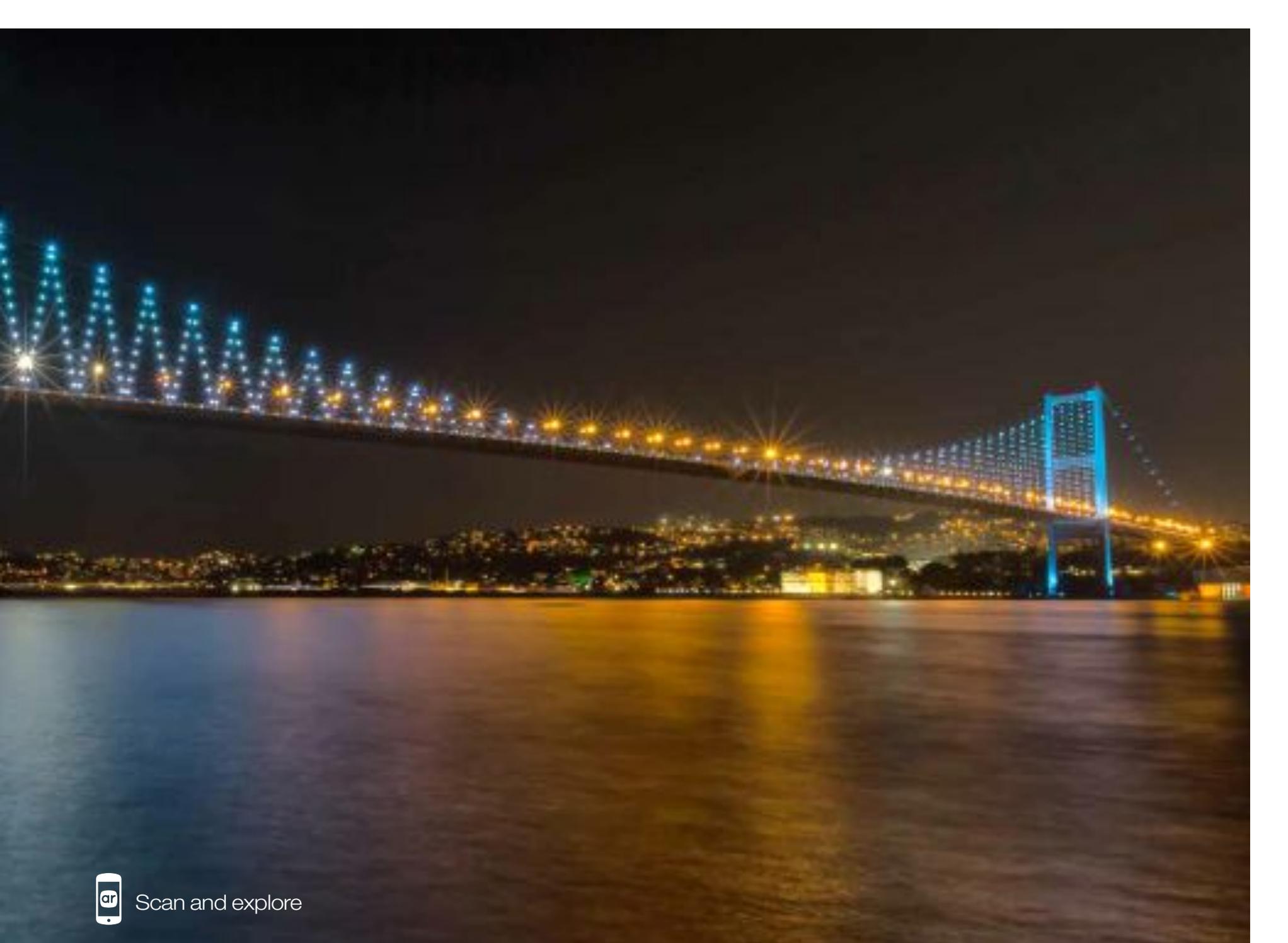
**With urbanization increasing at a rapid rate, the demand for energy is growing all the time. This puts huge pressure on cities to adapt, think differently about how they use resources and try to do more with less.**

A great example of how adopting more sustainable solutions can benefit urban areas and their residents is city lighting – which is getting both smarter and more efficient, thanks to the growing popularity of LEDs. Not only do they consume less energy than traditional lighting, LEDs also help to make our cities safer, more welcoming and more colorful.

In fact, LEDs are so important to the modern world that the 2014 Nobel Prize for physics was awarded to a trio of scientists for the invention of blue light-emitting diodes. This enabled a new generation of bright, energy efficient white lamps, as well as color LED screens.

Globally, the general LED lighting market is growing all the time – particularly in Asia – with India considering converting its 27.5 million streetlamps to LEDs over a period of three years. This continued growth and increasing market penetration enables AkzoNobel to build on its position as a leader in sustainability and a major player in providing key products for LED manufacture.

We are a leading supplier of what are known as high purity metal organic (HPMO) precursors – an essential ingredient for LED chips. Without them, there would be no LEDs. These HPMOs are used to grow a very thin crystal layer of semiconductor material on a wafer. This is the active layer which emits the light and helps to make our cities brighter, safer and more human.



Scan and explore



## Improving solar efficiency

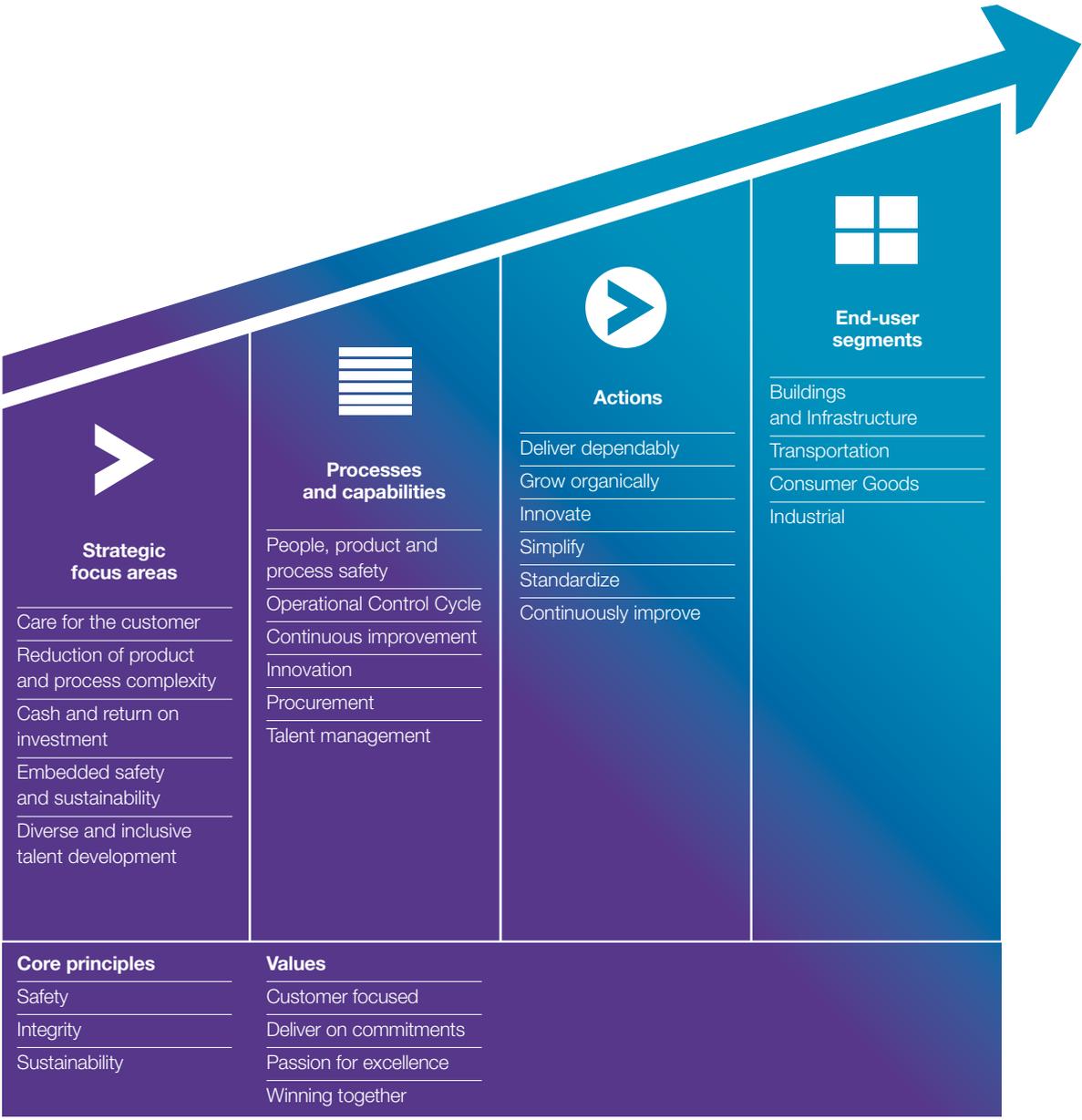
How do you do more with less? We have developed new technology for the production of high purity trimethylaluminum (TMAI), which is used by solar cell manufacturers to create a special layer to increase the efficiency of solar cells.

# Strategic performance

In 2013, AkzoNobel announced a new vision, targets, core principles and values, and strategy. This meant that all the key strategic elements for the company and its Business Areas were in place at the start of 2014. Throughout the year, we therefore focused on strategy implementation and execution.

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# Our strategy



Vision:  
**Leading market positions delivering leading performance**



## Core principles and values

Our core principles and values define the culture and behaviors that we are committed to embedding throughout AkzoNobel.

We have three core principles – safety, integrity and sustainability. These work in harmony with our values – Customer focused, Deliver on commitments, Passion for excellence and Winning together. In 2014, we put considerable time and effort into rolling out our core principles and values to all employees, because effective engagement is fundamental to realizing our leading performance vision. More details about the roll-out can be found under Diverse and inclusive talent development in this section.

## Strategic focus areas

As part of the corporate strategy development process we carried out in 2012, we identified five key focus areas. The following is a brief description of accomplishments in 2014, along with plans for 2015 and beyond for each of the five areas.

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## Care for the customer

AkzoNobel holds many market leadership positions. In order to maintain these positions, we have identified organic growth as one of our priorities. In 2014, we made some progress in terms of organic growth, with volume growth of 1 percent for the company as a whole. However, there is still considerable room for improvement.

The starting point for organic growth is care for our customers. It begins with a deep and profound understanding of our end-user segments, which translates into an understanding of customer needs, such as product performance, service levels, sustainability and price. This in turn drives our product and service innovation approach and our product and margin management programs, which combine to ensure that we move closer to our vision of delivering leading performance from our leading market positions.

In 2014, a key area of activity in terms of care for the customer was in the development of strong processes in Marketing and Sales through our commercial excellence programs. These programs differ per Business Area, but we have created an overall corporate framework to ensure efficiency and create consistency where this makes sense. One example of this is the measurement of customer satisfaction levels, where we have agreed company-wide to a four-pronged approach which measures customer satisfaction in terms of:

- **The service we provide via on-time in-full (OTIF) measures**

Information is gathered daily or weekly at production sites and deviations trigger corrective actions by local management, with overall figures reviewed regularly at the Business Area and full company level

- **The way we address customer questions and concerns**

We measure this as a combination of issue frequency and response time for resolution. Local management teams regularly review these data and ensure that root cause investigations are carried out to resolve issues and improve future service and satisfaction

- **Our understanding of customers' broader expectations and concerns, with consequential improvements in products and services**

We assess performance through market research, customer discussions and specifically targeted customer surveys. Results are regularly reviewed at Business Area and full company level

- **Customer loyalty levels**

Every day, our front line sales, customer service and supply chain employees contribute to our success in the market, however, this is often difficult to measure in a meaningful way. To address this, we have decided to use customer retention as a proxy measurement for customer loyalty. We believe that this is an appropriate choice because customers do have alternative sources of supply in almost all of our businesses

Further development and implementation of our commercial excellence programs will continue to be a major priority for AkzoNobel in 2015 and will be a fundamental factor in achieving higher organic growth levels in the future.

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## Reduction of product and process complexity

Standardization and simplification of our processes is vital to achieving our vision and targets, as it will lead to a faster, more agile organization and reduced costs and resource use. In addition to improving our product portfolios through product and margin management, and our Marketing and Sales processes through commercial excellence, we are also reducing complexity in our raw material slates and in our processes throughout the value chain.

In terms of raw material slates, our ambition is to create a future-proof raw material portfolio. This means that we will address the sustainability aspects while we reduce the number of raw materials we use significantly, without compromising the quality of our products. This has now been achieved in our paints and coatings businesses through the definition of raw material slates covering resins, pigments, solvents and additives. Furthermore, a rigorous, cross-functional process has been defined for the introduction of new raw materials.

In 2014, a key area for process complexity reduction was in the implementation of the AkzoNobel Leading Performance System (ALPS), a fundamental change to the way we work in the Integrated Supply Chain. This company-wide framework of standard processes and tools helps us drive targeted improvements for cost productivity, reduced resource use, on-time in-full (OTIF) customer service and competitive position, based on a continuous improvement approach. We are already seeing positive results in early ALPS production sites, including considerable and simultaneous improvements in volume, equipment utilization, OTIF, manning levels and employee engagement.

We also made substantial progress in terms of process complexity reduction in Global Business Services (GBS), which covers functional support activities such as Human Resources, Finance and Information Management, as well

as non-product related Procurement. Specifically, in 2014, we consolidated most of the transactional activities related to these functions into regional hubs. These shared services and expertise centers will service all AkzoNobel businesses in a standard, cost efficient manner. In Finance, our financial transaction handling processes are being standardized across the world, while in Information Management, we are creating a more simplified and uniform ERP landscape.

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## Cash and return on investment

One of the key issues in our strategy is the need to be more cash generative and improve our return on investment. This strategic focus area is supported by a strong record of operating working capital management. In addition, over the last few years, we have improved our capital expenditure management processes significantly, based in part on our end-user segment analysis, which highlights more attractive growth opportunities. Better capital expenditure management is also supported by the differentiated growth strategies developed in all three Business Areas and described in the Business performance section of this Report 2014.

In all three Business Areas, we have continued to take action in terms of operating efficiency. We are already reaping some rewards of our restructuring programs, as evidenced by our improved return on sales and investment in 2014. Going forward, we will need to maintain this strong base of operating efficiency via the Continuous improvement process, which will help us to counteract inflation and other cost increases.

While we are taking a focused approach to performance improvement to support this strategic focus area, we remain acutely aware of the sustainability and financial consequences of our investment and performance improvement decisions. As has been the case for a number of years now, all significant (greater than €5 million) investment proposals require a sustainability evaluation, which includes assessment at different stages in the project development. This sustainability assessment covers eco-efficiency, health and safety, process and product safety, natural resource and raw material requirements, and environmental impact.

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## Embedded safety and sustainability

We continue to be viewed as a leader in sustainability. In 2014, for the third year in a row, we were ranked top of the Materials industry group on the Dow Jones Sustainability Index. We have now been ranked in the top three in our sector for the last nine years. While we remain proud of these accomplishments, we are committed to improving even further in order to achieve our sustainability targets. For example, in 2014, we achieved our 2015 target of a total reportable injury rate (TRR) of less than 2.0 per million hours worked and, therefore, we are now striving to go beyond this target in 2015.

To help drive improvement going forward, we introduced our Planet Possible sustainability agenda in 2013, focused on radical resource efficiency throughout our entire value chain. There are three main pillars to this agenda, which build on our sustainability foundations. More information on the three pillars and sustainability foundations follows:

### Sustainable business

By working together with customers and suppliers, we aim to develop leading solutions that create more value from fewer resources. In particular, we are focusing on developing and marketing solutions that have a social or environmental sustainability advantage for our customers when compared with competitive products. For example, in 2014, we announced the world's first coating for cold drinks paper cups which allows them to be composted or recycled. The product adds to an already long list of products in our Performance Coatings Business Area that help our customers, or our customers' customers, to reduce their environmental impact while generating meaningful revenue and other benefits for AkzoNobel.

In addition to measuring the percentage of our revenue that comes from eco-premium solutions with a downstream advantage, we also measure our progress against this aspect of our sustainability agenda using a resource efficiency index (REI). We developed this indicator to measure how efficiently we generate value, and defined it as gross margin divided by cradle-to-grave carbon footprint.

### Resource efficiency

This pillar is focused on improving material efficiency across the value chain, and increasing our use of renewable materials and renewable energy to create more value from fewer resources. It is important to note with regard to this metric that a reduction in carbon footprint and a reduction in costs often go hand-in-hand. For instance, we are in the process of exploring opportunities for conversion of biomass facilities from electricity to steam in our Delfzijl chlor-alkali plant, doubling energy output from the same renewable resources with both cost and footprint reduction implications.

We monitor progress against this aspect of our strategy by looking at the efficiency of resource and energy use across the entire value chain, measured by carbon footprint reduction. It is therefore important that we achieve the kind of improvements described above both within and

beyond our own operations. For example, upstream in the value chain we are continuing to look for opportunities to use renewable or lower impact raw materials. As a result, in 2014, we announced an expansion of our existing joint development agreement with Solazyme. This will provide for funded development and a multi-year supply of renewable algae-based oils. These oils would replace petroleum and palm oil-derived products used to manufacture surfactants, one of our main Specialty Chemicals product platforms.

### Capable, engaged people

The focus of this pillar is on developing our employees and also forming partnerships along the value chain to create more value from fewer resources. In 2014, we made a significant and visible step in terms of external partnerships as part of our Human Cities initiative.

Our focus on Human Cities stems from the fact that a significant percentage of our business comes from products and services that are linked to the urban environment. Based on six key pillars, the initiative is designed to help urban areas become more inspiring, energizing and vibrant for people across the world. We want to go beyond the purely functional or technological aspects and help cities become more human. The six pillars we have identified are color, heritage, transport, education, sport and leisure, and sustainability.

This determination to help cities meet the challenges they face was underlined in September when we made a commitment at the Clinton Global Initiative Annual Meeting in New York. Designed in collaboration with The Rockefeller Foundation's 100 Resilient Cities program, our commitment includes developing an urban resilience guide for cities and staging "Let's Colour" projects in four of the cities involved in the 100 Resilient Cities program. In addition, we will make our expertise in paints, coatings and chemicals available to the program's advisory committees.

Our Human Cities activities will build on, not replace, existing activities in terms of external outreach. So we will continue to work with key suppliers and customers to develop solutions, as well as working in the communities we serve through our Community Program and “Let’s Colour” campaigns. Internally, we will continue to enable our employees to deliver more value from fewer resources by embedding sustainability in our talent management process.

### Sustainability foundations

The three pillars of our Planet Possible agenda build on the company’s core principles in terms of safety, integrity and sustainability. From a people safety perspective, our Life-Saving Rules and behavior-based safety programs have provided a strong base to help us achieve our 2015 safety target in 2014 and also for continuous safety improvement going forward. We have also made considerable strides in the development of process and product safety procedures (described in more detail in the Processes and capabilities chapter).

We use our routine management cycle to review progress against our sustainability targets and we continue to put tools in place to help our employees make progress against our Planet Possible agenda. For example, we are currently piloting a new sustainability improvement toolkit. This toolkit includes a self-assessment audit, a methodology for target setting based on company requirements and business priorities, and an approach for developing appropriate plans to get from the current level of maturity to higher levels.

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## Diverse and inclusive talent development

To address our other four strategic focus areas, we need the active participation of a strong and motivated workforce which reflects the diversity of the end-user segments we serve. We will gain this active participation by increasing employee engagement and providing continuous learning and development opportunities. This will create a work environment where people can perform to the best of their ability while ensuring that our management layers reflect the diversity of our overall workforce.

In 2014, a fundamental part of our activity in terms of improved employee engagement was based on the full roll-out of our core principles and values. Throughout the year, we held thousands of meetings and workshops where we identified how the behaviors related to our new values could support us in achieving our goals. We also integrated the core principles and values into all of our main HR processes, including recruitment, our new leadership talent assessment process and our employee performance evaluation. Pulse surveys indicate that these core principles and values are well understood today by our employees, and also that they are a very positive motivating factor.

We also believe that the core principles and values contributed to the improvement we saw in our 2014 ViewPoint employee engagement survey, compared with 2013. While we are pleased to see this improvement, we recognize that we still have some way to go in order to achieve top quartile engagement levels. In 2015, our focus in terms of improved engagement will be on living the core principles and values, including recognizing and rewarding role models and supporting improvement where this is necessary.

Our work will be supported by continued roll-out of the integrated Talent management process, which was introduced in 2013. This process (which is described in more detail in the Processes and capabilities chapter) is intended to bring increased objectivity to talent identification, as well as a more targeted approach to the development of leadership potential and increased process transparency. This more active approach to talent management will also focus on the appreciation of the added value that can come from diverse teams.

With regard to increased diversity, we actively redressed the gender balance in our senior management layers by appointing Maëlys Castella as our first female Chief Financial Officer, and our first female member of the Board of Management. Her appointment sends a clear signal that we continue to take diversity seriously at AkzoNobel and are continuing to make progress towards our targets in this area.



## Processes and capabilities

In 2014, we made substantial progress in codifying our company-wide core processes by developing supporting toolkits and including our processes in our corporate directives to ensure appropriate governance. A high level summary of each of the processes follows.

In each of our Business Areas, we face different market situations, with differing critical success factors. We are therefore developing appropriate capabilities to establish and maintain a competitive advantage. These capabilities are described in the Business performance section.

## People, product and process safety

People, product and process safety comes first at AkzoNobel. Our Safety process is aimed at managing operational risks in all our business activities. By applying this AkzoNobel process consistently, rigorously and without exception throughout the company, we demonstrate that safety is a core principle that engages and unites all of us.

There are three main elements within the Safety process, which depend on the daily commitment of each and every employee, as well as line management leadership:

- People safety is focused on increasing awareness of behaviors that put us at risk, by establishing a culture of taking care and involving all employees in safety improvement
- Process safety is focused on identifying and controlling hazards in our operations by avoiding unwanted events resulting in injuries, waste or harm at manufacturing sites. Process safety is also fundamental to ensuring consistent reliability and productivity of assets at optimal cost and maintaining our license to operate
- Product safety incorporates the traditional approach of reactive regulatory compliance, but also goes beyond this, enabling us to take a lead in sustainable product stewardship

In all three cases, our process steps include assessment, analysis, actions to remove barriers, assurance and continuous improvement. The Safety process is a permanent way of working and, in addition to setting clear process steps, we are also addressing organizational infrastructure, business enablers and culture.

## Operational Control Cycle

In place since 2012, this is a cycle of regular, sequenced and staged operational meetings. It is already having a significant impact because it incorporates structured and standardized operational discussions. The objectives of this cycle are:

- Drive operational performance and continuous improvement throughout the organization and across the value chain
- Align views on the outlook going forward
- Make relevant operational decisions to deliver on strategic focus areas

By employing this process, we operationally review past performance, but primarily focus on a realistic three-month rolling forecast, as well as mid to longer term planning. This in turn helps us with our AkzoNobel value, Deliver on commitments. By doing this, we create a review “heartbeat” which incorporates a monthly series of business, functional and country reviews.

## Continuous improvement

To ensure that continuous improvement is embedded throughout the company, we are creating a common and consistent approach, with standardized process methods, toolkits and terminology, involving employees across all of AkzoNobel. By introducing this approach, we will boost organic growth and operational effectiveness while increasing employee engagement, thereby increasing our competitive strength.

Through the Continuous improvement process, we will deliver both step-change improvement projects and small but meaningful improvements in daily business and functional processes. The process for doing this will differ depending on the circumstances, but in all cases the main priority is to move from our current performance to our internal best practice levels and from there to industry and world class performance standards.

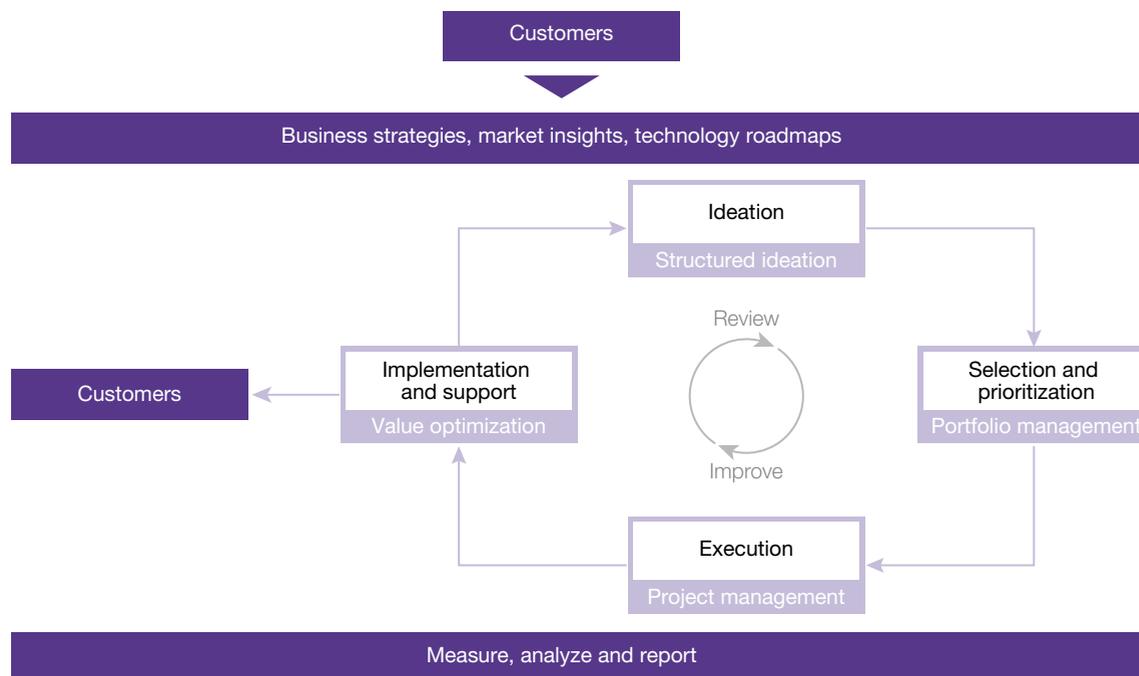
In order to achieve this, we will utilize a robust toolset, based on Lean and Six Sigma fundamentals. For example, in most situations we will evaluate a process based on value stream mapping to identify and address any effort which is not required for customer value, thereby creating a “lean” process. As this is closely linked to our Planet Possible sustainability agenda of creating more value from fewer resources, it is particularly relevant for AkzoNobel. Once we have ensured that the process is as lean as possible, we will use a Six Sigma approach, which seeks to improve quality by identifying and removing the causes of errors and minimizing variability. Each Six Sigma project follows a defined sequence of steps and has quantified value targets, such as reducing process cycle time, costs and resource use, while improving customer satisfaction.

## Innovation

A Center of Expertise (CoE) for Innovation, Partnerships and Complexity Reduction was established in 2014 as part of our new Supply, Research and Development (SRD) function. The SRD organization was created to enable speedier innovation-based organic growth by reinforcing the links between our Research, Development and Innovation, Procurement and Supply Chain organizations. The CoE is driving the development of a standardized, four-stage Innovation process, as well as putting supporting company-wide portfolio and project management tools and programs in place.

The four-stage Innovation process starts and finishes with customer input, which is consistent with our Customer focused company value. The four stages are ideation, selection and prioritization, execution, and implementation and support. To support delivery of truly leading outcomes from our Innovation process, we have also strengthened the strategic research capabilities of all three Business Areas by reconfiguring the company’s corporate Expert Capability Groups, which perform longer range and underpinning research in partnership with our businesses.

### Four-stage AkzoNobel Innovation process



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## Procurement

There are four primary components of our Procurement process – strategic sourcing, key supplier management, purchase-to-pay and raw material price forecasting. Each of these elements is described in more detail below.

### Strategic sourcing

Strategic sourcing forms the backbone of the commercial procurement process. It starts with the requirements defined by our businesses based on market demand and also incorporates supplier selection and negotiation, signing and implementing contracts and reviewing results.

### Key supplier management

To support delivery of strategic sourcing, we must manage our key suppliers. This allows us to jointly drive value from innovation, sustainability, procurement, sales and supply chain improvements.

### Purchase-to-pay

We are committed to increasing efficiency and control of our transactions in our purchase-to-pay process, ensuring that our orders are right-first-time and compliant with AkzoNobel policies. The process starts with a disciplined creation of a purchasing requisition, continues with receiving of goods or services and is completed with the supplier payment.

### Raw material price forecasting

Keeping our businesses well informed about expected movements in the supply market is crucial. Buyers are typically the first people in AkzoNobel to pick up information on this topic and we must have a robust process for ensuring that it is passed on to relevant individuals, so that they can make appropriate commercial adjustments.

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## Talent management

In 2014, we developed a set of tools to ensure that AkzoNobel is able to continuously attract and motivate a highly talented workforce.

### Plan

Human Resources (HR) business partners work within the businesses on strategic workforce planning and are charged with identifying the HR needs in terms of size of workforce and individual and collective capabilities in the context of the external environment. This workforce planning process is intended to address short-term needs, but also long-term requirements.

### Attract, acquire and on-board

In many parts of the world, recruitment is now supported by an e-recruitment technology platform as part of an integrated suite supporting our Talent management process. This ensures process standardization and helps to increase direct sourcing, thereby reducing costs and improving quality. The focus on quality and consistency of recruitment activities is further supported by the availability of online assessment tools.

### Assess performance and potential

The assessment of individual performance within AkzoNobel is supported by our global Performance and Development Dialog (P&DD) process. The P&DD process ensures that an employee's performance is measured against agreed objectives, which are linked to the goals of their team, and ultimately to the company strategy, vision and targets. Employees are also evaluated on how they live the company values and behaviors.

In order to ensure that we also specifically identify and develop employees with potential to grow into more senior roles, we now use a consistent talent rating approach globally which will be extended to all management levels over time. The rating is reviewed each year by the line manager and calibrated with the support of HR to ensure an equitable outcome. The process is further strengthened by the use of standard assessment centers to validate potential. The outcome of the talent review is an individual talent profile and development plan which is now fully shared with the employee in order to support greater process transparency.

### Develop and retain

At AkzoNobel, we are committed to the principle that all employees, at all levels of the organization, should have the opportunity to develop. To do this, we make use of the three E's – experience, exposure and education. Experience is the most important (roughly 70 percent of development), but exposure is also meaningful (roughly 20 percent of development) and incorporates coaching, mentoring, feedback, high profile projects or short-term assignments. Education makes up the remaining 10 percent of the development agenda and is based on the AkzoNobel Academy, along with external conferences and seminars.

### Deploy

Formal career and succession planning is carried out at least once a year to match an individual's capabilities, development needs and career aspirations with the company's needs. An important aspect of this process is employee input. At all levels of the organization, increasing emphasis is placed on creating high performing, diverse teams. All actions related to people are recorded and followed up quarterly by talent managers in our global Talent management Center of Expertise (CoE).



## Actions

To address our strategic focus areas and deliver on our vision and targets, we have identified a set of high level actions that we are pursuing throughout the company. These are: Deliver dependably, Grow organically, Innovate, Simplify, Standardize and Continuously improve.

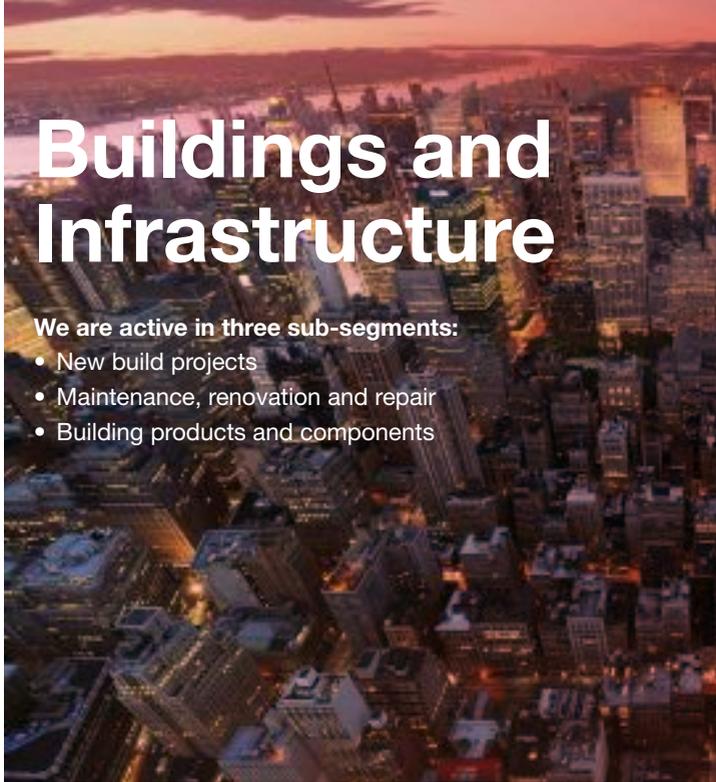
All functions and businesses within the company developed specific action plans in 2013, consistent with these high level actions. In 2014, we made progress on implementing these plans in all three Business Areas and this is explained further in the Business performance section.



## End-user segments

We will only achieve our vision if our actions and processes to address our strategic focus areas are delivered successfully to the markets via our end-user segments. Analysis of the trends in our four end-user segments is therefore a fundamental driver for all that we do.

Profiles of the trends for our four end-user segments – Buildings and Infrastructure, Transportation, Consumer Goods and Industrial – can be found on the following pages.



# Buildings and Infrastructure

**We are active in three sub-segments:**

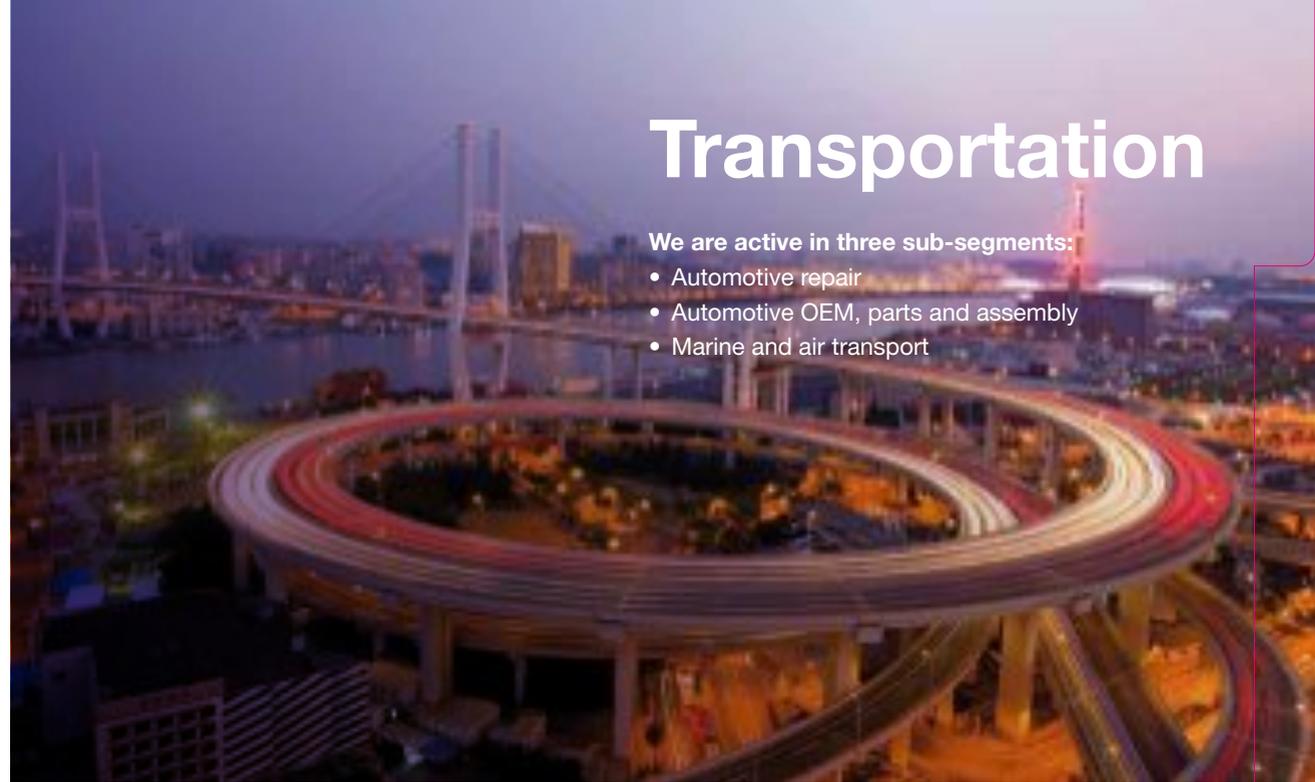
- New build projects
- Maintenance, renovation and repair
- Building products and components



# Consumer Goods

**We are active in two sub-segments:**

- Consumer durables
- Consumer packaged goods



# Transportation

We are active in three sub-segments:

- Automotive repair
- Automotive OEM, parts and assembly
- Marine and air transport



# Industrial

We are active in two sub-segments:

- Natural resource and energy industries
- Process industries

# Buildings and Infrastructure

Supplying products for the global construction industry and home improvement sector is a vital part of our business. We provide paints, coatings and specialty chemicals that are either used in the manufacture of building and infrastructure materials, or are used to coat the interiors and exteriors of buildings and other structures.

42% of revenue



## Trends

A notable feature of this end-user segment is its very strong regional component, particularly in the New build projects and Maintenance, renovation and repair sub-segments. Over the last few years, market growth has been disproportionately high in countries such as China, India and Brazil. Looking ahead, we expect growth to fall slightly in Brazil and India, while in China, growth is expected to be much lower than it has been. In the New build projects sub-segment, this slow down is particularly marked. Meanwhile, analysts predict that growth in the US will be higher than in Brazil, Russia and India combined, with particularly strong growth in the New build projects sub-segment.

The outlook for Europe is much less clear. Unlike the US – where the Buildings and Infrastructure end-user segment has more or less returned to 2008 levels – in Europe, output is still far below 2008. Therefore, at the beginning of 2014, most analysts anticipated a return to growth in Europe. As the year progressed, analysts continued to forecast reasonable growth, with the expectation that 2008 output levels would be reached again in 2018 or 2019. Growth rates were expected to be roughly equal in New build projects and Maintenance, renovation and repair, with the latter of particular relevance to our activities.

However, by the end of 2014, it was difficult to determine whether this recovery was actually occurring and, in particular, if it was as strong as it was expected to be. Therefore, although we continue to see robust growth estimates from analysts, internally, our estimates for European market growth are more conservative.

## Future sustainability developments

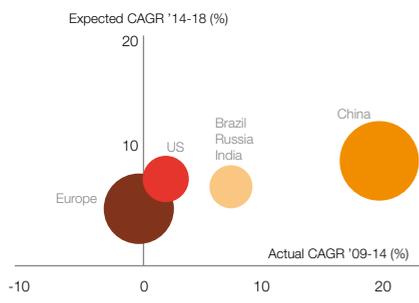
Based on the World Business Council for Sustainable Development (WBCSD) Vision 2050, 70 percent of the world's population will live in urban areas, while 95 percent of new building stock will use zero net energy. The proportion of buildings heated by fossil fuels will also fall below 6 percent. Sustainability issues beyond energy use and carbon emissions, such as air quality, will continue to have an impact.

## Implications for strategy and actions

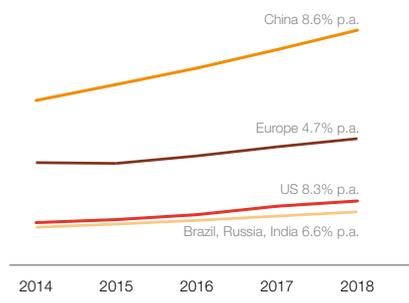
In high growth regions, we must make more use of the product and margin management approaches that we are already successfully utilizing in more mature geographies. At the same time, we have to recognize that with considerable population growth and continued increases in wealth, we still have a significant task in terms of market and brand building in these geographies. In Europe we need to focus on flexibility and responsiveness so that we can capture the growth if it does occur, but manage our costs if it does not materialize.



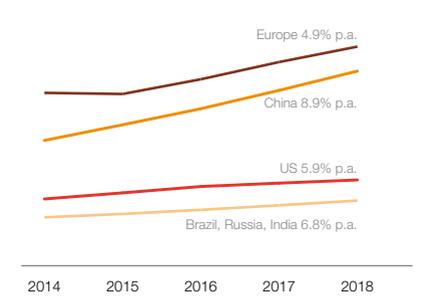
**Total construction <sup>1</sup>**  
Bubble size based on 2014 output



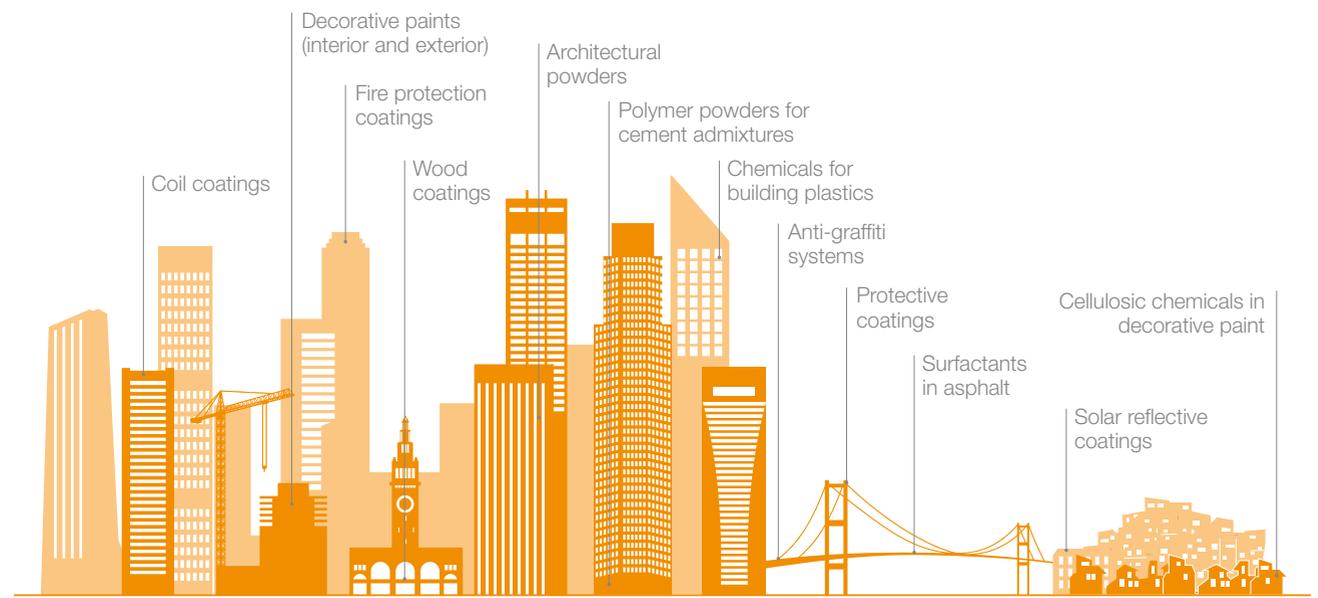
**Total market new build construction <sup>1</sup>**  
\$ billion, output



**Total market maintenance and repair <sup>1</sup>**  
\$ billion, output



<sup>1</sup> Source: IHS/Construction IC



# Transportation

We supply a comprehensive range of advanced coatings and color technologies for virtually every type of transport, from ships, yachts, trucks and construction equipment to planes, trains and automobiles. We also produce a variety of specialty chemicals that are used in the production of automotive systems and components.

16% of revenue



## Trends

The 2008-2009 recession led to a structural change in the Automotive OEM, parts and assembly sub-segment. Although the market quickly returned to growth and recovered to pre-recession levels globally, the regional mix has changed dramatically, resulting in a knock-on impact in terms of parts production. Specific changes include:

- Automotive production in Europe has recovered, but not to pre-recession levels. Going forward, production growth is expected to be limited
- In North America, production has returned to pre-recession levels following a robust recovery, but growth is expected to be significantly below other sectors of the North American economy
- Growth in China has been considerable and the region has outstripped North America in terms of vehicle production. Future growth is expected to be at or slightly below China GDP growth

It's a different scenario in the Automotive repair sub-segment, where the key drivers are the number of vehicles on the road, the insurance rate and the repair rate. In terms of the vehicle car park, slow, stable growth continues in more mature geographies with higher growth rates in countries such as China and India. The expectation is that in the medium term, the number of vehicles on the road in Brazil, Russia, India and China combined will surpass first the North American and then the European vehicle car park.

## The most uncertain outlook in

Transportation concerns the outlook for the Marine and air transport sub-segment. Although we anticipate reasonable growth in aerospace, there is still a great deal of uncertainty around marine new build. This particular market is late cycle cyclical, as it takes some time for the impact of a recession to be felt, evidenced by the accompanying chart. The expectation is that the market will return to growth in 2015. As our business today is disproportionately oriented towards the new build market, this is important for AkzoNobel. The marine maintenance market is more stable, but has also been somewhat depressed. We expect lower oil prices to be a positive factor driving growth in maintenance going forward.

## Future sustainability developments

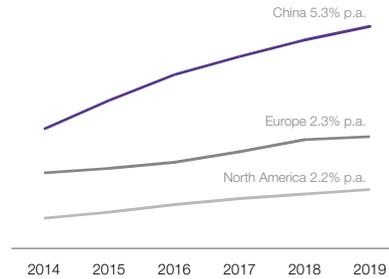
Based on the WBCSD Vision 2050, by 2050, an 80 percent reduction in energy use by light duty vehicles is expected, along with a 50 percent drop in energy use in freight transportation.

## Implications for strategy and actions

As production and the car park continue to shift, we must ensure we are well positioned geographically – both in terms of supply and decision-making. We also need to have products with the right functionality, aesthetics and price level to consistently meet requirements in this demanding segment. Finally, we need the right organization in marine to maintain margins and take advantage of the return to growth when it occurs.

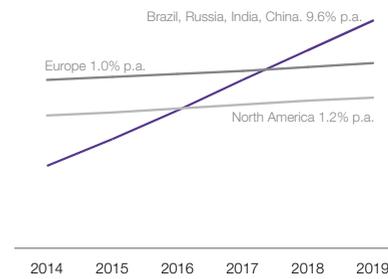


### Light vehicle production <sup>1</sup> passenger cars and light vehicles (units)

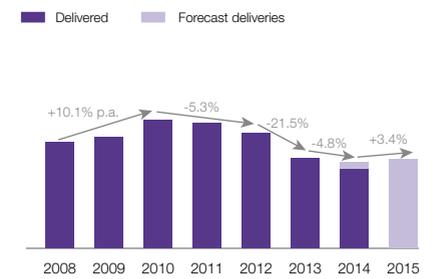


<sup>1</sup> Source: IHS

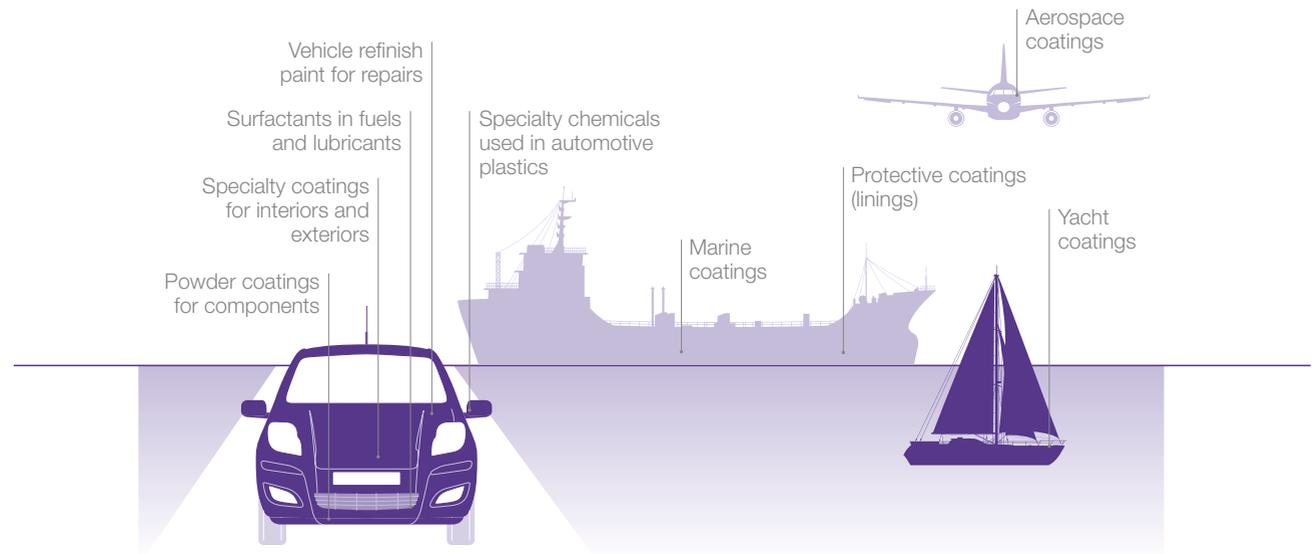
### Vehicle car park <sup>1</sup> passenger cars and light vehicles (units)



### New build ship deliveries <sup>2</sup> million compensated gross tons (CGT)



<sup>2</sup> Source: Clarkson Research Services Limited



# Consumer Goods

We supply coatings and specialty chemicals used in a variety of consumer goods, including consumer electronics, furniture, domestic appliances, food and beverage, personal care and cleaning. Our specialty chemicals are either vital to the production process or are key functional ingredients. Our coatings play an aesthetic and protective role.

17% of revenue



## Trends

Growth in both population and wealth in countries such as China and India – combined with strong global demand for new products such as smartphones and tablets – has resulted in substantial historical global growth in many parts of the Consumer durables sub-segment. The outlook going forward is also generally positive. In terms of production, there has been a shift in most sectors to high growth countries. For example, there is now more production in Brazil, Russia, India and China alone than there is in North America and Western Europe combined for domestic appliances. Growth rates and expected growth rates are also substantially higher in non-Western regions. However, it is worth noting that in many cases, design and decision-making processes are often still based in North America or Western Europe.

Other areas of the Consumer durables sub-segment such as furniture production, an important market for AkzoNobel, display a different pattern, more similar to the production and growth patterns that we see in the Consumer packaged goods sub-segment. As a general rule, Consumer packaged goods are much more stable and less cyclical in terms of demand, but also tend to be lower growth. In addition, the very large base of installed production in North America and Europe means that while growth is lower in these regions, production in Europe and North America still outstrips production in high growth countries, and this will continue in the medium term.

## Future sustainability developments

Based on the WBCSD Vision 2050, consumer durables are expected to last longer, with package recycling being integrated into business models. By 2050, it is forecast that people will only use five tons of non-renewable materials each, down from today's 85 tons (US).

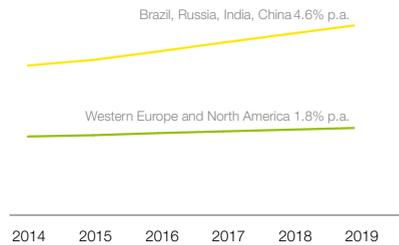
## Implications for strategy and actions

Given the shift in geography in many parts of the Consumer durables sub-segment, we need to ensure that we have the right production, sales and technical service organizations in high growth countries, and that these organizations are working effectively across regions in terms of design and key account management where appropriate. At the same time, we have to continue restructuring our sales and production in more mature markets. We also need differentiated business models with appropriate value and cost trade-offs to serve both premium and mass markets. Finally, we must ensure that our products provide new or better functionality, particularly with regard to sustainability.



### Domestic appliance production <sup>1</sup>

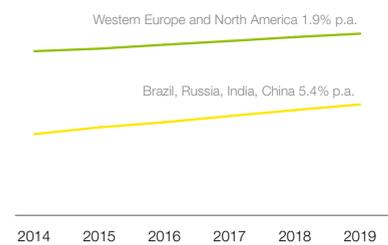
\$ billion, value added



<sup>1</sup> Source: Oxford Economics

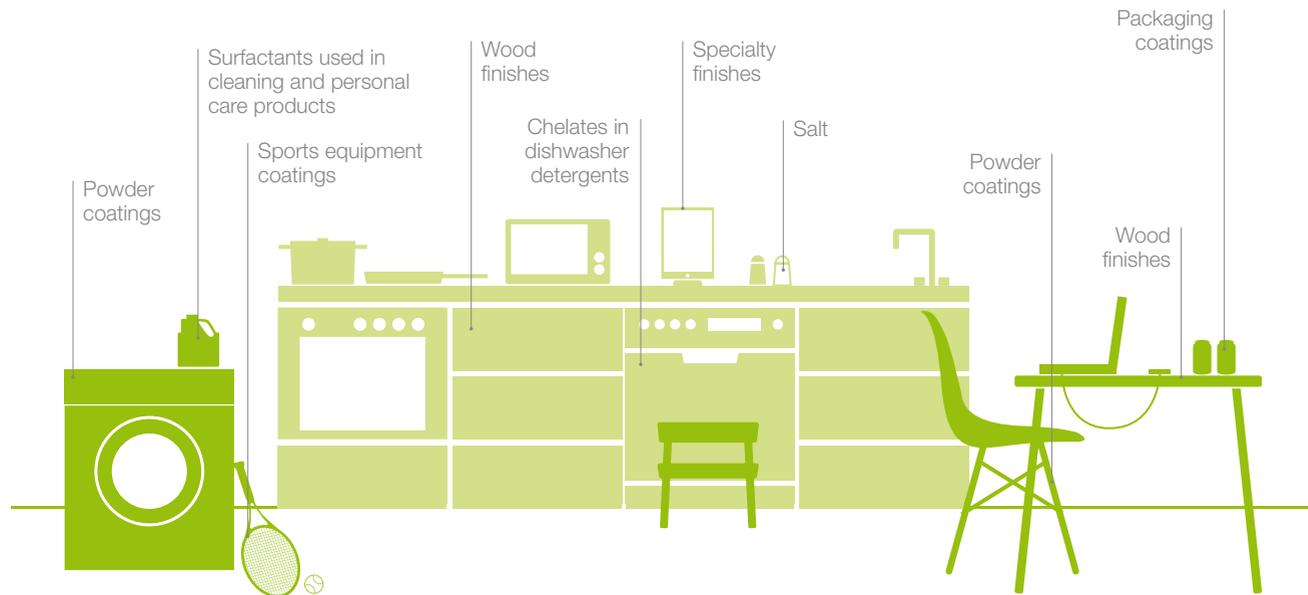
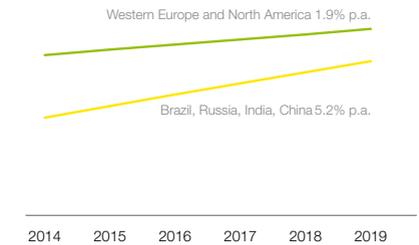
### Furniture production <sup>1</sup>

\$ billion, value added



### Food and beverage production <sup>1</sup>

\$ billion, value added



# Industrial

We supply specialty chemicals for oil and gas, metals and mining, electricity/utilities, agriculture, chemical manufacturing and pulp and paper. They play an important functional role during production or in the end product. We also sell liquid protective and powder coatings, which are largely used for their functional benefits, such as fire and corrosion protection.

25% of revenue



## Trends

There is more uncertainty today in the Natural resource and energy industries sub-segment than there has been in the recent past due to the much lower oil prices seen towards the end of 2014. Most analysts are predicting a fairly rapid rebound, but the outlook is quite unclear as we go to print. If the market remains in over-supply and prices remain low, this will eventually have an impact on demand for chemicals used in extraction and even coatings used in major oil-related projects. On the other hand, demand for more environmentally-friendly solutions and technologies that lower extraction costs is likely to remain robust. Furthermore, most oil and gas projects are major, multi-year activities so the likelihood is that the impact on demand in the short term will be limited.

In the Process industries sub-segment, growth has moderated in China, but is still high compared with most geographies. In North America, the growth outlook in chemicals is also quite positive, due in part to the impact of shale gas. Analysts believe that China has now surpassed North America in terms of chemicals value added, and although growth rates going forward in China are expected to be much lower than they have been in the recent past, they are still higher than North American growth rates and much higher than European growth rates.

Given our strong position in pulp bleaching chemicals, this is also an important part of the Process industries sub-segment for AkzoNobel. Pulp bleaching continues to contract in North America and the growth rate in Europe is low. Globally, the main region for growth is South America, which continues to grow in a consistent and stable manner. This is a positive development for AkzoNobel, as we have a strong position in pulp bleaching chemicals in South America.

## Future sustainability developments

Based on the WBCSD Vision 2050, a four to ten-fold improvement is expected in the eco-efficiency of resources and materials by 2050. Closed loop processes will increasingly lead to a reduction in waste that goes to landfill.

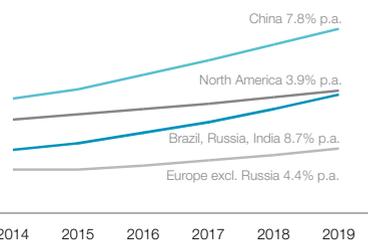
## Implications for strategy and actions

As growth rates slow, we must continue to improve productivity and innovation rates to remain competitive. In particular, with limited growth in Europe, we must continue to optimize our manufacturing footprint in the region. At the same time, we need to be prepared to capitalize on growth opportunities where they do exist, such as chemicals in China and North America and pulp in South America. While we do this, we clearly have to continue to improve in terms of sustainability levels throughout the value chain.



### Energy and utilities <sup>1</sup>

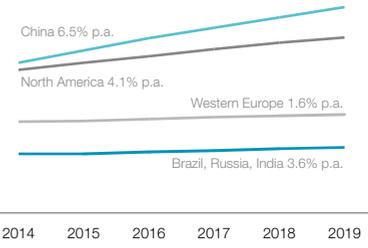
\$ billion, value added



<sup>1</sup> Source: Business Monitor International

### Chemical production <sup>2</sup>

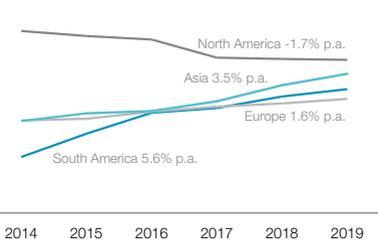
\$ billion, value added



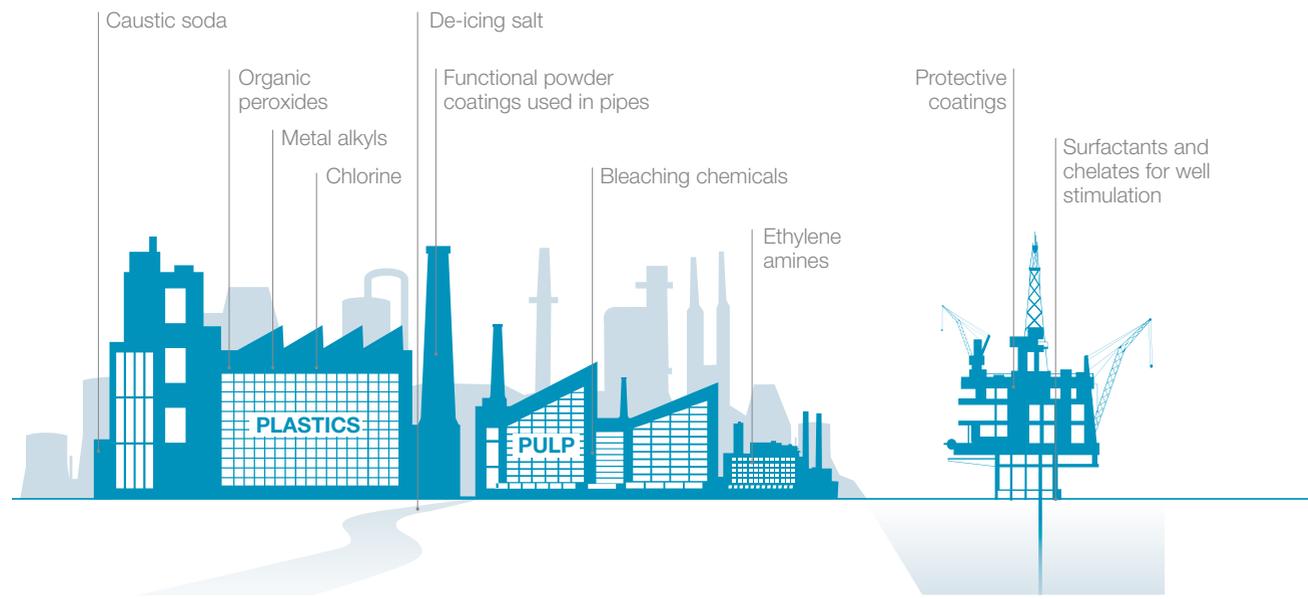
<sup>2</sup> Source: Oxford Economics

### Bleached pulp production <sup>3</sup>

million tons



<sup>3</sup> Source: RISI



# Strategic targets: 2014 financial performance

## Return on sales (ROS) ▲

We use return on sales (ROS) as a performance indicator to reflect profitability relative to revenue. ROS as a target will focus management on delivery and quality of profits. ROS is defined as operating income as percentage of revenue.

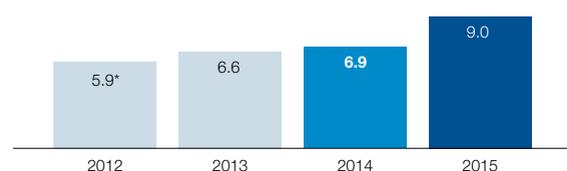
### Progress towards our 2015 target

- Modest volume growth
- Robust operating expenditure cost control
- Restructuring costs significantly down compared with 2013
- Excluding incidental items, ROS was 7.5 percent (2013: 6.1 percent)

Target 9.0%

### Return on sales (ROS) development

Operating income in % of revenue



\*Excluding an impairment in Decorative Paints of €2,106 million.

## Return on investment (ROI) ▲

We use return on investment (ROI) as a performance indicator to reflect profit relative to invested capital. ROI as a target will focus management on delivering value through returns in excess of our cost of capital. ROI is defined as operating income divided by average invested capital.

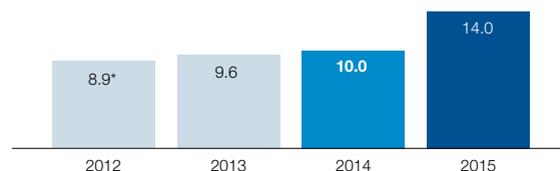
### Progress towards our 2015 target

- Capital expenditures lower than 2013
- Operating working capital slightly higher than 2013

14.0%

### Return on investment (ROI) development

Operating income/average invested capital in %



## Net debt/EBITDA ▼

Net debt/EBITDA reflects our strategy to maintain a strong investment grade rating (or credit rating).

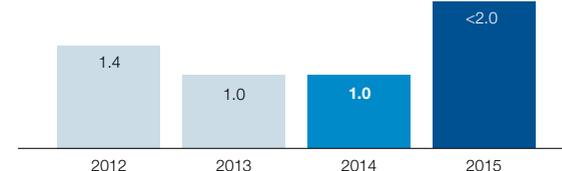
### Continued overachievement of our 2015 target

- EBITDA increased significantly due to lower costs and restructuring charges
- Very slight increase in net debt compared with the previous year

<2.0

### Net debt/EBITDA

Ratio



# Strategic targets: 2014 sustainability performance

## Eco-premium solutions with customer benefits ▲

Our 2020 target is to achieve 20 percent of revenue from products and services which provide customers and consumers in our downstream value chain with a significant sustainability advantage compared with the most commonly available equivalent commercial products or industrial processes.

### Continued steady progress towards our 2020 target

- Percentage of revenue from eco-premium products and services with downstream benefits slightly higher than 2013
- Increase came from a combination of new products and growth in revenue from existing products in Specialty Chemicals and Performance Coatings

## Cradle-to-grave carbon footprint ▲

Our ambition is to reduce our cradle-to-grave carbon footprint by 25-30 percent per ton of sales between 2012 and 2020.

### Significant improvement required to reach the 2020 target

- Carbon footprint per ton of sold product has increased, although absolute footprint is down 2 percent since 2012
- Solid improvement in some areas due to lower footprint energy contracts and facility efficiency improvements
- However, unfavorable energy source changes in Europe and a significant product mix effect limited the impact of these improvements

## Resource Efficiency Index (REI) ▼

The Resource Efficiency Index is defined as gross margin divided by cradle-to-grave carbon footprint – reported as an index. We are initially monitoring this index, and our aim is to use it to drive further improvements in resource efficiency across the value chain.

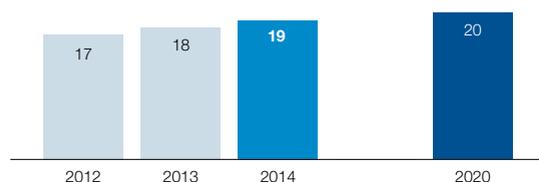
### Significant improvement required

- Improvements in energy efficiency based on renewable and low carbon energy supply
- Ongoing switch towards waterborne coatings and margin improvements as a result of higher value added products
- However, squeezed margins, demand for higher footprint products and changes in regional energy sourcing have had a negative impact

# 20%

### Eco-premium solutions with customer benefits

in % of revenue

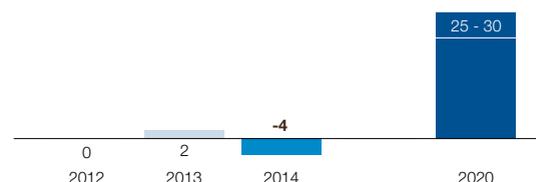


For more details see Sustainability statements Note 4.

# 25-30%

### Cradle-to-grave carbon footprint

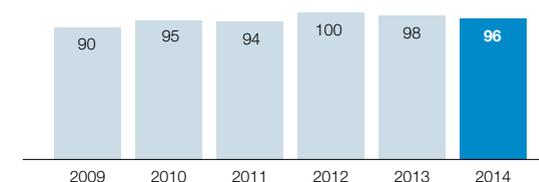
% reduction CO<sub>2</sub>(e) per ton of sales from 2012



For more details see Sustainability statements Note 5.

### Resource Efficiency Index

gross margin/CO<sub>2</sub>(e) indexed



For more details see Sustainability statements Value chain chapter.

# How we created value in 2014

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth and achieve our strategic vision of leading market positions delivering leading performance.

## Economic value

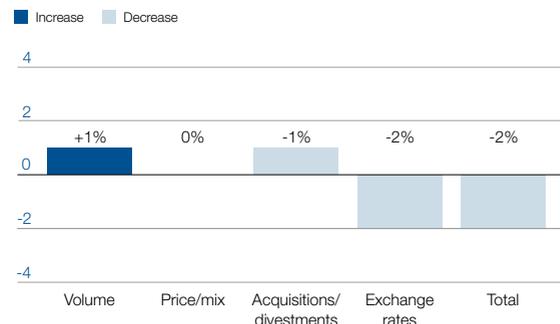
### Financial overview

2014 revenue was down 2 percent, with volume up 1 percent in all Business Areas, more than offset by adverse currency effects and divestments. Operating income was up 3 percent at €987 million, due to higher operating results and lower restructuring charges, offset by higher incidental charges. Excluding incidental items, ROS was 7.5 percent (2013: 6.1 percent). ROI was 10.0 percent (2013: 9.6 percent). We are on track to deliver our 2015 targets.

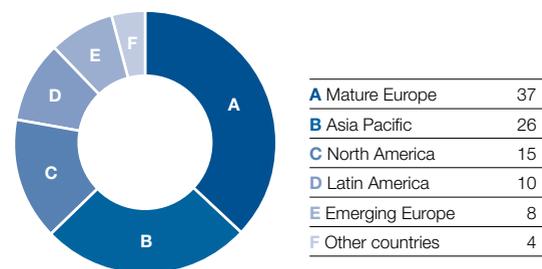
### Summary of financial outcomes

In € millions	2013	2014	Δ%
Revenue	14,590	14,296	(2)
Operating income	958	987	3
Operating income excluding incidental items	897	1,072	20
Operating income excl. incidental items and restructuring charges	1,245	1,325	6
ROS (in %)	6.6	6.9	
ROS excl. incidental items (in %)	6.1	7.5	
Average invested capital	10,007	9,871	
Moving average ROI (in %)	9.6	10.0	
EBITDA	1,513	1,690	12
Capital expenditures	666	588	(12)
Net cash from operating activities	716	811	13
Net debt	1,529	1,606	
Net income attributable to shareholders	724	546	
Earnings per share from total operations (in €)	3.00	2.23	
Adjusted earnings per share (in €)	2.62	2.81	
Number of employees	49,600	47,200	(5)

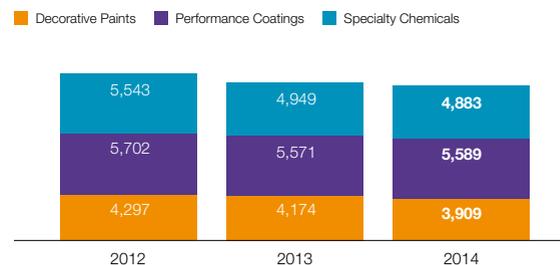
### Revenue development in % versus 2013



### Revenue by region in %



### Revenue in € millions



## Revenue

Revenue was down 2 percent, with volume up 1 percent in all Business Areas, more than offset by adverse currency effects and divestments.

- Volumes in Decorative Paints were up 1 percent. Revenue declined 6 percent compared with 2013 due to divestments, adverse currency effects and an adverse price/mix effect. The latter was mainly driven by the sale of the German stores
- Volumes in Performance Coatings were up 1 percent, mainly from growth in Marine and Protective Coatings and Powder Coatings. Revenue was flat compared with the previous year due to adverse currencies
- Volumes in Specialty Chemicals were up 1 percent. Revenue was 1 percent lower due to price pressure in caustic and unfavorable currency developments during the first half of the year, as well as some interruptions in supply chain and manufacturing.

## Divestments

- On October 1, 2013, the divestment of Building Adhesives was completed, which accounts for the divestment impact in Decorative Paints. In addition, the sale of the German stores was concluded, which did not have a revenue impact in divestments but in price/mix
- The divestment of the Primary Amides and Purate businesses was completed in 2013, and accounts for the divestment impact in Specialty Chemicals
- Specialty Chemicals announced the intended sale of its Paper Chemicals portfolio for €153 million. The business is currently part of Pulp and Performance Chemicals. The transaction is expected to be completed in 2015, subject to regular consultation with employee representatives and satisfaction of closing conditions such as receipt of required regulatory clearances

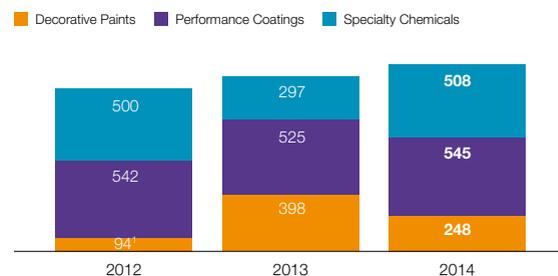
## Operating income

Operating income increased 3 percent to €987 million, due to higher operating results and lower restructuring charges, offset by higher incidental items (€85 million adverse items in 2014 and €61 million favorable items in 2013). The incidental charges in 2014 related to an external fraud suffered by one of our subsidiaries in the US, provisions for legacy items and project costs related to a divestment. Restructuring charges in 2014 were €253 million (2013: €348 million). The majority of the restructuring charges related to Performance Coatings.

- In Decorative Paints, operating income in 2013 included the gain of €198 million from the divestment of Building Adhesives. Excluding this effect, operating income improved. Restructuring charges were lower than the previous year. In addition, costs were down following the implementation of restructuring programs and strict cost control
- In Performance Coatings, operating income increased 4 percent compared with 2013. Improved operational effectiveness more than compensated for increased restructuring charges. A major restructuring activity was the implementation of a new organizational structure with fewer management layers and clearer accountability
- Specialty Chemicals increased profitability over the previous year, with significant savings from restructuring programs. Operating income in 2013 was affected by €121 million incidental charges

Average raw material costs were stable compared with 2013 exit prices. In some high growth markets, currency effects on imported raw materials have affected some businesses.

## Operating income in € millions



<sup>†</sup> Excluding goodwill impairment.

## Cash flows and net debt

Operating activities in 2014 resulted in cash inflows of €811 million (2013: €716 million). Profit from continuing operations was lower in 2014, however, the comparative for 2013 included a non-cash gain from deferred tax of €124 million. Net debt at year-end 2014 of €1,606 million was slightly up on 2013 (€1,529 million). Cash outflows for discontinued operations of €88 million mainly related to a settlement of a case following the divestment of Organon BioSciences in 2007.

Early in 2014, a €825 million bond was repaid from existing resources. In November 2014, a €500 million bond was issued with a ten-year maturity, at a coupon of 1.75 percent. The new bond issue extends the duration of the overall bond portfolio, taking advantage of favorable market conditions and historically low interest rates. We are committed to maintaining a strong investment grade credit rating. Currently, the company has a BBB+ rating with Standard & Poor's and a Baa1 rating with Moody's.

### Invested capital

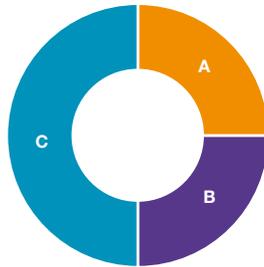
Invested capital at year-end 2014 totaled €9.9 billion, up €0.6 billion on year-end 2013. Invested capital was primarily impacted by foreign currency effects of €0.4 billion due to the weaker euro.

We are prioritizing our investments given our focus on cash and return on investment. During 2014, we invested an amount of €588 million (2013: €666 million), or 4.1 percent of revenue (2013: 4.6 percent). We intend to align our future capital expenditures with depreciation, and to invest 40-50 percent in growth.

### Capital expenditures 2014

100% = €588 million (4.1% of revenue)

A Decorative Paints	25
B Performance Coatings	25
C Specialty Chemicals	50

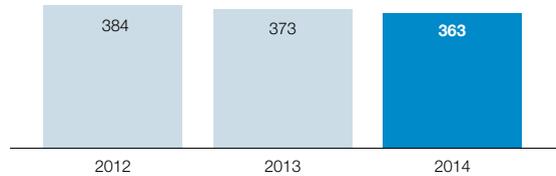


### Innovation

We continue to invest in Research, Development and Innovation to fulfill future customer needs and fuel our targeted growth in revenue share of eco-premium solutions with customer benefits.

#### Innovation investments

research and development expenses in € millions

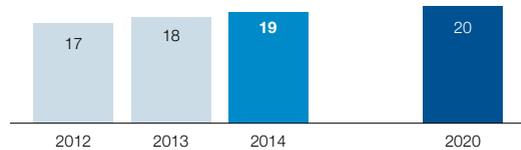


#### Eco-premium solutions

We maintain our intention to lead by example in the area of improving the sustainability and environmental performance of our products and processes, which we measure through our development of eco-premium solutions. They are a fundamental driver of our Planet Possible agenda for creating more value from fewer resources and minimizing the environmental impact/footprint of the products we sell and the processes we use to manufacture them.

#### Eco-premium solutions with customer benefits

in % of revenue ■ Target

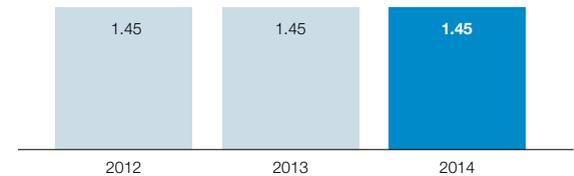


Although it may appear that we are already close to realizing our 2020 target of 20 percent of revenue, it should be noted that our year-on-year progress will be impacted not only by our own innovation drive, but also by competitor activity and legislation changes. Furthermore, the introduction of new products into the market whose performances equal those of our current eco-premium solutions offering will redefine the standards that we will have to surpass, to acquire future eco-premium solutions status. For more details see Sustainability statements Note 4.

### Dividend

Our dividend policy is to pay a stable to rising dividend. We will propose a 2014 final dividend of €1.12 per share, which would make a total 2014 dividend of €1.45 (2013: €1.45) per share. There will be a stock dividend option with cash dividend as default.

#### Dividend in €



#### Earnings per share total operations in €



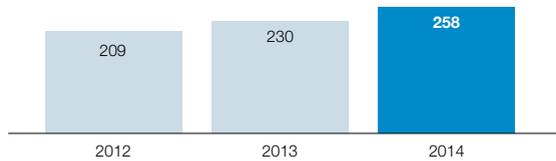
### Interest

Net financing expenses decreased, mainly due to lower interest expenses on net debt as a result of repayment of high interest bonds. This positive effect is partly offset by (non-cash) higher interest on provisions. For the full-year, net financing expenses decreased by €44 million to €156 million.

### Income tax

The full-year effective tax rate was 30 percent (2013: 30 percent adjusted for an incidental non-cash tax gain of €124 million and several non-taxable items).

Income tax paid in € millions



### Outlook

We anticipate that significant developments in raw material prices, combined with relevant exchange rate movements and lower growth rates in high growth economies, will principally determine the dynamics of 2015. The preparations, made in 2013 and 2014 will form a sound basis for further improvements in 2015. The company remains on track to deliver its targets for 2015.

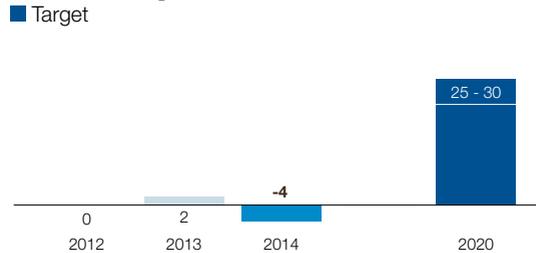
## Environmental value

### Cradle-to-grave carbon footprint

Our ambition is to reduce our cradle-to-grave carbon footprint by 25-30 percent per ton of sales between 2012 and 2020. We have made some good improvements. New power contracts in, for example, Moses Lake and Columbus, US, and increased production in our Chemical Islands (using renewable power) have reduced the footprint significantly. Energy efficiency has been improved at several production sites, such as Ningbo in China and Columbus in the US. However, these improvements have been outweighed by changes in product mix, a deterioration of power mix in Germany and lower utilization of our Combined Heat and Power (CHP) unit in the Netherlands, leading to the use of more power from the Dutch grid.

### Cradle-to-grave carbon footprint

% reduction CO<sub>2</sub>(e) per ton of sales from 2012

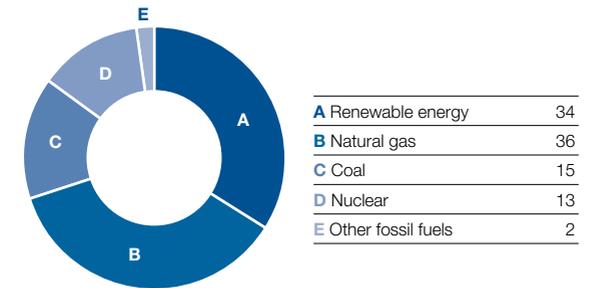


For more details see Sustainability statements Note 5.

### Energy

Renewable energy is an important aspect of the improvements required to achieve our 2020 strategic carbon footprint target. Our Renewable Energy Supply Strategy has three focus areas: protecting our current renewable share, participating in cost effective, large energy ventures, and exploring commercially feasible on-site renewable energy generation.

Total energy in % by source

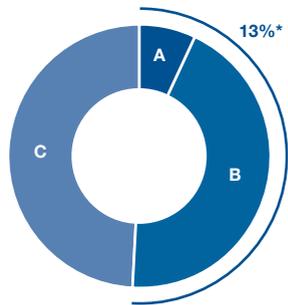


For more details see Sustainability statements Notes 5 and 15.

## Raw materials

Bio-based raw materials are an important contributor to our sustainability agenda; a considerable share of AkzoNobel's environmental footprint is embodied in the raw materials we buy, and most bio-based materials exhibit lower footprints. While many of our materials are already bio-based, we are also seeing the construction and commissioning of the first commercial scale production facilities for several new additional bio-based raw materials. In order to lead the deployment of these materials in our markets, we have been setting up partnerships across our supply chain.

### Total volume of raw materials in % per source



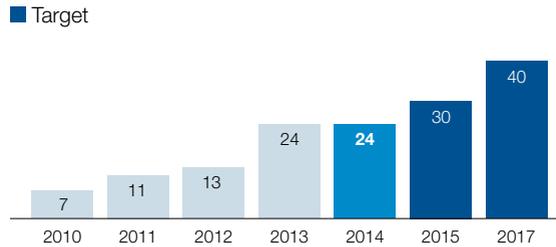
\*13 percent of organic raw materials are from renewable sources.

A Renewable raw materials (bio-based)	7
B Fossil-derived materials (petrochemicals)	44
C Inorganic materials (e.g. salt, minerals, clays)	49

## Operational eco-efficiency program

The focus of the Operational eco-efficiency (OEE) agenda is to increase raw material efficiency, reduce consumption of energy, 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.

### OEE footprint improvement (% reduction from 2009)

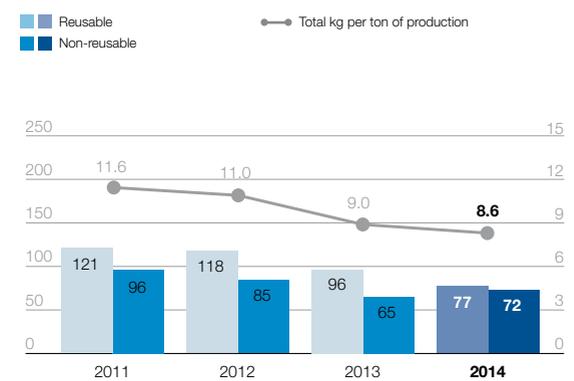


The OEE footprint is calculated from the weighted average of nine footprint parameters and production volume. For more details see Sustainability statements Environment chapter.

## Waste

Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both our environmental footprint and costs. We have moved our focus from managing/reducing total waste to eliminating waste by increasing material efficiency. The focus on waste over past years resulted in a reduction in waste at the majority of our sites.

### Total waste in kilotons



Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard. Reusable waste is waste which is used e.g. for resource recovery, recycling, reclamation, direct re-use or alternative uses e.g. composting. All other waste is non-reusable waste. For more details see Sustainability statements Note 18.

## Social value

At year-end 2014, the workforce amounted to 47,200 employees (year-end 2013: 49,600 employees).

The decrease was mainly due to:

- A decrease of 400 employees due to divestments
- A decrease of 2,000 employees due to ongoing restructuring

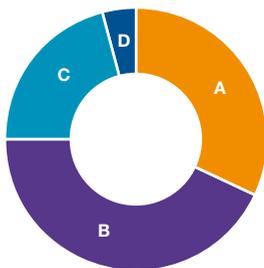
We continued restructuring activities during 2014 in all Business Areas. We will continue to centralize and outsource back office activities throughout the world.

### Employees

47,200 at year-end 2014

### Employees by Business Area

A Decorative Paints	32%
B Performance Coatings	43%
C Specialty Chemicals	21%
D Other	4%

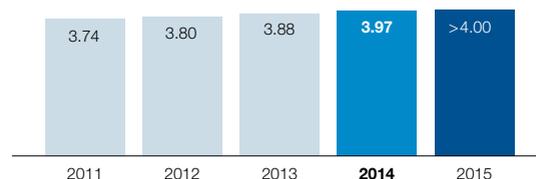


## Employee engagement

One of our key measures of progress in the area of culture is employee engagement which we measure through an employee engagement survey. Compared with last year's results, we've seen an increase in engagement. In the context of our ongoing change and restructuring, this is a positive signal. Engagement has increased every year since we started the survey in 2010.

### ViewPoint score employee engagement

(1 to 5 scale) ■ Target



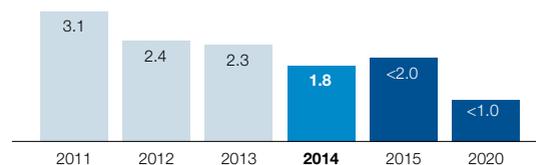
For more details see Sustainability statements Note 12.

## Safety

Overall performance indicators for people safety show that we have achieved our 2015 target a year early. Implementation of the people safety programs coincides with a continued decrease in the number of injuries to employees and supervised and independent contractors.

### Employee and supervised contractors total reportable injuries injury rate

■ Target



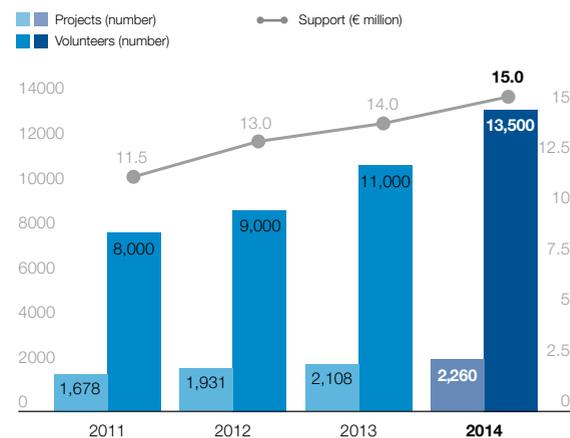
For more details see Sustainability statements Note 8.

## Community involvement

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 on a sustainable basis. In the past nine years, the program has become firmly embedded in our worldwide organization.

### Cumulative Community Program involvement

(cumulative since 2005)

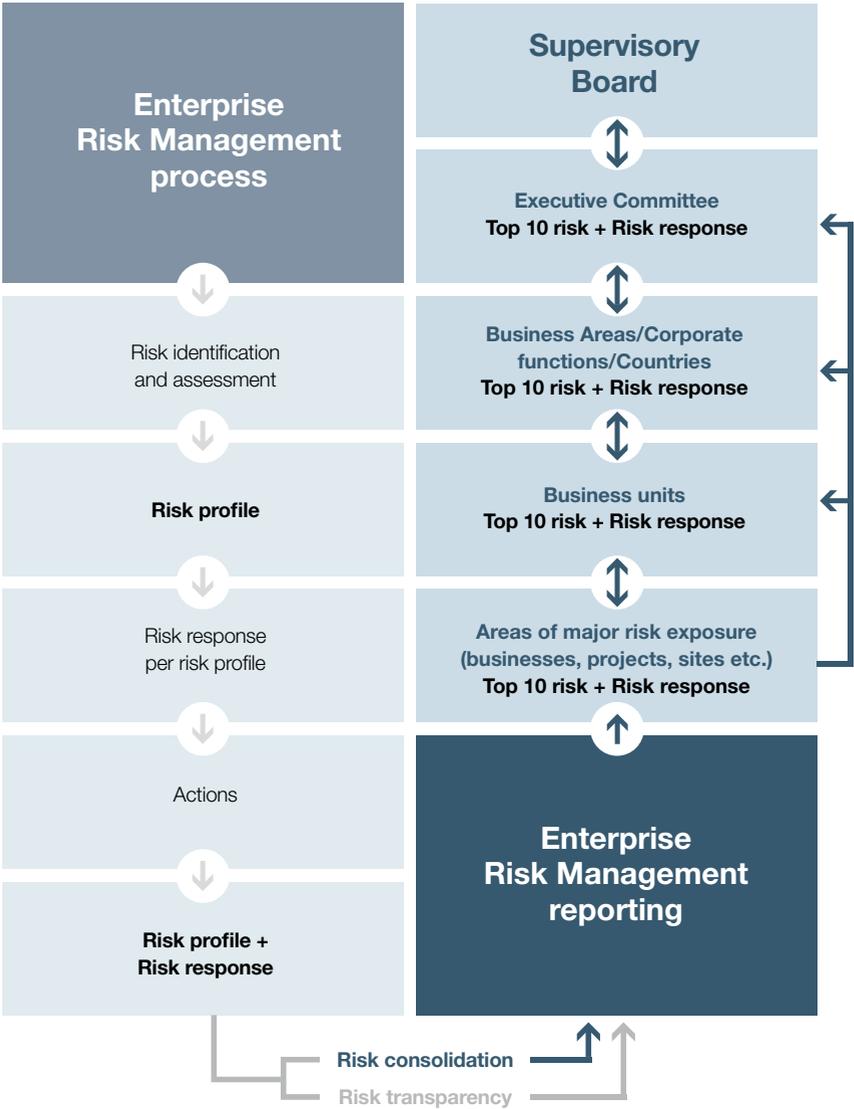


For more details see Sustainability statements Note 14.

# Risk management

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

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



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## Our 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 process, control systems and our major business risks, which are subsequently reviewed by the Supervisory Board.

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## Risk appetite

Clarity on risk appetite, along with the 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, Code of Conduct, core principles and 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 achieving our performance, innovation and sustainability objectives. Returns on investment in the development of innovative products and sustainable solutions are never certain. Yet considerable funds and effort is spent on research, development and innovation, even in less certain economic circumstances
- **Operational:** With respect to operational risks, we seek to minimize the downside risk from the impact of unforeseen operational failures within our businesses

- **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 are explained in more detail in Note 23 of the Consolidated financial statements
- **Compliance:** We do not permit our employees to take any compliance risk and have a zero tolerance policy in relation to breaches of our Code of Conduct. See the Governance and compliance section for more details

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## Risk management in 2014

Enterprise Risk Management is a company-wide driven activity under the responsibility of the Executive Committee that includes a bottom-up process which aims to provide full coverage of the organization and ensure that we focus on the areas of major risk exposure. The scoping of our 2014 risk management activities was performed by the Executive Committee, Business Area and business unit Managing Directors and Corporate Directors, in association with the risk management function. In addition to focusing on the coverage of our organization, emphasis is put on organizational changes, key strategic projects and high growth regions.

During the year, we facilitated 87 Enterprise Risk Management workshops. In these workshops, almost 1,800 unique risk scenarios were identified and prioritized by the responsible management teams and functional experts. 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. 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.

In the fourth quarter of 2014, one of our subsidiaries located in Chicago (US) was targeted by an external fraud. The fraud involved international wire transfers totaling an amount of €51 million in reported currencies. When detected, immediate actions were taken including contacting and working with appropriate law enforcement authorities. Independent legal counsel, assisted by an independent audit firm, was assigned to investigate the matter, which was an isolated event not linked in any way to the operational activities of the company and our businesses. Customary and appropriate controls were in place and were breached. An extensive fraud awareness campaign was started and a plan to reinforce controls was launched. We believe that we will be able to reduce the ultimate financial impact.

Under the explicit understanding that this is not an exhaustive list, the major risk factors that may prevent full achievement of our strategic ambitions and the corresponding mitigating actions are listed in detail in this chapter. Where references are made to functional and process improvement initiatives, more detailed information can be found earlier 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, at a later stage, could develop into a material impact. The company's risk management systems endeavor to ensure the timely discovery of such incidents.

The table below summarizes the major risks for the company. The symbols represent management's assessment of how these risks are expected to develop compared with the previous year.

<p><b>External – Strategic</b></p> <ul style="list-style-type: none"> <li>Worsening of economic conditions ▲</li> <li>International operations ▲</li> </ul>	<p><b>Internal – Strategic</b></p> <ul style="list-style-type: none"> <li>Innovation and identification of major transforming technologies ▲</li> </ul>
<p><b>External – Operational</b></p> <ul style="list-style-type: none"> <li>Energy pricing and emission trading rights ▼</li> <li>Sourcing of raw materials ▼</li> <li>Product liability ■</li> <li>Environmental liabilities ■</li> <li>Information Technology ▲</li> </ul>	<p><b>Internal – Operational</b></p> <ul style="list-style-type: none"> <li>Attraction and retention of talent ■</li> <li>Production process risks ■</li> <li>Management of change ■</li> </ul>
<p><b>External – Financial</b></p> <ul style="list-style-type: none"> <li>Post-retirement benefits ■</li> <li>Free cash flow generation ▲</li> <li>Fluctuations in exchange rates ■</li> <li>Decline of asset values ▼</li> </ul>	
<p><b>External – Compliance</b></p> <ul style="list-style-type: none"> <li>Complying with laws and regulations ▲</li> </ul>	

- ▲ Risk has been assessed to increase
- ▼ Risk has been assessed to decrease
- Risk has been assessed to remain fairly stable

## External - Strategic

### Worsening of economic conditions

The global economy remains fragile and it continues to be difficult to predict customer demand and raw material costs. AkzoNobel is susceptible to decreased growth rates within high growth markets and/or continued economic and market downturn in mature markets. The effects could lead to a decline in demand and deteriorating financial results, which in turn could result in the company not realizing its financial targets.

#### Mitigating actions

- Execute our strategy to bring down our operational cost base and reduce complexity
- Continue the implementation of Global Business Services aimed at standardized core functional processes in all regions across the organization
- Further deploy the commercial excellence programs to capture organic growth and offset the effects of decreasing economic growth rates

## External - Strategic

### International operations

We are a global business with operations in more than 80 countries. We are therefore 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.

#### Mitigating actions

- Strategically spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability
- Carefully monitor the political, economic and legislative conditions across the company
- All significant investments, and the countries and industry segments in which AkzoNobel conducts its business, are decided on by the Executive Committee
- Country organizations are in place in order to mitigate country-specific and generic business risks

## 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.

#### Mitigating actions

- Continue to analyze and review our competitive positions and proactively manage energy usage and costs
- Implement our Carbon Policy and work on energy efficiency programs
- Diversify our energy source portfolio to reduce the amount of gas-based heat
- Closely monitor and manage our carbon management plans. We have policies for energy contracts and long-term purchase contracts in place (see Note 23 of the Consolidated financial statements)

## External - Operational

### Sourcing of raw materials

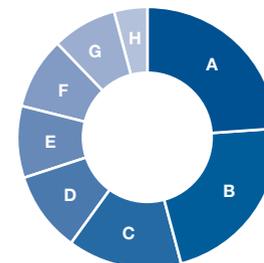
Prices for key raw materials can be volatile and are affected by economic conditions. The table below shows our relative spend on these key raw materials, excluding energy. We may also be impacted by inability to access sufficient raw materials, business interruption or product discontinuation at key suppliers. These potential circumstances may increase cost and expenses for raw materials and energy.

#### Mitigating actions

- Periodically review all critical raw materials, with the aim of bundling the purchasing power in both product related and non-product related requirements
- Use our purchasing power and long-term supplier relationships to acquire raw materials and safeguard their constant delivery in a sustainable manner
- Implement plans to mitigate dependencies brought about by single sourced raw materials
- Monitor our critical value chains to understand the critical suppliers and markets of our suppliers to detect risks and opportunities at an earlier stage

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

A Chemicals & intermediates	24
B Resins	22
C Additives	14
D Solvents	10
E Coatings specialties	9
F Packaging	9
G Titanium dioxide	8
H Pigments	4



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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 the use of former, current or new technologies and compounds.

### Mitigating actions

- Quality improvement programs are in place in our different Business Areas
- Product stewardship is embedded in the company's HSE and sustainability agenda. Product stewardship is also integrated into product slate decisions
- We also have a central policy to optimize insurance coverage which relates to specific insurance programs covering product liability

---

External - Operational

## Environmental liabilities

We use, and have used in the past, hazardous materials, organic and inorganic compounds in product development programs and manufacturing processes. We have been, and can still be, exposed to risks of contamination and substantial claims due to potential non-compliance with environmental laws, regulatory enforcement, property damage and personal injury. Regulations and standards are becoming increasingly stringent.

### Mitigating actions

- Conduct 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
- Accrue and charge environmental clean-up costs or indemnifications against earnings when it is probable that a potential liability has materialized and an amount can be reliably estimated (see Note 20 of the Consolidated financial statements)

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External - Operational

## Information Technology

An effect of AkzoNobel's longer term Information Technology strategy is that our IT landscape is converging into fewer ERP systems and other critical applications. The amount of digital exchanges of business transactions with customers, suppliers and other stakeholders is increasing. Non-availability of our critical IT systems or unauthorized access, through cybercrime or other events, can have a direct effect on our production processes, our competitive position and the reputation of the company.

### Risk corrective actions

- Continuously test and update the systems used for information security
- Further implement measures such as redundant design, back-up processes, virus protection, anti-spoofing and forensic scans
- Centrally monitor access control processes to our key IT systems
- A company-wide directive describing the rules regarding Information Management was issued in 2014

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## External - Financial

### Post-retirement benefits

Our current policy is to sponsor defined contribution pension and other post-retirement benefit plans wherever possible, but we still have a number of defined benefit pension and healthcare schemes from the past. Generally, these schemes have been funded through external trusts or foundations, where AkzoNobel faces the potential risk of funding shortfalls.

#### Mitigating actions

- Our policy is to offer defined contribution schemes to new employees and, where appropriate, to existing employees. The most significant defined benefit schemes are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK. Both are closed to new entrants. They are managed and controlled by independent trustees. The funded status of these schemes is affected by the trustees' investment decisions, market conditions, demographic experience and any regulatory actions. This may require additional funding from the former employing entities and may adversely impact our business and results
- We practice proactive pension risk management and continuously review options to reduce the financial risks associated with all of our defined benefit plans (see Note 15 of the Consolidated financial statements)

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## External - Financial

### Free cash flow generation

The potential for further deterioration of economic conditions could have an impact on the free cash flow generation of our businesses. Furthermore, we are potentially exposed to additional funding of pension schemes. This may lead to insufficient free cash flow generation, which limits our strategic degrees of freedom.

#### Mitigating actions

- Maintain a strong investment grade credit rating; our long-term senior unsecured debt rating is BBB+ by Standard & Poor's and Baa1 by Moody's
- Focus on cash management is stressed in our monthly Operational Control Cycle meetings and relevant metrics are included in our remuneration policies
- 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 governed by our centralized treasury function

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## External - Financial

### Fluctuations in exchange rates

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

#### Mitigating actions

- A centralized treasury and hedging policy is in place for certain currency exchange rate risks (see Note 23 of the Consolidated financial statements)
- At a more operational level, risks are reduced by the prevalence of local-for-local production, which is the norm in many of our businesses

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## External - Financial

### Decline of asset values

Impairments and book losses could adversely affect our financial results.

#### Mitigating actions

- Perform impairment tests for intangibles with indefinite lives (goodwill, some brands) every year and whenever an impairment trigger exists. For tangibles and other fixed assets, impairment tests are only carried out whenever an impairment trigger exists (see Notes 7 and 8 of the Consolidated financial statements)
- Continuous monitoring of acquisition and divestment opportunities and the management of assets held for sale are performed by the Executive Committee

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## External - Compliance

### Complying with laws and regulations

We may be held responsible for any liabilities arising out of non-compliance with laws and regulations.

#### Mitigating actions

- Monitor and adapt to significant changes in the legal systems, regulatory controls, customs and practices in the countries in which we operate
- Remain dedicated to minimizing AkzoNobel's compliance risk by fostering an open and transparent culture, continuously educating our employees worldwide and increasing awareness
- Monitor overall compliance through our comprehensive annual non-financial letter of representation process, as well as our annual competition law compliance declaration
- Embed company-wide standard setting and compliance awareness through activities and training programs

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## Internal - Strategic

### Innovation and 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 and adopt major transforming technologies in a timely manner, this may lead to the loss of our leadership positions and adversely affect our business.

#### Mitigating actions

- Support continuous research and development through a spend of 2.5 percent (€363 million) of total revenue
- Maintain the use of our detailed technology roadmaps, which assess relevant technological horizons and pathways to acquire and detail new technologies
- Promote our global open innovation capability to identify, assess and acquire the most recent promising technologies

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## Internal - Operational

### Attraction and retention of talent

Having the right people, with the right capabilities, experience and mindset can, to a large extent, determine the success of our organization.

#### Mitigating actions

- Continue the roll out our Talent management process, initiated in 2013
- Establish a more rigorous and differentiated assessment of performance, with enhanced focus on alignment with AkzoNobel's core principles and values
- Further develop the AkzoNobel Academy aimed at increasing functional capabilities across the company and sharing best practices

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## Internal - Operational

### Production process risks

Risks in production processes can adversely affect our results. They arise from areas such as personal health and safety, process safety and product safety. Unlikely scenarios can involve major incidents with a high impact on our organization, causing business continuity risks and reputational damage.

#### Mitigating actions

- Project ALPS has been implemented to reduce process complexity and drive continuous improvement
- Continue the implementation of the Process Safety Management (PSM) framework, which was introduced in 2014. The framework provides a set of minimum safety requirements for all our sites
- Carry on with business continuity planning and make sure there are appropriate risk transfer arrangements in place

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## Internal - Operational

### Management of change

In order to implement our overall strategy, we have implemented, and continue to implement, numerous changes in our operating model. We are also undertaking various restructuring projects which require significant change. Failure to successfully execute these initiatives could lead to industrial action and, ultimately, to not achieving our strategic ambitions.

#### Mitigating actions

- To accelerate the implementation of our strategy we have introduced core principles and values intended to set the desired behavioral changes in motion. The values and behaviors have been included in the performance management process
- Senior management is involved in all critical projects that have been prioritized and are supervised by the Executive Committee to ensure an aligned and integrated vision for the company's change agenda
- Project management and change management are both included in the curriculum of the AkzoNobel Academy



## Excellence and endurance

Backed by centuries of expertise, our extensive coatings and chemicals know-how and innovative technologies are in demand all over the world. For example, we supply the aerospace and marine industries with advanced, high quality products that offer unrivalled performance and appearance.

# Business performance

The following section gives a detailed summary of how each of our Business Areas performed during 2014. Information on market characteristics is also provided.

Decorative Paints	62
Performance Coatings	74
Specialty Chemicals	86

# Decorative Paints



**“The work we have done to streamline our business is clearly paying off as we continued to grow in challenging circumstances”**

**Ruud Joosten** Member of the Executive Committee responsible for Decorative Paints

2015 expected outcomes

**ROS 7.5%    ROI 12%**



It was a positive year for the Decorative Paints business. We operationally outperformed 2013 by some distance, despite continued market weaknesses, and remain on track to achieve our operational objectives for 2015.

A lot of work has gone into streamlining our global activities over the last few years in order to make the business more efficient and profitable, as well as providing further growth momentum. This is clearly paying off, as we continued to grow in very challenging economic circumstances.

Markets remained weak, especially in Europe, where many economies are still trying to recover from the ongoing economic recession. The professional market in the UK was something of an exception, while consumer confidence all over continental Europe was fairly low. We continued to perform well in China, despite evidence of the economy slowing down. Our performance was also good in Latin America, even though circumstances were less than favorable in countries such as Argentina and Brazil. South East and South Asia also contributed strongly, with India, Indonesia and Vietnam in particular posting good results.

A specific area of attention this year was Europe, where we successfully implemented a new operating model in October. It is designed to take advantage of our scale in back office functions such as Finance, Human Resources and Information Management, which have been combined on a global and European level. This model enables us to operate a more focused Sales and Marketing organization within the countries themselves. The introduction of this model builds on changes we introduced to our global management structure and set-up at the start of 2014. As a result of these improvements, we now have a more agile and competitive Decorative Paints business which is better positioned to achieve profitable growth.

Even though it was a busy year in terms of reshaping the organization, we remained highly focused on maintaining our good safety performance. Our total reportable rate of injuries (TRR) improved from 1.9 to 1.6, and we continued

to introduce sustainable innovations to the market. This was highlighted by the proportion of revenue we achieve from eco-premium solutions with customer benefits. Notable product launches included Coral Acrílico Total in Brazil, a wall paint for internal and external use, with great resistance, coverage and washability, which reinforced the brand's position in the premium segment. We also launched Nordsjö One Supertech in the Nordics, a self-cleaning paint which has already proved to be very successful. Another highlight was the introduction of our award-winning Visualizer app. This is available as a free download and we're particularly proud of it because it represents a world's first in augmented reality technology. It enables users to see in real time what a room would look like if it was painted in different colors – before any paint has been applied to the wall. The app has been hugely successful and it underlines how we're working to embrace digital innovations alongside our product innovations.

Color is also one of the main pillars of the Human Cities initiative which the company launched in 2014. Designed to make cities more enjoyable and inspiring, it will give extra momentum to the global "Let's Colour" initiatives that Decorative Paints has been running for a number of years. In particular, "Let's Colour" will play a key role in supporting the commitment AkzoNobel made to the Clinton Global Initiative in September, which established a partnership with 100 Resilient Cities – pioneered by The Rockefeller Foundation. As part of that commitment, over the next two years, we will contribute to special projects in four cities named on the 100 Resilient Cities list.

Another notable development this year was the groundbreaking at our new site in Chengdu, China. The plant will be our fourth in China producing decorative paints and is due to open in 2016, with full operations expected by 2017. There is strong demand for our products in the region and this will enable us to meet the increasing needs of the market.

# Decorative Paints strategy



Our vision is to become the leading global decorative paints company in size and performance. We are on track to achieve our expected 2015 financial outcomes of 7.5 percent return on sales and 12 percent return on investment, as evidenced by our 2014 performance, which was a significant improvement over 2013 levels. In addition, we have also successfully “gone live” with our new operating model in Europe, which includes a comprehensive and disciplined process-based approach designed to improve both efficiency and effectiveness. We also continue to make progress in our five main action areas:

## Actions

### Fix Europe

Given the structural issues in the Buildings and Infrastructure end-user segment in Europe, optimizing our cost base is fundamental. The starting point for this is our new operating model, which refocuses our country organizations on our core business. Implementation of this operating model has resulted in fewer management layers, reduced production costs, standardized processes, restructuring in Marketing and Sales, and outsourcing of transactional Finance.

In parallel with this, we also continue to make progress in the market. For example, in the UK consumer market, 2014 marked the launch of a major new marketing campaign for our Dulux consumer range, called “Change Your Story”. In trade, the heartland of our business, we began the roll-out of our Sikkens 5051 color collection.

This collection, combined with related services, emphasizes our dedication to color, a fundamental part of our professional value proposition. We are also continuing to innovate, particularly in products with sustainability benefits, such as Herbol Protectro Aqua, a water-based product with longer gloss retention.

### Grow profitably in high growth markets

Growth in high growth countries is a key component of our plan and we continue to build our brands in these areas as a result. For example, in 2014, we successfully launched a new blockbuster exterior walls proposition (Coral Acrilico Total) in Brazil. The launch was supported by a fully-fledged marketing campaign, including a TV commercial with three-time Roland Garros winner and former world number one tennis player, Gustavo Kuerten. We also introduced our Colors of the World concept – a significant part of our “flourish” brand architecture – in Tunisia, South Africa and Indonesia. In addition, we continue to develop and market appropriate value propositions for the mid-market segment. A good example is the recent successful launch of the Fit by Marshall brand in Turkey. This brand offers an economic solution for frequently painted areas.

We are supporting our vital market-facing efforts with an even clearer focus on productivity. For example:

- In South East and South Asia, we are rolling out consistent value propositions and supporting campaigns across the full region. We have taken this approach with the launches of Dulux Weathershield Powerflex – which offers strong protection on exterior walls against wear and tear caused by harsh weather conditions with its crack-proof elastomeric features – and Dulux EasyClean – which effectively resists stains on interior walls and enables easier cleaning – and it has proven to be effective as well as efficient
- In China, we are further optimizing our logistics service providers
- In Latin America, we increased our operational leverage significantly by reducing the fixed cost base and improving the product mix

### Leverage investments in marketing, sales and innovation

Branding and consumer inspiration are core capabilities in Decorative Paints. In 2014, we completed global implementation of our “flourish” identity, successfully uniting our premium consumer brands.

With this consistent brand identity aligned to a new global brand architecture, we are able to facilitate stronger consumer propositions and more powerful, rapid and efficient communication through the value chain. For example, we expanded the distribution of our annual trend book ColourFutures to cover 45 countries and we now support our “flourish” identity with a consistent digital platform.

We are continuing to roll out regional or global concepts where relevant, including Ambiance, Colors of the World and Weathershield. We are also continuing to invest in our global “Let’s Colour” brand, both commercially and through our community programs. In Brazil, for example, we have now staged around 1,250 successful “Tudo de Cor” (“Let’s Colour”) events, supporting our Human Cities agenda.

### Improve supply chain performance

We have made considerable changes to our supply chain footprint as a result of the ICI acquisition and the structural changes in the Buildings and Infrastructure end-user segment. The changes that we are currently making are based on ensuring a future-proof supply chain. Specifically, we are currently investing in state-of-the-art facilities in Ashington in the UK and Chengdu in China. The Ashington plant is intended to replace our Slough and Prudhoe facilities and offers state-of-the-art technology and resource efficiency (energy and waste) performance. The Chengdu plant is needed from a capacity and logistics perspective, as it will supply Western China.

As we move towards a steady state, our focus is shifting towards operational excellence based on the company-wide AkzoNobel Leading Performance System (ALPS). Our efforts are based on engaging our people in continuous improvement activities that improve safety and customer service, while reducing inventory and cost. These efforts are, of course, a key part of our plan for the next level of improvement in mature Europe, but they are also fundamental to the future of our supply chains in high growth regions.

### Generate more value from fewer resources

As is the case with all Business Areas, our focus in terms of embedded sustainability is on generating more value from fewer resources as part of our Planet Possible agenda. We are engaging with our employees to do this, but are also working with customers to help them make better choices. Some examples of the kind of work we are doing include:

- Volatile organic compound (VOC) reduction  
We continue to have success in developing lower VOC products, but one of our key activities is to educate the market about the benefits of lower VOC paint. For example, lower VOC products dry more quickly, offering improved productivity, and we consider it an important part of our role to get this message across. We are carrying out this education process in mature markets, such as Spain, where our Painter-to-Painter program is based on videos of real painters talking about the benefits of waterborne technology. We are also educating outside of Europe, in Argentina for example, where our Mythbusters program is aimed at dispelling myths about waterborne products

- Eco-premium solutions  
We continue to win business from products and services that have sustainability benefits. An excellent example of this is Nordjsö One Supertech. This product is based on a collaboration with our Specialty Chemicals Business Area – it uses our specialty silica to create a self-cleaning exterior wood care paint. The product is yet another example of products that provide functional benefits in addition to great aesthetics
- Packaging and end-of-life  
We continue to look for ways to reduce packaging and better utilize leftover paint through the value chain. For instance, in France, we demonstrate our commitment to helping professional customers do more with less through our “Opération Recyclage” in our Sikkens Solutions trade network. This program enables account holders to dispose of their waste paint, cans and other equipment, and to obtain official certification for having done so. This eliminates special trips to recycling centers while encouraging them to use Sikkens products
- Own operations  
Although our plants and distribution process are not resource intensive, we continue to look for ways to minimize resource use, which generally also results in cost savings. This, of course, covers energy use, but also other natural resources such as water
- Engaging our employees and helping our customers  
We are engaging our employees to help us improve sustainability. Externally, we are using Planet Possible labelling on websites and cans to help consumers understand the level of sustainability of their choices. Finally, we run a number of initiatives around the world, such as our Painter for Life scheme in Indonesia and our IIm-o-Hunar scheme in Pakistan. As part of this training, we educate painters in safety and environmental practices

## Decorative Paints end-user segment outlook

All revenue generated by the decorative paints industry comes from consumers and professional users in either the New build projects or Maintenance, renovation and repair sub-segments of the Buildings and Infrastructure end-user segment. The latter sub-segment is more important than the former for AkzoNobel, given the large size of the installed base, particularly in more mature markets.

### New build projects

In Europe, the new build market grew rapidly before 2008, after which it slowed down considerably. There are some signs that the market is returning to growth, with some analysts predicting robust growth rates going forward, due mainly to market recovery. At this rate of growth, the expectation is that Europe will return to 2008 output a decade after the recession began. However, our experience is that growth is more uncertain and uneven than the rates predicted by analysts. Therefore, our internal estimates of European new build growth are much more conservative.

In high growth markets such as China, new build growth has been disproportionately high over the last five years. However, growth rates have slowed. Going forward, growth is expected to moderate further to China GDP levels, or possibly even lower. In other key countries such as Brazil and India, growth rates have been higher than mature market rates over the last five years. Going forward, these are also expected to moderate somewhat.

In all geographies, growth rates are driven by population growth and increased wealth, but also by a variety of other factors, such as the need for personalization and enhanced sustainability. Thus, products that provide functional benefits, such as helping to cool buildings or increase perceived light and space, will continue to be in higher demand.

### Maintenance, renovation and repair

This sub-segment is more important for our Decorative Paints Business Area than New build projects. We estimate that around 75 percent of our revenue comes from this sub-segment, with growth tending to be lower, but steadier and less cyclical. As is the case in New build projects, demand growth will be disproportionate for products that provide sustainability and other benefits.

In Europe, analysts are predicting a significant increase in growth rates going forward, similar to levels predicted in New build projects. Our internal estimates are substantially more conservative. In key high growth countries such as China, Brazil and India, we continue to see a slow switch from new build to maintenance. Growth rates going forward are expected to be very similar to new build growth rates.



### The market

According to figures recently published by Orr & Boss, in a report commissioned by the International Paints and Printing Inks Council (IPPIC), the global market for decorative paints is just under 45 percent of the roughly €100 billion global paints and coatings market. The decorative paints share of the market tends to be significantly higher in mature geographies than it is in high growth geographies. Over time, the decorative paints share of the global paints and coatings market has decreased somewhat due to the increased importance of high growth countries combined with European market issues.

### AkzoNobel market positions

Decorative Paints Europe

<b>1st</b>	<b>Europe</b>
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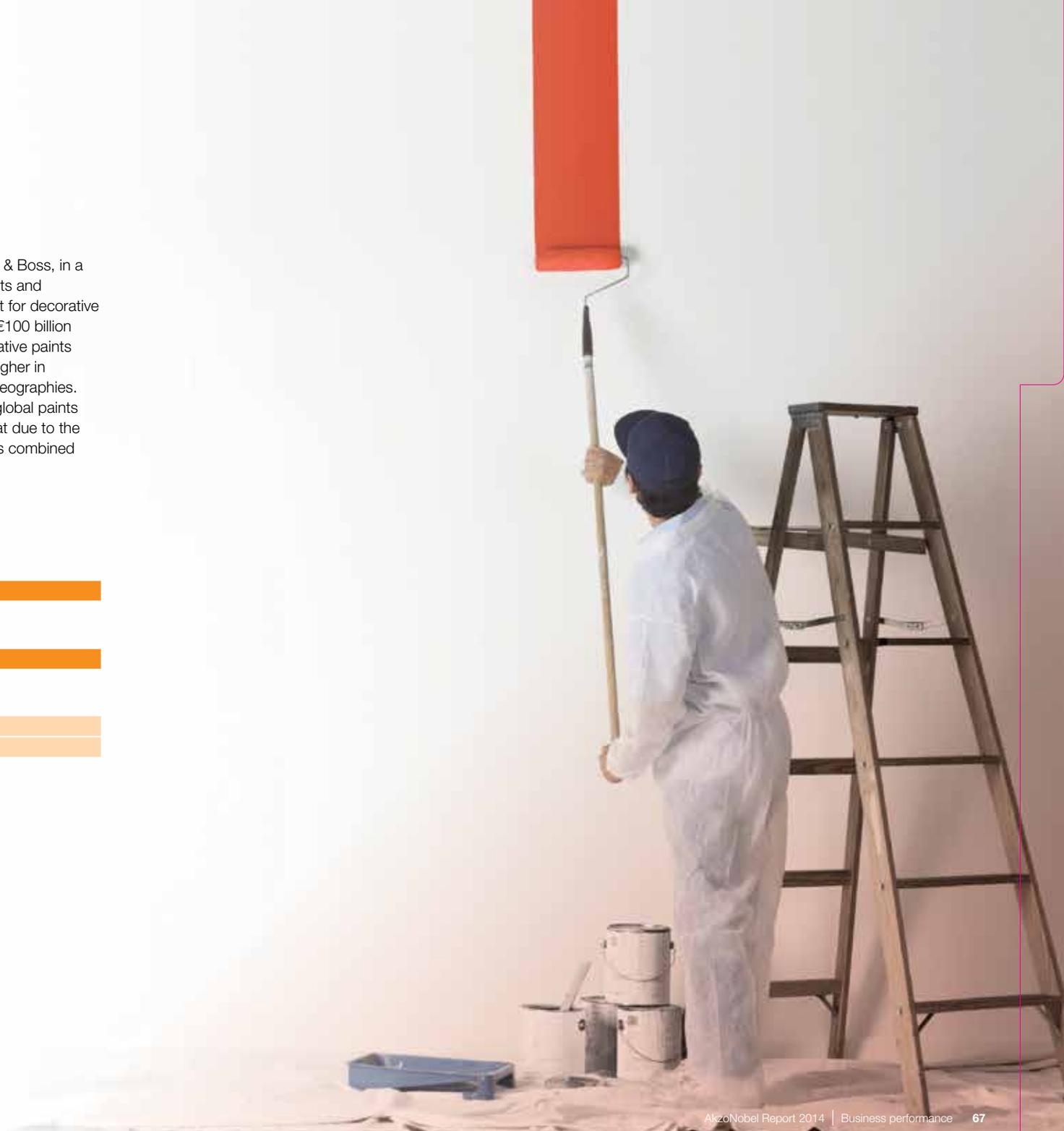
Decorative Paints Latin America

<b>1st</b>	<b>South America</b>
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Decorative Paints Asia

<b>2nd</b>	South East and South Asia
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<b>2nd</b>	China and North Asia
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# Decorative Paints value creation summary 2014

## Economic value: Organization

As a leading global supplier of decorative paints, our brands are crucial to our success. Our Decorative Paints activities are fully focused on the Buildings and Infrastructure end-user segment, serving the do-it-yourself market and professional painters. In order to create more economic, social and environmental value, our innovation is geared towards reducing our upstream and downstream supply chain impact by changing formulations to waterborne technology.

Many of our brands are household names and we work closely with local communities via a series of national and international initiatives, some of which involve volunteer support from our employees. This benefits the creation of more social value.

All these initiatives will contribute to our financial performance and ultimately lead to more economic value for our investors.

**€3.9 billion**  
revenue

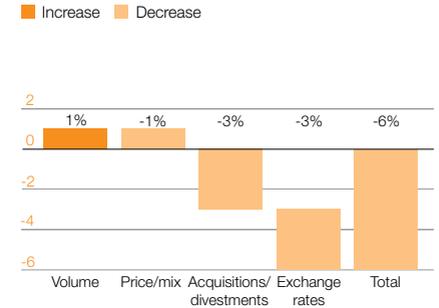
**€248 million**  
operating income

**€2.8 billion**  
invested capital

**€143 million**  
capital expenditures

In 2014, we invested in high growth markets and in creating efficiency in Europe through optimization of our production footprint

Revenue development in % versus 2013



## Environmental value: Input

**2.5 million tons**  
upstream CO<sub>2</sub>(e) emissions

**1,800 TJ**  
energy use

## Organization

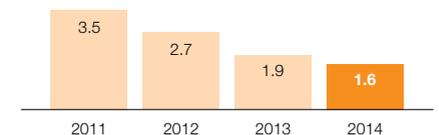
We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency

## Social value: Organization

Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents

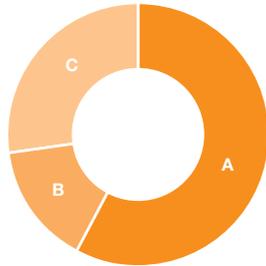
**1.6**  
total reportable rate of injuries

Total reportable rate of injuries per million hours



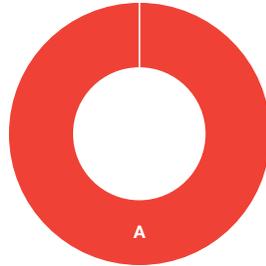
## Outcomes

Revenue breakdown by business unit  
in %



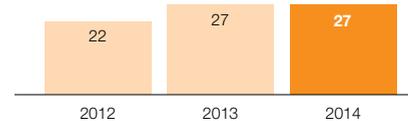
A	Decorative Paints Europe, Middle East and Africa	58
B	Decorative Paints Latin America	15
C	Decorative Paints Asia	27

Revenue breakdown by end-user segment  
in %



A	Buildings and Infrastructure	100
B	Transportation	0
C	Consumer Goods	0
D	Industrial	0

Eco-premium solutions with customer benefits  
% of revenue



▲ **6.3%** ROS

▲ **8.8%** ROI

■ **27%**  
of revenue from eco-premium solutions

RD&I investments have resulted in 27 percent of revenue derived from eco-premium solutions with customer benefits

## Outcomes

**0.1 million tons**  
CO<sub>2</sub>(e) emissions own operations

**1.3 million tons**  
downstream CO<sub>2</sub>(e) emissions

**3.9 million tons**  
CO<sub>2</sub>(e) emissions cradle-to-grave

▲ **0%**  
decrease CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

**35 kilotons**  
total waste

## Outcomes

**€704 million**  
employee benefits

**4.02**  
employee engagement score

We highly value, and actively work on improving, employee engagement. We're investing in training and development and continue to work on a more diverse workforce

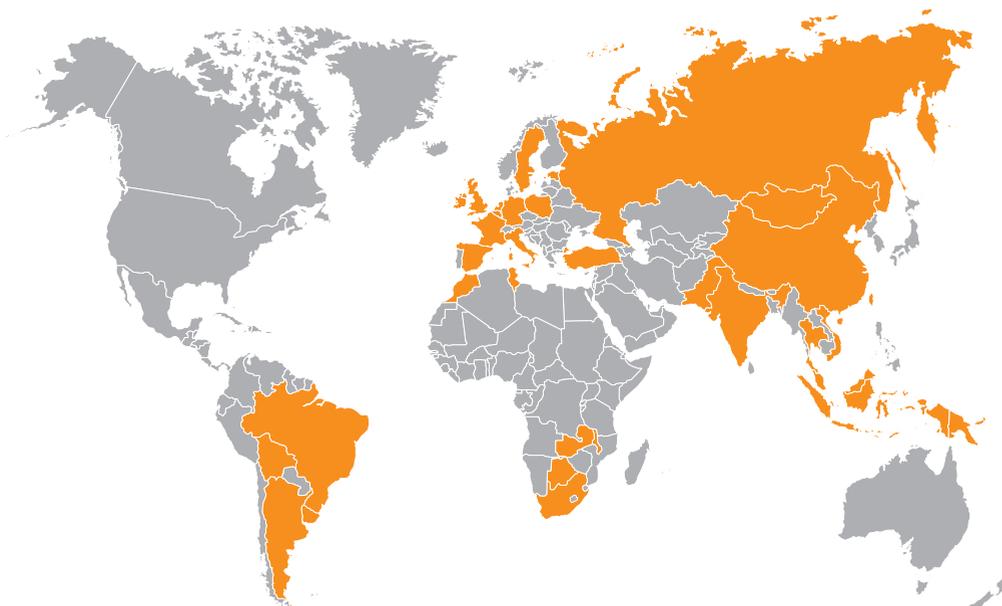
**15,200**  
employees at year-end 2014

**7 million**  
lives positively impacted by our "Let's Colour" program

**5,000**  
people trained as painters

We participate in community programs and local sponsorships

# Key business unit developments



## Decorative Paints Europe

- A mixed year, with Southern Europe experiencing some volume recovery, while volumes were lower in the North and West region (except for the Benelux region)
- Continued to be negatively impacted by the housing market slow down and euro crisis
- We changed our operating model in EMEA in order to drive leading performance and make us more agile, competitive and better positioned to achieve profitable growth
- The UK and Ireland invested in a complete rebrand of Dulux Trade and launched Armstead Trade – its first new brand in 20 years. In consumer, we invested in a new integrated Dulux marketing campaign: “Change Your Story”
- Consistent investment in our stores in France resulted in a market share increase for Sikkens and Trimetal in a very difficult market
- We started the roll out of the Sikkens 5051 color collection. Together with its service packages, it emphasizes the brand’s professional dedication to color
- There was also a highly successful launch of the Fit by Marshall mid-tier brand in Turkey, while the performance and protection sub-brand Expert was introduced in Benelux

### Some of our customers

- B&Q
- Bricomarche
- Leroy Merlin
- OBI

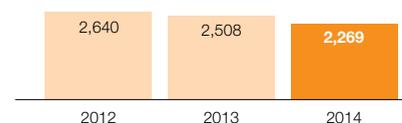
### Top raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

### Key cost drivers

- Oil price
- Energy prices
- Steel prices

Revenue in € millions



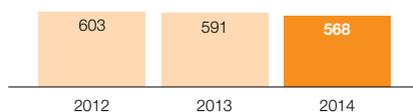
### Key brands



## Decorative Paints Latin America

- Despite macro-economic headwinds in the region, our performance was solid
- A new blockbuster proposition for exterior walls was successfully launched in Brazil. The new product, Coral Acrílico Total, reinforced Coral's position in the premium segment
- In Argentina, the Alba brand defied the crisis and achieved a record market performance and financial results
- We have staged 1,250 "Tudo de Cor" events ("Let's Colour") in Brazil to date, including a major event at the Santa Marta favela in Rio de Janeiro, which positively impacted thousands of people. "Tudo de Cor" is now also gaining traction in Argentina

Revenue in € millions



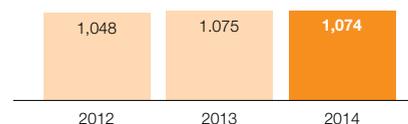
Key brands



## Decorative Paints Asia

- The region achieved solid growth this year. This was due in particular to good performances in China, Indonesia, India and Vietnam, as well as newly opening markets such as Bangladesh and Myanmar
- Dulux Weathershield Powerflexx was launched across South East Asia
- Dulux Superclean won Product of the Year in India. It features stain-beading technology which offers the key performance benefit of stain repellency
- Our Dulux websites were relaunched across the region – bringing a richer, inspirational experience to consumers – while the Dulux Easy Paint Service continued to grow in the redecoration market in China
- A new plant is being built in Chengdu, China. Due to open in 2016, full operation is expected by 2017

Revenue in € millions



Key brands



# Picture it before you paint it

When it comes to decorating your home, innovations in color aren't restricted to the actual paint you're using. They can play a key role before a drop has even touched the wall.

During 2014, our Decorative Paints business launched its free Visualizer app, which features the latest advances in augmented reality technology and enables users to see in real time what a room will look like in countless colors – before it's actually painted.

Already downloaded more than a million times, the award-winning Visualizer app has been launched in over 40 countries and is compatible with both Android and iOS devices. It allows people around the world to experiment with color and make their choices with confidence.

The core innovation behind the Visualizer is its Computer Vision technology, which enables the user to apply realistic virtual paint to their walls, in real-time, without affecting picture frames and other furniture. Marketed through our decorative paints brands (Dulux in the UK, Coral in Brazil and Sikkens in Italy, for example), it will continue to be rolled out over the coming months.

Expected to evolve into an essential interior design tool, the app was developed after talking to more than 5,000 customers, designers and painters. It gives people the freedom to express themselves through a more creative use of color and makes them more confident when it comes to selecting new paint schemes.

As well as demonstrating AkzoNobel's color expertise, the launch of the Visualizer also highlights the importance of focusing on customer needs and underlines our commitment to transforming lives through the power of color.

The app can be downloaded via the Apple store or Google Play. Search for Visualizer and the name of your local AkzoNobel paint brand.



Scan and explore

# Performance Coatings



**“It was a year of solid progress**  
towards becoming more cost effective  
and better positioned for organic growth”

**Conrad Keijzer** Member of the Executive Committee responsible for Performance Coatings

2015 expected outcomes

**ROS 12%    ROI 25%**



It was a year of driving performance improvement and we made good progress in implementing our strategy and reducing our cost base. Our focus on performance improvement and differentiated organic growth is showing results and we are on track to deliver on our 2015 operational objectives.

Overall, we experienced slightly improved market conditions during 2014 with variations across segments and regions. Asia and North America showed continued growth, while Europe remained soft and Latin America continued to be challenging.

During the year, we also created a new organization which is far more customer focused, agile and has clearer accountability. We re-engineered our four businesses and 12 sub-business units into a more simplified structure, made up of seven customer centric Strategic Market Units. This new organization came into effect on January 1, 2015.

Significant progress was made in implementing the footprint reductions announced in 2013, resulting in the closure of eight sites. There were also several business highlights during the course of the year, including the opening of three new production sites and the launch of sustainable innovations for customers in marine, packaging, vehicle refinishing and powder coatings.

In Marine and Protective Coatings, we introduced a unique methodology to reward the improved fuel efficiency of ships, together with The Gold Standard Foundation. We also launched the shipping industry's first digital tool enabling operators to accurately assess and predict the risk of hull fouling, depending on routes being traded. Meanwhile, Protective Coatings introduced a mobile maintenance and repair service designed to reduce costs and improve safety for our passive fire protection customers.

In Industrial Coatings, we completed an investment to double the annual production capacity at our packaging coatings site in Songjiang, China, and broke ground on a

new R&D facility at the same site. We also launched our pioneering EvCote Water Barrier 3000 coatings technology, which makes paper cold drinks cups fully compostable and recyclable.

In Automotive and Aerospace Coatings, we began operations at our new, state-of-the-art plant in Changzhou, China, and also introduced Sikkens Autoclear 2.0. This is a more sustainable clearcoat for vehicle refinishes which brings greater efficiency to bodyshop processes, while doubling the renewable raw material content. In addition, Honda Motor Europe extended its partnership with AkzoNobel, strengthening the company's position as one of the preferred suppliers to Honda's dealerships and approved bodyshops in Europe. Furthermore, we have signed an agreement with Daimler AG that makes us one of the approved suppliers of vehicle refinishes to Daimler dealerships and approved bodyshops worldwide.

In Powder Coatings, an important development was the start of operations at our new plant in Dubai. The facility will significantly increase capacity for customers of Interpon and Resicoat products in the region. We also launched a two-coat, one-bake powder coating system, as well as a bright metallic powder which provides a more sustainable and cost-effective alternative to chrome plating.

During 2014, we once again demonstrated our commitment to the company's core principles of safety, integrity and sustainability. Particularly noteworthy is our safety performance, which improved significantly, with the total rate of reportable injuries per million hours (TRR) falling to 1.8 from 2.8 in 2013.

As we move into 2015 with a new organization in place, we are well positioned to implement our strategy and deliver leading performance through operational excellence and differentiated organic growth.

# Performance Coatings strategy



Our vision is to be the leading coatings company from a performance perspective. Our expected outcomes for 2015 are to achieve a return on sales level of 12 percent and a return on investment of 25 percent. We are on track to deliver on these expectations, as evidenced by our 2014 financial results. In 2014, we introduced a simplified and leaner organizational structure. This new structure has reduced the number of global management layers, which in turn will enhance decision-making efficiency and improve our customer focus, while at the same time reducing costs. We also continue to progress in our three main action areas:

## Actions

### Drive overarching performance improvement initiatives

- Continuously reduce external spend. Procured raw materials make up a significant percentage of our Performance Coatings cost base, so appropriate management is fundamental. We have introduced a cross-business, cross-functional approach to maximize and capture opportunities created by common raw materials and suppliers
- Continuously improve our operations. Operations comprise a smaller percentage of our cost base, but there is still room for improvement. We continue to optimize our global manufacturing footprint to leverage our scale and respond to changes in geographic demand. During 2014, we closed eight sites, but at the same time commissioned a new vehicle refinishes plant in Changzhou, China, and a new powder coatings factory in Dubai. These state-of-the-art facilities will strengthen our ability to manufacture locally developed products, particularly for the fast-growing mid-markets. In the future, we are placing more emphasis on continuous operational improvement. In order to deliver this, we are in the process of implementing the standardized AkzoNobel Leading Performance System (ALPS). Safety, customer service, material efficiency and cost productivity are all key areas of focus for this program
- Drive commercial excellence. Our focus is on embedding common commercial processes to deliver both organic growth and commercial efficiency. To support this, we have a dedicated center of expertise which is driving consistency and best practice

### Pursue differentiated growth strategies

The outlook differs for each of our end-user segments. We also face different competitive situations. To achieve our vision, we must continue to grow our business while improving performance levels. Thus, we need to focus and prioritize our growth activities and we are doing this by pursuing differentiated growth strategies. In roughly half of our businesses, our strategy is to outgrow the market organically in attractive markets where we are best able to win. In other parts of our Performance Coatings portfolio – where our position is often strong but the headroom for growth more limited – we want to grow with the market while driving operational excellence and controlling costs.

Examples are:

- In Protective Coatings, we have a leadership position based on strong technologies, brands and reputation. We will continue to invest in generating higher levels of growth. We will also expand our market presence in high growth regions based on appropriate value propositions, such as second tier ranges, to compete in the domestic marketplace
- In the high growth information technology sector of our Specialty Finishes business, we are investing to support key original equipment manufacturers (OEMs) and original design manufacturers (ODMs) to grow our positions
- In Coil Coatings, we have a strong position and a good reputation in high performance architectural applications, and in innovations in chrome-free technologies and heat-reflective coatings. We are optimizing our footprint in Europe, reducing complexity in our formulations and pursuing opportunities to improve resin costs



- Our Yacht Coatings business is already well positioned. In this sector, we are leveraging the recently launched Nautical range aimed at the mid-tier, and reducing costs through manufacturing consolidation
- Our Wood Finishes and Adhesives business serves some parts of the Buildings and Infrastructure and Consumer Goods end-user segments which have a lower growth profile. We are focusing on the most profitable areas and brands and improving our supply chain to drive operational efficiency

#### Deliver business-specific plans

Continued success in Performance Coatings is fundamentally based on our ability to innovate in products and services. There are, of course, some areas of overlap in terms of innovation requirements across our businesses, such as the constant need for lower solvent or more waterborne solutions. For the most part, though, the focus for innovation differs by business. Therefore, the third key strategic activity area is based on investing in appropriate, specific innovation requirements for each of our businesses.

Examples are:

- Our Powder Coatings business offers a customer solution that is high yield and free of volatile organic compounds (VOCs), so sustainability is a major element of the value proposition. We also pursue improved finish effects, and in 2014, we took a significant step forward with the introduction of Interpon Cr, a bright metallic powder coating for furniture, lighting and other interior fixtures which provides a more sustainable and cost-effective alternative to chrome plating

- In our Vehicle Refinish business, color matching is everything. We continued to demonstrate leadership in this area through the 2014 launch of Color Universe – a new color documentation system which organizes color the way humans see it chromatically. Color Universe is an important addition to the array of tools that we provide to vehicle repair professionals to get color right the first time, every time
- In our Marine Coatings business, leadership in fouling control that supports our customers in reducing their fuel requirements is fundamental. We are very proud that in 2014, we received approval for carbon credits for our industry-leading Intersleek foul release coatings. In addition, we launched Intersmooth 7570 SPC, a high performance coastal fouling control solution for the severe fouling challenges of vessels trading in tropical coastal waters. This product contains patented copolymer technology, providing energy savings and an extended operating life
- Finally, in our Packaging Coatings business, we continue to commercially introduce and further innovate in terms of high performance packaging coatings that move away from the use of bisphenol A-based epoxies, addressing a key consumer and customer demand



# Performance Coatings end-user segment outlook

Our Performance Coatings Business Area serves all four end-user segments. Although there are relevant end-user segment trends that remain positive, we are taking a more cautious outlook than we have in the recent past. For example, we see continued evidence of moderating growth in all four end-user segments in China, with particular emphasis on Buildings and Infrastructure. The oil and gas segment has come under pressure due to lower oil prices, which has resulted in delays of new projects. Elsewhere, we have still not seen an upturn of the cycle in marine new building, and although analysts are predicting a recovery in Buildings and Infrastructure in Europe, evidence for this in practice is relatively weak.

## Transportation

Transportation is the largest end-user segment for Performance Coatings, with just over a third of our revenue. Around two-thirds of this revenue comes from our two automotive sub-segments – Automotive OEM, parts and assembly and Automotive repair. The growth outlook for the former is the most certain, particularly if oil prices remain low. The Automotive repair sub-segment is much more important for AkzoNobel and is expected to continue growing at stable rates, at or slightly below GDP growth levels. Growth rates will be higher in the high growth countries than the mature markets as the car park and rate of insurance coverage continue to grow.

The remaining revenue comes from the Marine and air transport sub-segment, into which we sell both marine and aerospace coatings. The long-term outlook for marine remains strong, as wealth and international trade continue to increase. However, in the shorter term, the marine new building market has yet to return to stable growth. While analysts expect this to happen in the near future, this has been the expectation for some time now, but we have still not seen significant concrete evidence of this. The maintenance market continues to grow at a moderate rate, but freight rates have still not recovered significantly, dampening demand for maintenance activities. The recent oil price developments may have a positive effect on this segment going forward, though. Aerospace is a much smaller market for AkzoNobel than marine, but we do expect continued reasonable growth.

Of course, demand in the Transportation end-user segment is dependant on sustainability as well as demand. Thus, products sold into the Transportation end-user segment that help in utilizing less energy and other resources will grow disproportionately.

## Consumer Goods

We sell powder coatings, wood finishes and adhesives and specialty finishes into the Consumer durables end-user sub-segment, as a part of furniture, domestic appliance and consumer electronics manufacture. We expect continued reasonable growth overall in the more technology-driven aspects of this sub-segment, such as in domestic appliances and mobile phones, but it is important to note that trends differ significantly by type of product. So, for example, in consumer electronics, double digit growth is expected in tablets and above global GDP growth is expected in smartphones and laptops.

In less technology-oriented parts of Consumer durables, such as furniture, global growth is expected to be at lower levels but reasonably steady, even though we have yet to see a full market recovery in furniture to pre-recession levels. Similar growth rates are expected in the other sub-segment, Consumer packaged goods, into which we sell packaging coatings for use in food and beverage packaging. In both cases, we expect growth slightly below regional GDP growth rates in both high growth and mature geographies.

The Consumer Goods end-user segment is particularly affected by growth in population and wealth, but also by other factors such as consumer trends and fads. Sustainability also plays a role as consumers around the world are increasingly concerned about this issue.

## Buildings and Infrastructure

As indicated in the Decorative Paints section of this Report 2014, the Buildings and Infrastructure end-user segment is undergoing considerable change. Growth rates are dropping considerably in China, while growth is expected to accelerate in more mature geographies, particularly Europe. Although analysts are expecting market recovery level growth rates in Europe, we are not yet seeing strong evidence of this in the market and, therefore, our internal predictions are much more conservative.

## Industrial

The Industrial end-user segment is the smallest for Performance Coatings. We sell protective and powder coatings for industrial uses, primarily in the Natural resource and energy industries sub-segment. With the recent oil price development, there are question marks around the growth outlook for the oil and gas end-user markets. However, in the short term, our business should not be significantly impacted as most of the projects that we sell into are long-term, multi-year projects that are likely to continue, even if oil prices remain lower than they have been.

## The market

According to figures recently published by Orr & Boss, in a report commissioned by the International Paints and Printing Inks Council (IPPIC), the global market for performance coatings is just over 55 percent of the roughly €100 billion global paints and coatings market. Growth over the past few years has been higher in performance coatings than it has been in decorative paints. This is due in part to disproportionate growth in high growth geographies, where the share of performance coatings is higher, and also to continued issues in terms of Buildings and Infrastructure growth, particularly in Europe.

## AkzoNobel market positions

### Marine and Protective Coatings

<b>1st</b>	<b>Protective coatings</b> <b>Yacht coatings</b>
<b>2nd</b>	Marine coatings

### Automotive and Aerospace Coatings

<b>1st</b>	<b>Specialty finishes</b>
<b>2nd</b>	Aerospace coatings
<b>3rd</b>	Vehicle refinsh

### Industrial Coatings

<b>1st</b>	<b>Coil coatings</b> <b>Wood finishes and adhesives</b>
<b>2nd</b>	Packaging coatings

### Powder Coatings

<b>1st</b>	<b>Powder coatings</b>
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# Performance Coatings value creation summary 2014

## Economic value: Organization

Our Performance Coatings businesses are focused on all four of our end-user segments. Supplying high performance products and cutting-edge technologies primarily to business-to-business customers, we are increasingly incorporating low energy processes and working to reduce our carbon footprint across the value chain. Innovation is also key to our product development, which is often highly technical in order to meet strict customer specifications.

Particular emphasis is placed on supplying products that offer environmental and social benefits for our customers. These initiatives will help us to create economic, social and environmental value. Social value is also increased by our continued focus on safety, as well as our talent development programs and our contribution to various community activities.

All these initiatives will contribute to our financial performance and ultimately lead to more economic value for our investors.

**€5.6 billion**  
revenue

**€545 million**  
operating income

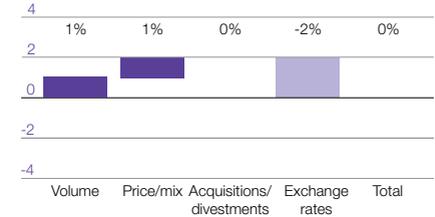
**€2.5 billion**  
invested capital

**€143 million**  
capital expenditures

During 2014, we completed the construction of two new production facilities which will increase our production capacity for vehicle refinishes in China and powder coatings in the Middle East

### Revenue development in % versus 2013

■ Increase ■ Decrease



## Environmental value: Input

**4.6 million tons**  
upstream CO<sub>2</sub>(e) emissions

**4,600 TJ**  
energy use

## Organization

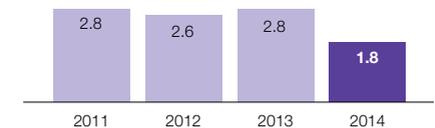
We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency

## Social value: Organization

Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents

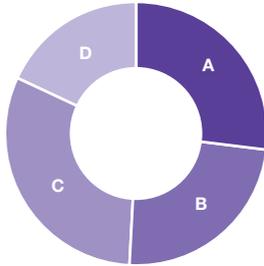
**1.8**  
total reportable rate of injuries

### Total reportable rate of injuries per million hours



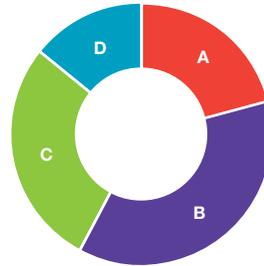
## Outcomes

Revenue breakdown by business unit  
in %



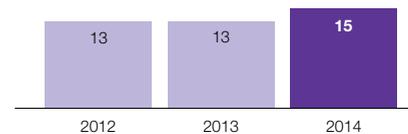
A Marine and Protective Coatings	27
B Automotive and Aerospace Coatings	24
C Industrial Coatings	31
D Powder Coatings	18

Revenue breakdown by end-user segment  
in %



A Buildings and Infrastructure	21
B Transportation	37
C Consumer Goods	28
D Industrial	14

Eco-premium solutions with customer benefits  
% of revenue



▲ **9.8%** ROS

▲ **22.0%** ROI

▲ **15%**  
of revenue from eco-premium solutions

RD&I investments have resulted in 15 percent of revenue derived from eco-premium solutions with customer benefits

## Outcomes

**0.3 million tons**  
CO<sub>2</sub>(e) emissions own operations

**8.7 million tons**  
downstream CO<sub>2</sub>(e) emissions

**13.6 million tons**  
CO<sub>2</sub>(e) emissions cradle-to-grave

▲ **2%**  
increase CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

**55 kilotons**  
total waste

## Outcomes

**€1.2 billion**  
employee benefits

**3.89**  
employee engagement score

**20,500**  
employees at year-end 2014

We participate in community programs and local sponsorships

We highly value, and actively work on improving, employee engagement. We're investing in training and development and continue to work on a more diverse workforce

# Key business unit developments

## Marine and Protective Coatings

- Revenue was up 2 percent due to higher volumes in all businesses
- Protective Coatings' strong project portfolio and outstanding technical support led to continued growth in the area of oil and gas and heavy duty coatings
- Marine Coatings increased its business in the deep sea maintenance and repair market, offsetting the global decline in new build
- We achieved significant sales for our next generation fouling control products and also received approval of carbon credits related to use of our Intersleek foul release coatings, providing a cash income for customers
- Our premier yacht coatings brand AWLGRIP launched a new clear coat system, Awlwood, for exterior wood above the waterline
- Our Nautical yacht coatings brand for do-it-yourself boat painters launched a new product range, including antifouling, finishes and primers
- Two plants were consolidated into other facilities

### Key brands



### Some of our customers

- Brunswick
- Carnival Cruise
- ExxonMobil
- Hapag Lloyd
- Hyundai Heavy Industries
- Qatar Gas
- Shell
- West Marine

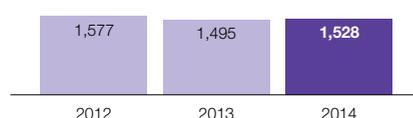
### Top raw materials

- Epoxy resins and organic solvents
- Copper/zinc
- Curing agents

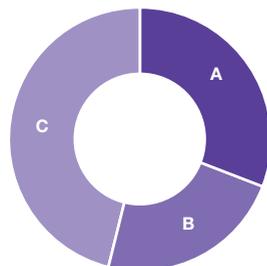
### Key cost drivers

- Oil feedstock chain
- Metals, base chemicals prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	31
B Americas	23
C Asia Pacific	46

## Automotive and Aerospace Coatings

- Revenue was flat compared to 2013, as declines in volume and adverse currencies were offset by price/mix
- Volumes in the vehicle refinishes market contracted in Europe, Latin America and South East Asia, while North America and China continued to grow
- A state-of-the-art production facility for vehicle refinishes was opened in Changzhou, China, for our Sikkens, Lesonal and Prime products
- Sikkens Autoclear 2.0 was launched in the vehicle refinish segment, featuring patented binder technology which doubles the percentage of renewable raw materials it uses
- Strong customer demand was experienced in aerospace markets, driven by continued innovation and technology leadership
- Our Aerospace coatings business received Boeing qualification for its Aerodur 3001/3002 Base Coat/Clear Coat system. We also received AMS 3095A qualification for 100 percent chrome-free paint systems for commercial fleet maintenance

### Key brands



### Some of our customers

- Airbus
- Amazon
- Boeing
- Dell
- Ethihad Airways
- Geely
- General Motors
- HP
- Hyundai
- Samsung
- Toyota
- Volkswagen

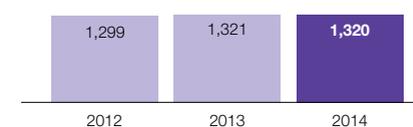
### Top raw materials

- Pigments
- Acrylic resins
- Acrylic dispersions

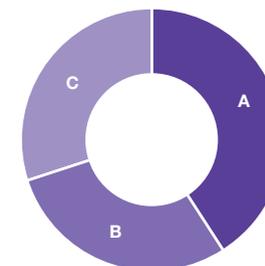
### Key cost drivers

- Metals, base chemicals prices
- Oil, energy prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	41
B Americas	29
C Asia Pacific	30

## Industrial Coatings

- Revenue declined 3 percent, due to adverse currencies
- Operating costs declined across all businesses due to restructuring and cost control measures
- We continued to achieve growth in our high growth markets, with Coil Coatings and Packaging Coatings benefiting in Asia in particular
- Capacity for Packaging Coatings was added in India, as well as a new resin reactor in Songjiang, China, where we also established a new Industrial Coatings RD&I center
- We were the first to introduce an ultra-low formaldehyde emitting adhesive for the parquet flooring market in Europe
- We have commercial success and are well positioned for the continued BPA-free conversion occurring in France
- Streamlining of our Coil Coatings manufacturing footprint in Europe is nearly completed
- In Wood Coatings, we are moving capacity to sites in High Point, Roanoke and Port Hope
- We moved our Coil and Wood Coatings capacity in Brazil to a multi-site in Santo Andre

### Key brands



### Some of our customers

- Arcelor Mittal
- Ball
- Blue Scope Steel
- Crown
- IKEA
- Rexam
- TATA

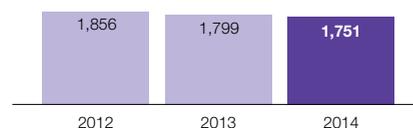
### Top raw materials

- Polyester and epoxy resins
- Glycol, ether and aromatic solvents
- Titanium dioxide

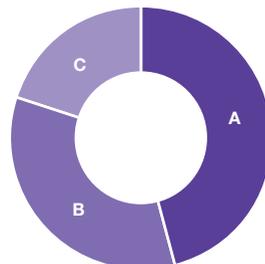
### Key cost drivers

- Basic feedstock prices
- Oil/gasoline/naphtha/natural gas prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	46
B Americas	34
C Asia Pacific	20

## Powder Coatings

- Revenue increased 4 percent compared with 2013, with volume and price/mix increases offsetting adverse currencies
- Volume growth occurred in Europe, North America and Asia, resulting in a strong year for the business
- We improved our leading positions across a wide range of segments, with a particular focus on automotive, resulting in improved volumes and revenues
- A new powder coatings manufacturing facility was inaugurated in Dubai to capture growing demand in the Middle East
- Production in South East Asia was consolidated at the Powder Coatings site in Vietnam
- We launched a bright metallic powder coating, Interpon Cr, for furniture, lighting and other interior fixtures, which provides a more sustainable and cost-effective alternative to chrome plating
- We launched an innovative two-coat, one-bake powder coating system (Interpon Align) which offers customers significant productivity and energy efficiency improvements
- We also opened a new European Powder Technical Center in Como, Italy

### Key brands



### Some of our customers

- Bosch
- Mercedes-Benz
- Philips
- TATA
- Whirlpool

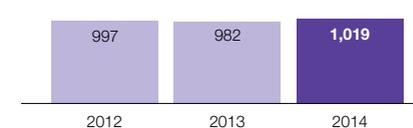
### Top raw materials

- Polyester and epoxy resins
- Titanium dioxide

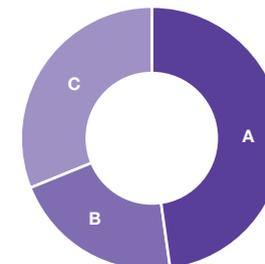
### Key cost drivers

- Gasoline/naphtha prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	48
B Americas	21
C Asia Pacific	31

# Changing the world with pioneering technology

Cutting back on waste and doing more with less resources is a major area of attention for many companies. This need to become more sustainable has prompted an upsurge in innovation, due to the fact that devising creative solutions can be the best way to rise to the challenge. Quite often, it can also be the simplest ideas that have the biggest impact.

Take the cold drinks paper cup, for example. Around 200 billion are used around the world every year, although currently, none can be recycled without incurring prohibitive costs or greatly reducing the quality of the paper fiber. In 2014, our Performance Coatings business introduced pioneering coatings technology which could have an industry-changing impact.

The breakthrough was achieved thanks to EvCote WaterBarrier 3000. When applied to paperboard used for the production of cold cup stock, it makes the world's first fully compostable and recyclable cold paper cup a reality. In addition, paper mills and cup makers can potentially recapture 100 percent of the paper waste from the production process currently sent to landfill – resulting in major cost savings.

What makes EvCote WaterBarrier 3000 remarkable is that it contains up to 95 percent sustainable or renewable content and is made from plant-based oils and recycled PET bottles. The PET is “digested” into the resulting polyester resin, which means the PET in the final product is weakened and breaks up faster when composted or sent for recycling. When paper coated with the product is recycled, the quality of the paper fiber remains intact – which means it can be reused in the production of other, high quality paper products, such as new food contact packaging.

A great example of AkzoNobel's Planet Possible approach to sustainability, the new technology also provides our Paper Coatings business with options to completely disconnect from the fossil-based supply chain, because it can offer customers a replacement for petroleum-based polyethylene films.



# 200 billion

The world uses 200 billion paper cups every year



# 100%

Recapture of paper currently sent to landfill

Our pioneering coatings technology makes this a fully compostable, recyclable cold drinks cup



Scan and explore



# Specialty Chemicals



**“We are swiftly responding  
to changing trends in the chemical industry”**

**Werner Fuhrmann** Member of the Executive Committee responsible for Specialty Chemicals

2015 expected outcomes

**ROS 12%    ROI 15%**



It was a year of recovery for Specialty Chemicals, driven by our strategic focus on five main chemical platforms. As well as nearing our 2015 return on investment expectation of 15 percent, we also made significant progress with regard to our return on sales expectation of 12 percent in 2015.

There was a certain amount of optimism within the industry as the year began, with some recovery compared to a much weaker 2013. But currency headwinds continued to impact the first half of the year, while the overall macro-economic climate worsened in the second quarter. Despite these challenging conditions, our own financial results improved during the year, mainly due to productivity improvement measures and lower restructuring costs.

This commitment to continuous improvement was constant during the year, together with a focus on operational excellence and organic growth. We also continued to prune our portfolio. This included the intended sale of our global Paper Chemicals business to Kemira (expected to close in 2015), and the €5 million divestment of our 50 percent share in the non-consolidated joint venture Eka Synthomer Oy, to Synthomer.

Although we continued to strengthen our manufacturing footprint in high growth economies, particularly in Brazil and China, our capital expenditure came down compared to previous years. When combined with operating working capital of around 12 percent of sales, this led to a solid cash flow and added further resilience to the business.

A key area of attention was the restructuring of our Functional Chemicals activities. This is in line with our strategy to focus on five main chemical platforms. We have therefore established an Ethylene and Sulfur Derivatives business, based in China, and a Polymer Chemistry business, which is based in the US. Relocating the headquarters of both businesses is designed to bring us closer to the market dynamics currently taking place. With regard to Functional Chemicals in 2014, chelates and micronutrients and sulfur derivatives were strong contributors, while ethylene amines

and performance additives endured a more challenging year. There were several important developments at Pulp and Performance Chemicals, notably the announcement of the divestment of Paper Chemicals. We also brought another Chemical Island, Imperatriz, on stream in Brazil. As well as further improving our geo-spread for bleaching chemicals, this also enabled us to continue growing our colloidal silica and Expancel activities in high added value segments. In Surface Chemistry, we made good progress in expanding our position in the agricultural segment and posted a strong performance in Europe and the Americas. At Industrial Chemicals, price pressure on caustic was visible throughout the year and our chlor-alkali business remained somewhat flat, while salt was a strong contributor. In the fourth quarter, Industrial Chemicals was impacted by production and supply chain interruptions, which in turn curtailed olefin supply to our customers and limited their chlorine demand.

Other key highlights included the commissioning of our Frankfurt chlor-alkali plant in Germany – which was converted from mercury to state-of-the-art membrane technology – and the start of a study with Evonik to jointly convert Industrial Chemicals' last mercury-based plant, located in Ibbenbüren. This is expected to help us improve our carbon footprint performance in the coming years, which increased in 2014. In addition, we advanced our investment program in China to build our global market position in surfactants, while a new organic peroxide plant is being built in Ningbo. The year was also notable for the signing of several partnerships aimed at helping us to identify viable alternatives for increasingly scarce raw materials. This will help drive the development of more eco-premium solutions with customer benefits, which increased to 17 percent during 2014.

Safety remained high on the agenda, although with a TRR of 2.4, Specialty Chemicals fell short of the 2015 company target of 2.0. Measures are therefore ongoing to bring the improvements we want to achieve. We did make significant progress in the area of process safety and are about to put a standardized system in place at company level, which is particularly relevant for Specialty Chemicals.

# Specialty Chemicals strategy



Our vision is to deliver leading performance based on our five main chemical platforms by driving profitable growth in selected markets. Our expected outcomes for 2015 are to achieve a return on sales level of 12 percent and a return on investment of 15 percent. We came close to meeting our 2015 return on investment expectations in 2014 and are on track to meet both expected outcomes. We are also making progress on our five main action areas:

## Actions

### Build on our strong chemical platforms

Given the asset intensity of our business, we have to carefully prioritize our capital allocation against the most promising growth opportunities. We have identified two strategic approaches – outgrow the market organically and improve performance through enhanced operational excellence.

#### Outgrow the market organically

In our surfactants and bleaching chemicals platforms, the end-user segment outlook is robust, the market is attractive and our competitive position is strong. We are investing to outgrow the market.

- Surfactants are used in many different applications and some of these have above GDP growth due to high end-user segment growth. Given our strength in more specialized surfactants – and the sustainability of these chemicals due to the use of renewable raw materials – we are investing in growth in this platform by developing and/or marketing segment-specific solutions, supported by appropriate key account management and other commercial excellence programs. Because our surfactants are centered on a few key technology platforms, we can effectively and efficiently leverage our production capacity for use across all segments as we focus for growth
- Our bleaching chemicals platform is expected to benefit from continued growth in chemically bleached pulp in South America, where we have a strong competitive position. Our recent investments have been in plants located on-site with our customers, including the Imperatriz Chemical Island facility in Brazil, which was commissioned in 2014. Both the cost and sustainability positions of these Chemical Islands are very favorable, with volume in our South American business growing substantially

### Improve performance through enhanced operational excellence

In our other three platforms, our focus is on growing with the market and operational excellence.

- Polymer chemistry. Given our strong share in this market, we will continue to grow in line with demand growth. Our strategy is to maintain our position in core applications and invest in organic growth in specific niches, for example application innovation, and in high purity metal organics (HPMO) for light-emitting diode (LED) lighting and solar panels
- Salt-chlorine chain. We have a strong and attractive position in North West Europe in salt and chlor-alkali products, and we have just completed the conversion to membrane electrolysis at our Frankfurt site. Our focus going forward will primarily be on efficient capital expenditure, successful plant utilization and operational excellence
- Ethylene oxide network. We successfully completed a significant investment in new production facilities in Ningbo, China, and now need to fully utilize our existing capacity to further improve our performance levels. We will invest in growth only in specific applications, such as chelate and cellulosic products

### Drive functional excellence

In order to achieve our return on sales expectations, we need to improve our levels of commercial and supply chain performance. We are, therefore, in the process of building a stronger organization in the key areas of integrated supply chain and commercial excellence, as well as leveraging the AkzoNobel Talent management process.

- Integrated supply chain. Building on the productivity improvement initiatives of recent years, we are now in the process of implementing the AkzoNobel Leading Performance System (ALPS). This company-wide framework of standard processes and tools will help us to drive targeted improvements in cost productivity, resource consumption and customer satisfaction. In addition, we systematically apply Lean and Six Sigma as the main methodology to anchor continuous improvement throughout the organization
- Commercial excellence. Our major focus areas are enhanced customer satisfaction, organic growth, embedding margin management and increasing salesforce productivity. With regard to customer satisfaction, we now have a common customer feedback process in place which is yielding tangible results. A mixture of increased rigor and focus on opportunity funnel management and key account approaches is supporting the businesses with their organic growth plans
- Talent management. In 2014, we redesigned our organizational structure to create a flatter organization, which allows us to work more efficiently and reduce costs while we improve the levels of professionalism in our functions. Beyond reorganization, we make sure that our employee base has the right spread by increasing our presence in higher growth regions, improving diversity and building a pool of global leaders

### Reduce organizational complexity and cost

In early 2015, we adjusted our organization in line with our five chemical platforms. A particular area of change is in the integrated supply chain, where we are now consolidating our activities at business unit level to drive productivity via continuous improvement processes. In addition, Commercial Excellence and Innovation functions were introduced at business unit level to help drive organic growth.

We are also continuing to prune our product portfolio and divest non-core businesses where we are unable to achieve leading performance levels, such as our Paper Chemicals business, which is scheduled to be divested in 2015. At a more operational level, standardized work processes and a greater cost focus are also contributing to performance improvement.

### Commercialize product innovation and deliver process innovation

We continue to make improvements to our product portfolio to deliver better solutions for our customers, particularly in more growth-oriented businesses. For example, in our surfactants platform, we introduced three new products for agrochemicals in 2014. These products help to increase crop yields and reduce pesticide and herbicide usage per unit of production. We also launched a product which improves productivity of low-permeable hydrocarbon reservoirs. It reduces eco-toxicity levels and enhances fracking control at elevated well temperatures.

In addition to product-based innovation, process-based innovation is also essential in Specialty Chemicals. A particular area of focus is in creating more value from fewer resources as part of our Planet Possible sustainability agenda. For instance, in one of our chlorine plants in Germany, through sophisticated mathematical modelling and subsequent smart engineering, we were able to significantly reduce steam requirement and waste by improving yield, thereby reducing costs and carbon emissions.

### Capitalize on industry changes

We continue to adjust our strategy, organization structure and manufacturing footprint to respond to and address end-user segment and market trends. These trends include:

- The growth of the Chinese market in chemicals, which we are continuing to respond to through the construction of local production capacity and growth in our local sales organizations
- The growth trend in Brazilian pulp, which we are responding to by constructing closed loop, highly sustainable, local production capacity
- North American market growth, due in part to shale gas. We are taking advantage where possible by upgrading our production capacity in North America, where relevant

An additional area of focus for the Business Area is on renewable energy and bio-based raw materials. Our renewable energy supply strategy has three focus areas – protecting our current renewable share, participating in cost-effective, large energy ventures and exploring commercially feasible on-site renewable energy generation. We are actively positioning ourselves for competitive, biomass-based steam production, particularly in the Netherlands, enabling us to further diversify the current gas-based parts of our portfolio. We have also been very active with regard to bio-based feedstocks. For example, during 2014, we signed agreements to produce algae-based materials and explore waste and sugar beet as a chemicals feedstock.

# Specialty Chemicals end-user segment outlook

Specialty Chemicals serves all four of our end-user segments, with the products we supply being used in millions of everyday products. Growth is moderate in many parts of these end-user segments and there is uncertainty about the outlook for the oil price.

## Industrial

Accounting for nearly 60 percent of Specialty Chemicals revenues, the Industrial end-user segment is by far the largest for the Business Area. It is served by all five of our chemical platforms. In the Natural resource and energy industries sub-segment, we derive significant revenue from the sale of surfactants and ethylene-derived products into the oil and gas, metals and mining, and agricultural industries. In the Process industries sub-segment, we derive significant revenue from the sale of bleaching chemicals into the pulp industry, in addition to sales of salt, chlor-alkali products, organic peroxides, metal alkyls and ethylene-based products into the plastics (polymer) industry, as well as other chemical industries.

The growth outlook for both end-user sub-segments is varied. It is roughly equivalent to GDP growth in most markets and geographies.

- Growth in Asia is expected to be more moderate going forward than it has been
- Growth in North America is still expected to be above GDP growth in chemicals and other industries affected by growth in shale gas
- In South America, growth is particularly high in chemically bleached pulp

From an industry perspective, unlike most recent years, the outlook for oil and gas is uncertain. Most analysts predict an oil price rebound, although it is unclear whether and when this will occur. If the oil price remains low, there is also uncertainty about what the impact will be on key industries for AkzoNobel. Within metals and mining, the overall view currently appears to be one of apprehension, with improvement anticipated within five years. In agriculture, demand for agricultural products is expected to remain firm, although expanding at slower rates compared with the past decade.

## Buildings and Infrastructure

Our main involvement in the Buildings and Infrastructure end-user segment is through the salt-chlorine and polymer chemistry platforms. We produce salt, chlor-alkali products, organic peroxides, metal alkyls and various other products that are used in the manufacture of plastics that are, in turn, used to make doors, windows and other construction components. We also make products that are used more directly in the Buildings and Infrastructure industry, such as cellulosic products used in paints and redispersible polymer powders used in concrete admixtures. In addition, we are a leading supplier of high purity metal organic (HPMO) precursors – an essential ingredient for light-emitting diode (LED) chips used for smart and efficient lighting, as described later in this section. Products such as these that have sustainability benefits are expected to grow disproportionately.

Growth has been limited in Europe since the recession. Analysts are forecasting a strong recovery over the next few years. If this recovery occurs, it will clearly be important for our business given the percentage of our revenue that comes from Europe. However, we have seen limited evidence of a significant increase in demand and, therefore, our internal growth forecasts are more conservative. The other platforms are driven by the global outlook for more moderate growth than we have seen in the recent past, particularly in China.



## Consumer Goods

We sell a wide variety of surfactants and ethylene-based products into the Consumer packaged goods sub-segment, for applications such as cleaning, cleansing, conditioning and dishwashing. The expected growth in demand continues to be at or slightly above GDP growth levels in mature geographies. The personal care market outlook is also reasonable, driven by global increased demand and penetration in high growth countries.

We also sell consumer/domestic salt into the Consumer packaged goods sub-segment. For salt products, these sales are in Europe, where demand growth is low and healthy eating emphasis is high. The outlook for this part of the market is less positive, although reduced sodium intake does offer growth opportunities for our low sodium salt products.

## Transportation

Transportation is the smallest end-user segment for Specialty Chemicals. We sell a wide variety of products that are generally used in the manufacture of automotive plastics (polymers), mostly via our salt-chlorine and polymer chemistry platforms.

Over the last few years, these businesses have already benefited from market recovery after the recession and are now growing fairly steadily at roughly GDP growth rates. The trend towards lighter weight and less expensive cars disproportionately benefits our business, as this supports the use of automotive plastics.

## The market

The global chemicals industry is very large (more than €2.5 trillion globally) and diverse. China has become the global leader in terms of chemical production. Market development is also disproportionately strong in the Middle East (due to access to low cost raw materials) and in the US (due to shale gas). Europe continues to post record trade surpluses in chemicals in all major regions and we expect this to continue, particularly in the chemical sectors relevant to AkzoNobel. Growth rates in Europe are expected to be substantially lower than in other regions, though, due to a combination of limited local demand growth (as described in the end-user segment analysis above) and a higher local raw material and energy cost base.

## AkzoNobel market positions

### Functional Chemicals

1st	Chelates and micronutrients
	Organic peroxides

### Industrial Chemicals

1st	Chlorine merchant (Europe)
	Monochloroacetic acid (MCA)

### Pulp and Performance Chemicals

1st	Bleaching chemicals
	Colloidal silica dispersions

### Surface Chemistry

1st	Industrial applications
	Agricultural applications

# Specialty Chemicals value creation summary 2014

## Economic value: Organization

We are a major producer of specialty chemicals, supplying key products to business-to-business customers in all four of our end-user segments. We utilize inherently high energy processes and focus strongly on reducing carbon footprint and energy use, while saving costs in our own operations.

Developing close relationships with our customers – and helping them to create value – is key to our ongoing success, along with efficient processes, an increased focus on eco-premium solutions and renewable energy and a high level of innovation. These initiatives will create economic, social and environmental value. Social value is increased by our continued focus on safety, as well as our talent development programs and our contribution to various community activities.

All these initiatives will contribute to our financial performance and ultimately lead to more economic value for our investors.

**€4.9 billion**  
revenue

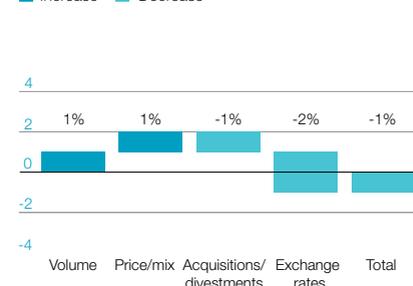
**€508 million**  
operating income

**€3.4 billion**  
invested capital

**€297 million**  
capital expenditures

During 2014, we have been focusing on the Frankfurt, Germany, project to convert to membrane electrolysis technology. Several asset integrity improvement projects and growth projects for specific segments were also high on the agenda

Revenue development in % versus 2013



## Environmental value: Input

**3.6 million tons**  
upstream CO<sub>2</sub>(e) emissions

**92,000 TJ**  
energy use

## Organization

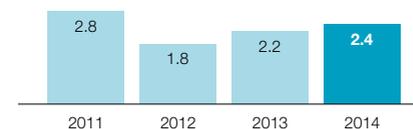
We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency

## Social value: Organization

Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents

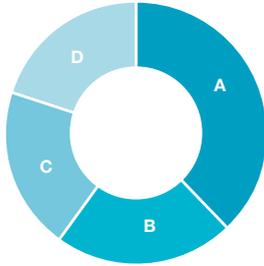
**2.4**  
total reportable rate of injuries

Total reportable rate of injuries per million hours



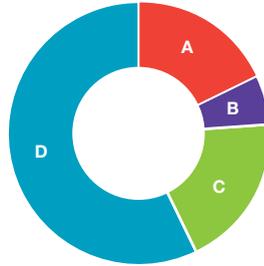
## Outcomes

Revenue breakdown by business unit  
in %



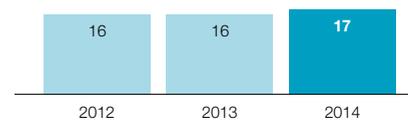
A Functional Chemicals	38
B Industrial Chemicals	22
C Pulp and Performance Chemicals	20
D Surface Chemistry	20

Revenue breakdown by end-user segment  
in %



A Buildings and Infrastructure	18
B Transportation	6
C Consumer Goods	19
D Industrial	57

Eco-premium solutions with  
customer benefits  
% of revenue



▲ **10.4% ROS**

▲ **14.8% ROI**

▲ **17%**  
of revenue from eco-premium solutions

RD&I investments have resulted in 17 percent of revenue derived from eco-premium solutions with customer benefits

## Outcomes

**3.6 million tons**  
CO<sub>2</sub>(e) emissions own operations

**2.2 million tons**  
downstream CO<sub>2</sub>(e) emissions

**9.4 million tons**  
CO<sub>2</sub>(e) emissions cradle-to-grave

▲ **2%**  
increase CO<sub>2</sub>(e) per ton of sales from 2012  
cradle-to-grave carbon footprint

**59 kilotons**  
total waste

## Outcomes

**€758 million**  
employee benefits

**4.06**  
employee engagement score

**9,800**  
employees at year-end 2014

We participate in community programs  
and local sponsorships

We highly value, and actively work on improving, employee engagement. We're investing in training and development and continue to work on a more diverse workforce

# Key business unit developments

## Functional Chemicals

- Revenue growth was driven by strong market positions and use of existing assets, despite challenging market circumstances, mainly in Europe. Trading conditions in Asia and the Americas were more positive
- Significant financial improvements were delivered through dedicated efforts to improve both fixed and variable cost positions. Increased production levels at our Ningbo multi-site in China supported production for the Ethylene Amines, Organic Peroxides, Performance Additives and Chelates and Micronutrients businesses
- We modernized and are expanding our Organic Peroxides facility in Mons, Belgium
- We successfully commercialized our StimWell product range for oilfield and gas industries
- In Mexico, investment in our Los Reyes site is helping PVC producers to improve safety and product quality through patented continuous initiator dosing (CiD) technology
- In line with the strategic focus on five main chemical platforms, we restructured Functional Chemicals into an Ethylene and Sulfur Derivatives business (China), and a Polymer Chemistry business (US), effective January 1, 2015

### Key brands



### Chemical platform

Polymer chemistry and Ethylene oxide network

### Some of our customers

- Air Products (EA)
- Fenzi (SD)
- FMC Corporation (performance additives)
- Formosa (OP/OMS)
- Henkel (SD, PA, EA, chelates)
- Proctor and Gamble (P&G) (salt)
- Sabic (OP)
- Yara (chelates)

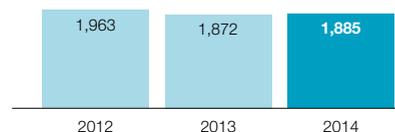
### Top raw materials

- Ethylene
- Acid chlorides, Chloroformates
- Polymer emulsions
- Ammonia, HCN
- Sulfur

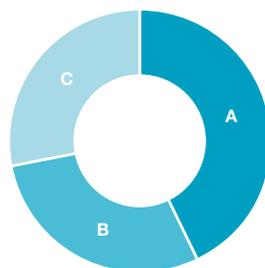
### Key cost drivers

- Ethylene
- Energy
- Sulfur
- Salt

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	43
B Americas	29
C Asia Pacific	28

## Industrial Chemicals

- Revenue was 5 percent below 2013 due to lower prices and volumes, reflecting the tough economic conditions in our main markets in Europe
- Chlor-alkali was heavily impacted by a drop in caustic lye prices
- We started a joint investigation with Evonik into converting our Ibbenbüren site in Germany to membrane technology
- Salt continued its solid performance, benefiting from clear technology and market leadership positions
- MCA delivered to expectations, making use of the expanded Taixing plant in China. To further strengthen our leading position globally and in China, a pre-project was launched to establish a second MCA plant in north east China, with a capacity of 50 kilotons
- Ecosol AsphaltProtection – an additive for de-icing salt which reduces development of frost damage to roads and makes driving safer – was launched commercially
- Major effort was also put into reducing the use of natural resources and improving the carbon footprint

### Key brands



### Chemical platform

Salt-chlorine chain

### Some of our customers

- Bayer
- Huntsman
- Shin-Etsu

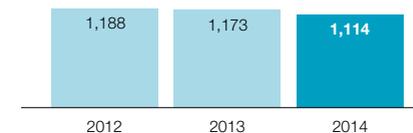
### Top raw materials

- Fuels (for cogeneration)
- Power
- Acetic acid

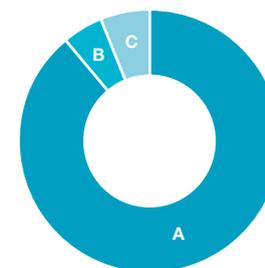
### Key cost drivers

- Oil, gas and coal prices
- Methanol prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	89
B Americas	5
C Asia Pacific	6

## Pulp and Performance Chemicals

- Due to divestments, overall volumes were lower than in 2013. However, on a comparable basis, core product lines reported growing or stable volume development
- Volumes in the South American bleaching chemicals business grew substantially following the inauguration of the Imperatriz Chemical Island in northern Brazil. Europe and Asia reported solid regional performance, while North American volumes were on a par with the previous year
- Expancel, our expandable microspheres business, put in a solid performance, with significant revenue growth
- The Colloidal Silica business continued to grow in key segments
- We expect to close the divestment of Paper Chemicals to Kemira in 2015
- Our 50 percent stake in the Eka Synthomer Oy joint venture was sold to joint venture partner Synthomer

### Key brands



### Chemical platform

Bleaching chemicals

### Some of our customers

- APP
- BillerudKorsnäs
- Domtar
- Fibria
- Georgia Pacific
- International Paper
- SCA
- Smurfit Kappa
- Stora Enso
- Suzano

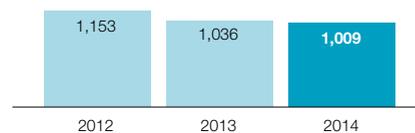
### Top raw materials

- Energy
- Salt
- Sodium silicate
- Wax
- Rosin

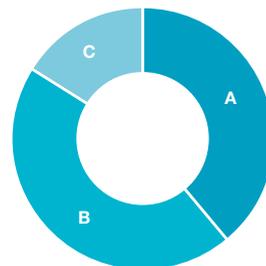
### Key cost drivers

- Energy prices
- Logistic costs

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	39
B Americas	45
C Asia Pacific	16

## Surface Chemistry

- We saw positive growth momentum in key market segments such as agrochemicals, lubricants, fuels and organoclays and had a stronger second half in the business overall
- We redesigned our organizational structure to deliver a “market-in” culture, mainly in Marketing and Sales, RD&I and Supply Chain functions. This resulted in improvements in service levels to customers and increased capacity at key sites
- A number of new adjuvants for crop protection were introduced
- We launched Armovis Complete, a viscoelastic surfactant (VES) for oil and gas well completion fluid
- We introduced new polymer additives for hair styling product formulations such as Balance RCF and Biostyle XH
- A global partnership with Nukamel was formed to supply nutritional emulsifiers that improve fat digestibility and feed efficiency for young animals

### Key brands



### Chemical platform

Surfactants

### Some of our customers

- Baker Hughes
- BYK Additives
- Lubrizol
- Monsanto
- Potash Corporation of Saskatchewan
- Procter & Gamble

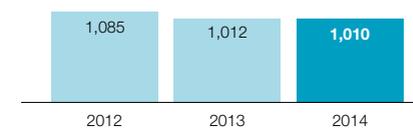
### Top raw materials

- Animal fats
- Vegetable oils
- Starch (corn, potato, tapioca)

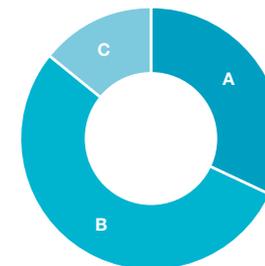
### Key cost drivers

- Biofuels, food prices
- Ethylene prices
- Propylene prices
- Oil and gas prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	32
B Americas	54
C Asia Pacific	14

# Inspiring innovation through partnerships

Given the growing concerns over raw material and energy scarcity – which are being amplified by the increasing impact of urbanization – the need to innovate and develop less traditional solutions is becoming ever more important.

An effective way of accelerating the development of more sustainable technologies is to form partnerships designed to explore these alternative routes to resource efficiency. This exchange of knowledge and sharing of expertise not only establishes important relationships, but can often produce highly beneficial results.

During 2014, AkzoNobel entered into several strategic partnerships, all focused on replacing non-renewable raw materials, and which could potentially have major environmental benefits. One of the most recent initiatives involves investigating the possibility of producing chemicals from beet-derived sugar feedstock. Working with several partners, the aim is to develop a viability study which will look at developing business cases for commercial production in the Delfzijl chemical cluster in the Netherlands.

We're also part of a major Dutch consortium exploring the use of waste streams as a feedstock for chemical production. A number of industry and semi-governmental partners are looking to benefit from Canadian company Enerkem's ongoing research into developing technology that converts waste into synthesis gas – a common starting material for products such as methanol and ammonia.

Another important development saw us expand our agreement with Solazyme Inc. to target an annual supply of up to 10,000 tons of renewable tailored algae-based oils – which would replace both petroleum and palm oil-derived chemicals. We're also working with cleantech company Photanol to develop a process for harnessing the power of the sun to make chemicals. The aim is to produce "green" chemical building blocks that will eventually replace raw materials we currently obtain from fossil-based production, supporting our Planet Possible agenda of radical resource efficiency.





Scan and explore



## Function and form

Buildings around the world use our market-leading coatings and chemicals technology on a wide range of surfaces, including roofs. We supply products that protect against corrosion, fire, weathering and include functionality such as solar reflection.

# 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 Supervisory Board and provide detailed overviews of their activities during 2014.

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# Our Board of Management and Executive Committee



**Conrad Keijzer**  
**Member of the Executive Committee responsible for Performance Coatings**  
(1968, Dutch)

Conrad Keijzer joined AkzoNobel in 1994 as Market Development Manager for Industrial Chemicals. Since then, he has held a variety of management positions within Performance Coatings and Specialty Chemicals. These include being appointed Global Director for Automotive Plastic Coatings and serving as Managing Director for both the Packaging Coatings and Industrial Coatings businesses.

**Maëlys Castella**  
**CFO and Member of the Board of Management and the Executive Committee**  
(1966, French)

Maëlys Castella was Group Deputy CFO at Air Liquide before joining AkzoNobel in 2014. She earned an Engineering degree at Ecole Centrale Paris. She also has a Master's degree in Energy Management & Policy from the University of Pennsylvania and the French Institute of Petroleum. Her early career included finance roles in the oil and gas industry.

**Marten Booisma**  
**Member of the Executive Committee responsible for Human Resources**  
(1966, Dutch)

Marten Booisma joined AkzoNobel as Chief Human Resources Officer in 2013. He spent the previous six years in this position at Royal Ahold. Having graduated from the University of Amsterdam with a Master of Science in Politics, he started his career in HR at Shell and Unilever. He then moved on to assume various senior management positions at Ahold.



For further information please see About us > Management on [akzonobel.com](http://akzonobel.com)



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

Prior to joining AkzoNobel, Ton Büchner was President and CEO of Sulzer Corporation. An engineer by training, he earned a Master of Science in Civil Engineering at Delft University of Technology in the Netherlands, and a Master in Business Administration from IMD in Lausanne. His early career in the oil and gas construction industry involved roles at Allseas Engineering and AkerKvaerner.

**Ruud Joosten**  
**Member of the Executive Committee responsible for Decorative Paints**  
 (1964, Dutch)

After graduating from Amsterdam Free University with a Masters in Economics, Ruud Joosten joined AkzoNobel in 1996 as International Marketing Manager for Decorative Paints. Since then, he has held various management positions within Decorative Paints and Specialty Chemicals, including BU Manager for Decorative Paints North and Eastern Europe and Managing Director of Pulp and Performance Chemicals.

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

Werner Fuhrmann was appointed to his current role in 2012. He was previously Managing Director of the company's Industrial Chemicals business, a position he first took up in 2005. During his early career with AkzoNobel, he held various positions in the field of finance. He is also Chairman of the Dutch Chemicals Industry Association (VNCI).

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

Sven Dumoulin joined AkzoNobel as General Counsel in 2010 and holds a PhD in Law from the University of Groningen. Previously he was Group Secretary at Unilever. Outside AkzoNobel, he is a member of various Legal Professional Associations in both the Netherlands and abroad. From 2003 to 2007, he held professorships in company law at the Universities of Groningen and Tilburg.

# 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 Report 2014, 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 Report 2014 give a true and fair view of our assets and liabilities; our financial position at December 31, 2014; and the result of our consolidated operations for the financial year 2014
- The management report in this Report 2014 includes a fair review of the development and performance of our businesses and the position of AkzoNobel, as well as 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 a system of governance, risk management and 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 providing 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 supporting and monitoring of compliance with laws and regulations – including our Code of Conduct – a Compliance Committee has been established. The Internal Control function maintains AkzoNobel's Internal Control Framework, monitors the compliance and includes updates regarding the emergence of new risks. They support the annual review of the effectiveness of the system of governance, risk management and internal controls of the Board of Management. Internal Audit provides reasonable assurance to the Board of Management, as well as the Supervisory Board, that our system of risk management and internal controls, 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 with regards to financial reporting risks, the internal risk management and control systems:

- Provide a reasonable level of assurance that the financial reporting in this Report 2014 does not contain any errors of material importance
- Have worked properly during the year 2014

For a detailed description of the risk management system and the principal risks identified, reference is made to the Risk management chapter in the Strategic performance 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.

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

### Outlook

We anticipate that significant developments in raw material prices, combined with relevant exchange rate movements and lower growth rates in high growth economies, will principally determine the dynamics of 2015. The preparations made in 2013 and 2014 will form a sound basis for further improvements in 2015. The company remains on track to deliver its targets for 2015.

Amsterdam, February 11, 2015

**The Board of Management**

Ton Büchner

Maëlys Castella

# Our Supervisory Board



**Antony Burgmans**

(1947, Dutch)

**Chairman**

**Initial appointment: 2006**

**Current term of office: 2014-2018**

Former Chairman and CEO of Unilever N.V. and plc.;  
Non-executive Director of BP plc.;  
Member of the Supervisory Boards of SHV Holdings N.V.  
and Jumbo Group Holding B.V.;  
Chairman of the Supervisory Board of TNT Express N.V.

- Chairman of the Nomination Committee as of May 1, 2014
- 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;  
Former non-executive Director of F-Secure Oyj;  
Chairman of the Board of Fortun Oyj;  
Supervisory Board member at Daimler AG and Deutsche Telekom.

- Chairman of the Remuneration Committee as of May 1, 2014
- Member of the Nomination Committee



**Dolf van den Brink**

(1948 – 2014\*, Dutch)

**Initial appointment: 2004**

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.

\* Dolf van den Brink passed away on December 22, 2014.



**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, Lundin Petroleum AB, Skandia Mutual Life Insurance and Diageo plc.;  
Chairman of Lancelot Asset Management AB.

- Member of the Audit Committee



**Byron E. Grote**

(1948, American and British)

**Initial appointment: 2014**

**Current term of office: 2014-2018**

Non-executive Director at Unilever N.V. and plc.;  
Non-executive Director at Anglo-American plc.;  
Non-executive Director at Standard Chartered plc.;  
Former Board member BP plc.

- Member of the Audit Committee



**Louis Hughes**

(1949, American)

**Initial appointment: 2006**

**Current term of office: 2014-2018**

Former President and COO of Lockheed Martin;  
Former Executive Vice-President of General Motors;  
Chairman of InZeroSystems LLC;  
Member of the Boards of Directors of ABB group and Alcatel-Lucent SA;  
Executive Advisor of Wind Point Partners.

- Chairman (ad. interim) of the Audit Committee



**Ben Verwaayen**

(1952, Dutch)

**Initial appointment: 2012**

**Current term of office: 2012-2016**

Former CEO Alcatel-Lucent;  
Former Chief Executive/Chairman of the Board's Operating Committee of BT group;  
Non-executive Director of Akamai Technologies Inc. and Bharti Airtel Ltd.

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

# Supervisory Board Chairman's statement

2014 has been a year of transition for the company and a year of advancement in pursuance of the company's strategy. Despite challenging global and macro-economic circumstances we have sought to build on our successes to date, including our top ranking in the Materials industry group of the Dow Jones Sustainability Index for the third year in succession.

Following the completion of Karel Vuursteen's 12-year term of office as member of the Supervisory Board, I was appointed as Chairman in April, 2014. At the same time, as part of our succession planning for the replacement of Sir Peter Ellwood – who stepped down after six years as Supervisory Board and Audit Committee member – we have welcomed Mr. Byron E. Grote to both the Supervisory Board and the Audit Committee. The Supervisory Board would like to express its gratitude for the commitment and services of Mr. Vuursteen and Sir Peter Ellwood.

Shortly before the end of the year, we sadly lost a valued member of the Supervisory Board when Mr. Dolf van den Brink passed away on December 22. Dolf was a respected and inspirational colleague who was held in the highest regard by us all. It was an honor and a pleasure to have worked with him. A Supervisory Board member for the last ten years, he leaves a professional legacy which the company will continue to draw from.

During 2014, the company welcomed Maëlys Castella to the Board of Management as Chief Financial Officer (CFO), succeeding Mr. Keith Nichols. Maëlys' background in a broad set of corporate finance disciplines, as well as her experience in marketing to a large variety of customer end-user segments, has allowed her to make a strong start. The Supervisory Board members are pleased that her expertise will be applied in the development of future strategic agendas for the company.

While 2014 was a year that many had hoped would bring improvement in the global business climate, we in fact saw slowing growth in Asia, Russia and the eurozone, coupled with heightened tensions in regional diplomatic and economic relations. It is a sign of the strength and stability of the company's strategy that despite the challenging economic environment, AkzoNobel's performance has been maintained and enhanced in a number of key areas. This achievement provides the Supervisory Board with confidence in the Executive Committee's strategic direction moving forward into the forthcoming year.

The Supervisory Board was provided with tangible insights into the impact of the company's strategy during our visit to Frankfurt in Germany. Supervisory Board members were given a first-hand view of the company's operations in the European chemical industry and a comprehensive impression of European competitiveness relative to other regions. This visit, as with other annual country visits, allowed us to appreciate the local and personal side of the AkzoNobel business and assisted us in maintaining a comprehensive understanding of management's activities.

Throughout 2014, the company continued to seek advancement on its market leading positions through customer focused organic growth, operational excellence and sustainability. It has built on its core principles of Safety, Integrity and Sustainability through the introduction of our four, clear and simple values: Customer focused, Deliver on commitments, Passion for excellence and Winning together. Performance measurement and reporting tools have been built around these and targets have been established and linked to remuneration in order to embed a culture of continuous improvement. Transparency, accountability and messaging have also been improved. Such efforts enhance efficiencies and the Supervisory Board is happy to have seen the company progress towards its 2015 targets over the past year.

We are particularly proud that AkzoNobel has advanced on its Planet Possible sustainability program and was again ranked first on the Dow Jones Sustainability Index (in the Materials industry group). This is the third consecutive year that we have been ranked top, out of more than 350 companies, and the ninth consecutive year that we have been ranked in the top three. The ranking demonstrates the company's sustainability performance and resource efficiency and is an example of our "Winning together" philosophy. After all, a sustainable business enhances value for all our stakeholders, while at the same time securing our own long-term success.

In the fourth quarter of 2014, the company was confronted with an external fraud targeted at one of its subsidiaries located in Chicago (US). After a thorough external investigation, it was concluded that customary and appropriate controls were in place, which were breached, and that creating ongoing awareness on fraud attempts is the additional effort needed. For more information, see the Risk management chapter.

The Supervisory Board is reassured by the fact that good corporate governance in particular has always been recognized as integral to the effective operation of AkzoNobel, the safeguarding of its assets and the achievement of its strategic objectives. In recognition of this, we dedicate a section of our annual report to Governance and compliance, where we elaborate on our corporate governance framework, remuneration policy, compliance codes and systems, integrity management and shareholder relations.

The Supervisory Board also appreciates its own vital role in the company's governance and we take steps to ensure that we are adequately equipped, well trained and performance assessed. We engage in a thorough Board evaluation process, and you will see more details on all the activities of the Supervisory Board during the reporting year in this section, along with relevant information regarding the Supervisory Board members.

It only remains for me to thank my fellow Supervisory Board members for welcoming me as Chairman and for their support and commitment during the past year. I believe that our diverse mix of backgrounds and breadth of expertise will allow us to act seamlessly in our oversight of management and the company's strategy and activities. We would like to thank the CEO, the new CFO, the other members of the Executive Committee and all employees for their dedication and hard work in securing the achievements of 2014.



**Antony Burgmans**  
Chairman of the Supervisory Board

# Report of the Supervisory Board

## Main 2014 activities

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

Review and monitoring of the company's sustainability performance.

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

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

Revision of the Supervisory Board's Rules of Procedure.

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

## Meetings

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

## Supervisory Board attendance record

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

### Supervisory Board attendance record

	SB	AC	RC	NC
Antony Burgmans	9/10	–	3/3	3/3
Sari Baldauf	10/10	–	3/3	2/2
Dolf van den Brink	8/10	5/6	–	–
Peggy Bruzelius	10/10	6/6	–	–
Uwe-Ernst Bufe	9/10	–	–	–
Byron E. Grote	7/7	4/4	–	–
Louis Hughes	10/10	6/6	–	–
Ben Verwaayen	8/10	–	2/3	2/3

The table indicates the meeting attendance for the Supervisory Board (SB), the Audit Committee (AC), the Remuneration Committee (RC) and the Nomination Committee (NC).

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## Supervisory Board activities

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

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

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

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

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

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

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

In September 2014, the Supervisory Board and the Executive Committee visited some of the company's sites in Germany. This included meetings with major customers, local management and other stakeholders, as well as a

visit to the Specialty Chemicals site in Frankfurt. The visit provided a detailed insight into the company's activities, both in Germany and within the context of the wider European market. It involved, in particular, an overview of Specialty Chemicals' businesses in the region and a clear outline of efficiency drivers for AkzoNobel's wider internal support functions there. Overall, the trip established a useful snapshot of the competitiveness of the European market in comparison to other regions.

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

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

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

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

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## Financial statements and profit allocation

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

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

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

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## Supervisory Board evaluation

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

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

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## Audit Committee

During 2014, the Audit Committee consisted of its chairman, Mr. van den Brink, and three other members – Mr. Hughes, Mrs. Bruzelius and Sir Peter Ellwood (who was replaced by Mr. Grote following the 2014 AGM) – all of whom have accounting and financial management expertise. On December 22, 2014 Mr. Van den Brink sadly passed away. As a result, the chairmanship of the committee is being fulfilled on an interim basis by Mr. Hughes. The Audit Committee held six meetings during 2014. The attendance record of the members can be seen in the previous attendance chart. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings.

### Main 2014 activities

- Review of the effectiveness of internal controls (including internal audit findings), in particular over financial reporting
- Review of external audit conclusions and the audit report
- Review of the 2014 annual report and financial statements
- Review of AkzoNobel's dividend direction
- External auditor independence
- Internal Audit Plan 2015 and follow-up on Internal Audit Plan 2014
- Review of the external investigation of, and management response to, the external fraud in Chicago (US)

## Results/financial statements

Before each announcement of the quarterly results and before the annual financial statements, the Audit Committee reviewed the financial results and was consulted on the reports and press releases to be published and those issues reviewed by the Disclosure Committee. Supervisory Board members were advised on such publications and disclosures by the Audit Committee and, as of September 2014, approval of the full Supervisory Board is required ahead of any quarterly or annual release of financial results.

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

## Governance, risk management and internal control systems

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

During 2014, the Audit Committee discussed:

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

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

## Internal audit function

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

## External auditor

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

The Audit Committee held independent meetings with the external auditor during the year and reviewed and challenged the external auditor's approach to auditing the company, engagement letter, fees, risk assessment and audit plan. Other topics discussed included:

- Hard close (as part of making the year-end process more efficient, and in order to highlight important issues for the annual financial statements, as well as giving timely attention to important issues, AkzoNobel performed a hard close as of October 31, 2014. Aligned with this,

the external auditor also performed certain procedures in respect of the financial outcomes as of the same date)

- The quality of external audit
- Impact of new IFRS rules

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

## Evaluation

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

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

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## Remuneration Committee

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

### Main 2014 activities

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

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

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

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## Nomination Committee

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

### Main 2014 activities

- Recommendation for the reduction of the number of Supervisory Board members
- Successful succession of the Chairman through the nomination and appointment of Mr. Burgmans
- Successful succession of Sir Peter Ellwood through the nomination and appointment of Mr. Grote
- Recommendation for the reappointment of Mr. Hughes
- Successful nomination and recruitment of Mrs. Castella to the Board of Management as new CFO

During 2014, the Nomination Committee dealt with succession planning in order to identify individuals for re-election and potential candidates for nomination. If external candidates are sourced by the Nomination Committee, it engages the services of an executive search agency that employs a rigorous search process after first gaining a thorough understanding of AkzoNobel's strategic ambitions, the specific leadership roles and competencies needed to meet those ambitions and the culture of our organization.

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

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

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

Together with the CEO, the committee devoted considerable time to senior executive succession planning. After a thorough selection process, with the assistance of an executive search agency and the consideration of both external and internal candidates, a recommendation was made by the Nomination Committee – following proposal by the CEO – for the appointment of Mrs. Castella as CFO and member of the Board of Management and the Executive

Committee. This was supported by the Supervisory Board and her nomination was approved at an Extraordinary General Meeting of shareholders held on October 8, 2014.

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

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## Additional remarks

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

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

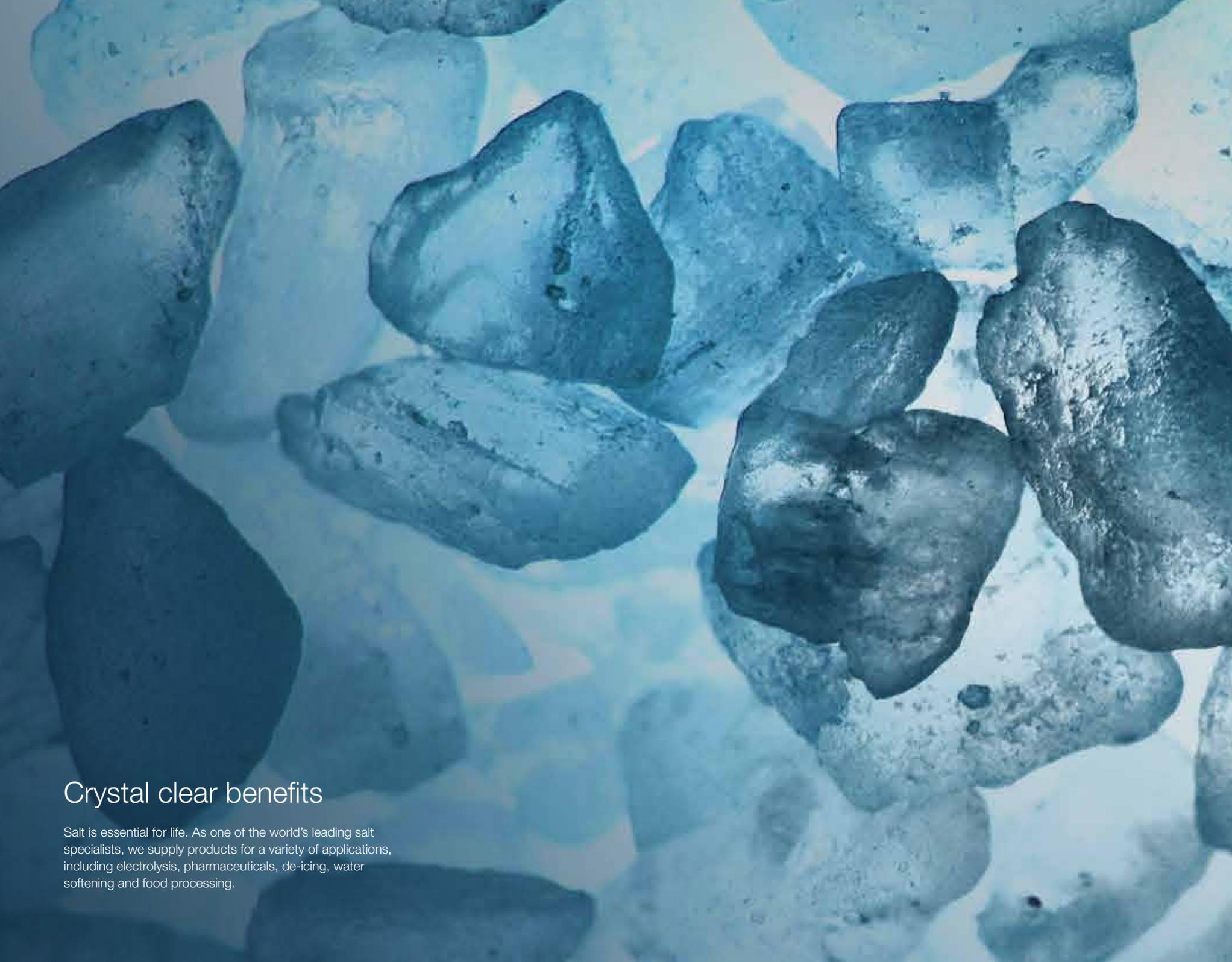
Amsterdam, February 11, 2015  
**The Supervisory Board**

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## In memoriam



**Dolf van den Brink**  
1948-2014



## Crystal clear benefits

Salt is essential for life. As one of the world's leading salt specialists, we supply products for a variety of applications, including electrolysis, pharmaceuticals, de-icing, water softening and food processing.

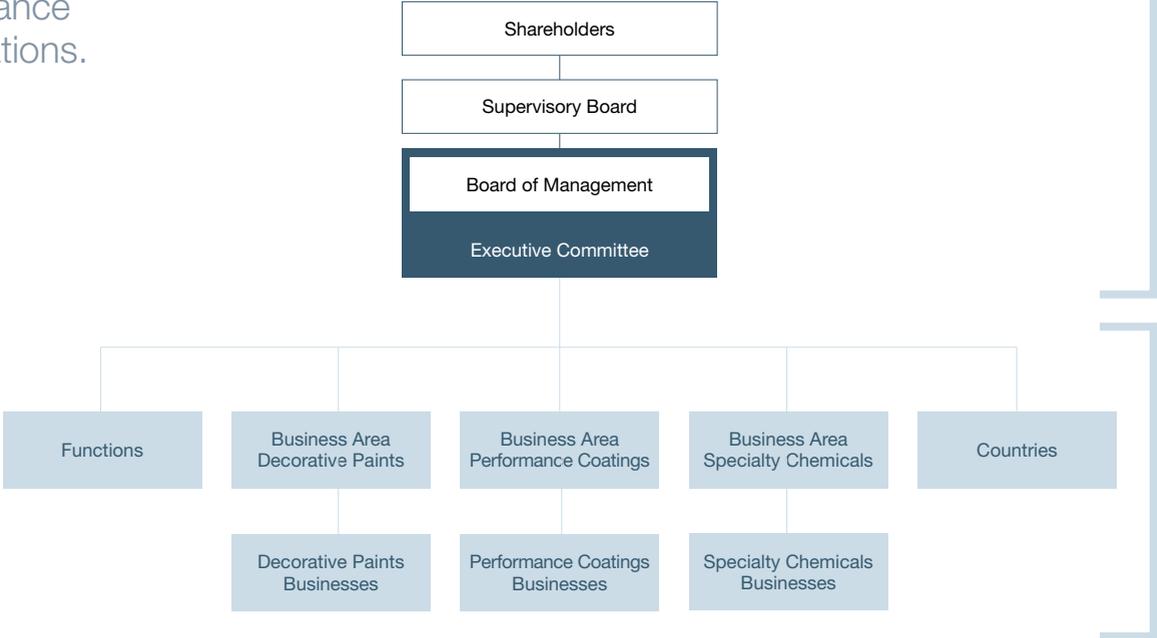
# Governance and compliance

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.

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# Corporate governance statement

AkzoNobel values high standards of corporate governance and seeks to consistently enhance and improve corporate governance performance, emphasizing transparency in accordance with applicable guidelines and regulations.



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 Euronext Amsterdam. AkzoNobel has a sponsored level 1 American Depositary Receipt (ADR) program and ADRs can be traded on the international OTCQX platform in the US.

The company's management and supervision structure is organized in a so-called two-tier system, comprising a combined Board of Management and Executive Committee, solely composed of executive members, and a Supervisory Board, solely composed of non-executive directors. The Supervisory Board supervises the Board of Management and Executive Committee, 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.

Our corporate governance framework is based on the company's Articles of Association, the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code (the Code), and all applicable laws and regulations including securities laws. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code – currently the company deviates only from the Code's provision 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 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.

The Board of Management and Executive Committee have established a Code of Conduct, and a set of Business Policies – together with directives, rules, manuals and guidelines – as part of the company's Directives Framework,

which has been compiled and rolled out to all employees in order to drive governance, consistency and functional excellence throughout the company.

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## Board of Management and Executive Committee

### General

The Board of Management is entrusted with the management of the company and operates in the context of an Executive Committee. The Executive Committee comprises the members of the Board of Management, currently the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), business leaders and leaders with functional expertise, allowing both the functions and the Business Areas to be represented at the highest level in the organization. The functions currently represented in the Executive Committee directly are Human Resources, Legal, Finance and Information Management.

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. 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.

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 the 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 CEO.

The Supervisory Board has regular direct interaction with all members of the Executive Committee and all Executive Committee members attend the major part of most Supervisory Board meetings.

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 CFO is responsible for overseeing AkzoNobel's finances and information management.

The company has organized its activities into three Business Areas: Decorative Paints, Performance Coatings and Specialty Chemicals. Each Business Area is led by a member of the Executive Committee. To manage our business in a more operational way, an Operational Control Cycle is conducted once per month. For each Business Area, there are Operational Review Meetings comprising of the CEO, the CFO, the General Counsel and the relevant Business Area's leadership. These provide a forum for a more in-depth operational discussion on subjects relevant to the Business Area. In addition, Functional and Country Review Meetings are held to review upcoming proposals and progress on the respective functional and country agendas. Twice per year in each Business Area's Operational Review Meeting, the functional agendas of Sustainability and HSE, Human Resources, Commercial Excellence, Integrated Supply Chain and Research, Development and Innovation are discussed.

The Managing Directors of our businesses, 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 Executive Committee Pensions, chaired by the CFO, oversees the general pension policies (to be) implemented in the various pension plans of the company. The Executive Committee member responsible for HR and the General Counsel are also members.

The company has a Sustainability Council, which advises the Executive Committee on sustainability developments. It also 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 representatives from the Executive Committee, Managing Directors from our businesses and Corporate Directors of Strategy, Human Resources, Sustainability and HSE, Supply Chain/Research and Development, 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 KPMG Sustainability (part of KPMG Advisory N.V.). 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 with its 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, Senior Legal Counsel and Corporate Directors of Internal Audit, Control, Compliance, Human Resources and Sustainability and HSE. Our compliance and integrity management system is explained in more detail in the Compliance and integrity management chapter.

### 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 the company's website.

Authority to represent the company is vested in two or more members of the Board of Management acting jointly. This includes the signing of documents. The Board of Management has also delegated a level of authority to corporate agents, including those 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 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.

As described later in this section, 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. However, as the company subscribes to the principles of the Code in general, members of the Supervisory Board and the Board of Management are appointed on the basis of a non-binding nomination by the Supervisory Board other than in the circumstances described under the Appointment paragraph later in this section.

In all other circumstances, resolutions to appoint a member of the Supervisory Board or the Board of Management will therefore require a simple majority of the votes cast by shareholders. Under certain conditions specified in the Articles of Association, shareholders may also be entitled to nominate Supervisory Board or Board of Management members for appointment. Such nominations require a two-thirds majority representing at least 50 percent of the outstanding share capital in order to be adopted at a General Meeting.

Members of the Board of Management and 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 (Wet bestuur en Toezicht), 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 by the Supervisory Board, for which authority has been delegated to the Chairman of the Supervisory Board.

### 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 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/she has a conflict of interest with the company. Decisions to enter into transactions under which members have conflicts of interest that are of material significance to the company – and to the relevant Board of Management or Executive Committee members – 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 interest and a

declaration that the relevant best practice provisions of the Code have been complied with. In 2014, no transactions were reported under which a member of the Board of Management or Executive Committee 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 Consolidated financial statements (see Note 22). The service 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 service contracts of Board of Management members are available on our corporate website.

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## Supervisory Board

### General

This section provides an overview of the procedural remit, diverse nature and governance of the Supervisory Board of AkzoNobel. For an understanding of the activities of the Supervisory Board over the past year, please refer to the Chairman's Statement and the Supervisory Board Report. The responsibility of the Supervisory Board is to supervise the policies adopted by the Board of Management and the Executive Committee and to oversee the general conduct of the business of the company. In practice, this means supervising the achievement of the company's operational and financial objectives, the corporate strategy, 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 advises the Board of Management and Executive Committee, while taking into account the interests of the AkzoNobel group and the company's stakeholders. Major investments, acquisitions and functional initiatives are subject to Supervisory Board approval.

### Composition

A list of current Supervisory Board members, including their biographies, can be found in the Leadership section. The Supervisory Board is constituted in a balanced manner to reflect the nature and variety of the company's businesses, their international spread and expertise in fields such as finance, economic, societal, environmental and legal aspects of 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.

According to the Act on Management and Supervision, a supervisory board of a large Dutch public company has a balanced composition if it consists of at least 30 percent female and at least 30 percent male members. The current gender balance of the Supervisory Board does not meet this depiction of a balanced composition, because two of its seven members are female. The Supervisory Board has a preference for a better gender balance. However, in compliance with provision III.3.1 of the Code, the Supervisory Board composition reflects both society at large and the markets in which the company operates – by ensuring that at least one-third of the members meet the diversity criteria of gender (female) and/or nationality (outside of the European Union). AkzoNobel acknowledges that gender is only one part of diversity and Supervisory Board members will continue to be selected on the basis of their wide-ranging experience, backgrounds, skills, knowledge and insight. Our current Supervisory Board represents six nationalities, all of whom bring with them experience from a diverse range of international business, professional and non-profit organization backgrounds. When nominating and selecting new candidates for the Supervisory Board

in the future, the requirements of the Act on Management and Supervision as well as provision III 3.1 of the Code will continue to 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 meetings and the AGM, 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, its committees, its individual members and the functioning of the Board of Management.

Meetings of the Supervisory Board require a quorum of at least half of its members to be present in order to pass resolutions. Resolutions can also be passed in writing if the written resolution is submitted to all Supervisory Board members in advance, with sufficient time for them to review and assess the implications, nature and content. 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 identical to those 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. Since September 2014 and in accordance with the Code, all members are eligible for re-election only twice, each time for a period

not exceeding four years, leading to a maximum possible term of 12 years for any Supervisory Board member. In 2014, one appointment and two re-appointments to the Supervisory Board were proposed to the AGM. For 2015, one re-appointment is currently scheduled to be proposed to the AGM.

### Induction and training

Following appointment to the Supervisory Board, members receive a comprehensive induction tailored to their individual needs. This includes extensive briefings about all major business and functional aspects of the company, and its corporate governance and compliance statements as well as meetings with the CEO, the CFO and all other Executive Committee members. 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, the Chairman of the Supervisory Board ensures that regular updates on AkzoNobel's businesses, legal matters, social and corporate governance, environmental, accounting, investor relations, compliance, risk management and internal control matters are provided to the Supervisory Board.

### Independence of the Supervisory Board

Supervisory Board members are required to act critically and independently of one another, the Board of Management and the Executive Committee. 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. To this end, the company takes steps to verify that:

- There are no cross ties between Supervisory Board members and members of the Board of Management
- There have been no employment relationships between Supervisory Board members and AkzoNobel during the five years preceding their last appointment
- No personal financial compensation has been paid, other than in relation to work as a Supervisory Board member

- No Supervisory Board member has had important business relationships with the company in the year prior to their last appointment
- There are no significant shareholding ties (amounting to more than 10 percent of the share capital of the company) between Supervisory Board members and the company

### Conflict of interest

The Articles of Association and the Rules of Procedure include detailed provisions on how to deal with 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 2014, 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 22 of the Consolidated financial statements.

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## Committees

The Supervisory Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. This section explains aspects of the governance and roles and responsibilities of the committees. Information on the work, composition of and attendance at the committees during the year is set out in the Report of the Supervisory Board.

Each committee has a charter describing its role and responsibilities, as well as 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 2014 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, reporting, risk management and internal control 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. As a rule, the CEO, CFO, Corporate Director of Control, Corporate Director of 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. In addition, there is one meeting with the CEO and/or CFO also in attendance. Other members of management attend as and when requested. The General Counsel reports to the Audit Committee on compliance matters at every regular committee meeting and provides a claim and liability report to the committee once a year. 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 current Supervisory Board profile to address the need for a diverse knowledge of the markets in which the company operates and the need for insight from different markets and non-operational areas.

### 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.

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## Shareholders and the Annual General Meeting (AGM)

The Annual General Meeting of shareholders (AGM) reviews the annual report and decides on the adoption of the financial statements and the dividend proposal, as well as the discharge of the members of the Supervisory Board and the Board of Management.

The AGM also approves or adopts, among others, the following matters:

- The election of members of the Board of Management and the Supervisory Board
- The remuneration of the members of 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, as required by law
- The authorization of the Board of Management to issue new shares

The AGM is convened by public notice. AkzoNobel provides remote voting possibilities for its shareholders. The AGM 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.

Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the AGM. The notes to the agenda contain relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the "one share, one vote" principle (assuming an equal par value for each class of shares). All resolutions are adopted by absolute majority, unless the law or the company's Articles of Association stipulate otherwise.

Holders of common shares in aggregate representing at least one percent of the total issued capital may submit proposals for the AGM agenda. This is in deviation from the Act on Corporate Governance (Frijns) that came into force on July 1, 2013. 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 draft minutes of the AGM (in Dutch) are made available on the company's website within three months of the meeting date. The final and duly signed minutes are made available on the company's website within six months of the meeting date.

### Share classes

AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. Common shares are also traded over-the-counter on OTCQX (organized by Pink Sheets) in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2014, a total of 246,043,094 common shares and 48 priority shares had been issued. By December 31, 2014, MFS Investment Management and Causeway Capital Management each 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 appointment 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. 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 AGM held on April 29, 2014, 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 free from pre-emptive rights, up to a maximum of 10 percent of the issued share capital (or 20 percent in case of a merger or acquisition). At the same meeting, the Board of Management was given a mandate to acquire up to a maximum of 10 percent of the issued share capital of the company.

### Anti-takeover provisions and control

According to provision IV.3.11 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used. The priority shares may be considered to constitute a form of anti-takeover measure. In relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board, the Foundation Akzo Nobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company's management and policies is at stake. This may be the case if a public bid for the common shares of the company has been announced, or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the company. The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued common shares of the company without making an offer. Or if, in the opinion of the Board of the Foundation Akzo Nobel, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases, the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders. The Board of the Foundation Akzo Nobel has reserved the right to make

use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances.

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.

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.

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## Auditors

The external auditor is appointed by the AGM on proposal of the Supervisory Board. The current appointment of KPMG is reviewed every four years by the Audit Committee. The Audit Committee advises the Supervisory Board, which communicates the results of this assessment to the AGM. The Audit Committee and the Board of Management report their dealings with the external auditor to the Supervisory Board annually and discuss the auditor's independence. During 2014, in addition to these discussions and the annual report on dealings with the external auditor, the Audit Committee received updates on national and international legislative and policy developments on auditor independence.

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.

### Auditor independence and mandatory succession of audit firm

Based on auditor independence requirements, the lead auditor in charge of the AkzoNobel account is changed every seven years. KPMG's current lead partner, Mr. Van Leeuwen, took over in April 2014 from Mr. Weusten, who had held this position since July 2007.

Pursuant to the Dutch Audit Profession Act (Wet op het accountantsberoep), the audit firm of a so-called public interest entity (such as a listed company) will have to be replaced if the audit firm performed the statutory audits of the company for a period of eight consecutive years, at the latest in 2016. Pursuant to this Act, the mandate of KPMG will end following the reporting on the financial year 2015.

The appointment of the current auditor (KPMG) expires upon finalization of the audit of the 2015 financial statements. The AGM (held on April 29, 2014) appointed PwC in respect of the audits of the financial statements as of 2016.

### 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. Pursuant to the Audit Profession Act, the auditors are prohibited from providing the company with services in the Netherlands other than "audit services aimed to provide reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board, as referred to in the reports mentioned." The company has taken the position that no additional services may be provided by the external auditor and its global network that do not meet these requirements, unless local statutory requirements so dictate. In order to anchor this in our procedures, the Supervisory Board adopted the AkzoNobel

Rules on External Auditor Independence and Selection and the related AkzoNobel Guidelines on Auditor Independence. All these documents are available on the company's 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 Strategic performance section.

We have strict procedures for internal and disclosure controls and auditor independence. The Disclosure Committee monitors the disclosure 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. An area of continued focus in 2014 was the control standards for our key IT systems and making more use of automated controls in these systems. Designing and implementing global standardized processes, partially through outsourced, partially through captive shared service centers, has been another important focus area to support the company's strategy of standardization and functional excellence.

We also have a company-wide compliance monitoring tool in place 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 Leadership section for the statements relating to internal risk management and control systems.

## The AkzoNobel internal control framework

The AkzoNobel internal control framework provides reasonable assurance in achieving business goals, including strategic, operational and reporting goals, as well as those covering compliance. Internal control is not only about policies and procedures, but also relates strongly to people, culture and behaviors.



## Internal Audit

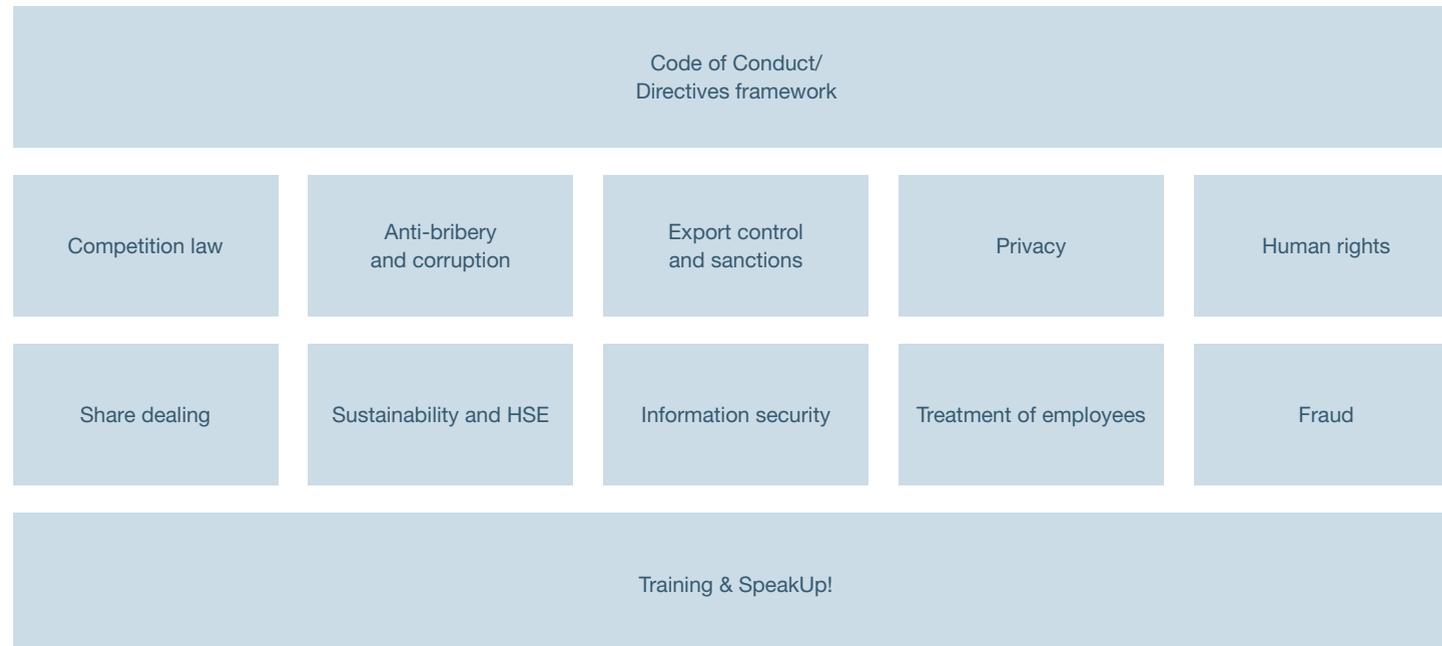
The Internal Audit function is mandated to provide AkzoNobel Management and the Audit Committee with independent, objective assurance on the adequacy of the design and operating effectiveness of the internal control framework in place. The Corporate Director of Internal Audit reports to the CEO and has direct access to the Audit Committee. The function performs its mandate based on an independently developed risk-based audit plan which is approved by the Audit Committee. It reports a summary of the audit findings bi-annually to the Executive Committee and the Audit Committee, which culminates in an annual assessment of the quality and effectiveness of the company's internal control systems. More information is available under Audit Committee earlier in this section.

# Compliance and integrity management

Integrity is one of AkzoNobel's core principles. The company recognizes that a strong compliance framework is one of the essential foundations of good corporate governance and social responsibility.

AkzoNobel's Compliance framework, based on our Code of Conduct, is supported by implementation processes, monitoring and control procedures, and is assessed by the Supervisory Board. In everything we do, we aim for the highest standards of performance and behavior. AkzoNobel is committed to conducting business all around the world with integrity, fairness and honesty.

## Compliance framework



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## AkzoNobel Code of Conduct

The Code of Conduct serves as the common reference document which sets out our fundamental principles and rules for doing business. It applies equally to our corporate actions and the behavior of individual employees, regardless of the market segment, function or country in which we operate. Available in 27 languages, the Code of Conduct is distributed in paper form and is widely available online. The Code of Conduct, together with directives, rules, manuals, guidelines and procedures, are part of the company's Directives framework, which sets out mandatory internal rules for employees.

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 Compliance framework remains suited for purpose and is properly applied. We are dedicated to minimizing our compliance risk, as identified in the Enterprise Risk Management process. Reference is made to the Risk management chapter in the Strategic performance section of this Report 2014.

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

We make sure 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, directives, rules, manuals, guidelines and procedures that form the Directives framework. In entities we do not control, we encourage consistent application of the values and principles reflected in our Code of Conduct 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 core principles, values and rules for doing business. They receive training, which enables them to fully acquaint themselves with the Compliance framework.

We want to do business with suppliers who share our values and principles. Our Vendor Policy, designed to help ensure a sustainable supply chain, specifically states our desire to do business with partners who endorse our ethical, social and environmental standards, as formulated in the Code of Conduct. Vendors confirm that they conduct their business in accordance with core compliance principles through the AkzoNobel Vendor Policy Declaration. In 2014, we continued with Together for Sustainability, an initiative designed to develop and implement a global audit program to assess and improve sustainability practices within the supply chains of the chemical industry. See Note 7 of the Sustainability statements for more details.

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## Code of Conduct communication, awareness and training

We appreciate that raising awareness through effective communication and training is pivotal to strengthening 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 may include online and classroom training.

Around 90 percent of employees with online access have completed the Code of Conduct training module. Each year, our online annual performance appraisal system requires employees to sign off on their awareness of the Code of Conduct. The compliance training curriculum also offers specialized training to improve critical competencies and skills to designated groups of employees on topics such as competition law, anti-bribery, export control, privacy, fraud awareness, anti-harassment and trade secrets.

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## Code of Conduct complaints procedure (SpeakUp!)

We value an open dialog with our employees worldwide on our core principle of integrity. Our employees are encouraged to report potential issues regarding the Code of Conduct to either their manager, the next line manager or HR manager, the relevant business unit or function compliance committee, the compliance department, or the Compliance Committee. In addition, a global reporting helpline is available to our employees 24 hours a day to report confidentially – and, if desired, anonymously – potential breaches of the Code of Conduct.

These reporting mechanisms are part of the complaints procedure and are described in our SpeakUp! manual. All alleged breaches of the Code of Conduct that are brought to the attention of the compliance department are investigated.

The system is also available for temporary employees or third parties with whom AkzoNobel has a business relationship (such as customers, suppliers and agents) and members of the general public.

In 2014, a total of 170 alleged breaches of the Code of Conduct were reported, both through SpeakUp! and other channels. Of the 170 matters, 67 were substantiated, with 22 still in progress. Eleven were managed by the Compliance Committee as they met defined criteria. Company-wide, 46 employees were dismissed on grounds related to breaches of the Code of Conduct. Other sanctions and remedial actions in (partially) substantiated matters included: review of procedures/controls (12), coaching/training (8), warnings (6), probation (2), and other disciplinary actions (1).

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## Compliance governance

The Compliance Committee assists the Executive Committee in its ultimate responsibility to report to the Audit Committee of the Supervisory Board. The Compliance Committee consists of the General Counsel (chair), Corporate Secretary, Directors of Internal Audit, Control, Compliance, Human Resources and Sustainability. The compliance department, in close collaboration with the Compliance Committee, provides an adequate Compliance framework and ensures 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 department is directed by the Director of Compliance, who reports directly to the General Counsel.

Business unit and function management are responsible and accountable for raising awareness and compliance within their respective businesses and functions. We have appointed business and function compliance officers and have set up compliance committees in the businesses. Together with the compliance department, the compliance officer assesses the main compliance risks, improves and monitors compliance and its effectiveness and ensures training of the relevant employees. The compliance officers also ensure that alleged breaches of the Code of Conduct are investigated and findings and lessons learned are reported to the relevant business or function management team, who then take appropriate action.

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## Compliance and integrity reporting and monitoring

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

### Competition law compliance declaration

Employees who meet defined criteria, such as contact with customers or suppliers, confirm their compliance with competition law as articulated in our Competition Law Compliance Manual through an annual declaration. Any possible concerns are reported to the General Counsel and appropriate actions are taken. In 2014, more than 12,000 employees signed this declaration.

### Non-financial letter of representation (NFLoR)

At the end of the year, the Managing Director/Corporate Director of each business and function signs the NFLoR to confirm compliance with the Code of Conduct and other corporate non-financial requirements. The NFLoR process is a comprehensive certification by various levels of AkzoNobel management that our business has been conducted in compliance with external and internal rules. Exceptions are noted and explained and action plans are developed to address weaknesses. The NFLoR process starts deep in the organization; results are rolled up to business unit, corporate function, country and Business Area level. 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 function and progressed. The outcome of the NFLoR process, in combination with the internal control self-assessment process and internal audit results, forms the basis for the Statement of the Board of Management in this Report 2014.

## Share Dealing Rules statement

Members of the Board of Management, Executive Committee and Supervisory Board, along with certain designated employees, are made aware of their obligations under the AkzoNobel Share Dealing Rules.

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## 2014 overview

### Training

Our training program and curriculum is a cornerstone of our Compliance framework. A wide range of compliance training modules on various topics is available to every new employee. In 2014, we rolled out updated competition law training for designated employees. More than 10,000 employees have completed the course.

The Executive Committee received tailored competition law and export control training. In addition, top management also participated in live competition law and fraud training.

### Sensitive Country Program

Our Sensitive Country Program was continued in 2014. Under this program, a small team – consisting of the General Counsel, another member of the Executive Committee and the Director of Compliance – meets regularly during the year. They review the extent to which the company does business in countries recognized by monitoring groups (such as Transparency International and Freedom House) to have significant issues with regards to sanctions and export controls, corruption, human rights, political stability and safety and security. Based on this analysis, we take action regarding trade with parties in specific countries, including enhanced internal review and the imposition of additional restrictions, such as bans.

The Sensitive Country Program supplements our Export Control Program, which contains procedures and training that provide up-to-date guidance for employees on regulatory obligations and enforcement activities, especially those coming from the US and the EU, and including rules with extra-territorial effect. Our established global network of business-based export control officers plays a key role in ensuring export control/sanction compliance.

### Business and human rights

The Code of Conduct also sets out our approach to human and labor rights. Our approach is based on, and confirms, our support for the United Nations Universal Declaration of Human Rights, the key conventions of the International Labor Organization and the OECD Guidelines for Multinational Enterprises. We are a signatory of the United Nations Global Compact and continue to integrate principles on human rights, labor, environment and anti-corruption into our strategy and operations.

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. This is reflected in our Code of Conduct, our global HSE standards and our Vendor Policy for suppliers. We pay particular attention to the company's presence and operations in high growth markets, as compliance frameworks risk being less advanced in these regions, compared with mature economies.

For more information on stakeholder engagement and our safety, environmental and supplier processes, please refer to the Sustainability statements section.

## Integrity management

	2011	2012	2013	2014
<b>Code of Conduct reporting</b>				
Code of Conduct number of alleged breaches reported	245	295	151	170
Code of Conduct breakdown of alleged breaches				
Health and safety	18	42	8	15
Business integrity	112	152	82	90
Treatment of employees	112	101	61	65
Other	3	0	0	0
<b>Code of Conduct investigation</b>				
Code of Conduct alleged breaches investigated (in %)	100	100	100	100
Code of Conduct alleged breaches handled by the Compliance Committee (in numbers)	24	24	9	11
Code of Conduct alleged breaches handled by the relevant businesses (in numbers)	221	271	142	159
Substantiated Code of Conduct breaches (within year)	149	163	57	67
Substantiated Code of Conduct breaches (total, including breaches substantiated in a later year)	149	178	64	- <sup>1</sup>
Number of dismissals for Code of Conduct breaches within year	99	131	43	46
Dismissals for Code of Conduct breaches (total, including employees dismissed in a later year)	108	139	48	- <sup>1</sup>
<b>Compliance monitoring</b>				
Competition Law Compliance Declaration (number of confirmations)	14,400	15,900	12,700	12,184
Non-financial letter of representation (% of operational managers)	100	100	100	100
<b>Code of Conduct training</b>				
Code of Conduct trained (% online employees)	95	96	95	NA <sup>2</sup>

<sup>1</sup> By definition these numbers are not yet known.

<sup>2</sup> We are transitioning to a new Learning Management System platform that will make training tracking more efficient. Due to implementation in 2014, no accurate Code of Conduct training statistics are available this year.

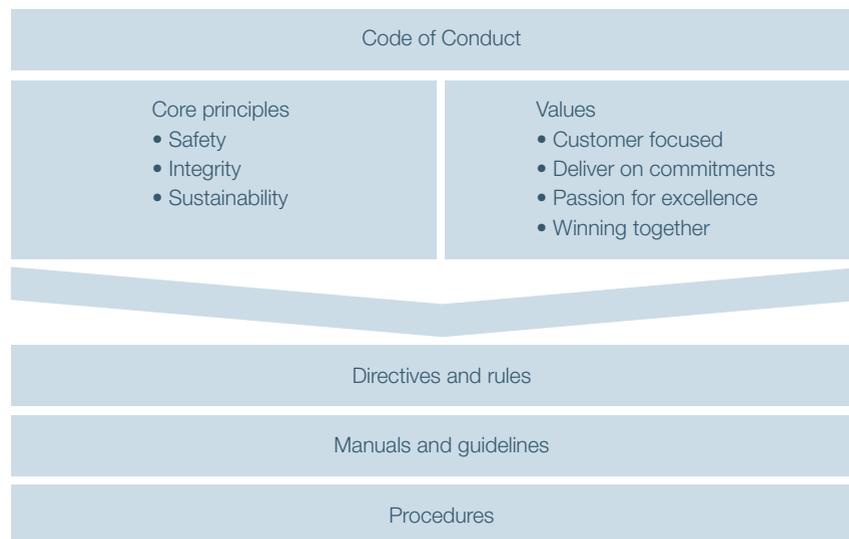
## The Directives portal

The Directives portal was introduced in 2014 to give employees a one-stop website for all of the directives, rules, manuals, guidelines and procedures that make up AkzoNobel's Directives framework. These documents, most of which are mandatory, drive governance, consistency and functional excellence throughout the company. The Directives framework builds on AkzoNobel's core principles, values, Code of Conduct and business policies and is hierarchically structured by function, by business and by geography. The company relies on employees to be guided in their daily behavior by the Directives framework and managers to actively drive and monitor compliance with it.

## Privacy rules

This year, we established a new global Protection of personal data directive and two sets of comprehensive rules: Privacy rules for employee data, and Privacy rules for customer, supplier and business partner data. The purpose is to ensure that personal data of employees, customers, suppliers and business partners is protected. The privacy rules must be followed when processing personal data by, or on behalf of, AkzoNobel. They have been approved by the EU Data Protection Authorities as "binding corporate rules" which means that they effectively allow for the international data transfer of personal data to non-EU countries. The general transition term for implementation of the privacy rules is two years. Implementation requires that we, for example, perform Privacy Impact Assessments on IT systems and processes, further develop a training and awareness program for all relevant groups and establish a governance structure around privacy with a Corporate privacy officer and a network of privacy officers throughout the businesses.

## Directives portal



# Remuneration report

This report describes our remuneration policy and the remuneration paid to members of the Board of Management in 2014.

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. Our remuneration policy, including all structures and policies related to the remuneration and employment contracts of the members of the Board of Management, is in line with the Dutch Corporate Governance Code (the Code).

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 2014.

The remuneration policy was first adopted by the Annual General Meeting of shareholders (AGM) in 2005 and has since been amended several times, most recently in 2013. The performance share plan for the Board of Management was approved by the AGM in 2004. It has also been amended several times, in accordance with article 2:135 of the Dutch Civil Code, most recently in 2013. The share-matching plan for the Board of Management was approved by the AGM in 2011.

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## 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, thus being aligned with the executive remuneration policy of the overall company. 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 share-matching opportunity
- Performance-related long-term incentive (LTI) in the form of shares
- Post-contract benefits
- 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 any other member. The STI is linked to financial targets (70 percent), as well as the individual and qualitative targets of the members of the Board of Management (30 percent). The specific targets are determined annually by the Supervisory Board. In respect of the financial targets, the Supervisory Board can choose two to three financial metrics and determine their relative weighting from the following list:

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

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

The Supervisory Board sets the performance ranges each year, i.e. the values below which no payout will be made (the threshold), the “at target” value and the maximum at 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 any other member of the Board of Management.

### 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.

The long-term incentive plan is subject to three performance criteria; 70 percent of the conditional grant of shares is split equally between AkzoNobel’s relative total shareholder return (TSR) performance compared with the companies in a defined peer group, as well as the development in ROI during the performance period. The TSR peer group and the vesting schemes are determined by the Supervisory Board. The remaining 30 percent of the conditional share grant is linked to AkzoNobel’s relative sustainability performance, which is measured as the company’s average position in the RobecoSAM ranking during the three-year performance period. In each case, the maximum at vesting is 150 percent of the relevant part of the conditional grant.

These performance metrics apply as of 2013. In respect of grants made prior to 2013, half of the conditional share grant is linked to AkzoNobel’s relative sustainability performance and half to the company’s relative TSR performance.

### Shareholding requirements and share-matching

The CEO is required to build up over a five-year period from the date of appointment at least three times his gross base salary in AkzoNobel shares and hold these shares for the duration of his tenure as a member of the Board of Management. For any other member of the Board of Management, it is at least one time their gross base salary.

Board members are expected, for these purposes, to use both their long-term incentive and 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. However, such shares will be matched with one share to every two shares thus acquired and 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.

### Post-contract benefits

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

It is noted that the variable pay components are subject to the claw back and value adjustment provisions of the Dutch Civil Code.

### Loans

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

## Implementation of the remuneration policy in 2014

The Supervisory Board ensures that the remuneration policy, and its implementation, are aligned with the company's objectives. Both the policy itself, and the checks and balances 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 with regard to 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.

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. The peer group currently consists of the following companies:

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

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 Board of Management 2014 (below) presents an overview of the remuneration of the members of the Board of Management who were in office in 2014. See note 22 of the Consolidated financial statements for more details. The implementation of the remuneration policy in 2015 will be a separate agenda item at the 2015 AGM.

### Base salary

The base salary of the Chief Executive Officer increased by 1.7 percent in 2014. The base salary of the Chief Financial Officer, Mr. Nichols, remained unchanged.

### Short-term incentive (annual bonus)

The objectives of the short-term incentive in 2014 were to reward performance on ROI, OPI and OCF, to measure individual and collective performance and to encourage progress in the achievement of long-term strategic objectives. On the outcome of the short-term incentive elements (ROI, OPI, OCF and personal targets), the Supervisory Board applies a reasonableness test in which

## Compensation Board of Management 2014

in €	Ton Büchner Chief Executive Officer	Keith Nichols <sup>1</sup> Chief Financial Officer	Maëlys Castella <sup>2</sup> Chief Financial Officer
Base salary	834,000	308,000	176,800
Short-term incentive	783,000	308,000	106,100
Share awards <sup>3</sup>	1,233,100	-766,000	–
Post-contract benefits			
Other post-contract benefits <sup>4</sup>	325,000	147,900	28,800
Other emoluments <sup>5</sup>	8,500	278,700	2,600
Other compensation <sup>6</sup>		36,800	2,800
<b>Total remuneration</b>	<b>3,183,600</b>	<b>313,400</b>	<b>317,100</b>

<sup>1</sup> Until June 30, 2014.

<sup>2</sup> Since September 15, 2014.

<sup>3</sup> Costs relating to share awards (performance-related share plan and share-matching plan) are non-cash and relate to the expenses following IFRS2.

For Mr. Nichols a reversal of costs is reported in connection with the forfeiture of his LTI entitlements due to his voluntary departure.

<sup>4</sup> Other post-contract benefits refers to payments intended for building up retirement benefits other than those included in Post-contract benefits.

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

<sup>6</sup> Other compensation refers to compensation for living expenses (Mr. Nichols) and a company car (Mrs. Castella).

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.

The targets ROI, OPI and OCF have been determined by the Supervisory Board. Qualitative targets are set and assessed by the Supervisory Board in the context of the medium-term objectives of the company. AkzoNobel will not disclose all the targets, as they are considered commercially sensitive information. However, the targets for 2014 included goals set in relation to delivering on the company's communicated performance improvement.

OPI and OCF are based on the company's financial results in constant currencies. ROI is calculated by determining the ratio of operating income over invested capital using the numbers as reported. OPI was calculated as the number reported for IFRS purposes, in constant currencies. OCF was calculated as EBITDA minus the change in operating working capital and capital expenditures in constant currencies. In 2014, upon a minor correction in accordance with the policy, the performance against the targets set for ROI, OPI and OCF was as follows:

#### 2014 performance on financial measures

Measure	Payout as % of target
ROI	81
OPI	83
OCF	84

It is important to note that the external fraud case in Chicago (US) significantly impacted all three financial performance metrics. (See Risk management chapter for more information).

#### 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 competitors – and to align Board of Management interests with those of shareholders, as well as ensuring 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 was seven years, the last stock options that vested under the stock option plan could be exercised until the expiration date in 2014. No stock options were outstanding at year-end 2014.

#### Performance-related share plan

In line with the remuneration policy, as applicable in previous grant years, vesting of 50 percent of the shares conditionally granted in 2012 under the performance-related share plan (in respect of which the performance period ended on December 31, 2014) was linked to AkzoNobel's relative sustainability performance by taking AkzoNobel's average position in the RobecoSAM ranking.

For all conditional grants made in 2012, the relevant vesting scheme has been determined by the Supervisory Board as follows:

#### Average position in RobecoSAM ranking during performance period

Rank	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

AkzoNobel was placed first in 2012, 2013 and 2014 in the relevant RobecoSAM ranking. As a result, AkzoNobel's sustainability performance during the period 2012 to 2014 resulted in a vesting of 150 percent for this part of the long-term incentive.

For the 2012 award, the remaining 50 percent was 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
- DuPont
- Kansai Paint
- Kemira OYJ
- Nippon Paint
- PPG Industries
- RPM Industrial
- Sherwin-Williams
- Solvay
- Valspar Corporation

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 in respect of the conditional grants made in 2012:

#### TSR 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 during the period 2012 to 2014 resulted in a ninth 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 the company's combined sustainability and TSR performance, the final vesting percentage of the 2012 conditional grant after including the dividend yield during the performance period (determined to be 9.62 percent), equaled 82.22 percent.

This resulted in a total vesting of 82.22 percent of the shares that were conditionally granted in 2012. 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 award.

The number of performance-related shares conditionally granted under the 2014 plan amounted to 22,300 for the CEO. The CFO left the company and was not awarded any shares. In addition, the newly appointed CFO did not receive an award of shares in 2014.

As of 2013, a different vesting scheme applies in respect of conditional share grants. The vesting scheme includes ROI performance with a weight of 35 percent, TSR ranking with weight of 35 percent and RobecoSAM ranking with a weight of 30 percent. No further amendments have been made to the sustainability and TSR schemes. The Supervisory Board has set the ROI metric applied in the LTI for 2014 and to be achieved by the end of 2016 as follows:

#### ROI vesting scheme of conditional grant series 2014-2016

Performance	Vesting (as % of 35% of conditional grant)
≥ 17%	150
15%	100
13%	50
< 13%	0

A performance between the above points will be measured on a linear scale.

In accordance with provision II.2.13d of the Code, the schedule at the end of this remuneration report sets (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-related 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, it will, at its discretion – taking into account the performance of the company prior to the takeover bid – 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 RobecoSAM sustainability ranking of the company nor the ROI performance, therefore the Supervisory Board will, under such circumstances, primarily take into account the company's TSR performance.

#### Claw back and value adjustment

In 2014, there was no cause for a claw back or value adjustment by the Supervisory Board.

### Shareholding requirements and share-matching

The table below summarizes the shares acquired by the relevant members of the Board of Management in 2014 that would, subject to the conditions of the share-matching plan, qualify for matching by the company. See also Note 22 of the Consolidated financial statements.

#### Qualifying shares

	Qualifying shares acquired in 2014
Board members	
Ton Büchner	2,450
Maëlys Castella	–

Shares obtained by members of the Board of Management under the performance-related 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.

## Post-contract compensation

The members of the Board of Management receive contributions towards post-contract benefits, which are defined as a percentage of income as determined by the Supervisory Board. Currently, they are based on age. For the CEO, the contributions are paid over the base salary in the current year and the short-term incentive of the previous year. The contributions will therefore vary depending on the performance during the previous year and the age of the Board member. For the CFO, these contributions are paid on base salary only.

### Leaving arrangements and other special remuneration paid during 2014

In 2014, Mr. Nichols stepped down voluntarily from the Board of Management. In connection with this, and to retain him to ensure a bridging period towards finding a successor, it was decided to award him a short-term incentive over his active employment period. All entitlements to shares under the performance share plans were forfeited in connection with his voluntary departure.

### Board contracts

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 legal retirement age. The contractual arrangements allow the Supervisory Board to request the CEO 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 CEO will be entitled to the “fixed” remuneration component until the date of retirement.

See Note 22 of the Consolidated financial statements for an overview of the payments made to former Board members in 2014.

### Remuneration policy planned by the Supervisory Board for the next financial year and subsequent years

No changes in the remuneration policy are currently foreseen. The Supervisory Board will continue to closely monitor whether the policy and its implementation are in line with the objectives of the company. The metrics applied for the STI in 2014 (ROI, OPI, OCF) will continue to be applied in 2015. As regards the ROI metric for the long-term incentive awards in 2015, the Supervisory Board has approved a more challenging performance range as stated in the table below.

#### ROI performance range series 2015-2017

	Threshold	Target	Maximum
Payout opportunity	50%	100%	150%
Target	14.0%	16.5%	19.0%

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

### Unconditional shares, vested

Board member	Conditional share grant		Number of vested shares		End of lock-up period (five years after grant)		
	Series	Number	Value at grant in €	Number	Value at vesting in €	Number	Value in €
Ton Büchner	Series 2012 - 2014	31,900	1,191,784	26,228	1,512,055	–	NA
Maëlys Castella	Series 2012 - 2014	NA	–	–	–	–	–

### Conditional shares, not vested

Board member	Series	Number	Conditional share grant at target	Vesting at min performance	Vesting at max performance
			Value at grant in €	Number	Number
Ton Büchner	Series 2013 - 2015	24,200	1,203,829	–	36,300
	Series 2014 - 2016	22,300	1,256,382	–	33,450
	Matching shares 2012 (vesting 2016)	11,582	500,016	–	11,582
	Matching shares 2013 (vesting 2016)	1,429	71,086	–	1,429
	Matching shares 2014 (vesting 2017)	2,450	133,782	–	2,450
Maëlys Castella	Series 2014 - 2016	NA	–	–	–

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

# AkzoNobel on the capital markets

Proposed dividend of €1.45 per share (on a par with 2013)

Settlement of €825 million bond which matured on January 31, 2014; and €500 million bond issued on November 7, 2014

## Close dialog with the capital markets

We attach great value to maintaining an open dialog with the financial community in order to promote transparency. Management gave presentations at a number of industry conferences during the year, as well as holding meetings with investors and analysts. In March, a capital markets day was held to introduce the Business Area Executive Committee members, who presented the strategies of their respective businesses.

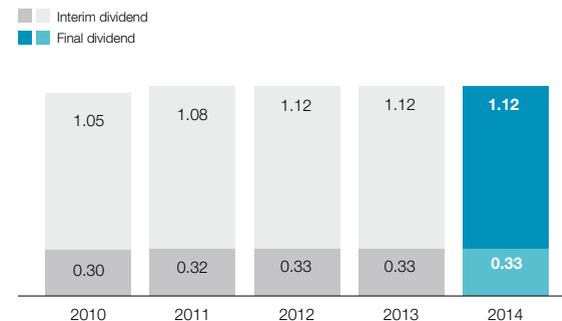
## Dividend policy

AkzoNobel's dividend policy is to pay a stable to rising dividend each year. 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 24, 2015. In compliance with the listing requirements of Euronext Amsterdam, the record date will be April 27, 2015. The dividend as proposed to the 2015 Annual General Meeting of shareholders will be payable as of May 19, 2015. The dividend paid over the last five years is shown in the graph below.

### Dividend paid in € per share



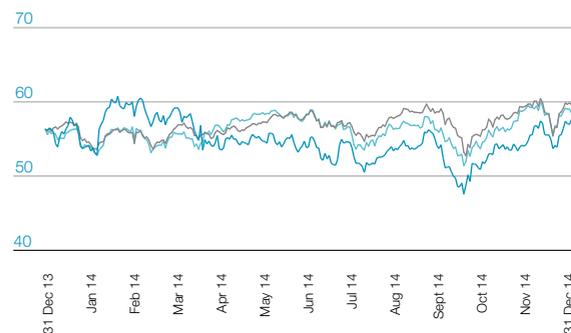
## Share price performance 2014

Our share price increased 3 percent in 2014, underperforming both the DJ Stoxx Chemicals and AEX indices. The share price performance relative to these indices for a one-year period is shown in the following graph.

### Share price performance 2014

AkzoNobel share price in €

■ AkzoNobel  
■ AEX index  
■ DJ Stoxx Chemicals index

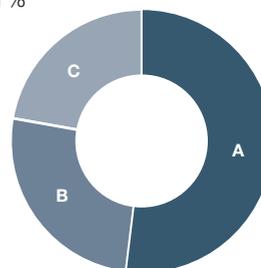


## Analyst recommendations

At year-end 2014, AkzoNobel was covered by 31 equity brokers and the following analyst recommendations were applicable (see diagram):

### Analyst recommendations in %

<b>A Buy</b>	52
<b>B Hold</b>	26
<b>C Sell</b>	22



## Listings

AkzoNobel's common shares are listed on the stock exchange of Euronext Amsterdam. The company is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 3.81 percent at year-end 2014. In 2014, 171 million AkzoNobel shares were traded on Euronext Amsterdam (2013: 206 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

### Key share data

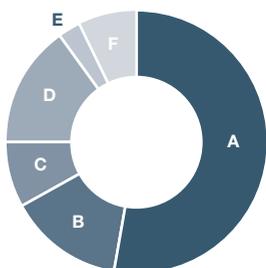
	2012	2013	2014
Year-end (share price in €)	49.75	55.71	57.65
Year-high (share price in €)	49.75	56.08	60.77
Year-low (share price in €)	35.16	42.65	47.63
Year-average (share price in €)	42.23	49.32	54.87
Average daily trade (in € millions)	39.6	39.8	36.9
Average daily trade (in millions of shares)	0.9	0.8	0.7
Number of shares outstanding at year-end (in millions)	239.0	242.6	246.0
Market capitalization at year-end (in € billions)	11.9	13.5	14.1
Net income per share (in €)	(8.82)	3.00	2.23
Dividend per share (in €)	1.45	1.45	1.45
Dividend yield (in %)	3.4	2.9	2.6

## Broad base of international shareholders

AkzoNobel, which has a 100 percent free float, has a broad base of international shareholders. Based on an independent shareholder ID carried out in December 2014, the chart below shows the geographical spread. Around 8 percent of the company's share capital is held by private investors, many of whom are resident in the Netherlands.

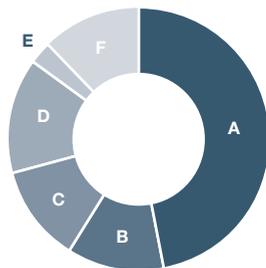
### Distribution of shares 2014

A North America	53
B UK/Ireland	14
C The Netherlands	8
D Rest of Europe	15
E Rest of world	3
F Undisclosed	7



### Distribution of shares 2013

A North America	47
B UK/Ireland	12
C The Netherlands	12
D Rest of Europe	14
E Rest of world	3
F Undisclosed	12



## AkzoNobel in key sustainability indices

In 2014, AkzoNobel was ranked number one in the Materials industry group of the Dow Jones Sustainability World Index (DJSI World) for the third consecutive year.

The company was maintained in the Euronext Vigeo – World 120 index. This index distinguishes companies achieving the most advanced environmental, social and governance performances and is reviewed every six months in June and December.

We retained the leadership of the Sustainalytics chemicals industry ranking.

We were also once again represented in the Carbon Disclosure Project, which represents more than 767 institutional investors, with over \$92 trillion in assets under management, and qualified for the Benelux Climate Disclosure Leadership Index (CDLI) 2014. Following the September 2014 review, we also remained part of the FTSE4Good Index Series.

During the year, the company was also selected for inclusion in the Global Compact 100 stock index (2014-2015) and became part of the STOXX® Global ESG Leaders indices. We also qualified for Storebrand/SPP's flagship sustainability fund, a global equity fund which invests in top performing companies across sectors; Storebrand Trippel Smart (Norway) and SPP Global Topp 100 (Sweden). We also became a constituent of the MSCI Global Sustainability Indexes/MSCI World ESG Index.



## Credit rating and outlook

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

Rating agency	Long-term rating	Outlook
Moody's <sup>1</sup>	Baa1	Stable
Standard & Poor's <sup>2</sup>	BBB+	Stable

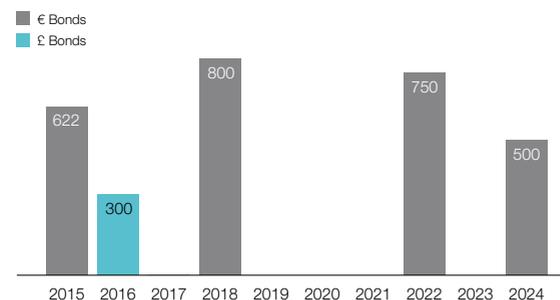
<sup>1</sup> Rating affirmed on November 13, 2014.

<sup>2</sup> Rating affirmed on December 12, 2014.

## Bonds

On January 31, 2014, an €825 million bond was repaid from existing resources. On November 7, 2014, a further €500 million bond was issued, taking advantage of favorable market conditions and historically low interest rates.

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



\* At the end of Q4 2014.

For further information please go to [www.akzonobel.com/investors](http://www.akzonobel.com/investors)

A close-up, low-angle shot of a smartphone's home button and camera lens. The lighting is warm and golden, creating a soft glow. The home button is in the foreground, and the camera lens is visible in the upper left. The background is dark and out of focus.

## In touch with the future

Having your finger on the pulse and staying on top of the latest developments is vital in today's fast-paced world. Which is why we supply advanced products for smartphones that help set new standards in technology.

# Financial information

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## Consolidated statement of income

In € millions	Note	2013	2014
<b>Continuing operations</b>			
Revenue		14,590	14,296
Cost of sales	3	(8,951)	(8,676)
<b>Gross profit</b>		<b>5,639</b>	<b>5,620</b>
Selling expenses	3	(3,023)	(2,912)
General and administrative expenses	3	(1,346)	(1,273)
Research and development expenses	3	(373)	(363)
Other operating income/(expenses)	3	61	(85)
		<b>(4,681)</b>	<b>(4,633)</b>
<b>Operating income</b>		<b>958</b>	<b>987</b>
Financing income	5	32	42
Financing expenses related to pensions	5	(21)	(18)
Other financing expenses	5	(211)	(180)
Results from associates and joint ventures	9	14	21
<b>Profit before tax</b>		<b>772</b>	<b>852</b>
Income tax	6	(111)	(252)
<b>Profit from continuing operations</b>		<b>661</b>	<b>600</b>
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	2	131	18
<b>Profit for the period</b>		<b>792</b>	<b>618</b>
<b>Attributable to</b>			
Shareholders of the company		724	546
Non-controlling interests		68	72
<b>Profit for the period</b>		<b>792</b>	<b>618</b>
<b>Earnings per share, in €</b>			
<b>Continuing operations</b>			
Basic	14	2.46	2.16
Diluted	14	2.44	2.15
<b>Discontinued operations</b>			
Basic	14	0.54	0.07
Diluted	14	0.54	0.07
<b>Total operations</b>			
Basic	14	3.00	2.23
Diluted	14	2.98	2.22

## Consolidated statement of comprehensive income

In € millions	2013	2014
<b>Profit for the period</b>	<b>792</b>	<b>618</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to the statement of income:</b>		
Post-retirement benefits	(200)	(589)
Income tax	(64)	34
<b>Net effect</b>	<b>(264)</b>	<b>(555)</b>
<b>Items that may be reclassified subsequently to the statement of income:</b>		
Exchange differences arising on translation of foreign operations	(510)	433
Cash flow hedge reserve	(2)	–
Income tax	(7)	(16)
<b>Net effect</b>	<b>(519)</b>	<b>417</b>
<b>Other comprehensive income for the period</b>	<b>(783)</b>	<b>(138)</b>
<b>Comprehensive income for the period</b>	<b>9</b>	<b>480</b>
<b>Comprehensive income attributable to</b>		
Shareholders of the company	(20)	365
Non-controlling interests	29	115
<b>Comprehensive income for the period</b>	<b>9</b>	<b>480</b>

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

In € millions	Note	2013	2014
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	7	3,906	4,142
Property, plant and equipment	8	3,589	3,835
Deferred tax assets	6	1,071	1,152
Investment in associates and joint ventures	9	183	183
Other financial non-current assets	10	965	813
<b>Total non-current assets</b>		<b>9,714</b>	<b>10,125</b>
<b>Current assets</b>			
Inventories	11	1,426	1,545
Current tax assets	6	86	88
Trade and other receivables	12	2,536	2,743
Cash and cash equivalents	13	2,098	1,732
Assets held for sale	2	203	66
<b>Total current assets</b>		<b>6,349</b>	<b>6,174</b>
<b>Total assets</b>		<b>16,063</b>	<b>16,299</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Shareholders' equity	14	5,594	5,790
Non-controlling interests	14	427	477
<b>Group equity</b>		<b>6,021</b>	<b>6,267</b>
<b>Non-current liabilities</b>			
Post-retirement benefit provisions	15	1,237	1,488
Other provisions	16	701	655
Deferred tax liabilities	6	389	412
Long-term borrowings	17	2,666	2,527
<b>Total non-current liabilities</b>		<b>4,993</b>	<b>5,082</b>
<b>Current liabilities</b>			
Short-term borrowings	18	961	811
Current tax liabilities	6	220	227
Trade and other payables	19	3,218	3,407
Current portion of provisions	16	601	494
Liabilities held for sale	2	49	11
<b>Total current liabilities</b>		<b>5,049</b>	<b>4,950</b>
<b>Total equity and liabilities</b>		<b>16,063</b>	<b>16,299</b>

# Consolidated statement of cash flows

In € millions	Note	2013	2014
<b>Profit for the period</b>		<b>792</b>	<b>618</b>
Income from discontinued operations	2	(131)	(18)
<b>Adjustments to reconcile earnings to cash generated from operating activities</b>			
Amortization/depreciation	7, 8	616	618
Impairment losses	7, 8	139	2
Financing income and expenses	5	200	156
Results from associates and joint ventures	9	(14)	(21)
Pre-tax result on divestments	2	(246)	(8)
Income tax	6	111	252
Changes in working capital	13	(13)	28
Changes in provisions	13	(395)	(406)
Interest paid		(228)	(206)
Income tax paid	6	(230)	(258)
Other		115	54
<b>Net cash from operating activities</b>		<b>716</b>	<b>811</b>
Capital expenditures	8	(666)	(588)
Interest received		38	34
Dividends from associates and joint ventures	9	10	11
Acquisition of consolidated companies	2	(34)	(13)
Proceeds from divestments	2	347	51
Other changes		(24)	(24)
<b>Net cash from investing activities</b>		<b>(329)</b>	<b>(529)</b>
Proceeds from borrowings	17, 18	249	980
Borrowings repaid	18	(502)	(1,347)
Issue of shares for stock option plan	4, 14	13	12
Dividends		(286)	(280)
<b>Net cash from financing activities</b>		<b>(526)</b>	<b>(635)</b>
<b>Net cash used for continuing operations</b>		<b>(139)</b>	<b>(353)</b>
Cash flows from discontinued operations	2	675	(88)
<b>Net change in cash and cash equivalents of continued and discontinued operations</b>		<b>536</b>	<b>(441)</b>
Cash and cash equivalents at January 1	13	1,558	2,020
Effect of exchange rate changes on cash and cash equivalents		(74)	70
<b>Cash and cash equivalents</b>		<b>2,020</b>	<b>1,649</b>

# Consolidated statement of changes in equity

## Attributable to shareholders of the company

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Cumulative translation reserve	Other (statutory) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
<b>Balance at January 1, 2013</b>	478	174	(17)	61	5,068	5,764	464	6,228
Profit for the period	–	–	–	–	724	724	68	792
Transfer to goodwill	–	–	(2)	–	–	(2)	–	(2)
Reclassification into the statement of income	–	–	19	(65)	–	(46)	–	(46)
Other comprehensive income	–	–	(19)	(406)	(200)	(625)	(39)	(664)
Tax on other comprehensive income	–	–	–	(7)	(64)	(71)	–	(71)
<b>Comprehensive income</b>	–	–	(2)	(478)	460	(20)	29	9
Dividend paid	6	133	–	–	(349)	(210)	(76)	(286)
Equity-settled transactions	–	–	–	–	46	46	–	46
Issue of common shares	1	12	–	–	–	13	–	13
Acquisitions and divestments	–	–	–	–	1	1	10	11
<b>Balance at December 31, 2013</b>	485	319	(19)	(417)	5,226	5,594	427	6,021
Profit for the period	–	–	–	–	546	546	72	618
Reclassification into the statement of income	–	–	15	–	–	15	–	15
Other comprehensive income	–	–	(15)	390	(589)	(214)	43	(171)
Tax on other comprehensive income	–	–	–	(16)	34	18	–	18
<b>Comprehensive income</b>	–	–	–	374	(9)	365	115	480
Dividend paid	5	137	–	–	(354)	(212)	(68)	(280)
Equity-settled transactions	–	–	–	–	34	34	–	34
Issue of common shares	2	7	–	–	–	9	3	12
<b>Balance at December 31, 2014</b>	492	463	(19)	(43)	4,897	5,790	477	6,267

# Segment information

Our Decorative Paints business supplies 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, architects, consumer electronics and appliance companies, steel manufacturers, the construction industry, furniture makers, aircraft, bus and truck producers,

can makers and vehicle bodyshops. Our Specialty Chemicals products are used in a wide variety of everyday products such as ice cream, soups, disinfectants, plastics, soaps, detergents, cosmetics, paper and asphalt.

## Information per Business Area

In € millions	Revenue from third parties		Group revenue		Amortization and depreciation		Incidentals		Operating income		ROS (in %)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Decorative Paints	4,131	3,858	4,174	3,909	(162)	(157)	198	–	398	248	9.5	6.3
Performance Coatings	5,532	5,569	5,571	5,589	(138)	(142)	–	–	525	545	9.4	9.8
Specialty Chemicals	4,924	4,864	4,949	4,883	(308)	(307)	(121)	–	297	508	6.0	10.4
Corporate and other	3	5	(104)	(85)	(8)	(12)	(16)	(85)	(262)	(314)	–	–
<b>Total</b>	<b>14,590</b>	<b>14,296</b>	<b>14,590</b>	<b>14,296</b>	<b>(616)</b>	<b>(618)</b>	<b>61</b>	<b>(85)</b>	<b>958</b>	<b>987</b>	<b>6.6</b>	<b>6.9</b>

In € millions	Invested capital		Total assets		Total liabilities		Capital expenditures		ROI (in %)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Decorative Paints	2,589	2,791	4,315	4,610	1,987	1,833	171	143	13.7	8.8
Performance Coatings	2,251	2,424	4,062	4,243	1,593	1,680	143	143	21.3	22.0
Specialty Chemicals	3,355	3,402	4,388	4,641	983	1,283	346	297	8.2	14.8
Corporate and other	1,086	1,246	3,095	2,739	5,430	5,225	6	5	–	–
Assets held for sale	–	–	203	66	49	11	–	–	–	–
<b>Total</b>	<b>9,281</b>	<b>9,863</b>	<b>16,063</b>	<b>16,299</b>	<b>10,042</b>	<b>10,032</b>	<b>666</b>	<b>588</b>	<b>9.6</b>	<b>10.0</b>

## Regional information

In € millions	Revenue by region of destination		Intangible assets and property, plant and equipment		Invested capital		Capital expenditures	
	2013	2014	2013	2014	2013	2014	2013	2014
The Netherlands	765	762	834	1,691	1,174	2,088	94	72
Germany	1,176	986	523	596	725	802	87	106
Sweden	473	436	396	350	424	431	38	40
UK	887	947	1,021	419	1,286	730	74	74
Other European countries	3,531	3,341	910	790	1,223	1,011	66	57
US and Canada	2,155	2,193	1,002	1,096	1,730	1,825	62	68
Brazil	925	883	465	465	557	574	70	36
Other Latin American countries	628	602	74	74	140	141	13	9
China	1,643	1,730	1,563	1,735	1,295	1,465	104	75
India	353	354	138	154	116	137	17	7
Other Asian countries	1,380	1,385	481	508	461	484	23	27
Other regions	674	677	88	99	150	175	18	17
<b>Total</b>	<b>14,590</b>	<b>14,296</b>	<b>7,495</b>	<b>7,977</b>	<b>9,281</b>	<b>9,863</b>	<b>666</b>	<b>588</b>

## 1 Note 1: Summary of significant accounting policies

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### 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, associated companies and joint ventures, 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 11, 2015, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to adoption by the Annual General Meeting of shareholders.

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### 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 control, because it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect returns through its power over the subsidiary. Non-controlling interests in equity and in results are presented separately.

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### Change in accounting policies

#### Consolidation

IFRS 10 "Consolidated Financial Statements", effective January 1, 2014, introduced an amended concept of control to determine whether an investee should be consolidated. This standard did not affect our scope of consolidation.

#### Joint arrangements

Under IFRS 11 "Joint Arrangements", effective January 1, 2014, the interest in a joint arrangement has to be classified as either a joint operation (if the investor has rights to the assets and the obligations for liabilities relating to the arrangement) or a joint venture (if the investor has rights only to the net assets of the arrangement). This standard did not affect our Consolidated financial statements.

#### Disclosure of interests in other entities

As a result of IFRS 12 "Disclosure of Interests in Other Entities", effective January 1, 2014, we have expanded the disclosures about our non-controlling interests in subsidiaries (Note 14) and equity-accounted investees (Note 9), when necessary.

#### Other changes

Other accounting pronouncements, which became effective for 2014, had no material impact on our Consolidated financial statements.

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### 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. 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.

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## 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. The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation and for which changes in the assumptions and estimates could result in significantly different results than those recorded in the financial statements are the following:

- Scope of consolidation (Note 2)
- Income tax and deferred tax assets (Note 6)
- Impairment of intangible assets and property, plant and equipment (Note 7, 8)
- Post-retirement benefits (Note 15)
- Provisions (Note 16)

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## 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. Acquisitions or divestments of subsidiaries are presented net of cash and cash equivalents acquired or disposed of, respectively. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged items.

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## Operating segments

We determine and present operating segments (“Business Areas”) on the information that is provided to the Executive Committee, our chief operating decision maker during 2014, to make decisions about resources to be allocated to the Business Area and assess its performance. 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”.

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## 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 euros, 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.

Foreign currency differences arising on the re-translation of a financial liability designated as an effective hedge of a net investment in a foreign operation are recognized in the cumulative translation reserves (in Other comprehensive income).

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## 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	
	2013	2014	2013	2014
US dollar	1.378	1.216	1.328	1.329
Pound sterling	0.834	0.780	0.850	0.806
Swedish krona	8.836	9.399	8.647	9.099
Chinese yuan	8.399	7.561	8.209	8.199

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## 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.

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## Post-retirement benefits (Note 4, 15)

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. In certain countries we also provide post-retirement benefits other than pensions to our employees and these plans are generally not funded. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method.

Post-retirement costs primarily represent the increase in the actuarial present value of the obligation for projected 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, if any. When the calculation results in a benefit to AkzoNobel, the recognized asset is limited to 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. An economic benefit is available if it is realizable during the life of the plan, or on the settlement of the plan liabilities. The effect of these so-called asset ceiling restrictions and any changes therein, is recognized in Other comprehensive income.

Actuarial gains and losses, which arise in calculating our obligation with reference to a plan, are recognized in Other comprehensive income. 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 immediately. We recognize gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

Interest on the defined benefit obligations net of the return on plan assets is included in financing expenses related to pensions. Other charges and benefits recognized are reported in Operating income, in as far as they are not recorded in Other comprehensive income.

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## Other employee benefits (Note 4, 16)

Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

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## Share-based compensation (Note 4)

We have a performance-related share plan, under which shares are conditionally granted to certain employees. The fair value is measured at grant date and amortized over the three-year period during which the employees normally become unconditionally entitled to the performance-related shares with a corresponding increase in shareholders' equity. Amortization is accelerated in the event of earlier vesting. The fair value of the performance-related shares for which vesting is based on the company's performance or the ranking for sustainability, 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 actuarial valuation methods. 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 is due to TSR performance, because this is a market performance condition.

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## Income tax (Note 6)

Income tax expense comprises both current and deferred tax, including effects of changes in tax rates. In determining the amount of current and deferred tax we also take into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Income tax is recognized in the statement of income, unless it relates to items recognized in Other comprehensive income.

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. We do not recognize deferred tax for 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.

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. Deferred tax positions are not discounted.

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## Government grants

Government grants related to costs are deducted from the relevant cost to be compensated in the same period. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset. 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.

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## Intangible assets (Note 7)

Intangible assets are valued at cost less accumulated amortization and impairment charges. 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. 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.

Intangible assets with a finite useful life, such as licenses, know-how, brands, customer relationships, intellectual property rights and capitalized development and software costs, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets, which generally ranges from five to 40 years. Amortization methods, useful lives and residual values are reassessed annually.

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## Property, plant and equipment (Note 8)

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.

Depreciation is calculated using the straight-line method, based on the estimated useful life of the asset components. 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.

Costs of major maintenance activities are capitalized 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.

We recognize conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

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## Impairments (Note 7, 8)

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. 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).

Except for goodwill, we reverse impairment losses in the statement of income if and to the extent we have identified a change in estimates used to determine the recoverable amount.

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## Leases (Note 8, 20)

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. 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.

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## Associates and joint ventures (Note 9)

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, 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.

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## Inventories (Note 11)

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 inventories are determined using weighted average cost.

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## Provisions (Note 16)

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. 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. A provision for warranties is recognized when the underlying products or services are sold, generally based on historical warranty data.

## Financial instruments

Regular purchases and sales of financial assets and liabilities are recognized on trade date. The initial measurement of all financial instruments is at fair value. Except for derivatives, the initial measurement of financial instruments is adjusted for directly attributable transaction costs.

### Derivative financial instruments (Note 23)

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. When determining fair values, credit risk for our contract party, as well as for AkzoNobel, is taken into account.

Changes in the fair value are recognized in the statement of income, unless cash flow hedge accounting or net investment hedge accounting is applied. In those cases,

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.

### Other financial non-current assets (Note 10) and trade and other receivables (Note 12)

Loans and receivables are measured at amortized cost, using the effective interest method, less any impairment losses. An allowance for impairment is established if the collection of a receivable becomes doubtful.

### Cash and cash equivalents (Note 13)

Cash and cash equivalents are measured at fair value and include all cash balances and short-term investments that are directly convertible into cash. Changes in fair values are included in Financing income.

### Long-term and short-term borrowings (Note 17, 18, 23) and trade and other payables (Note 19)

Long-term and short-term borrowings, as well as trade and other payables, are measured at amortized cost, using the effective interest rate 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, taking into account AkzoNobel's credit risk.

## New IFRS accounting standards

IFRS standards and interpretations thereof not yet in force which may apply to our Consolidated financial statements for 2015 and beyond have been assessed for their potential impact. The most important upcoming changes are:

### Other new IFRS accounting standards

Standard	Published	Implementation date in the standard	Endorsed by the European Union	Anticipated impact
IFRS 9, "Financial Instruments"	2009-2014	Implementation date of January 1, 2018, with earlier adoption permitted	Not yet endorsed	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 replaces IAS 39 – the current standard on financial instruments. We will start to make an assessment of the impact of IFRS 9 in 2015.
Amendment to IAS 19, "Employee benefits (Employee contributions)"	June 27, 2013	July 1, 2014, with earlier adoption permitted	December 17, 2014	This amendment gives further guidance on the accounting for employee contributions to post-retirement benefit plans and will become effective for our 2015 Consolidated financial statements. We have assessed that this amendment will not materially affect our Consolidated financial statements.
IFRS 15, "Revenue from Contracts with Customers"	May 28, 2014	January 1, 2017, with earlier adoption permitted	Not yet endorsed	IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. New qualitative and quantitative disclosures will also be required. We will assess the impact of IFRS 15 on our Consolidated financial statements in 2015.

In 2014, Decorative Paints completed the divestment of the German stores. Specialty Chemicals announced the intended sale of its Paper Chemicals portfolio for €153 million. The transaction is expected to be completed in 2015, subject to regular consultation with employee representatives and satisfaction of closing conditions such as receipt of required regulatory clearances. This business is currently part of Pulp and Performance Chemicals and is accounted for as held for sale. Businesses that no longer qualify as held for sale have been reclassified to ongoing operations.

No acquisition in 2014, individually nor in total, was deemed material in respect of IFRS 3 disclosure requirements.

During 2013, we concluded the divestment of Building Adhesives in Decorative Paints and some smaller divestments, such as the Primary Amides and Purate businesses in Specialty Chemicals.

### Discontinued operations

During 2013, the divestment of the North American Decorative Paints business was completed and resulted in €779 million net cash inflows and a transaction gain after tax of €141 million, both reported in discontinued operations. The net cash from operating activities in 2014 mainly relates to a settlement for a case following the divestment of Organon BioSciences in 2007.

### Material subsidiaries

The Consolidated financial statements comprise the assets and liabilities of approximately 400 legal entities. We consider legal entities material when they represent, for at least two subsequent years, more than 5 percent of either revenue or operating income (before incidentals). Material subsidiaries included in the table are 100 percent owned and meet these criteria.

### Assets and liabilities held for sale

In € millions	2013	2014
Property, plant and equipment	50	23
Intangible assets	111	21
Other assets	42	22
<b>Total assets</b>	<b>203</b>	<b>66</b>
Total non-current liabilities	25	3
Total current liabilities	24	8
<b>Total liabilities</b>	<b>49</b>	<b>11</b>

### Discontinued operations

In € millions	2013	2014
Revenue	281	–
Expenses	(294)	–
<b>Results from operating activities</b>	<b>(13)</b>	<b>–</b>
Income tax	7	–
<b>Results from operating activities after tax</b>	<b>(6)</b>	<b>–</b>
Gain on the divestment of Decorative Paints North America	138	–
Income tax on the sale	3	–
<b>Deal result</b>	<b>141</b>	<b>–</b>
Results related to discontinued operations in previous years	(36)	13
Tax related to discontinued operations in previous years	32	5
<b>Profit for the period</b>	<b>131</b>	<b>18</b>

### Cash flows from discontinued operations

In € millions	2013	2014
Net cash from operating activities	(87)	(88)
Net cash from investing activities	762	–
<b>Net cash from discontinued operations</b>	<b>675</b>	<b>(88)</b>

### Material subsidiaries

Legal entity	Principal place of business/country of corporation
Akzo Nobel Coatings Inc.	United States
Akzo Nobel Pulp and Performance Chemicals AB	Sweden
Akzo Nobel Industrial Chemicals B.V.	The Netherlands
Akzo Nobel Surface Chemistry LLC	United States
Akzo Nobel Ltda	Brazil

### 3 Note 3: Operating income

Operating income increased 3 percent to €987 million, due to higher operating results and lower restructuring charges, offset by higher incidental items (€85 million adverse items in 2014 and €61 million favorable items in 2013). These related to an external fraud suffered by one of our subsidiaries in the US, provisions for legacy items and project costs related to a divestment. Restructuring charges in 2014 were €253 million (2013: 348 million). The majority of the restructuring charges related to Performance Coatings.

- In Decorative Paints, operating income in 2013 included a gain of €198 million from the divestment of Building Adhesives. Excluding this effect, operating income improved. Restructuring charges were lower than the previous year. In addition, costs were down following the implementation of restructuring programs and strict cost control
- In Performance Coatings, operating income increased 4 percent compared with 2013. Improved operational effectiveness more than compensated for increased restructuring charges. A major restructuring activity was the implementation of a new organizational structure with fewer management layers and clearer accountability

#### Certain costs per category

In € millions	2013				2014			
	Employee benefits	Amortization	Depreciation	Incidentals	Employee benefits	Amortization	Depreciation	Incidentals
Cost of sales	(998)	(7)	(343)	–	(924)	(7)	(347)	–
Selling expenses	(943)	(94)	(75)	–	(986)	(90)	(70)	–
General and administrative expenses	(772)	(36)	(36)	(15)	(682)	(37)	(43)	–
Research and development expenses	(237)	(7)	(18)	–	(230)	(7)	(17)	–
Other operating income/(expenses)	–	–	–	76	(2)	–	–	(85)
<b>Total</b>	<b>(2,950)</b>	<b>(144)</b>	<b>(472)</b>	<b>61</b>	<b>(2,824)</b>	<b>(141)</b>	<b>(477)</b>	<b>(85)</b>

- Specialty Chemicals increased profitability over the previous year, with significant savings from restructuring programs. Operating income in 2013 was affected by €121 million incidental charges

Average raw material costs were stable compared with 2013 exit prices. In some high growth markets, currency effects on imported raw materials have affected some businesses.

#### Revenue and cost by nature

In € millions	2013	2014
Revenue	14,590	14,296
Variable selling cost	(714)	(687)
Materials and energy	(6,959)	(6,777)
Amortization and depreciation	(616)	(618)
Employee benefits	(2,950)	(2,824)
Impairment	(139)	–
Other	(2,254)	(2,403)
<b>Operating income</b>	<b>958</b>	<b>987</b>

### 4 Note 4: Employee benefits

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

In € millions	2013	2014
Salaries and wages	(2,268)	(2,226)
Post-retirement cost	(268)	(221)
Other social charges	(414)	(377)
<b>Total</b>	<b>(2,950)</b>	<b>(2,824)</b>

#### Average number of employees

Average number during the year	2013	2014
Decorative Paints	16,800	15,500
Performance Coatings	21,300	21,000
Specialty Chemicals	10,600	10,000
Corporate and other	1,500	1,700
<b>Total</b>	<b>50,200</b>	<b>48,200</b>

The average number of employees working outside the Netherlands was 43,100 (2013: 45,000).

#### Employees

At year-end	2013	2014
Decorative Paints	16,200	15,200
Performance Coatings	21,400	20,500
Specialty Chemicals	10,400	9,800
Corporate and other	1,600	1,700
<b>Total</b>	<b>49,600</b>	<b>47,200</b>

At year-end 2014, the workforce has contracted by 5 percent to 47,200 employees (year-end 2013: 49,600 employees). The decrease was mainly due to:

- A decrease of 400 employees due to divestments
- A decrease of 2,000 employees due to ongoing restructuring

## Share-based compensation

Share-based compensation relates to the performance-related share plan, as well as the share-matching plan. Charges recognized in the 2014 statement of income for share-based compensation amounted to €34 million and are included in salaries and wages (2013: €43 million).

### Performance-related share plan

Under the performance-related share plan, a number of conditional shares are granted to the members of the Board of Management, members of the Executive Committee and executives each year. The number of participants of the performance-related share plan at year-end 2014 was 635 (2013: 689).

The 2012 conditional grant of shares is linked for 50 percent to the ranking of the company in the RobecoSAM benchmark (SAM) and the remaining 50 percent to the relative TSR performance of the company compared with the peer group. As from the series 2013-2015, an additional performance measure has been added: return on investment (ROI). At the same time, the weighting changed to 35 percent for both TSR and ROI and 30 percent for SAM.

The shares of the series 2011-2013 have vested and were delivered to the participants in 2014.

The conditional shares of the 2012-2014 series vested as follows:

- Our TSR performance over the period 2012-2014 resulted in a ninth position within the ranking of the peer group companies. This did not result in vesting of conditional shares
- The average position in the RobecoSAM benchmark resulted in a first position within the ranking

As a result, the conditional shares of the 2012-2014 series vested for 75 percent (series 2011-2013: 70.83 percent), including dividend shares of 9.62 percent, the final vesting percentage amounted to 82.22 percent (series 2011-2013: 77.98 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 for the shares conditionally started in 2014 without a holding restriction was €54.55 and €44.60 with a holding restriction (2013: €52.15 without and €42.30 with a holding restriction).

The share price of a common AkzoNobel share at year-end amounted to €57.65 (2013: €55.71). For further details on our performance-related share plan, refer to the Remuneration report.

### Fair value of performance-related shares

The fair value of the performance-related shares (€51.73) was for 35 percent based on a market condition (TSR: €42.99) and for 65 percent based on non-market based performance conditions (€56.44).

The TSR part of the award is valued applying a Monte Carlo simulation model and the other part is valued based on the share price at grant date discounted for the present value of expected dividends over the vesting period.

Furthermore, for members of the Executive Committee, an additional holding restriction applies after the vesting period, up to a total of five years. Regarding this restriction an additional discount is taken into account. This leads to a lower fair value for their awards (€44.60).

The parameters applied for the fair value calculations are: share price at date of grant (opening of January 2, 2014): €56.44, expected volatility: 28.20 percent, expected dividend yield: 3.04 percent; and risk-free interest rate: 0.54 percent.

For the peer group (TSR) please refer to the Remuneration report.

### Share-matching plan

The members of the Board of Management and the members of the Executive Committee are eligible to participate in the share-matching plan. Under certain conditions, members who invest part of their short-term incentives in AkzoNobel shares may have such shares matched by the company. The investment in AkzoNobel shares in 2014 resulted in a total of 5,205 potential matching shares (2013: 2,820).

The fair value of the potential matching shares at the date of the share investment is amortized as a charge against income over the three-year vesting period. The fair value was €49.96 per potential matching share in 2014 (2013: €40.67).

### Performance-related shares

Series	Balance at January 1, 2014	Granted in 2014	Vested in 2014	Forfeited in 2014	Dividend in 2014 <sup>1</sup>	Balance at December 31, 2014	Vested on January 1, 2015
2011 – 2013	641,024	–	(641,024)	–	–	–	–
2012 – 2014	1,113,235	4,782	–	(313,397)	19,205	823,825	823,825
2013 – 2015	762,959	7,608	–	(54,709)	17,508	733,366	–
2014 – 2016	–	647,299	–	(43,780)	15,933	619,452	–
<b>Total</b>	<b>2,517,218</b>	<b>659,689</b>	<b>(641,024)</b>	<b>(411,886)</b>	<b>52,646</b>	<b>2,176,643</b>	<b>823,825</b>

<sup>1</sup> Equivalent in shares related to accumulated dividend, which is included in the balances on balance sheet date.

## 5 Note 5: Financing income and expenses

### Financing income and expenses

In € millions	2013	2014
Financing income	32	42
Financing expenses	(221)	(157)
<b>Net interest on net debt</b>	<b>(189)</b>	<b>(115)</b>
<b>Other interest movements</b>		
Financing expenses related to pensions	(21)	(18)
Interest on provisions	(8)	(32)
Other items	18	9
<b>Net other financing charges</b>	<b>(11)</b>	<b>(41)</b>
<b>Net financing expenses</b>	<b>(200)</b>	<b>(156)</b>

Net financing expenses for the year decreased by €44 million, from €200 million to €156 million. Significant variances are:

- Net interest on net debt decreased by €74 million to €115 million (2013: €189 million), mainly due to lower financing expenses as a result of bond repayments and a higher return on investments held in an escrow account
- Financing expenses related to pensions decreased by €3 million to €18 million (2013: €21 million) despite higher discount rates, as the opening deficits to which they were applied were lower
- Interest on other provisions increased by €24 million to €32 million (2013: €8 million) due to lower discount rates in 2014
- Other items decreased by €9 million to €9 million (2013: €18 million), mainly due to lower capitalized interest (2014: €10 million; 2013: €12 million) and lower interest on other financial assets

The average interest rate used for capitalized interest was 5.1 percent (2013: 5.6 percent).

## 6 Note 6: Income tax

Pre-tax income from continued operations amounted to a profit of €852 million (2013: €772 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	2013	2014
<b>Current tax expense for</b>		
The year	(147)	(244)
Adjustments for prior years	6	(8)
	<b>(141)</b>	<b>(252)</b>
<b>Deferred tax expense for</b>		
Origination and reversal of temporary differences and tax losses	(74)	(7)
(De)recognition of deferred tax assets	97	8
Changes in tax rates	7	(1)
	<b>30</b>	<b>-</b>
<b>Total</b>	<b>(111)</b>	<b>(252)</b>

The total tax charge, including discontinued operations, was €247 million (2013: €69 million).

### Effective tax rate reconciliation

The effective income tax rate based on the Consolidated statement of income is 29.6 percent. The tax line is impacted by the release of a deferred tax liability due to organizational restructuring, offset by the de-recognition of operating losses and tax credits. In addition, the geographical mix of taxable income affected the tax charge. The effective tax rate in 2013 included a non-cash gain as a result of the recognition of €124 million of previously unrecognized deferred tax assets and several non-taxable items.

#### Effective consolidated tax rate

in %	2013	2014
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	5.7	0.4
<b>Weighted average statutory income tax rate</b>	<b>30.7</b>	<b>25.4</b>
Non-taxable (income)/expenses	(3.7)	0.3
(De)recognition of deferred tax assets	(12.4)	(0.9)
Non-refundable withholding taxes	1.5	3.6
Other	(1.7)	1.2
<b>Effective consolidated tax rate</b>	<b>14.4</b>	<b>29.6</b>

The impact of non-refundable withholding tax on the tax rate is dependent on our relative share in the profit of subsidiaries in countries that levy withholding tax on dividends and on the timing of the remittance of such dividends. This impact is expected to increase in the coming years as a consequence of geomix developments. Based on the Dutch tax system there is a limited credit for such taxes.

### Deferred tax assets and liabilities

In the net deferred tax asset for other provisions (€162 million), an amount of €38 million is related to interest expense carried forward. From the total amount of recognized net deferred tax assets, €967 million (2013: €916 million) is related to entities that have suffered a loss in either 2014 or 2013 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.

The loss carryforward recognized in the balance sheet and its usage will have a decreasing impact on the cash tax rate in coming years.

### Income tax recognized in equity

Income tax is recognized on items recorded in Other comprehensive income only when they are taxable. In case this results in deferred tax assets, these are only recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized.

#### Income tax recognized in equity

In € millions	2013	2014
<b>Current tax for</b>		
Currency exchange differences on intercompany loans of a permanent nature	(7)	(16)
<b>Deferred tax for</b>		
Share-based compensation	3	–
Post-retirement benefits	(64)	34
	<b>(61)</b>	<b>34</b>
<b>Total</b>	<b>(68)</b>	<b>18</b>

#### Unrecognized deferred tax assets

In € millions	2013	2014
Capital losses	–	4
Tax losses and tax credits	41	135
Deductible temporary differences	135	249
<b>Total</b>	<b>176</b>	<b>388</b>

### Expiration year of loss carryforwards

In € millions	2015	2016	2017	2018	2019	Later	Unlimited	Total
Total loss carryforwards	38	45	131	60	57	444	2,639	3,414
Loss carryforwards not recognized in deferred tax assets	(8)	(24)	(50)	(35)	(31)	(17)	(74)	(239)
<b>Total recognized</b>	<b>30</b>	<b>21</b>	<b>81</b>	<b>25</b>	<b>26</b>	<b>427</b>	<b>2,565</b>	<b>3,175</b>

### Movement in deferred tax in 2013

In € millions	Net balance January 1, 2013	Changes in exchange rates	Recognized in income	Recognized in equity	Other changes	Net balance December 31, 2013	Assets	Liabilities
Intangible assets	(547)	35	10	–	9	(493)	88	581
Property, plant and equipment	(47)	7	(13)	–	1	(52)	66	118
Post-retirement benefit provisions	296	(1)	(109)	4	(8)	182	279	97
Other provisions	304	(12)	(12)	–	(7)	273	289	16
Other items and tax credits	241	(7)	37	3	(7)	267	329	62
Tax loss carryforwards	943	(20)	(242)	–	–	681	681	–
Deferred tax assets not recognized	(478)	2	368	(68)	–	(176)	(176)	–
<b>Tax assets/liabilities</b>	<b>712</b>	<b>4</b>	<b>39</b>	<b>(61)</b>	<b>(12)</b>	<b>682</b>	<b>1,556</b>	<b>874</b>
Set-off of tax	–	–	–	–	–	–	(485)	(485)
<b>Net deferred taxes</b>	<b>712</b>	<b>4</b>	<b>39</b>	<b>(61)</b>	<b>(12)</b>	<b>682</b>	<b>1,071</b>	<b>389</b>

### Movement in deferred tax in 2014

In € millions	Net balance January 1, 2014	Changes in exchange rates	Recognized in income	Recognized in equity	Other changes	Net balance December 31, 2014	Assets	Liabilities
Intangible assets	(493)	(29)	180	–	(10)	(352)	86	438
Property, plant and equipment	(52)	(1)	15	–	(1)	(39)	82	121
Post-retirement benefits provisions	182	11	(64)	138	–	267	348	81
Other provisions	273	21	(132)	–	–	162	175	13
Other items and tax credits	267	(2)	41	–	(1)	305	479	174
Tax loss carryforwards	681	53	51	–	–	785	785	–
Deferred tax assets not recognized	(176)	(17)	(91)	(104)	–	(388)	(388)	–
<b>Tax assets/liabilities</b>	<b>682</b>	<b>36</b>	<b>–</b>	<b>34</b>	<b>(12)</b>	<b>740</b>	<b>1,567</b>	<b>827</b>
Set-off of tax	–	–	–	–	–	–	(415)	(415)
<b>Net deferred taxes</b>	<b>682</b>	<b>36</b>	<b>–</b>	<b>34</b>	<b>(12)</b>	<b>740</b>	<b>1,152</b>	<b>412</b>

7 Note 7: Intangible assets

**Intangible assets**

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
<b>Balance at January 1, 2013</b>					
Cost of acquisition	1,513	2,226	1,030	394	5,163
Cost of internally developed intangibles	–	–	–	217	217
Accumulated amortization/impairment	(161)	(108)	(435)	(222)	(926)
<b>Carrying value</b>	<b>1,352</b>	<b>2,118</b>	<b>595</b>	<b>389</b>	<b>4,454</b>
<b>Movements in 2013</b>					
Acquisitions through business combinations	7	–	9	–	16
Investments – including internally developed intangibles	1	–	–	29	30
Transfer to assets held for sale	–	–	(76)	(35)	(111)
Divestments	–	–	–	(2)	(2)
Disposals	–	–	–	(5)	(5)
Impairments	(139)	(5)	(3)	(8)	(155)
Amortization	–	(13)	(75)	(56)	(144)
Changes in exchange rates	(42)	(105)	(21)	(9)	(177)
<b>Total movements</b>	<b>(173)</b>	<b>(123)</b>	<b>(166)</b>	<b>(86)</b>	<b>(548)</b>
<b>Balance at December 31, 2013</b>					
Cost of acquisition	1,264	2,113	854	319	4,550
Cost of internally developed intangibles	–	–	–	237	237
Accumulated amortization/impairment	(85)	(118)	(425)	(253)	(881)
<b>Carrying value at year-end 2013</b>	<b>1,179</b>	<b>1,995</b>	<b>429</b>	<b>303</b>	<b>3,906</b>
<b>Movements in 2014</b>					
Acquisitions through business combinations	5	–	3	2	10
Investments – including internally developed intangibles	–	–	–	24	24
Transfer from/(to) assets held for sale	(16)	–	71	35	90
Amortization	–	(11)	(69)	(61)	(141)
Impairments	–	–	–	(2)	(2)
Changes in exchange rates	78	137	29	11	255
<b>Total movements</b>	<b>67</b>	<b>126</b>	<b>34</b>	<b>9</b>	<b>236</b>
<b>Balance at December 31, 2014</b>					
Cost of acquisition	1,340	2,267	1,027	401	5,035
Cost of internally developed intangibles	–	–	–	255	255
Accumulated amortization/impairment	(94)	(146)	(564)	(344)	(1,148)
<b>Carrying value at year-end 2014</b>	<b>1,246</b>	<b>2,121</b>	<b>463</b>	<b>312</b>	<b>4,142</b>

## Goodwill and other intangibles per segment

In € millions	Goodwill		Brands with indefinite useful lives		Other intangibles with finite useful lives		Total intangibles	
	2013	2014	2013	2014	2013	2014	2013	2014
Decorative Paints	22	37	1,785	1,908	319	305	2,126	2,250
Performance Coatings	663	701	–	–	302	292	965	993
Specialty Chemicals	494	508	–	–	321	391	815	899
<b>Total</b>	<b>1,179</b>	<b>1,246</b>	<b>1,785</b>	<b>1,908</b>	<b>942</b>	<b>988</b>	<b>3,906</b>	<b>4,142</b>

## Average revenue growth rates per forecast period

In % per year	2015-2019	2020-2024
Decorative Paints	5.7	4.1
Performance Coatings	3.8	2.5
Specialty Chemicals	3.2	2.3

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 2014 and 2013, 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 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, analysis of market growth and the expected market share development
- 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 7.4 percent to 11.3 percent, with a weighted average of 8.7 percent.

A sensitivity test for growth assumptions – a 50 percent reduction of the growth rate – as well as the pre-tax weighted average cost of capital – a one percentage point increase – confirms sufficient headroom in all businesses. As a result, no impairment charge was recognized in relation to the annual impairment test this year.

In 2013, as a result of classifying a business as held for sale in Specialty Chemicals, an impairment charge of €139 million was recognized.

## Property, plant and equipment

In € millions	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process	Total
<b>Balance at January 1, 2013</b>						
Cost of acquisition	2,295	5,943	818	648	30	9,734
Accumulated depreciation/impairment	(1,138)	(4,223)	(604)	(8)	(22)	(5,995)
<b>Carrying value</b>	<b>1,157</b>	<b>1,720</b>	<b>214</b>	<b>640</b>	<b>8</b>	<b>3,739</b>
<b>Movements in 2013</b>						
Acquisitions through business combinations	2	1	–	–	–	3
Transfer to assets held for sale	(23)	(24)	(3)	(1)	–	(51)
Divestments	(22)	(33)	(6)	3	(1)	(59)
Capital expenditures	47	178	53	387	1	666
Transfer between categories	66	267	17	(351)	1	–
Depreciation	(75)	(321)	(75)	–	(1)	(472)
Impairment	(30)	(34)	(2)	(1)	–	(67)
Changes in exchange rates	(57)	(76)	(1)	(35)	(1)	(170)
<b>Total movements</b>	<b>(92)</b>	<b>(42)</b>	<b>(17)</b>	<b>2</b>	<b>(1)</b>	<b>(150)</b>
<b>Balance at December 31, 2013</b>						
Cost of acquisition	2,214	5,963	797	646	60	9,680
Accumulated depreciation/impairment	(1,149)	(4,285)	(600)	(4)	(53)	(6,091)
<b>Carrying value at year-end 2013</b>	<b>1,065</b>	<b>1,678</b>	<b>197</b>	<b>642</b>	<b>7</b>	<b>3,589</b>
<b>Movements in 2014</b>						
Transfer from/(to) assets held for sale	16	10	3	–	–	29
Divestments	(11)	(7)	(4)	–	–	(22)
Capital expenditures	44	144	40	358	2	588
Transfer between categories	54	178	38	(272)	2	–
Depreciation	(81)	(322)	(74)	–	–	(477)
(Reversal of) impairment	7	3	(2)	(7)	(1)	–
Changes in exchange rates	32	44	29	24	(1)	128
<b>Total movements</b>	<b>61</b>	<b>50</b>	<b>30</b>	<b>103</b>	<b>2</b>	<b>246</b>
<b>Balance at December 31, 2014</b>						
Cost of acquisition	2,319	6,261	922	813	70	10,385
Accumulated depreciation/impairment	(1,193)	(4,533)	(695)	(68)	(61)	(6,550)
<b>Carrying value at year-end 2014</b>	<b>1,126</b>	<b>1,728</b>	<b>227</b>	<b>745</b>	<b>9</b>	<b>3,835</b>

## Capital expenditures

- In Decorative Paints, we are investing in high growth markets and in creating efficiency in Europe through optimization of our production footprint
- In Performance Coatings, we completed the construction of two new production facilities that will increase our production capacity for vehicle refinishes in China and powder coatings in the Middle East
- In Specialty Chemicals, we have been focusing on the Frankfurt, Germany, project to convert to membrane electrolysis technology, several asset integrity improvement projects and growth projects for specific segments. Overall expenditures were clearly below the 2013 level

## Impairments

The 2013 impairment charges of €67 million related to restructuring activities, mainly in Europe. In 2014, a number of small impairments and reversal of prior impairments were recorded, which on balance net out.

## Financial lease

The carrying value of the property, plant and equipment financed by hire purchase and leasing and not legally owned by the company was €40 million (2013: €50 million) of which €39 million is related to buildings and land and €1 million to other equipment.

## 9 Note 9: Investments in associates and joint ventures

At year-end 2014, the carrying value of investments in associates amounted to €100 million (2013: €89 million) and in joint ventures €83 million (2013: €94 million). In 2014, the results from associates and joint ventures amounted to a profit of €21 million (2013: €14 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).

### Combined information of our share in associates and joint ventures

In € millions	Associates		Joint ventures	
	2013	2014	2013	2014
<b>Condensed statement of income</b>				
Revenue	101	93	268	220
Profit before tax	15	19	5	9
Profit from continuing operations	10	13	4	8
Other comprehensive income	–	1	(4)	4
<b>Total comprehensive income</b>	<b>10</b>	<b>14</b>	<b>–</b>	<b>12</b>
<b>Condensed balance sheet</b>				
Non-current assets	53	57	59	44
Current assets	78	84	95	76
<b>Total assets</b>	<b>131</b>	<b>141</b>	<b>154</b>	<b>120</b>
Shareholders' equity	89	100	94	83
Non-current liabilities	10	14	19	11
Current liabilities	32	27	41	26
<b>Total liabilities and equity</b>	<b>131</b>	<b>141</b>	<b>154</b>	<b>120</b>

## 10 Note 10: Other financial non-current assets

### Other financial non-current assets

In € millions	2013	2014
Loans and receivables	256	232
Other than financial instruments	709	581
<b>Total</b>	<b>965</b>	<b>813</b>

The loans and receivables include the subordinated loan of €89 million (2013: €88 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 €86 million (2013: €100 million), invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund from the escrow account is €31 million (£25 million).

Other financial non-current assets include an amount of €409 million related to pension plans in an asset position (2013: €483 million). See Note 15.

## 11 Note 11: Inventories

Of the total carrying value of inventories at year-end 2014, €49 million is measured at net realizable value (2013: €67 million). In 2014, €28 million was recognized in the statement of income for the write-down of inventories (2013: €31 million), while €17 million of write-downs were reversed (2013: €26 million). There are no inventories subject to retention of title clauses.

### Inventories

In € millions	2013	2014
Raw materials and supplies	430	476
Work in progress	75	84
Finished products and goods for resale	921	985
<b>Total</b>	<b>1,426</b>	<b>1,545</b>

## 12 Note 12: Trade and other receivables

### Trade and other receivables

In € millions	2013	2014
Trade receivables	2,086	2,246
Prepaid expenses	54	63
Tax receivables other than income tax	166	164
Receivables from associates and joint ventures	27	35
FX and commodity contracts	15	17
Other receivables	188	218
<b>Total</b>	<b>2,536</b>	<b>2,743</b>

Trade receivables are presented net of an allowance for impairment of €95 million (2013: €91 million). In 2014, €35 million of impairment losses were recognized in the statement of income (2013: €40 million).

### Ageing of trade receivables

In € millions	2013	2014
Performing accounts receivable	1,852	2,004
<b>Past due accounts receivables and not impaired</b>		
< 3 months	185	205
> 3 months	12	20
Impaired accounts receivables	128	112
Allowance for impairment	(91)	(95)
<b>Total trade receivables</b>	<b>2,086</b>	<b>2,246</b>

With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of reporting date that the debtors will not meet their payment obligations.

### Allowance for impairment of trade receivables

In € millions	2013	2014
Opening balance	100	91
Additions charged to income	40	35
Release of unused amounts	(22)	(16)
Acquisition	(1)	–
Utilization	(19)	(19)
Transfer to held for sale	(1)	–
Currency exchange differences	(6)	4
<b>Closing balance</b>	<b>91</b>	<b>95</b>

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.

**Cash and cash equivalents**

In € millions	2013	2014
Cash on hand and in banks	1,333	848
Short-term investments	765	884
<b>Included under cash and cash equivalents in the balance sheet</b>	<b>2,098</b>	<b>1,732</b>
Debt to credit institutions	(78)	(83)
<b>Total per cash flow statement</b>	<b>2,020</b>	<b>1,649</b>

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 23.

At December 31, 2014, an amount of €95 million in cash and cash equivalents was restricted (2013: €115 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

**Cash flow impact on working capital**

In € millions	2013	2014
Trade and other receivables	(181)	(113)
Inventories	(7)	(59)
Trade and other payables	175	200
<b>Total</b>	<b>(13)</b>	<b>28</b>

**Cash flow impact of changes in provisions**

In € millions	2013	2014
Post-retirement provisions	(417)	(348)
Restructuring provisions	55	16
Environmental and sundry provisions	(33)	(74)
<b>Total</b>	<b>(395)</b>	<b>(406)</b>

Changes in provisions is the balance of amounts paid and additions/reversals during the year. In 2014, €92 million of the change in sundry provisions concerned discontinued operations.

**Cash flow and net debt**

Operating activities in 2014 resulted in cash inflows of €811 million (2013: €716 million). Profit from continuing operations was lower in 2014, however, the comparative for 2014 included a non-cash gain from deferred tax of €124 million, which is reversed on the line Income tax. Net cash from operating activities benefited from lower working capital.

Net debt at year-end 2014 of €1,606 million was slightly up on 2013 (€1,529 million). Cash outflows used for discontinued operations of €88 million mainly related to a settlement for a case following the divestment of Organon BioSciences in 2007.

**Net debt**

in € millions	Long-term	Short-term	Cash	Net debt
<b>Net debt equivalents at January 1, 2013</b>	<b>3,388</b>	<b>662</b>	<b>(1,752)</b>	<b>2,298</b>
New debt issued	167	82	(249)	-
Redemption of loans	-	(594)	594	-
Net cash from operating activities	-	-	(716)	(716)
Capital expenditures	-	-	666	666
Acquisitions and divestments	-	-	(1,092)	(1,092)
Dividends	-	-	286	286
Transfers from long-term to short-term	(867)	867	-	-
Effect of exchange rate changes on cash and cash equivalents	(9)	(37)	91	45
Other changes	(13)	(19)	74	42
<b>Net debt equivalents at year-end</b>	<b>2,666</b>	<b>961</b>	<b>(2,098)</b>	<b>1,529</b>

**Net debt**

in € millions	Long-term	Short-term	Cash	Net debt
<b>Net debt equivalents at January 1, 2014</b>	<b>2,666</b>	<b>961</b>	<b>(2,098)</b>	<b>1,529</b>
New debt issued	512	474	(986)	-
Redemption of loans	-	(1,347)	1,347	-
Net cash from operating activities	-	-	(811)	(811)
Capital expenditures	-	-	588	588
Acquisitions and divestments	-	-	38	38
Dividends	-	-	280	280
Transfers from long-term to short-term	(663)	663	-	-
Effect of exchange rate changes on cash and cash equivalents	23	-	(70)	(47)
Other changes	(11)	60	(20)	29
<b>Net debt equivalents at year-end</b>	<b>2,527</b>	<b>811</b>	<b>(1,732)</b>	<b>1,606</b>

**Composition of share capital at year-end 2014**

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	492,086,188
<b>Total</b>	<b>1,600,019,200</b>	<b>492,105,388</b>

**Outstanding common shares**

	2013	2014
Number of shares		
<b>Outstanding at January 1</b>	<b>239,047,452</b>	<b>242,625,535</b>
Issued in connection to stock options exercised and performance shares granted	3,578,083	3,417,559
<b>Balance at year-end</b>	<b>242,625,535</b>	<b>246,043,094</b>

**Weighted average number of shares**

	2013	2014
Number of shares		
<b>Issued common shares at January 1</b>	<b>239,047,452</b>	<b>242,625,535</b>
Issued common shares during the year	2,180,576	2,033,094
<b>Shares for basic earnings per share for the year</b>	<b>241,228,028</b>	<b>244,658,629</b>
<b>Effect of dilutive shares</b>		
For stock options	5,647	–
For performance-related shares	2,060,997	1,410,341
For share-matching plan	14,825	20,801
<b>Shares for diluted earnings per share</b>	<b>243,309,497</b>	<b>246,089,771</b>

**Non-controlling interests**

Group equity	Partner	%	2013		2014	
			Equity stake € mln	%	Equity stake € mln	%
AkzoNobel Swire Paints (Shanghai) Limited, Shanghai, China	Swire Pacific Limited, China	30.00	167	30.00	184	
Akzo Nobel India Ltd, Kolkata, India	Privately held, India	27.04	53	27.04	50	
PT ICI Paints Indonesia, Jakarta, Indonesia	PT DWI Satrya Utama, Indonesia	45.00	27	45.00	30	
ICI Paints (Malaysia) Sdn Bhd, Kuala Lumpur, Malaysia	Privately held, Malaysia	40.05	29	40.05	30	
AkzoNobel Swire Paints (Guangzhou) Limited, China	Swire Pacific Limited, Industrial Development Co. Ltd of Guangzhou, China	46.00	41	46.00	53	
International Paint (Korea) Ltd, Busan, South Korea	Noroo Holdings, South Korea	40.00	19	40.00	19	
Kayaku Akzo Corp., Tokyo Japan	Nippon Kayaku Co., Ltd., Japan	25.00	8	25.00	8	
Akzo Nobel Kemipol AS, Izmir, Turkey	Privately held, Turkey	49.00	15	49.00	18	
Marshall Boya, Dilovasi-Kocaeli, Turkey	Marshall Employees' Foundation, Privately held, Turkey	11.75	5	11.75	5	
AkzoNobel Boya Sanayi ve Ticaret A.S. (PC), Izmir, Turkey	Privately held, Turkey	25.00	4	25.00	5	
Akzo Nobel Pakistan Limited, Lahore, Pakistan	Privately held, Pakistan	24.19	9	24.19	10	
Akzo Nobel Oman SAOC, Oman	Omar Zawawi establishment LLC, Oman	50.00	10	50.00	13	
Others			40		52	
<b>Total</b>			<b>427</b>		<b>477</b>	

**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 €nil (2013: €nil).

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 was €16 million negative (2013: €7 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, Executive Committee and other executives. For details of the share-based compensation, see Note 4. Tax related to equity-settled transactions was €nil in 2014 (2013: €3 million positive).

**Non-controlling interests**

None of the non-controlling interests are considered individually material to the group.

Post-retirement benefit provisions relate to defined benefit pension 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 (ICIPF) and the AkzoNobel Pension Scheme (CPS) in the UK which together account for 83 percent of defined benefit obligations (DBO) and 91 percent of plan assets. Other pension plans include the largely unfunded plans in Germany, the plans in the US and certain other smaller plans in the UK. The benefits of these pension 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. We also provide certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands.

Valuations of the obligations under the plans are carried out regularly by independent qualified actuaries. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees. Governance of the benefit plans is the responsibility of the ExCo Pensions Committee. This committee provides oversight of the costs and risks of the plans including oversight of the impact of the plans on the company in terms of cash flow, pension expenses and the balance sheet, by the development and maintenance of policies on benefit design, funding, asset allocation and assumption setting.

### Pension plans

Almost all of the defined benefit plans have been closed to new members since the early to mid-2000s, although in many plans long-serving employees continue to accrue benefits. For plans in the US, benefit accrual is frozen and employees participate in defined contribution plans for future service. In countries where plans are closed, new employees are eligible to join a defined contribution arrangement. In countries in high growth markets, pension schemes currently are not material. Unless mandated by law, it is our policy that any new plans are established as defined contribution plans.

The most significant risks that we run in relation to defined benefit plans are that investment returns fall short of expectations, a decline in discount rates, that inflation exceeds expectations, and that retirees live longer than expected. The assets and liabilities of each of the funded plans are held outside of the company in a trust or a foundation, which is governed by a board of fiduciaries or trustees, depending on the legal arrangements in the country concerned. The primary objective with regard to the investment of pension plan assets is to ensure that each individual plan has sufficient funds available to satisfy future benefit obligations in accordance with local legal and legislative requirements. For this purpose, we work closely with plan trustees or fiduciaries to develop strategic asset allocation strategies. Asset liability modeling (ALM) studies are carried out periodically to analyze and understand the trade-off between expected investment returns, volatility of outcomes and the impact on cash contributions. We aim to strike a cautious balance between these factors in order to agree affordable contribution schedules with plan fiduciaries. Plan assets principally consist of long-term interest-earning investments, insurance policies and (investment funds with holdings primarily in) quoted equity securities. Our largest plans use derivatives (such as index futures, currency forward contracts and swaps) to reduce volatility of underlying variables, for efficient portfolio management and to improve the liability matching characteristics of the assets. Limits have been set on the use of derivatives which are periodically subject to review for compliance with the pension fund's investment strategy. ICIPF invested in annuity contracts in 2014 that aim to hedge all key risks related to a certain part of the pensioner population and CPS has an insurance contract with SwissRe to hedge longevity risk in respect of a portion of its pensioners.

In line with our proactive pension risk management strategy, we seek to reduce risk in our pension plans over time. We continue to evaluate different potential de-risking strategies and opportunities on an ongoing basis. Some future de-risking transactions may have both cash flow and balance sheet impacts which may be substantial, as have some of the de-risking actions already taken. The cost of fully removing risk would likely exceed estimated

funding deficits. In March 2014, the Trustee of ICIPF entered into two annuity buy-in agreements in line with their ongoing strategy of de-risking which is supported by AkzoNobel. The two agreements are with Legal & General plc and Prudential Retirement Income Limited and covered, in aggregate, £3.6 billion (€4.3 billion) of pensioner liabilities, which is broadly equivalent to one quarter of our pension liabilities and one third of the ICIPF liabilities. The buy-ins involved the purchase of bulk annuity policies under which the insurers will pay to ICIPF amounts equivalent to the benefits payable to a subset of current pensioners. The pension liabilities remain with ICIPF and the matching annuity policies are held within ICIPF. The accounting impact of the transaction is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £640 million (€773 million). The Trustee of ICIPF transacted a further, smaller buy-in in November 2014 with Prudential Retirement Income Limited covering £0.3 billion (€0.4 billion) of pensions liabilities giving a reduction in Other comprehensive income of £55 million (€68 million). By purchasing these bulk annuities, the Trustee has taken a significant step in actively de-risking liabilities and reducing the risk that AkzoNobel will be required to contribute additional cash in the future.

The remaining pension plans primarily represent defined contribution plans. This includes, among others, the Pension Fund APF in the Netherlands and the 401k Plan in the US. 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 2014 were €10 million (2013: €10 million). Alecta's target funding ratio in 2014 was 140 percent although the most recently quoted ratio at September 2014 stood at 146 percent. There are also a small number of multi-employer plans in the US and Germany in which AkzoNobel participates with annual contributions in each case totaling 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 €145 million in 2014 (2013: €172 million).

### Other post-retirement benefit plans

AkzoNobel provides certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands. The risks to which the US healthcare plans expose AkzoNobel include the risk of future increases in the cost of healthcare which would increase the cost of maintaining the plans. The benefit payments to retirees under the Dutch plan are frozen. Both plans expose AkzoNobel to the risk of a further decline in long-term corporate bond rates, which increases the plan obligations, and longevity risk as the plans generally pay lifetime benefits.

### Reconciliation balance sheet

In € millions	2013			2014		
	DBO	Plan assets	Total	DBO	Plan assets	Total
<b>Balance at the beginning of the period</b>	<b>(16,674)</b>	<b>15,378</b>	<b>(1,296)</b>	<b>(15,188)</b>	<b>14,248</b>	<b>(940)</b>
<b>Statement of income</b>						
Current service cost	(68)	–	(68)	(57)	–	(57)
Past service cost/curtailments	13	–	13	(2)	–	(2)
Settlements	584	(602)	(18)	–	–	–
Net (interest)/income on net defined benefit (liability)/asset	(602)	581	(21)	(643)	625	(18)
<b>Cost recognized in statement of income</b>	<b>(73)</b>	<b>(21)</b>	<b>(94)</b>	<b>(702)</b>	<b>625</b>	<b>(77)</b>
<b>Remeasurements</b>						
Actuarial gain/(loss) due to liability experience	(92)	–	(92)	68	–	68
Actuarial gain/(loss) due to liability financial assumptions changes	9	–	9	(1,469)	–	(1,469)
Actuarial gain/(loss) due to liability demographics assumptions changes	17	–	17	132	–	132
Actuarial loss due to buy-in	–	–	–	–	(841)	(841)
Return on plan assets greater/(less) than discount rate	–	(128)	(128)	–	1,528	1,528
<b>Remeasurement effects recognized in Other comprehensive income</b>	<b>(66)</b>	<b>(128)</b>	<b>(194)</b>	<b>(1,269)</b>	<b>687</b>	<b>(582)</b>
<b>Cash flow</b>						
Employer contributions	–	568	568	–	425	425
Employee contributions	(5)	5	–	(4)	4	–
Benefits and administration costs paid from plan assets	962	(962)	–	948	(948)	–
<b>Net cash flow</b>	<b>957</b>	<b>(389)</b>	<b>568</b>	<b>944</b>	<b>(519)</b>	<b>425</b>
<b>Other</b>						
Acquisitions/divestments/transfers	319	(266)	53	10	(10)	–
Changes in exchange rates	349	(326)	23	(960)	958	(2)
<b>Total other</b>	<b>668</b>	<b>(592)</b>	<b>76</b>	<b>(950)</b>	<b>948</b>	<b>(2)</b>
<b>Balance at the end of the period</b>	<b>(15,188)</b>	<b>14,248</b>	<b>(940)</b>	<b>(17,165)</b>	<b>15,989</b>	<b>(1,176)</b>
Asset restriction	–	–	(2)	–	–	(2)
Medicare receivable	–	–	(2)	–	–	(3)
<b>Net balance sheet provision</b>	<b>(15,188)</b>	<b>14,248</b>	<b>(944)</b>	<b>(17,165)</b>	<b>15,989</b>	<b>(1,181)</b>
<b>In the balance sheet under</b>						
Other financial non-current assets			483			409
Post-retirement benefit provisions			(1,237)			(1,488)
Current portion of provisions			(184)			(102)
Liabilities held for sale			(6)			–
<b>Net balance sheet provision</b>			<b>(944)</b>			<b>(1,181)</b>

In addition to the expenses borne by the funds themselves, some expenses are borne directly by AkzoNobel. Administrative expenses are incurred, especially for the UK pension funds, of €17 million (2013: €12 million), which are included in Operating income. In addition, we directly incurred asset management expenses of €7 million (2013: €6 million), which have been included in Other comprehensive income.

Interest costs on DBO for both pensions and other post-retirement benefits together with the interest income on plan assets comprise the net financing expenses related to pensions of €18 million (2013: €21 million), see Note 5.

#### DBO at funded and unfunded pension plans

In € millions	2013	2014
Wholly or partly funded plans	14,591	16,481
Unfunded plans	295	350
<b>Total</b>	<b>14,886</b>	<b>16,831</b>

benefits are available in the form of future refunds from the plan or reductions in future contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

#### Cash flows

In 2015, we expect to contribute €431 million to our defined benefit pension plans. This includes €99 million of regular pension contributions and €332 million for top-ups, of which £25 million (€32 million) will be paid out of the CPS escrow account (see explanation in Key plan details). We expect to pay a further €24 million for other post-retirement benefit plans. No allowance is made for any special one-off contributions that may arise in relation to new de-risking opportunities.

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.

#### Plan assets

In € millions	2013		2014	
	Total	Percentage of total	Total	Percentage of total
Equities	1,824	13	1,566	10
Debt - fixed interest government bonds	2,635	18	1,222	8
Debt - index-linked government bonds	2,816	20	3,701	23
Debt - corporate and other bonds	4,339	30	1,645	10
Insurance contracts	213	1	4,405	28
Cash and cash equivalents	1,117	8	1,516	9
Other	1,304	10	1,934	12
<b>Total</b>	<b>14,248</b>	<b>100</b>	<b>15,989</b>	<b>100</b>

The equities and debt assets in the table above have quoted prices in active markets, although most are held through funds comprised of such instruments which are not actively traded themselves. Other plan assets include certain assets that are not quoted in active markets, such as real estate, insurance policies and private equity. Other assets included unquoted securities totaling €654 million (2013: €531 million), of which €314 million is invested in real estate (2013: €229 million). Plan assets did not directly include any of AkzoNobel's own transferable financial instruments, nor any property occupied by or assets used by the company.

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 (2013: €2 million).

Pension balances recorded under Other financial non-current assets totaled €409 million (2013: €483 million) could be recognized under IFRIC14 because economic

#### Future benefit payments

In € millions	Pensions	Other post-retirement benefits
2015	970	24
2016	964	24
2017	968	24
2018	973	23
2019	980	23
2020-2024	4,993	106

## Key figures and assumptions by plan

In € millions or %	2013					2014				
	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total
Percentage of total DBO	63%	20%	15%	2%		62%	21%	15%	2%	
Defined Benefit Obligation at year-end	(9,576)	(3,051)	(2,259)	(302)	(15,188)	(10,633)	(3,548)	(2,650)	(334)	(17,165)
Fair value of plan assets at year-end	10,007	2,941	1,300	–	14,248	10,870	3,606	1,513	–	15,989
Plan funded status	431	(110)	(959)	(302)	(940)	237	58	(1,137)	(334)	(1,176)
Restriction on asset recognition	–	–	(2)	–	(2)	–	–	(2)	–	(2)
Medicare receivable	–	–	–	(2)	(2)	–	–	–	(3)	(3)
<b>Amounts recognized on the balance sheet</b>	<b>431</b>	<b>(110)</b>	<b>(961)</b>	<b>(304)</b>	<b>(944)</b>	<b>237</b>	<b>58</b>	<b>(1,139)</b>	<b>(337)</b>	<b>(1,181)</b>
Percentage of total current service cost	13%	22%	57%	8%		16%	22%	55%	7%	
Current service cost	9	15	38	6	68	9	13	31	4	57
Employer contributions	170	91	281	26	568	230	93	79	23	425
Discount rate	4.3%	4.4%	3.9%	4.2%	4.2%	3.4%	3.6%	2.8%	3.3%	3.4%
Rate of compensation increase	4.3%	4.4%	2.9%	–	4.1%	3.9%	4.0%	2.7%	–	3.8%
Inflation	3.3%	3.4%	2.1%	–	3.2%	2.9%	3.0%	2.0%	–	2.8%
Pension increases	3.1%	2.4%	1.9%	–	2.7%	2.8%	2.1%	2.1%	–	2.5%
Healthcare cost trend rate for next year	–	–	–	5.5%	5.5%	–	–	–	5.3%	5.3%
Rate to which cost trend rate is assumed to decline	–	–	–	3.8%	3.8%	–	–	–	3.9%	3.9%
Year that rate reaches the ultimate trend	–	–	–	2019-2032	2019-2032	–	–	–	2019-2032	2019-2032
<b>Life expectancy (in years)</b>										
<b>Currently aged 60</b>										
Males	26.8	26.7	25.0	24.9	26.5	26.7	26.8	25.2	24.8	26.5
Females	29.3	28.4	28.1	26.7	28.9	29.0	28.4	28.3	26.7	28.7
<b>Currently aged 45, from age 60</b>										
Males	28.0	27.9	26.6	26.0	27.7	27.8	28.0	26.8	26.1	27.7
Females	30.5	29.6	29.6	27.3	30.1	30.3	29.7	29.8	27.6	30.0

## Sensitivity of DBO to change in assumptions

In € millions	ICIPF UK	CPS UK	Other pension plans	Other post- retirement benefits	Total
Discount rate: 0.5% decrease	747	323	202	18	1,290
Price inflation: 0.5% increase <sup>1</sup>	446	204	115	–	765
Life expectancy: one year increase from age 60	489	123	77	11	700
Healthcare cost trend rate: 0.5% increase	–	–	–	4	4
<b>Maturity information</b>					
Weighted average duration of DBO (years)	13.4	17.3	15.1	10.5	14.4

<sup>1</sup> The sensitivity to price inflation assumption includes corresponding changes to all inflation-related assumption compensation increases, pensions in payment and pensions in detriment.

The effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO; in particular the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for each plan. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have

on the total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent our view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-retirement defined benefit plans or changes in asset values are not reflected in this analysis.

The sensitivities in the table only apply to the DBO and not to the net amounts recognized in the balance sheet. Movements in the fair value of plan assets would, to a significant extent, be expected to offset movements in the DBO resulting from changes in the given assumptions.

## Key plan details for the two largest pension plans

	ICI Pension Fund, UK (ICIPF)	AkzoNobel (CPS) Pension Scheme, UK (CPS)
Type of plan	Defined benefit, based upon years of service and final salary	Defined benefit, based upon years of service and final salary
Benefits	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement
Pension increases (main benefit section)	Annually linked to UK RPI with a maximum of 5 percent	Annually linked to UK CPI with a maximum of 5 percent
Plan structure	Plans are set up under a trust and are tax approved	Plans are set up under a trust and are tax approved
Governance	Trustee directors: Five members nominated One independent (Law Debenture) Five appointed with the agreement of Law Debenture	Trustee directors: Four members nominated Four companies nominated One independent (Law Debenture)
Regulatory framework	The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company	
Funding basis	A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities	
Frequency of funding reviews	Every three years	Every three years
Latest valuation	March 31, 2011	March 31, 2012
Funding deficit at latest valuation	£1.0 billion (€1.3 billion)	£220 million (€282 million) allowing for the escrow account
Recovery plan	£178.5 million (€229 million) per annum to 2017 inclusive paid in January each year. As a result of the 2014 buy-in transactions a one-time additional £125 million (€160 million) will likely be added as part of the next valuation.	£42 million (€54 million) per annum to 2018 inclusive, plus £25 million (€32 million) per annum to 2017 from the escrow account paid in March each year
Next funding review	March 31, 2014	March 31, 2015
Estimated funding deficit at December 31, 2014	£0.85 billion (€1.1 billion) (2013: £1.1 billion (€1.3 billion))	£0.2 billion (€0.26 billion) (2013: £0.25 billion (€0.30 billion))
Estimated solvency deficit at March 31, 2013	£2.2 billion (€2.8 billion)	£1.6 billion (€2.0 billion)
Strategic asset allocation		
Matching	80%	58%
Return seeking	20%	42%
Other	Buy-in annuity contracts cover 49% of pensioner liabilities	Longevity hedge contract covers 40% of pensioner liabilities
Escrow account	Not applicable	Pre-funded account established in 2007 to fund existing deficit. It pays a minimum of £25 million per annum to CPS until it is exhausted (no later than 2017). Value at year-end 2014 is £93 million (€119 million)
Membership at March 31, 2014		
Active	417	624
Deferred	9,816	9,782
Pensioner	47,586	19,803
Total	57,819	30,209

### Movements in other provisions

In € millions	Restructuring of activities	Environmental costs	Sundry	Total
<b>Balance at January 1, 2014</b>	<b>236</b>	<b>329</b>	<b>553</b>	<b>1,118</b>
Additions made during the year	179	13	111	303
Utilization	(144)	(28)	(210)	(382)
Amounts reversed during the year	(19)	(20)	(32)	(71)
Unwind of discount	2	13	17	32
Transfer to/(from) liabilities held for sale	–	6	(1)	5
Changes in exchange rates	5	13	24	42
<b>Balance at December 31, 2014</b>	<b>259</b>	<b>326</b>	<b>462</b>	<b>1,047</b>
Non-current portion of provisions	70	282	303	655
Current portion of provisions	189	44	159	392
<b>Balance at December 31, 2014</b>	<b>259</b>	<b>326</b>	<b>462</b>	<b>1,047</b>

#### 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.

#### Provisions for environmental costs

For details on environmental exposures, see Note 20.

#### Sundry provisions

Sundry provisions relate to a great variety of risks and commitments, including provisions for claims, antitrust cases and other long-term employee benefits, such as long-service leave and jubilee payments.

The majority of the cash outflows related to sundry provisions are expected to be within one to five years. In calculating the sundry provisions, a pre-tax discount rate of on average 2.8 percent has been used.

#### Current portion of provisions

Current portion of post-retirement benefit provisions (€102 million) and other provisions (€392 million) adds up to €494 million (2013: €601 million).

### Long-term borrowings

In € millions	2013	2014
Bonds issued	2,458	2,351
Debt to credit institutions	48	44
Other borrowings	160	132
<b>Total</b>	<b>2,666</b>	<b>2,527</b>

The amounts due within one year are presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see Note 23. During 2014, the average effective interest rate on debt issued was 4.9 percent (2013: 5.3 percent).

#### Bonds issued

In € millions	2013	2014
7 1/4% 2009/15 (€621 million)	626	–
8% 2009/16 (£250 million)	299	320
4% 2011/18 (€800 million)	793	794
2 5/8% 2012/22 (€750 million)	740	741
1 3/4% 2014/24 (€500 million)	–	496
<b>Total</b>	<b>2,458</b>	<b>2,351</b>

#### Aggregated maturities of long-term borrowings

In € millions	2016 – 2019	After 2019
Bonds issued	1,114	1,237
Debt to credit institutions	32	12
Other borrowings	81	51
<b>Total</b>	<b>1,227</b>	<b>1,300</b>

**18** Note 18: Short-term borrowings

We have a €1.8 billion multi-currency revolving credit facility, which was extended in 2013 by an additional year to 2018. At year-end 2014 and 2013, this facility had not been drawn. At year-end 2014 and 2013, none of the borrowings was secured by collateral.

In November 2014, a bond was issued with a nominal value of €500 million maturing in 2024 at a coupon rate of 1.75 percent.

Financial lease liabilities are included in Other borrowings and aggregated €49 million (2013: €51 million). An amount of €6 million (2013: €6 million) will mature within one year and €18 million will mature in the period 2016 through 2019 and €25 million after 2019.

**Short-term borrowings**

In € millions	2013	2014
Debt to credit institutions	78	83
Current portion of long-term borrowings	883	662
Other borrowings	–	66
<b>Total</b>	<b>961</b>	<b>811</b>

In January 2014, a bond of €825 million matured. In March 2015 a bond totaling €621 million will mature and is classified as a short-term borrowing.

We have US dollar and euro commercial paper programs in place, which can 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 2014 and 2013.

**19** Note 19: Trade and other payables**Trade and other payables**

In € millions	2013	2014
Suppliers	1,944	2,149
Amounts payable to employees	361	367
FX and commodity contracts	42	45
Taxes and social security contributions	216	231
Customer-related payables	184	224
Dividends	14	14
Payable to associates and joint ventures	32	13
Other liabilities	425	364
<b>Total</b>	<b>3,218</b>	<b>3,407</b>

### Environmental matters

We are confronted with substantial costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against us in various countries. In some cases, this concerns sites divested in prior years or derelict sites belonging to companies acquired in the past.

It is our policy to accrue and charge against earnings environmental clean-up costs when it is probable that a liability has materialized and an amount is reliably 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.

The provisions for environmental costs amounted to €326 million at year-end 2014 (2013: €329 million). The provision has been discounted using an average pre-tax discount rate of 3.3 percent (2013: 3.9 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 1990s.

This claim is disputed. In 2014, a provision was taken in anticipation of an agreement on the settlement of proceedings initiated by CDC Project 13 SA in relation to the Sodium Chlorate infringements in the 1990s. 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.

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). 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. Regarding the Organon BioSciences divestment to Schering-Plough in 2007, all pending material claims have been solved in 2014.

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 can be reliably estimated. 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 €44 million (2013: €93 million).

Lease payments during 2014 amounted to €112 million (2013: €127 million).

### Maturity operational lease contracts

In € millions	2013	2014
Payments due within one year	106	103
Payments between one and five years	215	205
Payments due after more than five years	126	103
<b>Total</b>	<b>447</b>	<b>411</b>

Guarantees related to associates and joint ventures at year-end 2014 totaled €9 million (2013: €9 million).

## 21 Note 21: 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 (associates and joint ventures). Such transactions were conducted at arm's length with terms comparable with transactions with third parties. In 2014, a significant related party transaction was a €65 million gas supply (2013: €99 million) 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.

During 2014, 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 22. 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 2014. 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. For related party transactions with pension funds, see Notes 10 and 15. For receivables from and payables to related party transactions, see Notes 12 and 19.

## 22 Note 22: Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €10.8 million (2013: €15.4 million). An amount of €2.6 million relates to short-term employee benefits (2013: €7.0 million); €1.0 million to post-contract benefits and other post-contract compensation (2013: €1.2 million); and €2.7 million to share-based compensation (2013: €5.8 million). The members of the Executive Committee that 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: €130,000 for the Chairman, €78,000 for the Deputy Chairman and €65,000 for the other members (as of May 1, 2014). 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 2013	Remuneration	Attendance fee	Committee allowance fees	Employer's charges	Total remuneration 2014
Antony Burgmans, Chairman <sup>1</sup>	70,000	103,333	2,500	18,333	–	124,166
Sari Baldauf	77,500	60,000	15,000	16,667	–	91,667
Dolf van den Brink <sup>2</sup>	75,000	60,000	2,500	23,333	–	85,833
Peggy Bruzelius	97,300	60,000	17,500	18,333	20,642	116,475
Uwe-Ernst Bufe, Deputy Chairman	77,500	72,000	15,000	–	–	87,000
Peter Ellwood <sup>3</sup>	86,400	16,667	7,500	5,000	1,530	30,697
Byron Grote <sup>4</sup>	–	43,333	10,000	13,333	–	66,666
Louis Hughes	98,900	60,000	30,000	18,333	3,900	112,233
Ben Verwaayen	80,500	60,000	12,500	13,333	3,900	89,733
Karel Vuursteen <sup>3</sup>	123,900	33,333	–	5,000	1,930	40,263
<b>Total</b>	<b>787,000</b>	<b>568,666</b>	<b>112,500</b>	<b>131,665</b>	<b>31,902</b>	<b>844,733</b>

<sup>1</sup> Chairman as from April 29, 2014.

<sup>2</sup> Until December 22, 2014.

<sup>3</sup> Until April 29, 2014.

<sup>4</sup> As from April 29, 2014.

## Shares held by the members of the Supervisory Board

Number of shares at year-end	2013	2014
Antony Burgmans	500	500
Sari Baldauf	–	–
Uwe-Ernst Bufe	500	500
Peggy Bruzelius	500	500
Byron Grote <sup>1</sup>	–	392
Louis Hughes	538	548
Ben Verwaayen	–	–

<sup>1</sup> In the form of ADRs.

## 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 2014 are linked to ROI (20 percent), OPI (20 percent), OCF (30 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 (€278,700) related to employer's contribution in the UK. The other costs for Mr. Nichols (€36,800) related to home allowances.

### Post-contract compensation

This refers to compensation intended for building up retirement benefits instead of pension contributions. The compensation is based on age and is calculated over the 2014 remuneration. For the CEO, the contributions are paid over the base salary in the current year and the short-term incentive of the previous year. The contributions will therefore vary depending on the performance during the previous year and the age of the Board member. For the CFO, these contributions are paid on base salary only.

### 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 amounted to €44.60 per performance-related share conditionally granted in 2014 for those members of the Board of Management facing a two-year holding restriction (2013: €42.30), and €54.55 for those members whose holding restriction will lapse after the end of their term (2013: €52.15). The fair value for the shares related to the share-matching plan amounted to €49.96 (2013: €40.67).

## Board remuneration 2013

In €	Salary	Short-term incentives	Other short-term benefits	Post-contract compensation	Share-based compensation	Total remuneration
Ton Büchner	820,000	630,900	8,100	291,600	807,700	2,558,300
Keith Nichols	616,000	308,100	302,500	221,800	857,900	2,306,300
<b>Total</b>	<b>1,436,000</b>	<b>939,000</b>	<b>310,600</b>	<b>513,400</b>	<b>1,665,600</b>	<b>4,864,600</b>

## Board remuneration 2014

In €	Salary	Short-term incentives <sup>3</sup>	Other short-term benefits	Post-contract compensation	Share-based compensation	Total remuneration
Ton Büchner	834,000	783,000	8,500	325,000	1,233,100	3,183,600
Maëlys Castella <sup>1</sup>	176,800	106,100	5,400	28,800	–	317,100
Keith Nichols <sup>2</sup>	308,000	308,000	315,500	147,900	(766,000)	313,400
<b>Total</b>	<b>1,318,800</b>	<b>1,197,100</b>	<b>329,400</b>	<b>501,700</b>	<b>467,100</b>	<b>3,814,100</b>

<sup>1</sup> As from September 15, 2014.

<sup>2</sup> Until June 30, 2014.

<sup>3</sup> This concerns the short-term incentive amounts over 2014, to be paid in 2015.

### Performance-related shares

With regard to the performance-related shares granted to the members of the Board of Management in 2012, the final vesting percentage of the series 2012-2014 equaled 75.00 percent (series 2011-2013: 70.83 percent), including dividend shares 82.22 percent (series 2011-2013: 77.98 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 is required to build up, over a five-year period from the date of appointment, and then hold, at least three times his gross base salary in AkzoNobel shares for the duration of their tenure as member of the Board of Management. For other Board of Management members, the requirement is at least one time their gross base salary. 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.

## Former members of the Board of Management

In 2014, charges for former members of the Board of Management amounted to €2.5 million (2013: €4.8 million) mainly due to accrued taxation on excessive pay ('Belastingheffing excessieve belongingsbestanddelen').

### Number of performance-related shares

	Series	Balance at January 1, 2014	Granted in 2014	Vested in 2014	Forfeited in 2014	Dividend in 2014	Balance at December 31, 2014	Vested on January 1, 2015
Ton Büchner	2012 – 2014	34,066	–	–	(8,517)	679	26,228	26,228
	2013 – 2015	24,907	–	–	–	661	25,568	–
	2013 – 2016	–	22,300	–	–	592	22,892	–
Keith Nichols	2011 – 2013	14,504	–	(14,504)	–	–	–	–
	2012 – 2014	25,523	–	–	(25,523)	–	–	–
	2013 – 2015	18,731	–	–	(18,731)	–	–	–

### Number of potential matching shares

	Year of share investment	Potential match	Matched in 2014	Forfeited in 2014	Balance at year-end 2014
Ton Büchner	2012	11,582	–	–	11,582
	2013	1,429	–	–	1,429
	2014	2,450	–	–	2,450

### Shares held by the Board of Management

Number of shares at year-end	2013	2014
Ton Büchner	16,243	21,901

## 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 2014, we had €1.7 billion available as cash and cash equivalents (2013: €2.1 billion), see Note 13. In addition, we have a €1.8 billion multi-currency revolving credit facility, which was extended in 2013 by an additional year to 2018. At year-end 2014 and 2013, this facility had not been drawn. We have US dollar and euro commercial paper programs in place, which can 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 2014 and 2013. The table

## Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
<b>At December 31, 2013</b>			
Borrowings	955	1,841	779
Interest on borrowings	134	269	70
Finance lease liabilities	6	18	28
Trade and other payables	3,218	–	–
<b>FX contracts (hedges)</b>			
Outflow	2,433	–	–
Inflow	(2,431)	–	–
<b>Other derivatives</b>			
Outflow	15	11	–
Inflow	–	–	–
<b>Total</b>	<b>4,330</b>	<b>2,139</b>	<b>877</b>
<b>At December 31, 2014</b>			
Borrowings	805	1,210	1,275
Interest on borrowings	103	228	93
Finance lease liabilities	6	17	25
Trade and other payables	3,407	–	–
<b>FX contracts (hedges)</b>			
Outflow	2,196	–	–
Inflow	(2,188)	–	–
<b>Other derivatives</b>			
Outflow	14	10	–
Inflow	–	(4)	–
<b>Total</b>	<b>4,343</b>	<b>1,461</b>	<b>1,393</b>

above shows our cash outflows per maturity group. The amounts disclosed in the table are the contractual undiscounted cash flows.

## 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 12.

Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets in the balance sheet.

At year-end 2014, the credit risk on consolidated level was €4.7 billion (2013: €4.9 billion) for cash, loans, trade and other receivables. Our credit risk is well spread among both global and local counterparties. Our largest counterparty risk amounted to €194 million at year-end 2014 (2013: €270 million).

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## 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.

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### Hedged notional amounts at year-end

	Buy	Sell	Buy	Sell
In € millions	2013	2013	2014	2014
US dollar	267	684	289	649
Pound sterling	67	665	212	103
Swedish krona	302	30	350	45
Other	270	379	422	475
<b>Total</b>	<b>906</b>	<b>1,758</b>	<b>1,273</b>	<b>1,272</b>

### 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. During 2014 the hedge was fully effective.

Cash flow hedge accounting of CNY793 million for an acquisition was applied from 2011 onwards and was completed in 2014. There was no cash flow hedge reserve related to acquisitions outstanding at the end of 2014.

There was no cash flow hedge reserve related to divestments outstanding at the end of 2013 and 2014.

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## 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 2014 amounted to a loss of €8 million, net of tax (year end 2013: a loss of €4 million, net of tax), which are 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 2014, the contracts outstanding have a fair value of €3 million gain, net of tax on those contracts. The fair value of the contracts at the year-end 2013 was a marginal 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 Nasdaq commodities, based on expected use of electricity over the period 2015-2019. 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 €11 million loss net of tax recorded in equity (2013: €16 million net deferred loss), which are expected to affect

the results within the next five years. All hedges were effective in 2014 and 2013.

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## 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. Fixed rate debt maturing within one year is treated as floating rate debt. The fixed/floating rate of our outstanding bonds shifted from 75 percent fixed at year-end 2013 to 79 percent fixed at year-end 2014. During 2014, we have not used interest rate swap contracts.

The effective interest rate on debt issued over 2014 was 4.9 percent (2013: 5.3 percent).

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## 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 & Poor's. 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. Early 2014, a bond of €825 million matured. Late 2014, a bond was issued with a nominal value of €500 million, maturing in 2024, at a coupon rate of 1.75 percent.

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 2014 at year-end amounted to 0.45 (2013: 0.56). Funds from operations are based on net cash from operating activities after tax, 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 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 post-retirement benefit obligations and lease commitments.

## Fair value of financial instruments and IAS 39 categories

Loans, 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)

## 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	At fair value through profit or loss	Total carrying value	Fair value
<b>2013 year-end</b>						
Other financial non-current assets	965	674	291	–	291	301
Trade and other receivables	2,536	220	2,301	15	2,316	2,316
Cash and cash equivalents	2,098	–	–	2,098	2,098	2,098
<b>Total financial assets</b>	<b>5,599</b>	<b>894</b>	<b>2,592</b>	<b>2,113</b>	<b>4,705</b>	<b>4,715</b>
Long-term borrowings	2,666	–	2,666	–	2,666	2,837
Short-term borrowings	961	–	961	–	961	965
Trade and other payables	3,218	1,258	1,944	16	1,960	1,960
<b>Total financial liabilities</b>	<b>6,845</b>	<b>1,258</b>	<b>5,571</b>	<b>16</b>	<b>5,587</b>	<b>5,762</b>
<b>2014 year-end</b>						
Other financial non-current assets	797	529	268	–	268	289
Trade and other receivables	2,743	227	2,499	16	2,515	2,515
Cash and cash equivalents	1,732	–	–	1,732	1,732	1,732
<b>Total financial assets</b>	<b>5,272</b>	<b>756</b>	<b>2,767</b>	<b>1,748</b>	<b>4,515</b>	<b>4,536</b>
Long-term borrowings	2,527	–	2,527	–	2,527	2,775
Short-term borrowings	811	–	811	–	811	819
Trade and other payables	3,407	1,215	2,149	45	2,194	2,191
<b>Total financial liabilities</b>	<b>6,745</b>	<b>1,215</b>	<b>5,487</b>	<b>45</b>	<b>5,532</b>	<b>5,785</b>

Level 1 fair valuation methods were used for €2.6 billion of the long-term borrowings and €0.6 billion of the short-term borrowings. All other fair values were determined using level 2 fair valuation methods, except for €111 million level 3 (discounted cash flow) fair valuation.

## Master netting agreements

We enter into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of transactions outstanding in the same currency

may be aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement may be terminated, the termination value is assessed and a net amount is payable in settlement of the transactions.

We have evaluated the potential effect of netting agreements including the potential effect of rights of set-off. We did not offset any amounts regarding derivative transactions, but we did offset bank balances for immaterial amounts.

## Sensitivities on financial instruments at year-end 2014

Sensitivity object	Sensitivity	Hypothetical impact
<b>Foreign currencies:</b>		
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: €7 million (2013: profit €5 million). Equity: €nil (2013: €nil)
	A 10 percent strengthening of the euro versus the Pound sterling	Profit: €3 million (2013: profit €2 million). Equity: €nil (2013: €nil)
	A 10 percent strengthening of the euro versus Swedish krona	Profit: €2 million (2013: profit €2 million). Equity: €nil (2013: €nil)
Net investment hedge accounting is applied to £250 million, which results in a sensitivity on equity of €nil		
<b>Commodity prices:</b>		
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.	<b>Electricity price Specialty Chemicals Netherlands:</b> A 10 percent change in the forward price of electricity (€5 per MWh) as compared with the market prices (up/down)	Equity: €16 million (2013: €12 million) We apply cash flow hedge accounting to the fair value changes of electricity futures
	<b>Electricity price Specialty Chemicals Sweden and Finland:</b> A 10 percent change in the forward price on the Nord Pool exchange electricity (€2.93 per MWh) as compared with market prices (up/down)	Equity: €7 million (2013: €6 million) We apply cash flow hedge accounting to the fair value changes of electricity futures
	<b>Oil price Specialty Chemicals Netherlands and Denmark:</b> A 10 percent change in price of oil (€5 per barrel) as compared with market prices (up/down)	Profit/(loss): €3 million (2013: €6 million) Over the full term of the (partially long-term) contracts, net impact on profit will be €nil
<b>Interest rates:</b>		
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: €nil (2013 profit: €2 million)
	A 100 basis points increase of US LIBOR interest rates	Profit: €2 million (2013 loss: €2 million)
	A 100 basis points increase of GBP LIBOR interest rates	Profit: €1 million (2013 loss: €1 million)

# Company financial statements

## A Note A: General information

### Statement of income

In € millions			2013	2014
Net income from subsidiaries, associates and joint ventures			680	546
Other net income			44	–
<b>Total net income</b>			<b>724</b>	<b>546</b>

### Balance sheet as of December 31, before allocation of profit

In € millions	Note		2013	2014
<b>Assets</b>				
<b>Non-current assets</b>				
Financial non-current assets	B	13,822	13,037	
<b>Total non-current assets</b>			<b>13,822</b>	<b>13,037</b>
<b>Current assets</b>				
Trade and other receivables	C	66	103	
Cash and cash equivalents	D	1,084	724	
<b>Total current assets</b>			<b>1,150</b>	<b>827</b>
<b>Total assets</b>			<b>14,972</b>	<b>13,864</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Subscribed share capital		485	492	
Additional paid-in capital		319	463	
Cash flow hedge reserve		(19)	(19)	
Other statutory reserves		275	335	
Cumulative translation reserve		(417)	(43)	
Actuarial gains and losses		(1,495)	(2,050)	
Other reserves		5,802	6,147	
Undistributed results		644	465	
<b>Shareholders' equity</b>			<b>5,594</b>	<b>5,790</b>
<b>Non-current liabilities</b>				
Provision for subsidiaries	B	490	147	
Long-term borrowings	F	8,533	6,969	
<b>Total non-current liabilities</b>			<b>9,023</b>	<b>7,116</b>
<b>Current liabilities</b>				
Short-term debt	G	355	958	
<b>Total current liabilities</b>			<b>355</b>	<b>958</b>
<b>Total equity and liabilities</b>			<b>14,972</b>	<b>13,864</b>

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 22 of the Consolidated financial statements.

## Movement in shareholders' equity

### Statutory reserves

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Other Statutory reserves	Cumulative translation reserve	Actuarial gains and losses	Other reserves	Undistributed results	Shareholders' equity
<b>Balance at January 1, 2013</b>	478	174	(17)	264	61	(1,231)	8,205	(2,170)	5,764
Changes in fair value of derivatives	-	-	(2)	-	-	-	-	-	(2)
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	-	-	-	-	(478)	-	-	-	(478)
Post-retirement benefits	-	-	-	-	-	(264)	-	-	(264)
Net income	-	-	-	-	-	-	-	724	724
<b>Comprehensive income</b>	-	-	(2)	-	(478)	(264)	-	724	(20)
Dividend paid	6	133	-	-	-	-	-	(349)	(210)
Equity-settled transactions	-	-	-	-	-	-	46	-	46
Issue of common shares	1	12	-	-	-	-	-	-	13
Addition to other reserves	-	-	-	11	-	-	(2,450)	2,439	-
Acquisition of non-controlling interests	-	-	-	-	-	-	1	-	1
<b>Balance at December 31, 2013</b>	<b>485</b>	<b>319</b>	<b>(19)</b>	<b>275</b>	<b>(417)</b>	<b>(1,495)</b>	<b>5,802</b>	<b>644</b>	<b>5,594</b>
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	-	-	-	-	374	-	-	-	374
Post-retirement benefits	-	-	-	-	-	(555)	-	-	(555)
Net income	-	-	-	-	-	-	-	546	546
<b>Comprehensive income</b>	-	-	-	-	<b>374</b>	<b>(555)</b>	-	<b>546</b>	<b>365</b>
Dividend paid	5	137	-	-	-	-	-	(354)	(212)
Equity-settled transactions	-	-	-	-	-	-	34	-	34
Issue of common shares	2	7	-	-	-	-	-	-	9
Addition to other reserves	-	-	-	60	-	-	311	(371)	-
<b>Balance at December 31, 2014</b>	<b>492</b>	<b>463</b>	<b>(19)</b>	<b>335</b>	<b>(43)</b>	<b>(2,050)</b>	<b>6,147</b>	<b>465</b>	<b>5,790</b>

## B Note B: Financial non-current assets and provisions for subsidiaries

### Movements in financial non-current assets

In € millions	Subsidiaries		Other financial non-current assets	Total
	Share in capital	Loans <sup>1</sup>		
<b>Balance at January 1, 2013</b>	<b>7,548</b>	<b>5,729</b>	<b>81</b>	<b>13,358</b>
Acquisitions/capital contributions	1,436	–	–	1,436
Net income from subsidiaries, associates and joint ventures	680	–	–	680
Post-retirement benefits	(264)	–	–	(264)
Equity-settled transactions	39	–	–	39
Change in fair value of derivatives	(2)	–	–	(2)
Loans granted	–	1,385	–	1,385
Repayment of loans	–	(2,282)	–	(2,282)
Changes in exchange rates	(468)	(14)	–	(482)
Dividend received	(95)	–	–	(95)
Other changes	–	–	13	13
Change to provisions for subsidiaries	36	–	–	36
<b>Balance at December 31, 2013</b>	<b>8,910</b>	<b>4,818</b>	<b>94</b>	<b>13,822</b>
Acquisitions/capital contributions	1,986	–	–	1,986
Divestments/capital repayments	–	–	(1)	(1)
Net income from subsidiaries, associates and joint ventures	546	–	–	546
Post-retirement benefits	(553)	–	–	(553)
Equity-settled transactions	31	–	–	31
Loans granted	–	1,804	–	1,804
Repayment of loans	–	(2,297)	–	(2,297)
Changes in exchange rates	379	64	–	443
Dividend received	(2,402)	–	–	(2,402)
Other changes	–	–	1	1
Change to provisions for subsidiaries	(343)	–	–	(343)
<b>Balance at December 31, 2014</b>	<b>8,554</b>	<b>4,389</b>	<b>94</b>	<b>13,037</b>

<sup>1</sup> Loans to these companies have no fixed repayment schedule.

## C Note C: Trade and other receivables

### Trade and other receivables

In € millions	2013	2014
Receivables from subsidiaries	11	42
Receivables from associates and joint ventures	15	16
FX contracts	4	15
Other receivables	36	30
<b>Total</b>	<b>66</b>	<b>103</b>

## D Note D: Cash and cash equivalents

### Cash and cash equivalents

In € millions	2013	2014
Cash on hand and in banks	439	114
Short-term investments	645	610
<b>Total</b>	<b>1,084</b>	<b>724</b>

## 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 a 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 2014 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 2014 or 2013.

Of the shareholders' equity of €5.8 billion, an amount of €5.0 billion (2013: €4.8 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law. We consider negative reserves for actuarial gains and losses as restricted.

#### Unrestricted reserves at year-end

In € millions	2013	2014
Shareholders' equity at year-end	5,594	5,790
Subscribed share capital	(485)	(492)
Subsidiaries' restrictions to transfer funds	(182)	(245)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(26)	(24)
Cash flow hedge reserve	–	–
<b>Unrestricted reserves</b>	<b>4,840</b>	<b>4,968</b>

Statutory reserves have been recognized following section 373 paragraph 4 of Book 2 of the Netherlands Civil Code. At the Annual General Meeting of shareholders of April 26, 2001, an amendment to the Articles of Association was approved whereby the par value of the priority shares was decreased to €400 and of the common shares and the cumulative preferred shares to €2. As the revised nominal values are lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, we recognize a statutory reserve of €61 million for this reduction in subscribed share capital. Statutory reserves also include €24 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 22, 2015, a 2014 final dividend of €1.12 per share, which would make a total 2014 dividend of €1.45 per share (2013: €1.45). There will be a stock dividend option with cash dividend as default.

During 2014, we paid the 2013 final dividend of €1.12 and the 2014 interim dividend of €0.33.

#### F Note F: Long-term borrowings

#### Long-term borrowings

In € millions	2013	2014
Bonds issued	1,718	1,610
Debt to subsidiaries	6,725	5,299
Other borrowings	90	60
<b>Total</b>	<b>8,533</b>	<b>6,969</b>

For the fair value of the debenture loans, see Note 23 of the notes of the Consolidated financial statements.

#### Bonds issued

In € millions	2013	2014
7 1/4% 2009/15 (€975 million)	626	–
8% 2009/16 (€250 million)	299	320
4% 2011/18 (€800 million)	793	794
1 3/4% 2014/24 (€500 million)	–	496
<b>Total</b>	<b>1,718</b>	<b>1,610</b>

We have a €1.8 billion multi-currency revolving credit facility, which was extended in 2013 by an additional year to 2018. At year-end 2014 and 2013, this facility had not been drawn. At year-end 2014 and 2013, none of the borrowings was secured by collateral.

#### G Note G: Short-term debt

#### Short-term debt

In € millions	2013	2014
Current portion of debenture loans	–	623
Current portion of other long-term borrowings	32	30
Debt to subsidiaries	29	13
FX contracts	9	8
Borrowings from associates and joint ventures	28	41
Short-term loans	4	22
Debt related to pensions	8	6
Other suppliers	56	81
Other liabilities	189	134
<b>Total</b>	<b>355</b>	<b>958</b>

We have US dollar and euro commercial paper programs in place, which can 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 2014 and 2013.

## H Note H: Financial instruments

At year-end 2014, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.3 billion (year-end 2013: €0.9 billion), while contracts to sell currencies totaled €1.3 billion (year-end 2013: €1.7 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 23 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 2014, aggregating €0.6 billion (2013: €0.6 billion), are included in the Consolidated balance sheet. Additionally, at year-end 2014, guarantees were issued on behalf of consolidated companies for an amount of €1.4 billion (2013: €2.4 billion).

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 20 of the Consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €9 million (2013: €9 million).

## J Note J: Auditor's fees

### Auditor's fees

In € millions	In the Netherlands	Network outside the Netherlands	Total 2013	In the Netherlands	Network outside the Netherlands	Total 2014
Audit	3.0	6.8	9.8	3.1	7.1	10.2
Audit-related	0.2	0.3	0.5	0.3	0.2	0.5
Tax	–	0.1	0.1	–	0.1	0.1
Other services	–	–	–	–	–	–
<b>Total</b>	<b>3.2</b>	<b>7.2</b>	<b>10.4</b>	<b>3.4</b>	<b>7.4</b>	<b>10.8</b>

Amsterdam, February 11, 2015

### The Board of Management

Ton Büchner  
Maëlys Castella

### The Supervisory Board

Antony Burgmans  
Sari Baldauf  
Peggy Bruzelius  
Uwe-Ernst Bufe  
Byron Grote  
Louis Hughes  
Ben Verwaayen

# Other information

## Independent auditor's report

To the Annual General Meeting of shareholders of Akzo Nobel N.V.

## Report on the audit of the Financial statements 2014

### Our opinion

We have audited the Financial statements 2014 of Akzo Nobel N.V. (the Company), based in Amsterdam. The Financial statements include the Consolidated financial statements and the Company financial statements.

In our opinion:

- The Consolidated financial statements give a true and fair view of the balance sheet of Akzo Nobel N.V. as at December 31, 2014 and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code
- The Company financial statements give a true and fair view of the balance sheet of Akzo Nobel N.V. as at December 31, 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Netherlands Civil Code

The Consolidated financial statements comprise:

1. Consolidated balance sheet as at December 31, 2014
2. The following Consolidated statements for 2014: the statement of income, and the statements of comprehensive income, changes in equity and cash flows
3. Notes, comprising a summary of the significant accounting policies and other explanatory information

The Company financial statements comprise:

1. The Company balance sheet as at December 31, 2014
2. The Company statement of income for 2014
3. Notes, comprising a summary of the significant accounting policies and other explanatory information

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section "Our responsibilities for the audit of the Financial statements" of our report.

We are independent of Akzo Nobel N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (VIO) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Materiality

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

Based on our professional judgment we determined the materiality for the Financial statements as a whole at €64 million. The materiality is determined with reference to consolidated profit before taxation (7.5 percent). In addition, the appropriateness for the materiality was assessed by comparing the amount to consolidated revenue (0.4 percent) and total assets (0.4 percent). We have also taken into account misstatements and/or possible misstatements, if any, that in our opinion are material for qualitative reasons.

Audits of group entities (components) were performed to component materiality levels, the majority of which were based on the relevant local statutory audit materiality which is lower than the materiality for the Financial statements as a whole. In the other cases, component materiality was determined between €30 and €50 million

by the judgment of the group audit team, having regard to the materiality for the Financial statements as a whole and the reporting structure within the group.

We agreed with the Supervisory Board that misstatements in excess of €3 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

Akzo Nobel N.V. is head of a group of entities. The financial information of this group is included in the Financial statements of Akzo Nobel N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We scoped components of Akzo Nobel N.V. into the group audit where they are of significant size, have significant risks to the group or are considered significant for other reasons. In case this determination does not provide adequate coverage over the Financial statements, we used our judgment to scope-in additional components. Operating companies and operating business units are reporting components in our group audit. Applying these scoping criteria led to 51 components in scope, in total covering 15 countries. Furthermore, we performed specified audit procedures at corporate level and at business unit level on significant risk areas such as post-retirement benefit provisions, goodwill and other asset impairment testing and tax positions. This resulted in coverage of 61 percent of group revenue, 68 percent of group profit before taxation and 81 percent of total group assets. In addition, we performed analytical procedures at the aggregated group level on the remaining components in order to corroborate

our assessment that there are no significant risks of material misstatement within these remaining components.

The group audit team provided detailed instructions to all component auditors which covered the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. The group audit team visited component locations in the US, UK, France, Germany and China. Telephone calls were also held with the auditors of these components and of all other components that were not physically visited. During these visits and calls, the findings and observations reported to the group audit team were discussed in more detail. Furthermore, we performed detailed file reviews and any further work deemed necessary by the group audit team was then performed.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide a basis for our opinion on the Financial statements.

### Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the Financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

### Goodwill and other asset impairment testing

The annual impairment test was significant to our audit because the assessment process is complex and the test imposes estimates. In performing the impairment testing for goodwill and other assets, the company used various assumptions in respect of future market and economic

conditions, market share, revenue and margin development. For our audit we assessed and tested the assumptions, methodologies, the weighted average cost of capital and other data used by the company, for example by comparing them to external data, such as expected inflation rates, external market growth expectations and by analyzing sensitivities in Akzo Nobel's valuation model. We included in our team a valuation specialist to assist us with these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Board of Management's estimates. We assessed the adequacy of the company's disclosures included in Note 7 about those assumptions to which the outcome of the impairment test is most sensitive.

### Post-retirement benefit provisions

The total amount of post-retirement benefit provisions consists of total defined benefit obligations of €17 billion offset by total plan assets amounting to €16 billion as per December 31, 2014. The largest pension plans are the ICI Pension Fund (ICIPF) and the AkzoNobel Pension Scheme in the UK, which together account for 83 percent of the defined benefit obligation and 91 percent of plan assets. As part of our audit we have tested internal controls as well as assessed and challenged the Board of Management's actuarial assumptions such as discount rates, expected inflation rates, mortality tables, indexation percentages, valuation of plan assets and future salary increases. We benchmarked the discount rates utilized by the company with external sources such as the AA Corporate yield curve published by Merrill Lynch and peer companies. In performing our audit we have used pension specialists including actuarial and valuation specialists. We specifically focused on the de-risking transactions executed by the trustee of ICIPF and we verified the appropriate accounting through other comprehensive income. We also assessed the adequacy of the company's disclosure in Note 15 in respect of post-retirement benefit provisions.

### Accounting for income tax positions

Income tax positions were significant to our audit because the assessment process is complex and imposes estimates. AkzoNobel's operations are subject to income taxes in various jurisdictions and changes in the company's business model might have certain tax implications. We have performed audit procedures on the completeness and accuracy of the amounts recognized as current and deferred tax, including the assessment of correspondence with tax authorities and the evaluation of tax exposures. In addition, in respect of deferred tax assets, we assessed the Board of Management's analysis and assumptions supporting the probability that deferred tax assets recognized in the balance sheet will be recovered through taxable income in future years and available tax planning strategies. We included in our team local and international tax specialists to analyze the tax positions and to challenge the assumptions used to determine tax positions. We also assessed the adequacy of the company's disclosure in Note 6 in respect of tax and uncertain tax positions.

### Fraud at US subsidiary

In November 2014, the company announced it had been subject to fraud targeted at one of its subsidiaries located in the US, where external payments were made. The company engaged external advisors to investigate the fraud and to assess the internal control framework of this subsidiary. Furthermore, the company determined the impact on the Financial statements. We discussed the scoping of the work by the external advisors and we reviewed the outcome of the work performed by them. In addition to the already planned procedures, we expanded our audit procedures on payments made to external parties by the company in order to verify that these payments are appropriately authorized and supported by evidence as part of the regular business activities. We also verified that there is no evidence of any involvement of AkzoNobel's Board of Management serving in a financial reporting oversight role. We assessed the adequacy of the Board of Management's response including investigations and corrective actions. The company disclosed the financial impact of the fraud in the US in Note 3 of the Financial statements.

### Responsibilities of the Board of Management and the Supervisory Board for the Financial statements

The Board of Management is responsible for the preparation and fair presentation of the Financial statements in accordance with EU-IFRS and 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, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the Financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the Financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the Financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the Financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the Financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

For more information about an audit of financial statements, we refer to the NBA website: [www.nba.nl/standardtexts-auditorsreport](http://www.nba.nl/standardtexts-auditorsreport).

### Report on other legal and regulatory requirements

#### Report on the report of the Board of Management and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the report of the Board of Management and other information):

- We have no deficiencies to report as a result of our examination whether the report of the Board of Management, as set out on pages 1 to 138, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed
- We report that the report of the Board of Management, to the extent we can assess, is consistent with the Financial statements

#### Engagement

We were appointed before 2008 for the first time as auditor of Akzo Nobel N.V. and operated as auditor since then. We were re-appointed by the Annual General Meeting of Shareholders on April 29, 2014, as auditor of Akzo Nobel N.V. for the years 2014 and 2015.

Amsterdam, February 11, 2015

**KPMG Accountants N.V.**

E.J.L. van Leeuwen RA

# Profit allocation and distributions

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## Profit allocation and distributions

### Article 43 43.6

The Board of Management shall be authorized to determine, with the approval of the Supervisory Board, what share of profit remaining after application of the provisions of the foregoing paragraphs shall be carried to reserves. The remaining profit shall be placed at the disposal of the Annual General Meeting of shareholders, with due observance of the provisions of paragraph 7, it being provided that no further dividends shall be paid on the preferred shares.

### 43.7

From the remaining profit, the following distributions shall, to the extent possible, be made as follows:

- (a) To the holders of priority shares: 6 percent per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends
- (b) To the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the Annual General Meeting of shareholders may decide to carry to reserves, shall permit

### 43.8

Without prejudice to the provisions of paragraph 4 of this article and of paragraph 4 of article 20, the holders of common shares shall, to the exclusion of everyone else, be entitled to distributions made from reserves accrued by virtue of the provision of paragraph 7b of this article.

### 43.9

Without prejudice to the provisions of article 42 and paragraph 8 of this article, the Annual General Meeting of shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

### Article 44 44.7

Cash dividends by virtue of paragraph 4 of article 20, article 42, or article 43 that have not been collected within five years of the commencement of the second day on which they became due and payable shall revert to the company.

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## Proposal for profit allocation

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €546 million is carried to the other reserves. Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €357 million (to be increased by dividend on shares issued in 2015 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 which €0.33 was paid earlier as an interim dividend. The final dividend of €1.12 per share (which under the conditions to be published by the company and at the shareholders' election will be paid either in cash or in stock) will be made available from May 19, 2015.

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## 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.

# Financial summary

## Consolidated statement of income

In € millions	2005 <sup>1</sup>	2006	2007	2008 <sup>2</sup>	2009	2010 <sup>3</sup>	2011	2012	2013	2014
Revenue	13,000	10,023	10,217	15,415	13,028	13,605	14,604	15,390	14,590	14,296
Operating income	1,492	887	778	(577)	855	1,293	1,157	(1,198)	958	987
Financing income and expenses	(162)	(134)	(151)	(232)	(405)	(329)	(311)	(205)	(200)	(156)
Income tax	(338)	(96)	(166)	(260)	(141)	(176)	(241)	(203)	(111)	(252)
Results from associates and joint ventures	6	87	(20)	25	21	25	24	13	14	21
<b>Profit for the period from continuing operations</b>	<b>998</b>	<b>744</b>	<b>441</b>	<b>(1,044)</b>	<b>330</b>	<b>813</b>	<b>629</b>	<b>(1,593)</b>	<b>661</b>	<b>600</b>
Non-controlling interests	(37)	(29)	(31)	(65)	(77)	(83)	(64)	(63)	(68)	(72)
Discontinued operations	–	438	9	23	32	58	(59)	(436)	131	18
<b>Net income, attributable to shareholders</b>	<b>961</b>	<b>1,153</b>	<b>419</b>	<b>(1,086)</b>	<b>285</b>	<b>788</b>	<b>506</b>	<b>(2,092)</b>	<b>724</b>	<b>546</b>
Common shares, in millions at year-end	285.8	287.0	262.3	231.7	232.3	233.5	234.7	239.0	242.6	246.0
Dividend to shareholders	343	344	472	417	325	320	304	214	210	212
Number of employees at year-end	61,300	42,700	42,600	60,000	54,700	55,600	52,020	50,610	49,600	47,200
Average number of employees	61,400	61,900	42,600	61,300	56,300	55,100	51,100	52,200	50,200	48,200
Employee benefits	3,221	2,158	2,215	3,022	2,955	2,980	2,765	3,018	2,950	2,824
Average revenue per employee (in €1,000)	212	162	240	251	231	247	286	295	291	297
Average operating income per employee (in €1,000)	24	14	18	(9)	15	23	23	(23)	19	20
<b>Ratios</b>										
ROS	11.5	8.8	7.6	– <sup>4</sup>	6.6	9.5	7.9	– <sup>4</sup>	6.6	6.9
ROI	19.4	16.3	14.6	– <sup>4</sup>	7.3	11.3	10.0	– <sup>4</sup>	9.6	10.0
Net income in % of shareholders' equity	32.0	30.5	122.9	– <sup>4</sup>	3.7	8.8	5.6	– <sup>4</sup>	12.9	9.5
Employee benefits in % of revenue	24.8	21.5	21.7	19.6	22.7	21.9	18.9	19.6	20.2	19.8
Interest coverage <sup>5</sup>	9.2	6.6	5.2	– <sup>4</sup>	2.1	6.8	4.7	– <sup>4</sup>	5.1	8.6
<b>Per share information (in €)</b>										
Net income	3.36	4.02	33.82	(4.38)	1.23	3.23	2.04	(8.82)	3.00	2.23
Adjusted earnings per share					2.06	3.71	3.10	2.55	2.62	2.81
Shareholders' equity	11.95	14.44	42.06	32.21	33.47	38.48	39.25	24.12	23.06	23.53
Highest share price during the year	40.18	49.41	65.56	57.11	46.52	47.70	53.74	49.75	56.08	60.77
Lowest share price during the year	30.82	38.30	44.41	22.85	26.01	37.18	29.25	35.16	42.65	47.63
Year-end share price	39.15	46.18	54.79	29.44	46.40	46.49	37.36	49.75	55.71	57.65

<sup>1</sup> The 2005 figures have not been restated for the Organon BioSciences divestment.

<sup>2</sup> Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.

<sup>3</sup> Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.

<sup>4</sup> Not meaningful as operating income and net income were losses.

<sup>5</sup> Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.

## Consolidated balance sheet

In € millions	2005 <sup>1</sup>	2006	2007	2008 <sup>2</sup>	2009	2010 <sup>3</sup>	2011	2012	2013	2014
Intangible assets	488	682	669	7,172	7,388	6,568	7,392	4,454	3,906	4,142
Property, plant and equipment	3,432	3,346	2,203	3,357	3,474	3,191	3,705	3,739	3,589	3,835
Financial non-current assets	1,800	1,706	1,402	1,848	1,783	2,105	2,664	2,628	2,219	2,148
<b>Total non-current assets</b>	<b>5,720</b>	<b>5,734</b>	<b>4,274</b>	<b>12,377</b>	<b>12,645</b>	<b>11,864</b>	<b>13,761</b>	<b>10,821</b>	<b>9,714</b>	<b>10,125</b>
Inventories	1,987	2,042	1,177	1,781	1,441	1,482	1,924	1,545	1,426	1,545
Receivables	2,910	2,919	2,164	2,977	2,666	2,740	3,035	2,789	2,622	2,831
Cash and cash equivalents	1,486	1,871	11,628	1,595	2,128	3,133	1,635	1,752	2,098	1,732
Assets held for sale	322	219	–	4	–	–	–	921	203	66
<b>Total current assets</b>	<b>6,705</b>	<b>7,051</b>	<b>14,969</b>	<b>6,357</b>	<b>6,235</b>	<b>7,355</b>	<b>6,594</b>	<b>7,007</b>	<b>6,349</b>	<b>6,174</b>
Shareholders' equity	3,415	4,144	11,032	7,463	7,775	8,397	9,031	5,764	5,594	5,790
Non-controlling interests	161	119	97	450	470	525	529	464	427	477
<b>Total equity</b>	<b>3,576</b>	<b>4,263</b>	<b>11,129</b>	<b>7,913</b>	<b>8,245</b>	<b>8,922</b>	<b>9,560</b>	<b>6,228</b>	<b>6,021</b>	<b>6,267</b>
Provisions	2,210	2,132	1,598	2,072	1,919	1,958	2,392	2,677	1,938	2,143
Long-term borrowings	2,702	2,551	1,954	2,341	3,641	2,727	3,035	3,388	2,666	2,527
Other non-current liabilities	183	181	133	715	674	556	541	434	389	412
<b>Total non-current liabilities</b>	<b>5,095</b>	<b>4,864</b>	<b>3,685</b>	<b>5,128</b>	<b>6,234</b>	<b>5,241</b>	<b>5,968</b>	<b>6,499</b>	<b>4,993</b>	<b>5,082</b>
Short-term borrowings	357	410	1,635	1,338	384	904	494	662	961	811
Current liabilities	2,571	2,652	2,276	3,510	3,220	3,575	3,782	3,632	3,438	3,634
Current portion of provisions	766	571	518	845	797	577	551	455	601	494
Liabilities held for sale	60	25	–	–	–	–	–	352	49	11
<b>Total current liabilities</b>	<b>3,754</b>	<b>3,658</b>	<b>4,429</b>	<b>5,693</b>	<b>4,401</b>	<b>5,056</b>	<b>4,827</b>	<b>5,101</b>	<b>5,049</b>	<b>4,950</b>
Average invested capital <sup>4</sup>	7,576	8,034	6,629	9,311	12,578	11,467	11,537	11,817	10,007	9,871
Capital expenditures	514	371	359	534	513	534	658	826	666	588
Depreciation	528	349	330	453	424	435	419	463	472	477
Operating working capital				2,359	1,691	2,016	1,891	1,572	1,384	1,418
Net debt	1,573	1,090	(8,039)	2,084	1,897	500	1,894	2,298	1,529	1,606
<b>Ratios</b>										
Equity/non-current assets	0.62	0.74	2.60	0.64	0.65	0.75	0.73	0.58	0.62	0.62
Inventories and receivables/current liabilities	1.90	1.87	1.47	1.36	1.28	1.18	1.31	1.19	1.18	1.20
Operating working capital as % of revenue				16.5	13.7	13.9	13.2	10.7	9.9	10.1

<sup>1</sup> The 2005 figures have not been restated for the Organon BioSciences divestment.

<sup>2</sup> Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.

<sup>3</sup> Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.

<sup>4</sup> Restated to current definition as from 2010.

## Business Area statistics

In € millions	2008	2009 <sup>1</sup>	2010	2011 <sup>2</sup>	2012	2013	2014
<b>Decorative Paints</b>							
Revenue	5,006	4,573	4,968	4,201	4,297	4,174	3,909
Operating income	(669)	133	275	235	(2,012)	398	248
ROS (excluding goodwill impairment)	3.5	2.9	5.5	5.6	2.2	9.5	6.3
Average invested capital <sup>3</sup>	6,515	6,169	4,908	5,032	4,701	2,896	2,824
ROI (excluding goodwill impairment)	2.7	2.2	5.6	4.7	2.0	13.7	8.8
Capital expenditures	120	112	154	155	206	171	143
Average number of employees	24,600	22,900	21,800	17,100	17,200	16,800	15,500
Average revenue per employee (in €1,000)	203	200	228	246	250	248	252
Average operating income per employee (in €1,000)	(27)	6	13	14	(117)	24	16
<b>Performance Coatings</b>							
Revenue	4,575	4,112	4,786	5,170	5,702	5,571	5,589
Operating income	444	433	487	458	542	525	545
ROS	9.7	10.5	10.2	8.9	9.5	9.4	9.8
Average invested capital <sup>3</sup>	2,010	1,868	2,063	2,267	2,499	2,463	2,480
ROI	22.1	23.2	23.6	20.2	21.7	21.3	22.0
Capital expenditures	89	61	87	116	123	143	143
Average number of employees	21,000	20,200	20,600	21,300	21,700	21,300	21,000
Average revenue per employee (in €1,000)	218	204	232	243	263	262	266
Average operating income per employee (in €1,000)	21	21	24	22	25	25	26
<b>Specialty Chemicals</b>							
Revenue	5,687	4,359	4,943	5,335	5,543	4,949	4,883
Operating income	130	422	604	622	500	297	508
ROS	2.3	9.7	12.2	11.7	9.0	6.0	10.4
Average invested capital <sup>3</sup>	3,797	3,435	3,464	3,406	3,678	3,609	3,442
ROI	3.4	12.3	17.4	18.3	13.6	8.2	14.8
Capital expenditures	305	319	273	365	484	346	297
Average number of employees	12,900	11,400	11,100	11,300	11,800	10,600	10,000
Average revenue per employee (in €1,000)	441	382	445	472	470	467	488
Average operating income per employee (in €1,000)	11	37	54	55	42	28	51

<sup>1</sup> Excluding National Starch, divested in 2010.

<sup>2</sup> Restated to present Decorative Paints North America as a discontinued operation.

<sup>3</sup> From 2010 restated to current definition.

## Regional statistics

In € millions	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
<b>The Netherlands</b>						<b>Other European countries</b>					<b>China</b>				
Revenue by destination	803	694	745	765	762	3,398	3,702	3,647	3,531	3,341	1,249	1,376	1,621	1,643	1,730
Revenue by origin	1,537	1,646	1,601	1,600	1,662	2,336	2,459	2,400	2,330	2,246	1,177	1,361	1,699	1,690	1,814
Capital expenditures	84	144	110	94	72	83	98	85	66	57	147	96	135	104	75
Average invested capital	1,390	1,384	1,326	1,175	1,631	2,518	2,641	2,127	1,406	1,117	862	1,089	1,295	1,330	1,380
Number of employees <sup>2</sup>	5,000	5,200	5,200	5,300	5,000	9,100	8,900	8,500	8,000	7,700	6,700	7,400	7,700	7,400	7,400
<b>Germany</b>						<b>US and Canada <sup>1</sup></b>					<b>India</b>				
Revenue by destination	1,160	1,284	1,258	1,176	986	2,954	2,092	2,294	2,155	2,193	332	359	371	353	354
Revenue by origin	1,096	1,228	1,219	1,143	920	3,074	2,222	2,413	2,287	2,306	251	283	288	270	279
Capital expenditures	22	31	69	87	106	63	67	70	62	68	17	18	16	17	7
Average invested capital	949	945	861	736	764	2,131	1,722	1,742	1,739	1,778	140	130	122	119	127
Number of employees <sup>2</sup>	3,500	3,800	3,600	3,100	2,300	10,300	5,100	5,100	5,000	4,800	1,600	1,700	1,800	1,900	1,800
<b>Sweden</b>						<b>Brazil</b>					<b>Other Asian countries</b>				
Revenue by destination	468	515	486	473	436	844	949	987	925	883	1,448	1,559	1,716	1,380	1,385
Revenue by origin	1,475	1,481	1,505	1,411	1,289	815	903	909	851	826	1,263	1,344	1,491	1,193	1,159
Capital expenditures	19	54	70	38	40	23	54	123	70	36	31	46	55	23	27
Average invested capital	502	551	539	471	428	753	704	621	558	566	548	656	605	493	473
Number of employees <sup>2</sup>	3,400	3,300	3,200	3,000	2,900	2,700	2,800	2,900	2,900	2,800	5,600	6,100	5,000	5,200	5,100
<b>UK</b>						<b>Other Latin American countries</b>					<b>Other regions</b>				
Revenue by destination	798	841	901	887	947	550	566	636	628	602	636	667	728	674	677
Revenue by origin	854	879	967	948	950	353	379	435	431	426	409	419	463	436	419
Capital expenditures	28	27	68	74	74	7	12	16	13	9	10	11	9	18	17
Average invested capital	1,531	1,512	1,433	1,314	1,008	67	153	163	155	141	168	218	210	178	159
Number of employees <sup>2</sup>	3,900	3,900	3,800	3,700	3,600	1,600	1,700	1,700	1,600	1,600	2,200	2,100	2,100	2,500	2,200

<sup>1</sup> As from 2011 excluding Decorative Paints North America, divested in 2013.

<sup>2</sup> At year-end.



## Inspired by nature

We're committed to supplying sustainable products and solutions that can benefit people and the planet, which is why we are developing more technologies that use renewable materials and ingredients, such as new additives for hairstyling products and micronutrients that help to increase crop yields.

# Sustainability statements

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## On our website ([www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability))

you will find additional information on processes, detailed data and contacts to support the following:

Note 1: Managing our sustainability agenda

Note 2: Reporting principles

Note 3: Stakeholder engagement

Notes 4-7: Value chain management

Notes 8-11: Safety

Notes 12-14: Employees and community

Notes 15-20: Environment

This Sustainability statements section of the Report 2014 is separate from, and does not in any way form part of the company's annual financial reporting as defined in article 5:25c of the Dutch Financial Markets Supervision Act. This section contains summarized key performance indicators (KPIs) relating to sustainability performance. Further information on AkzoNobel's sustainability strategy, activities and results can be found on our corporate website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

# Consolidated Sustainability statements



Sustainability topics have been integrated into all sections of the AkzoNobel Report 2014. This summary focuses on sustainability processes and activities that span our businesses.

A fuller overview of our sustainability strategy, activities and results can be found in the Sustainability section of our corporate website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

## Consolidated Sustainability statements

	Note	2011	2012	2013	2014	Ambition 2014	Target 2015	Target 2020
<b>Sustainable business</b>								
Resource efficiency index (REI)	4	94	100	98	96	-	-	-
Eco-premium solutions with downstream benefits (% of revenue)	4	-	17	18	19	-	-	20
Eco-premium solutions (% of revenue)	4	22	22	24	24	-	30	-
<b>Resource efficiency</b>								
Carbon footprint cradle-to-grave per ton of product sales (% reduction from 2012)	5	-	0	2	-4	-	-	25-30
<b>Sustainability foundations</b>								
Total reportable injury rate employees/supervised contractors (per million hours)	8	3.1	2.4	2.3	1.8	2.0	<2.0	<1.0
Significant loss of containment (Level D)	9	2	0	1	0	0	0	0
Priority substances with management plan (%)	10	23	42	62	82	80	100	-
Employee engagement (ViewPoint score 1-5 scale)	12	3.74	3.80	3.88	3.97	-	>4.00	-
% of female executives	12	13	15	16	17	-	20	>20
% of executives from high growth markets	12	13	13	14	16	-	20	>20
Community Program (cumulative number of projects)	14	1,678	1,931	2,108	2,260	-	-	-
Operational eco-efficiency footprint measure (% reduction from 2009)	15-20	11	13	24	24	25	30	40 (2017)
Greenhouse gas emissions per ton of production (own operations, in kg)	16	256	257	222	224	-	245	<245
Sustainable fresh water management (% of manufacturing sites)	19	74	83	85	89	90	100	-

## Planet Possible

In order to secure our own business success – and that of our customers – we have to create more value from fewer resources. To help us achieve this, we have adopted an agenda called Planet Possible, which is our commitment to doing more with less.

We believe the planet can support nine billion people by 2050, but only if we take the right approach and understand the changes that will be needed. So we're looking to engage with partners who believe in our agenda and have the same commitment to finding opportunities where there don't appear to be any. Welcome to Planet Possible.

Our strategic sustainability objectives are explained in detail throughout the Sustainability statements section of this Report.

**Sustainable business:** Details of our focus areas across the value chain can be found in Note 4 of this section.

**Resource efficiency:** Details of our focus areas across the value chain can be found in Note 5 of this section.

**Capable, engaged people:** Details of our focus areas across the value chain can be found in Note 6 of this section.

**Sustainability foundations:** Our strong sustainability foundations have been built up over many years. They include people, process and product safety (Notes 8-11); employee engagement and talent management (Note 12); community involvement (Note 14); environmental management (Notes 15-20); and integrity management (Governance and compliance section).

## Strategic focus

Our sustainability agenda incorporates economic, environmental and social aspects across the value chain.

The importance of sustainability to running our business is firmly integrated into the AkzoNobel strategy. As well as being a strategic focus area, it is one of the three core principles (safety, integrity and sustainability) that provide the foundation for our company values. In addition, sustainability is being embedded into our new company-wide processes, including Innovation, Commercial excellence and Talent management. Sustainability helps us to enhance our existing business, create new business opportunities and minimize risks.

We developed the sustainability elements of our strategy by reviewing our sustainability risks and opportunities against the global trends that will impact our key market segments by 2050. These were identified as population growth and the new middle class, urbanization, long-term constraints of natural resources and climate change.

We express our sustainability agenda through a concept known as Planet Possible, which highlights our commitment to creating more value from fewer resources across the value chain. Planet Possible encompasses all our programs that are focused on making our products and operations more sustainable. As well as driving our own success, putting sustainability at the heart of everything we do means that our customers and

employees – not to mention the planet – will also benefit. For more details, see the Strategic performance section of this Report 2014.

Our strategy has three sustainability focus areas designed to deliver more value from fewer resources, with targets for 2020. Our progress in terms of creating more value from fewer resources is measured by a special Resource Efficiency Index (REI), which monitors the gross margin generated over the resource/energy use across the value chain (measured as cradle-to-grave carbon footprint). We focus on three aspects:

- **Sustainable business:** Involves creating business value through products and solutions that provide both functionality and other sustainability benefits, as well as cost savings from operational efficiencies.  
Target: 20 percent revenue from eco-premium solutions with a downstream benefit by 2020
- **Resource efficiency:** Focused on accelerating material and energy efficiency across the value chain.  
Target: 25-30 percent reduction in cradle-to-grave carbon footprint per ton of sales from 2012 to 2020
- **Capable, engaged people:** Engaging our people and partnering with our suppliers and customers to deliver significant changes. Objectives are being defined, mainly at Business Area level

**By focusing on the full value chain, we will drive business, resource and engagement benefits**



	Energy/resource benefits in use			
<b>Sustainable business</b>	Cost savings	Cost savings	Improved revenue and margin	Improved revenue and margin
<b>Resource efficiency</b>	Reduced material and energy use	Reduced material and energy use	Reduced material and energy use in customer processes, application	Reduced material and energy use in product use
<b>Capable, engaged people</b>	Engaged suppliers	Engaged employees	Engaged customers	Engaged customers and users
Foundations: HSE, product stewardship, employee practices, community involvement, Code of Conduct				

These strategic objectives are underpinned by strong foundation programs for other economic, environmental and social aspects that are material for our business. Specifically, these are: people and process safety, product safety/stewardship, employee talent management/engagement, community involvement, environmental management and integrity management. For these elements, we have key performance indicators with 2015 targets, some of which have been extended to 2020. Other short-term and long-term ambitions are set at functional and business level. The Notes in the Sustainability statements and other elements of this Report 2014 illustrate our performance against these goals.

## Sustainability framework

Our strategic sustainability focus areas are a natural next step in our sustainability framework, which maps out a progression towards sustainability and identifies those aspects that are material for our business. The framework 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 Improve level, with an emphasis on risks – working on integrity, governance and compliance with our standards and applicable laws and regulations – is now part of the compliance framework (see the Governance and compliance section).

The current strategy focuses on creating opportunities for value creation through resource efficiency, innovation and talent development, alongside continued integration of sustainability in all aspects of the value chain.

## Management structure

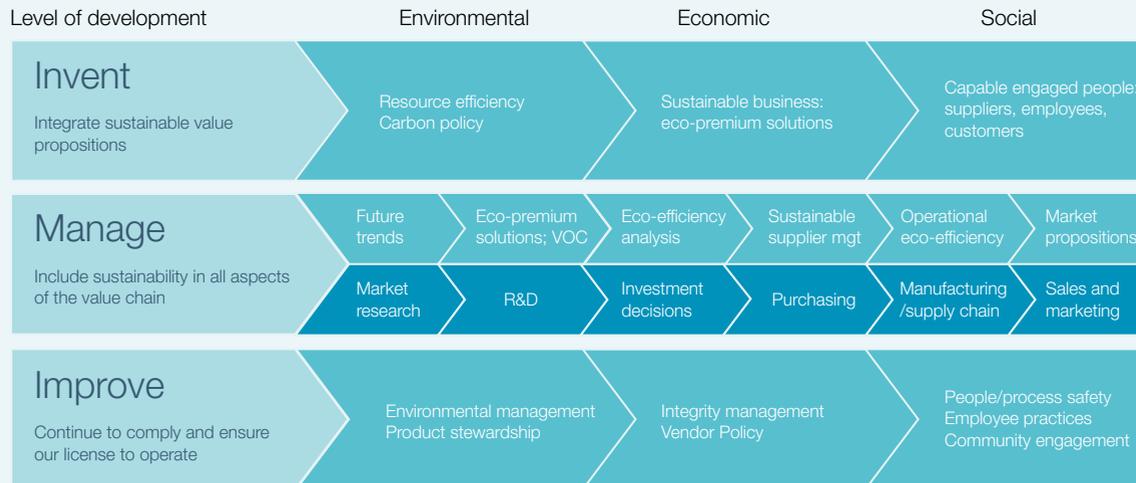
### Company level

The Executive Committee has overall responsibility for sustainability. They set company strategy and targets and monitor the sustainability performance of each Business Area through the Operational Control Cycle using dashboards, which specify indicators against strategic objectives.

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 representative Managing Directors from our Business Areas, as well as the Corporate Directors of Strategy, Supply Chain/Research and Development, Purchasing, Human Resources, Sustainability and HSE, and Communications. The Council maintains an external perspective, with input from value chain partners and thought leaders during regular meetings, in addition to company involvement in leading external organizations.

The Corporate Director of 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. In 2012, we formed a team of senior Business Area representatives to work with the expertise team and the business teams to ensure effective roll-out of the new strategy.

### Sustainability framework



- Examples of sustainability activity
- Value chain aspects

## Businesses and functions

Accountability for managing sustainability and delivering against targets lies with the businesses and functions. The Managing Director of each business is responsible for managing sustainability as an overall part of business. The key sustainability business KPIs and targets form a dashboard which is monitored at least every six months as part of the Operational Control Cycle. All businesses have also appointed a sustainability manager, or 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 Procurement, Supply Chain and RD&I (which are made up of both corporate and business representatives), are in place to support the implementation of the functional strategy, including the sustainability elements.

The safety, product stewardship, employee and environmental foundation elements are managed by the HR and HSE cross-business management processes. The Compliance framework and the management structure for integrity and compliance aspects are detailed in the Governance and compliance section under Compliance and integrity management.

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## Management processes

We include key sustainability issues in our company, business and functional processes – strategy and planning, risk management and internal control, compliance, the Operational Control Cycle, as well as in our internal audit and external assurance processes – which are reported in other sections of this Report 2014 (see Strategic performance and Governance and compliance). Each year, there are two dedicated sustainability sessions in the Operational Control Cycle. Relevant sustainability aspects are also discussed in other functional reviews. Specific challenges are reported in the Strategic performance and Business performance sections.

We set global standards for the foundation elements (health and safety, environmental protection, product stewardship and compliance, including social and labor aspects) and our governance processes. Corporate compliance and audit processes are supplemented by specialist functional audits. These standards are also the basis of our supplier management processes and investment assessments. Where there are specific sustainability risks or issues of concern to stakeholders, we develop a company position and an improvement plan owned by a subject matter expert.

To further embed sustainability in the way we do business, we are piloting a new functional excellence improvement tool, which reflects the strategic objectives, management processes and good practice implementation. The purpose is to accelerate sustainability performance against strategy/targets by raising the capability of people and processes, supporting good practice implementation, providing challenges to the operating businesses and focusing improvement actions where they count. Each business carries out a self-assessment of the current situation and sets ambition levels, based on company requirements and business priorities, as well as focused annual improvement plans. These assessments are subject to a peer review/challenge by cross-business colleagues to hone improvement options and identify the need for common improvement programs. The overall improvement plans will be reviewed alongside current performance as part of the Operational Control Cycle.

Each business carried out a pilot assessment in 2014, and held a Business Area moderation meeting to review and compare the results, identify areas of common improvement potential and areas of good practice. The credibility of the total AkzoNobel results was then reviewed by senior Business Area representatives.

The results helped all our businesses to identify specific areas for improvement and some common opportunities. Priorities for 2015 include:

- Working with suppliers to identify and deliver cost effective carbon footprint improvements
- Equipping a broader range of managers/employees across functions to drive sustainability improvements

We will use learnings from these pilots to further refine the tool for full roll-out in 2015.

We strive to empower all employees to contribute and be accountable for our sustainability performance, using training and other engagement processes, including business and site level activity, as well as web-based resources. This responsibility continues to be anchored in the personal targets and remuneration packages of managers and employees. Since 2009, half (from 2013 onwards 30 percent) of the conditional grant of shares for Board members and all executives is based on AkzoNobel's performance in the RobecoSAM assessment over a three-year period (see Remuneration report in the Governance and compliance section).

### Benchmark and review

The sustainability aspects material to the company are summarized in the company strategy and sustainability framework. These are reviewed annually with input from internal and external stakeholders (see Materiality in Note 2 of this section). Full details of the boundaries and management processes for each aspect are included in the Global Reporting Initiative G4 additional information document, which is available on our corporate website.

We also benchmark our performance against our peers using external assessment processes such as the RobecoSAM assessment for the Dow Jones Sustainability Indices.

## Reporting scope

This Report 2014 integrates 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 resource efficiency, carbon emission reduction, eco-premium solutions, safety, people development and engagement, and operational eco-efficiency.

The information in this Report 2014 offers an update on our implementation of the ten principles of the United Nations Global Compact (UNGC). More sustainability information is available on our corporate website, including an index of the Global Reporting Initiative (GRI) G4 indicators and a summary of our UNGC communication of progress.

The topics in this Report 2014 were selected on the basis of the sustainability aspects of our strategy, the GRI G4 guidelines and input from various external stakeholders. These include our engagement with:

- Shareholders
- Customers
- Employees
- Rating organizations, notably RobecoSAM – 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), Forum for the Future and the International Integrated Reporting Council

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## Reporting process and assurance

The reporting period is 2014. 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, each of 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.

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## Reporting policies

### Reporting boundaries

The Report 2014 integrates sustainability aspects of our processes and business operations in each section, in particular the How we create value, Strategic performance, 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 2014 and comparative data for 2013, 2012 and 2011. 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.

### Comparability

Since 2010, we report acquisitions from the date of purchase, recognizing that reporting improvements may be required at these facilities. Recent significant changes:

- 2014 data includes updated definitions on regulatory actions and executive potential. See also Note 11 and Note 12 respectively. It also includes the result of the divestment of our Building Adhesives business
- 2013 data excludes Chemicals Pakistan as it was divested at the end of 2012. We include data from Decorative Paints North America until April 1, 2013, when it was divested
- 2012 data includes the Boxing Oleochemicals acquisition and our new facilities at Ningbo, China
- 2011 data includes the acquisition of the Schramm/SSCP businesses

Our value chain (cradle-to-grave) 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 have been restated on the same basis, so there was no impact on the percentage change in carbon footprint. For our own operations, environmental impact and improvements are quoted relative to production quantity, i.e. the product volumes leaving every manufacturing plant.

Since 2013, we include the climate impact of VOCs in our overall carbon footprint targets. This increased our scope 3 downstream CO<sub>2</sub>(e) by about three million tons. The 2012 data have been restated to provide a sound baseline for our 2012 to 2020 targets.

We identify issues that affect comparability in the text or footnotes.

## Materiality matrix

### Materiality

We have used the principle of materiality to assess the topics to include in this Report 2014, which are current and important for the company and key stakeholders.

In order to determine the materiality of topics, we made a long list of all (more than 200) possible material topics, using the following as our key sources:

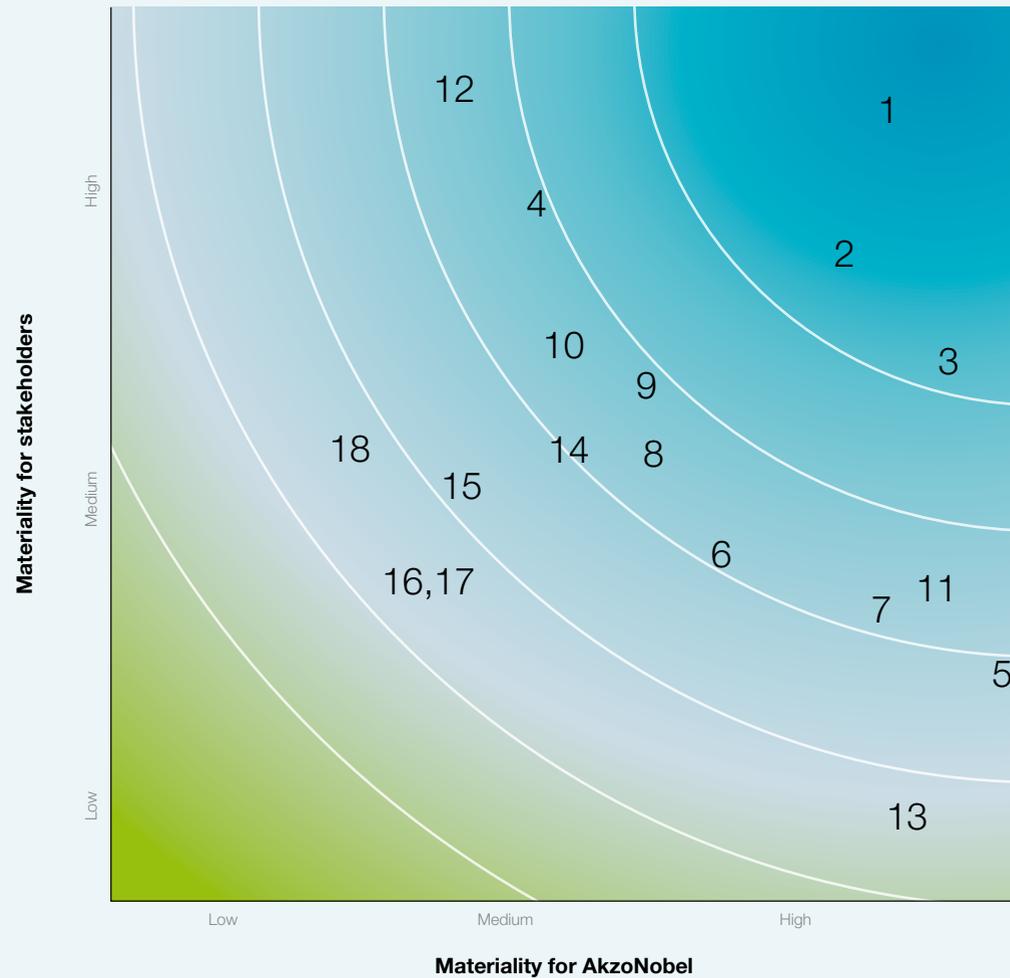
- The AkzoNobel strategy
- The AkzoNobel Report 2013
- Issues raised by investor associations such as the VBDO
- Reporting guidelines and frameworks such as GRI G4 and SASB
- Sustainability ratings agencies such as RobecoSAM and Carbon Disclosure Project
- The most recent reporting of peers
- Media analysis

This long list was then reduced by reviewing the dominance of the topics, before being clustered into 18 final topics which are plotted in the matrix opposite.

A full explanation of each topic featured in the matrix can be found on the next page.



For further information please go to [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)



## Sustainability topics

Economic	Importance	Qualitative information	Quantitative information	Reported
4 Integrity	High	Insight on policies and procedures	Code of Conduct reporting, Code of Conduct investigation, Compliance monitoring, Code of Conduct training	Report 2014: Integrity and compliance, website
5 Customer needs	High	Insight on end-user segment trends Customer excellence programs	–	Report 2014: How we create value, Strategic performance, Business performance
9 Circular economy principles	High	Renewable energy and raw material programs, waste reuse	Renewable raw materials, Renewable energy	Report 2014: Business performance, Sustainability statements Notes 4 and 5
11 Economic performance and strategy	High	Market segmentation Description of economic performance	Economic performance and strategy	Report 2014: How we create value, Strategic performance, Business performance
13 Product and margin management	High	Operational excellence initiatives	–	Report 2014: Strategic performance, Business performance
17 Resource scarcity/ material availability risks	Medium	Risk description and mitigation actions Renewable energy and raw material programs	Renewable raw materials, Renewable energy	Report 2014: Risk management, Business performance, Sustainability statements Notes 4 and 5
<b>Environmental</b>				
1 Energy, resource use, carbon emissions throughout the value chain	High	Value chain descriptions Insight on impacts throughout the value chain	Resource Efficiency Index, Cradle-to-grave carbon footprint, Renewable raw materials, Energy use, Renewable energy, Greenhouse gas emissions per ton of production	Report 2014: How we create value, Strategic Performance, Business performance Sustainability statements Notes 4, 5, 15, 16 and website
3 Eco-premium solutions and value chain management	High	Lifecycle assessment value chain impacts Customer partnership solutions	Eco-premium solutions with downstream benefits, Eco-premium solutions VOC in product	Report 2014: How we create value, Strategic performance, Business performance, Sustainability statements Notes 4 and 5
7 Product stewardship	High	Priority substance management Regulatory affairs	Priority substances with management plan, REACH compliance	Report 2014: Strategic performance, Sustainability statements Note 10
10 Sustainability in the supply chain	Medium	Supplier sustainability framework program	Third party audits, Supplier Support Visits, Vendor Policy compliance, Environmental supply chain aspects	Report 2014: Sustainability statements Note 7
12 Climate change	Medium	Climate change risk management, mitigation and adaption policies	Cradle-to-grave footprint, Greenhouse gas emissions per ton of production	Report 2014: How we create value, Strategic performance, Business performance, Sustainability statements Notes 4 and 5
15 Operational eco-efficiency	Medium	Operational eco-efficiency program and management	Operational eco-efficiency footprint measure	Report 2014: How we create value, Strategic performance, Business performance, Sustainability statements Notes 15-20
18 Biodiversity	Low	Climate change, Pollution control	–	Report 2014: Sustainability statements Notes 3, 5, 15-20
<b>Social</b>				
2 People and process safety	High	Insight on policies and procedures	Reportable injury rate, Behavior-based safety program, Life-Saving Rules, Regulatory actions, Loss of containment	Report 2014: How we create value, Strategic performance, Business performance, Sustainability statements Notes 8 and 9
6 Employee engagement	High	Insight on policies and procedures	Employee engagement survey	Report 2014: How we create value, Strategic performance, Business performance, Sustainability statements Note 12
8 Talent management	High	Insight on policies and procedures	Cross-BU moves of leadership talents, Internal promotion into executive level, Retention of leadership talent, ViewPoint score on learning and growth, Female executives, Female executive potentials, High growth market executives, High growth market executive potentials	Report 2014: How we create value, Strategic performance, Business performance, Sustainability statements Note 12
10 Sustainability in the supply chain	Medium	Supplier sustainability framework programs, Human rights commitment program	Third party audits, Supplier Support Visits, Vendor Policy compliance, Social supply chain aspects	Report 2014: Integrity and compliance, Sustainability statements Note 7
14 Stakeholder engagement	Medium	Framework activities	Sustainability ratings, Agency rankings	Report 2014: Sustainability statements Note 3, website
16 Community involvement	Medium	Human Cities initiative, Community program, Business activities	Projects involved, Volunteers, Donations	Report 2014: Human Cities, Case studies, Strategic performance, Sustainability statements Note 14, website

## Our approach

The aim of our ongoing stakeholder engagement is to learn from key financial, social and environmental stakeholder groups and, in collaboration, to develop innovative and sustainable solutions to address some of the world's most pressing challenges. Our Planet Possible agenda is not only designed to help drive innovation and enable us to become radically resource efficient, it's also intended to inspire employees, customers, suppliers and other key stakeholders to work together with us in achieving this.

Reaching out to all our stakeholders in ongoing conversation and dialog is vital to achieving our goals and to further developing our long-term vision and strategy in all areas of sustainability. Our key stakeholders are employees, suppliers, customers, investors, shareholder representative groups, NGOs and international organizations, governments, industry associations, sustainability rating agencies and communities. Based on the company strategy, emerging societal and business issues, and the outcomes of our materiality analysis, we identify the key topics and levels of engagement per stakeholder group, which can vary from pro-active engagement to providing information upon request.

This section includes several 2014 highlights. More details can be found on our corporate website, in the Strategic performance section and other chapters of this Report 2014:

- Customers: Business performance section
- Investors: Governance and compliance section
- Specific sustainability/research organizations and NGOs: Note 3 of this section
- Employees: Note 6 of this section
- Suppliers: Note 7 of this section
- Communities: Note 14 of this section

## Stakeholder engagement in 2014

### Our commitment and primary partners

We support a number of charters and external organizations to demonstrate our commitment to sustainability issues. We have been a signatory to the UN Global Compact since 2004. We are a partner of the Caring for Climate platform and an active member of the Global Compact Netherlands Network: in 2014, we laid the groundwork to participate in a project to explore how to improve awareness and build capability in the area of human rights in four key countries – Indonesia, Mexico, South Africa and Turkey – that will take place in 2015.

In addition, we subscribe to the UN Universal Declaration of Human Rights; the key conventions of the International Labor Organization; the OECD Guidelines for Multinational Enterprises; the Responsible Care® Global Charter and the CEO Water Mandate.

In order to contribute to, and keep up to date with, important developments in sustainability, we participate in meetings and task forces as a member of organizations such as the WBCSD, Forum for the Future, True Price and the Dutch Sustainable Growth Coalition (DSGC). Our CEO was a keynote speaker at the DSGC event in December. He addressed an audience which included Her Majesty Queen Máxima of the Netherlands and international industry leaders on innovation, collaboration and technology in sustainability.

Since 2010, we have been a member of Worldconnectors, a Dutch-based initiative working to broaden the discussion on international issues by incorporating perspectives from a cross-generational network. In 2014 we were one of more than 60 signatories to their Post-2015 Charter, committing to contribute to the achievement of the United Nations Sustainable Development Goals (2015-2030).

### Customers and products

Our customers are increasingly looking for products and solutions that will make their business more sustainable. In order to continuously improve our product offering, we

encourage customers to challenge us and work together with us. Part of this approach is to include customer sessions in our quarterly Sustainability Council meetings. In 2014, international shipping company Maersk participated in one of these meetings to share knowledge and best practice and identify areas where we can work together to reinforce our sustainability efforts. There are many more specific examples in the various case studies and the Business performance section of this Report 2014. In addition, we are in the process of improving our methods to monitor customer engagement and customer satisfaction.

AkzoNobel's Ferrazone iron fortificant is making an important contribution to the Millennium Development Goals of the United Nations. Ferrazone is a bioavailable iron source designed to help fight global anemia, an effort supported through partnerships with the Amsterdam Initiative on Malnutrition (AIM), the Global Alliance for Improved Nutrition (GAIN) and the project Smarter Futures.

In 2014, millions of people benefited from programs to fortify staple foods with Ferrazone. An important milestone was the signing of a new long-term agreement to collaborate in a private-public partnership with NGOs, the Dutch Ministry of Foreign Affairs and other leading companies. The parties agreed to set up a quality improvement network in Africa which will comprise of facilities along the food production value chain: a field testing facility, a laboratory facility performing a full range of food analyses, an auditing and certification facility and a financing facility supporting applicants to finance their quality assurance and control related investments. AkzoNobel is responsible for the development and validation of analysis methods for iron, zinc, calcium and iodine in fortified food, as well as providing technical assistance and training of laboratory staff and advising on best practice laboratory management.

AkzoNobel has been a global partner of the Forest Stewardship Council (FSC) since 2010 with the aim of growing awareness of responsible forestry worldwide. We proudly display the partnership logo on packaging for our wood care products. In 2014, awareness of the AkzoNobel-sponsored Smallholder Support Program was raised with the launch of the “Made with Heart” campaign. With the mandate of its membership, and with support from AkzoNobel, in 2012, FSC developed a specific on-product label – the Small and Community Label Option (SCLLO) – to increase the visibility of small-scale producers in the market place. When consumers buy a product carrying the “Made with Heart” concept, they are assured that the product originates from a community that is dedicated to protecting natural resources, and which benefits from this both financially and socially.

Besides strengthening the link on a global level, we will also continue to increase the ten active local partnerships we have between FSC and AkzoNobel in the Netherlands, UK, Germany, Switzerland, Czech Republic, Brazil, Russia, the Nordics, Argentina and Poland, year-on-year.

In June 2014, the Sustainable Trade Initiative on Pulp & Paper (STIPP) was launched to help sustainability become the norm in the pulp and paper industry. STIPP is a sector-wide initiative co-founded by IDH (The Sustainable Trade Initiative), Asia Pulp and Paper Group and AkzoNobel and supported by the Indonesian Ministry of Forestry and the Indonesia Pulp & Paper Association. This partnership is a result of our customers’ needs for sustainable pulp and paper products, which is why we are intensely involved in providing clean technologies for pulp and paper production.

### Suppliers and sourcing

During 2014, we continued to engage with Together for Sustainability (TfS), a chemical sector initiative designed to create more sustainable supply chains. TfS is a collaboration founded by the Chief Procurement Officers of BASF, Bayer, Evonik, Henkel, Lanxess and Solvay and aims to build the industry’s standard for sustainable supply chains. The TfS program utilizes high quality third party sustainability assessments and audits in order to measure the supplier’s sustainability performance against a pre-defined set of industry best practice criteria.

To enhance the importance and development of sustainable value chains, we’ve been supporting the organization of the International Supply Management Congress in Amsterdam since 2010. This is a joint initiative with IDH, PwC, NEVI (Dutch knowledge network for purchasing and supply management), Shell, DSM 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 2014 was on the future of supply management and perspectives through new partnerships.

For more information, see Note 7 of this section.

### Engaging employees

During 2014, we continued to engage employees from around the world on the theme of sustainability through our Planet Possible concept.

For more information, see Note 6 of this section.

### Energy and climate

Our aim is to achieve cost effective energy sources and maximize sustainable impact while being prepared for future developments. For our energy-intensive production processes, AkzoNobel is actively engaging in diversifying the energy-mix to lower risks and enhance our sustainability performance by reducing our carbon footprint and increasing the use of renewable energy. In 2014, we strengthened and intensified our dialog with key stakeholders at European Union (EU) and national levels on issues regarding the reform of the Emissions Trading Scheme (ETS), improving the conditions for sustainable supply of steam from biomass and waste and the better functioning of the EU internal energy market. In addition, we engaged in a number of consortia on innovations in bio-based chemistry. We also worked on stronger engagement with stakeholders around our production locations to increase the use and integration of renewable energy into our energy-mix.

We co-chair the WBCSD Chemicals Sector Working Group, which has been developing a consensus approach to some aspects of lifecycle assessment. Together with peers, we have developed two chemical sector guidelines to drive consistent and comparable reporting of both the environmental footprint of chemical products and carbon avoided emissions. It is a global effort which also involved relevant stakeholders in the process of developing a harmonized approach towards the calculation of environmental impacts along the value chain.

### Developing good practice

As part of our efforts for continuous improvement and the development of good practice, we participate in a range of activities that offer the opportunity to learn from and share and engage with a broad group of stakeholders.

We are incorporating natural capital thinking to ensure our business is sustainable as it grows. We continue to use our membership of the International Union for Conservation of Nature's (IUCN) business engagement network Leaders for Nature, in place since 2006, to understand and develop our biodiversity priorities. The main focus for our own operations is on climate change mitigation (through the adoption of a carbon mitigation policy) and pollution control (monitoring air, water, and soil emissions). During the year, a development activity took place focused on our raw materials, when our 2014 Leaders for Nature group researched the impact of soybeans on deforestation in South America.

Our product portfolio includes solutions that deliver both environmental and social benefits to our customers and wider society. While processes for measuring environmental benefit are well advanced, social impact measurement is less well developed. Therefore, we contributed to the Roundtable for Social Metrics and the WBCSD social metrics working group, working together with leaders in the industry to develop ways of quantifying the social challenges we are facing. Ultimately, this process will enable us to identify areas that require attention and drive further improvements.

Furthermore, we participated in a workshop about business and human rights impacts in China from the Dutch Social and Economic Council (SER).

We took part in the biennial meeting of the United Nations Global Alliance to Eliminate Lead in Paint (GAELP) and were able to inform the 20 countries present that AkzoNobel does not add lead compounds to any of its products. We were also invited to participate in a public workshop organized by Chemsec to exchange knowledge and share our approach to priority substances with other companies, government representatives and NGOs.

To help us in further developing integrated reporting and transparency, AkzoNobel was one of the pilot companies for the International Integrated Reporting Council program to create a forward-looking company reporting framework, and provided company input to the working group. We are now a member of the business network, made up of companies committed to making the framework a practical reality. Learnings from this program are included throughout this Report 2014.

### Shareholders, analysts and indices

We continuously developed our engagement with shareholders and investors on sustainability aspects by taking part in conferences and meetings during the year, as well as answering questions in telephone briefings and questionnaires. In addition, in May 2014, we organized our first Social Responsible Investor (SRI) conference call, which was attended by a range of more than 40 SRI and mainstream investors. Questions during 2014 focused on financial and environmental benefits from sustainability activity and solutions for customers, raw materials supply and carbon policy, as well as safety and the development and training of employees.

Sustainability aspects of business are also included in many analyst and general shareholder presentations. Following the 2014 AGM, for example, the Dutch Association of Investors for Sustainable Development (VBDO) indicated they would like to see a more long-term strategy in the areas of eco-efficiency and renewable raw materials. This has been covered by the new Planet Possible agenda that was launched in 2013.

Investors make use of sustainability rating agencies.  
 An overview of the agencies and their ratings can be found  
 in the table below:

**Sustainability rating agencies**

RobecoSAM (Dow Jones Sustainability Index)	We were industry group leader for the third consecutive year, and have been in the top three for the last nine years.
CDP	We have participated in the CDP assessments since 2007 and qualified for the Benelux Climate Disclosure Leadership Index (CDL) 2014.
Sustainalytics	Sustainalytics has covered us in their rating since 2004. For the second year in a row, we rank first in the Chemicals Industry ranking.
Oekom	Oekom research has analyzed us since 2001. We have been awarded Oekom Prime status since 2012. We currently rank in the top five chemical companies.
Vigeo	Vigeo has rated us since 1999. In 2014, we were among their leader group in ESG performance, resulting in inclusion in all their ethical indices.



For an overview of our listing on sustainable stock indices, turn to AkzoNobel on the capital markets in the Governance and compliance section.

# Measuring our impact in 4D

As a global company active in numerous markets, AkzoNobel is similar to many other large organizations. We generate revenue, incur costs and create value for shareholders. However, we believe that economic growth cannot be sustained if the underlying natural and social capital upon which wealth creation depends is depleted.

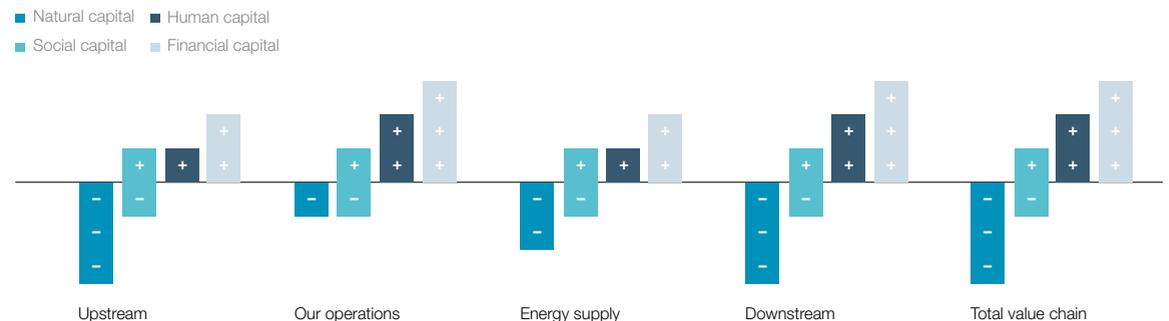
In order to get a more detailed insight into how our profit and loss is generated, we want to develop a deeper understanding across the value chain of how our business impacts the environment, people and society at large. Gaining a better understanding of these aspects – and attaching a monetary value to them – will enable us to identify possible improvements and ultimately increase business value.

We carried out a pilot study during 2014 at our Pulp and Performance Chemicals business in Brazil, which specifically looked at our environmental, human, social and financial impact. By measuring these four dimensions across the whole value chain – including raw materials, sodium chlorate production and the use of sodium chlorate in pulp production by our customers – as well as attaching an economic value to the positive and negative aspects of each, we were able to identify where we can improve. This new insight will enable us to make better business decisions by reducing the negatives and building on the positives.

## Results

Looking at the results of the pilot (outlined in the chart below), we found that the impact on financial capital was positive and substantially higher than the traditional profit calculation. This is because when combined, salaries, taxes and interest payments make a substantial contribution to wealth in society.

**Monetized impact across the whole value chain** (indicative<sup>1</sup>)



<sup>1</sup>These indicative results are based on work carried out in cooperation with TruePrice and Pavan Sukhdev (GIST)

The impact on natural capital was largely negative, mainly due to the use of oil and natural gas and emissions such as carbon dioxide, sulfur dioxide and nitrogen dioxide to air across the value chain. The positive human impact resulted from employee training programs and career opportunities, while the impact on social capital was limited, due to the nature of the industry within the scope of the pilot, which has larger production volumes and involves fewer people compared with other industries.

### What we learned

We teamed up with experts in this field, such as TruePrice and Pavan Sukhdev (GIST) and derived some interesting learnings from this new approach.

Regarding the environmental impact, we were fully aware that the production of sodium chlorate requires significant amounts of energy. We have already taken major steps to be as efficient as possible and, in addition, have built a number of our plants in close proximity to our customers' pulp mills. These so-called Chemical Islands use 100 percent biomass for energy generation. However, it's clear that there are further opportunities for us to reduce the environmental footprint. This can be achieved by increasing the share of hydropower in our electricity mix, looking further into using electricity more efficiently, exploring options to improve the transportation of raw materials and strengthening the collaboration with our customers when choosing bio-based chemicals in their production.

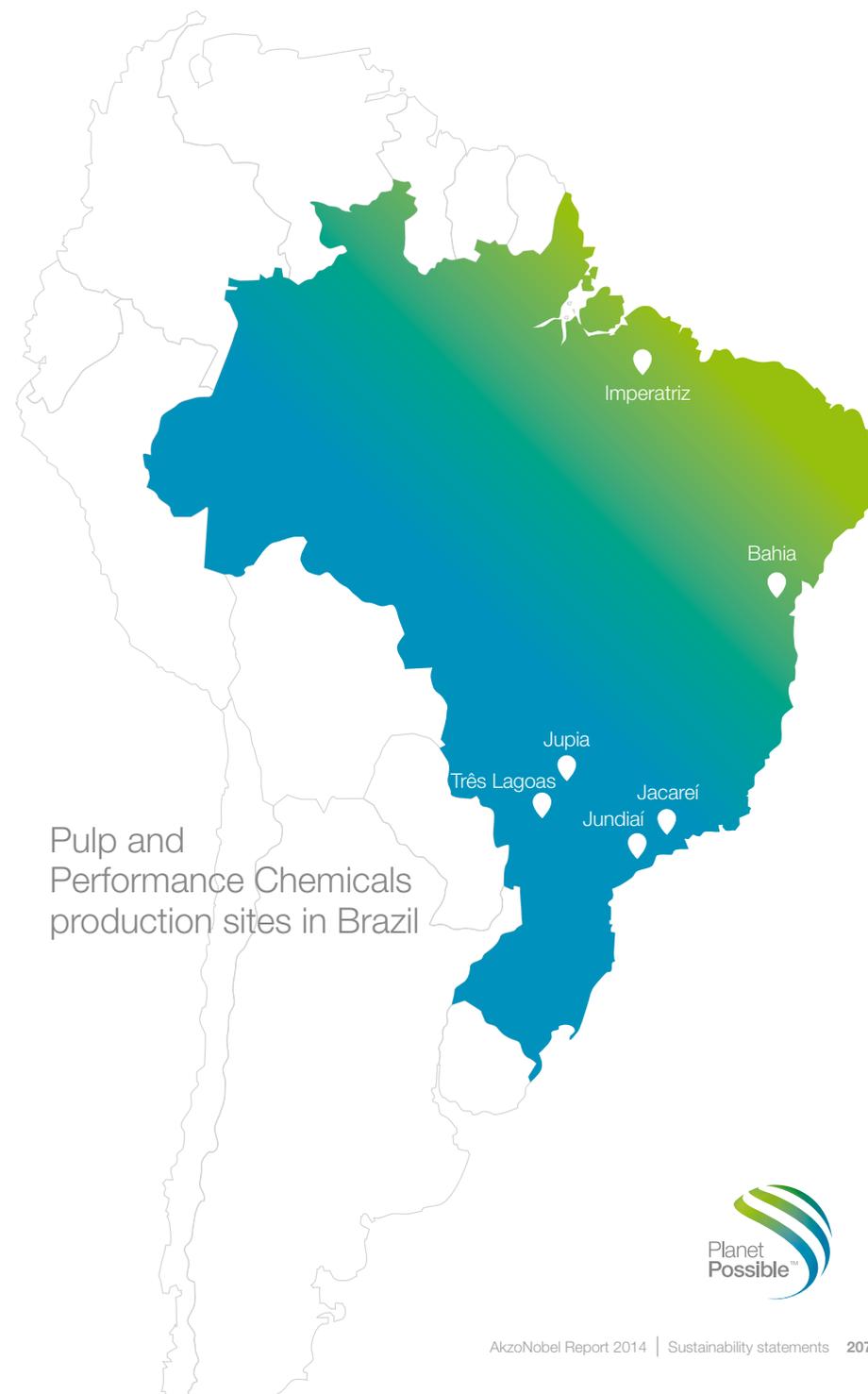
We have also learned that an analysis of human capital creation and human capital externalities can be used to estimate the return on training investments and to benchmark comparable units. By knowing the human capital, measures can be taken to retain employee groups of particularly high value.

In the social dimension, Pulp and Performance Chemicals can improve the value of social capital externalities through targeted intervention which addresses material social risks, identified by carrying out a risk assessment. Furthermore, looking at the full value chain, social capital can be enhanced by creating awareness and continuous improvement on issues around health and safety, rights at work and with local communities.

To conclude, a study such as this increases internal transparency and creates a sense of urgency, while also improving the quality of strategic decision-making.

### Next steps

The findings are already being used to make relevant improvements at the six plants in Brazil where the pilot was conducted. We're also looking at scaling up the project and introducing it throughout our Pulp and Performance Chemicals business.



# Value chain management

Our sustainability objective is to create more value from fewer resources – right across the value chain.

- Value for our customers by providing products with excellent functionality that generate resource/energy benefits ahead of competitive products
- Value for the environment through more effective use of natural resources and a significant reduction in specific greenhouse gas emissions across the value chain

- Value for society through the positive impact of our products in our end-user segments

- Value for our business by focusing on our end-user segments – delivering growth and profitability

There are three aspects for the delivery of this value chain strategy, which are summarized over the following pages:

- Sustainable business
- Resource efficiency
- Capable engaged people

## Lifecycle assessment

Lifecycle thinking is the basis for all our sustainability work. Our standard assessment method is eco-efficiency analysis (EEA), based on a combination of lifecycle assessments and lifecycle costing. Assessment work is carried out by business and company level specialists and is based on ISO 14040-44 and a company lifecycle assessment database.

Lifecycle assessment has been included in a range of processes for many years. The company is currently developing a number of common processes – either at company or Business Area level, which will also include lifecycle thinking.

## Innovation process

The new Innovation process for product and process developments covers an assessment of market segments and strategic alignment, including sustainability. AkzoNobel's eco-premium solutions concept requires the assessment of sustainability aspects along the value chain. It encourages the development of more innovative, sustainable products. We continuously aim to reduce the environmental footprint of our product value chains.

## Carbon footprint assessment

We measure the carbon footprint of all our key value chains (374 in 2014) using a full cradle-to-grave, or screening, lifecycle assessment.

## Commercial excellence processes

Including sustainability in marketing propositions is an essential aspect of our Planet Possible agenda. We are developing environmental product declarations (EPDs) for some products as part of our marketing activity.

### Key performance indicators – value chain

	2011	2012	2013	2014	Target 2015	Target 2020
<b>Sustainable business</b>						
Resource Efficiency Index (2012 baseline)	94	100	98	96	–	–
Eco-premium solutions with downstream benefit (% of revenue)	–	17	18	19	–	20
Eco-premium solutions total (% of revenue)	22	22	24	24	30	–
VOC in product (% reduction from 2009)	6	10	7	n/a	–	–
<b>Resource efficiency</b>						
Carbon footprint cradle-to-grave per ton of product sales (% reduction from 2012)	–	0	2	-4	–	25-30
Carbon footprint cradle-to-gate per ton of product sales (% reduction from 2009) <sup>1</sup>	3	1	4	0	10	–
Carbon footprint own operations (million tons of CO <sub>2</sub> (e))	4.8	4.7	3.9	3.9	<4.6	<4.6
Renewable energy own operations (%)	–	33	31	34	–	45
Renewable raw materials (% of organics)	–	13	13	13	–	–
<b>Supplier management</b>						
Critical PR <sup>2</sup> spend covered by supplier management framework (% of spend)	–	69	80	83	88	–
PR <sup>2</sup> suppliers signed Vendor Policy (% of spend)	95	97	96	98	98	–
NPR <sup>3</sup> suppliers signed Vendor Policy (% of spend)	77	80	83	80	80	–
Suppliers on SSV program since 2007	304	373	392	432	–	–

<sup>1</sup> 2011-2012 restated due to KVC review.

<sup>2</sup> Product related (raw materials and packaging).

<sup>3</sup> Non-product related.

### Investment decisions

All our major investment proposals (more than €5 million) require a sustainability evaluation alongside the financial case. This includes assessments at different stages in the project development. 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. The proposals are reviewed by subject matter experts, who give input to the Executive Committee, to provide a strong basis for the investment decision.

### Other value chain aspects

While we focus on carbon footprint as a proxy for raw material and energy efficiency, our lifecycle assessment considers a range of impacts. In 2014, this included:

#### Biodiversity

We continue to work alongside the IUCN Leaders for Nature program following on from the 2013 hotspot evaluation in our value chains. The focus for 2014 has been on sourcing of renewable raw materials.

## Resource Efficiency Index

The adoption of a Resource Efficiency Index as a key financial indicator results from the conviction that global population growth and increasing resource constraints will drive new business models in the materials and energy intensive industry sectors. In the chemicals industry, sustained business success will require product and process innovations that generate much more added value from each unit of raw materials and energy used across the value chain – be it with our suppliers, in our own operations or with the users of our products.

The Resource Efficiency Index is defined as gross margin divided by cradle-to-grave carbon footprint – reported as an index. The index development was based on input from a range of financial analysts and environmental specialists and wide internal consultation:

- We selected gross margin as an indicator of added value as it is comparatively stable and captures the effects of efficiency improvements
- Carbon footprint is a good proxy for resource efficiency across our value chains

We are initially monitoring the Resource Efficiency Index and expect it to be a long-term indicator for AkzoNobel. Although margin variability may affect performance in any given year, the long-term trend must be upwards.

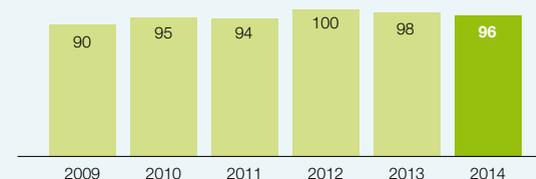
A review of our performance over the past six years reveals a variable trend. We have seen increases from factors such as:

- Improvements in energy efficiency
- Increased renewable and low carbon energy supply
- The ongoing switch towards waterborne coatings
- Margin improvements as a result of higher value added products

However, alongside these positive factors we have seen tighter margins, together with expansion in markets that are slower in adopting low VOC coatings and have a high proportion of high carbon energy supplies. The drop this year is due to our carbon footprint performance: we have initiated a detailed review of our plans to achieve this 2020 target.

### Resource Efficiency Index

gross margin/CO<sub>2</sub>(e) indexed



Resource Efficiency Index is gross margin divided by cradle-to-grave carbon footprint, expressed as an index. The index is set at 100 for 2012, since this is the baseline year for the strategic sustainability objectives.

REI 2009-2011 is indicative and has been approximated. Cradle-to-grave carbon data for 2009-2011 is based on:

- Cradle-to-gate carbon data as measured and reported
- Gate-to-grave carbon data has been extrapolated based on 2012 data, adjusted for product volumes in 2009-2011

## Eco-premium solutions

We maintain our intention to lead by example in the area of improving the sustainability and environmental performance of our products and processes, which we measure through our development of eco-premium solutions (EPS). They are a fundamental driver of our Planet Possible agenda for creating more value from fewer resources and minimizing the environmental impact/ footprint of the products we sell and the processes we use to manufacture them.

EPS are defined as being new products and processes that meet the sustainability-related criteria set out below. When assessed across the entire value chain, against currently available solutions in the market, they provide the same or better functionality and offer significantly better performance in at least one of the following aspects:

- Toxicity and eco-toxicity
- Energy efficiency/consumption
- Use of natural/renewable raw materials
- Emissions and waste
- Land use
- Risks (in production, transportation, use or disposal)
- Health and well-being

They also have no adverse impacts in their performance in any one of these aspects.

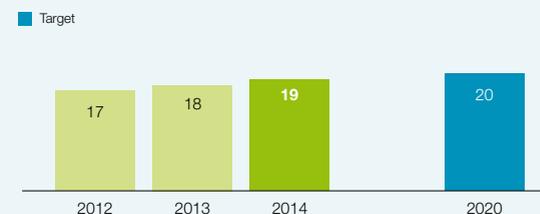
Introduced in 2012, EPS with downstream benefits is a measure which focuses on products and services that provide customers and consumers in our downstream value chain with the same sustainability advantages as those defined as criteria for the broader, historical EPS measure above. EPS with downstream benefits deliver advantages to our direct customers: through their use as components/ingredients in our customers' products; their use by consumers; or in their end-of-life phase – be that disposal, recycling or re-use.

Recent examples of EPS with downstream benefits include:

- **EvCote barrier coatings:** Used for beverage and food paper packaging, particularly for single serving uses such as paper cups and French fry sleeves, which provide a unique sustainability offering due to the use of recycled and bio-renewable components in the base resin. A zero VOC waterborne coating with the ability to be re-pulped, recycled or composted after use. The current use of fluorocarbon waxes or polyethylene as the coating automatically consigns the used packaging to landfill
- **Dulux Forest Breath:** A high performance waterborne interior wood stain for the Chinese market which has anti-bacterial properties and improves indoor air quality by absorbing and destroying atmospheric formaldehyde – enhancing the well-being of families
- **Ecosel AsphaltProtection:** An environmentally harmless additive for de-icing which prevents formation of hard ice inside asphalt pores and substantially reduces frost damage to roads. Proven to reduce winter road damage by up to 50 percent, the additive enables substantial savings on road maintenance, repair and the consumption of asphalt and also makes a significant contribution to traffic safety
- **Sikkens Rubbol Express:** Cobalt-free decorative paints, available as extremely fast-drying primers and best-in-class leveling high gloss top coats. Excellent drying times in adverse climatic conditions, enabling outdoor painting at temperatures between 3°C and 30°C throughout the year
- **LignuPro:** A label-free, ultra-low formaldehyde emitting adhesive for the internal wood flooring market. The only product on the market which has been awarded French A+ air quality certification, while maintaining excellent bonding strength and passing the ANSI bonding tests

In 2014, revenue from eco-premium products and services with downstream benefits totaled €2.7 billion, or 19 percent of total revenue. Revenue from all eco-premium solutions (with benefits anywhere in the value chain) were €3.5 billion, or 24 percent of total revenue.

### Eco-premium solutions with downstream benefits in % of revenue



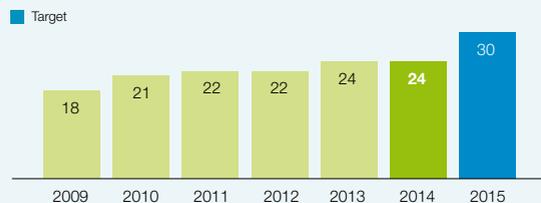
### Eco-premium solutions with downstream benefits per Business Area

in % of revenue	2012	2013	2014
Decorative Paints	22	27	27
Performance Coatings	13	13	15
Specialty Chemicals	16	16	17

Year-on-year progress will be impacted not only by our own innovation drive, but also by competitor activity and legislation changes. Furthermore, the introduction of new products into the market whose performances equal those of our current EPS offering will redefine the standards that we will have to surpass to acquire future EPS status.

## Eco-premium solutions

in % of revenue



## Eco-premium solutions per Business Area

in % of revenue	2012	2013	2014
Decorative Paints	26	35	33
Performance Coatings	14	13	15
Specialty Chemicals	25	26	27

## VOC in products

In 2009, we embarked on our VOC challenge to manage the transition to a product portfolio lower in average volatile organic compound (VOC) content, and to minimize the potential social and environmental impact from these substances. While our vigilance in driving technological change towards reduced VOC content is unchanged, we maintain a close eye on developments in the marketplace and changes in our sales mix.

In our Decorative Paints products, we are introducing reformulated products with much reduced and virtually zero VOC content and this reduction trend will continue in the future. Our Performance Coatings business is also achieving a declining average VOC content, despite the significant technical challenges involved in maintaining product performance while reducing VOC content.

We are keenly aware, however, that although we are making technological progress, we must also keep up with the market and match our product offering to customer demand. For example, while we have key projects in place in the Chinese coatings market, this market is still not migrating as quickly as other regions towards low or zero VOC products.

Our evaluation for 2013 shows that compared with our starting position in 2009, we realized a 7 percent reduction in average VOC content across our coatings and paints product ranges. This compares to a 10 percent reduction achieved in 2012. While we see a declining trend in the VOC content in all our Decorative Paints activities, our divestment of the North America and Building Adhesives businesses – which were comparatively low in VOC content – has resulted in an increase in the VOC content across the resulting product mix. If we correct for these divestments, the VOC content of the total AkzoNobel product portfolio reduced by 3 percent between 2012 and 2013. Both Decorative Paints and Performance Coatings contributed to this reduction.

# Paint that keeps you cool

There are lots of cool cities around the world, but how do you keep a city cool? Not only do many of them have to cope with sizzling summer temperatures, they also have to withstand urban heat island effects and – in several regions – the growing impact of global warming.

For many homes and buildings, the answer is air conditioning, but this requires significant amounts of energy. For example, according to government figures, 34 percent of household power in Singapore is used for cooling interiors.

In an effort to help tackle the problem, our coatings scientists developed Weathershield KeepCool, an exterior paint which can reflect up to 85 percent more infrared radiation than comparable exterior paints.

When applied to the outside of a house or building, the product reduces the amount of heat being transferred to the interior, which means less energy has to be used to keep it cool. Tests conducted by an independent consultancy in Singapore have shown that energy savings may be as much as 10 percent for a typical 15-storey building and 15 percent for an average house.

This ability to reduce heat absorption and lower energy consumption is typical of AkzoNobel's Planet Possible approach to developing more eco-premium solutions that offer sustainability benefits for customers. But Weathershield KeepCool doesn't just highlight our commitment to doing more with less. It also underlines how sustainable solutions can help the world's cities to cope with the challenges of the 21<sup>st</sup> century.



## Product benefits:

Surface temperature  
up to **5°C lower**  
than comparable products

Reflects up to **85%**  
more infrared radiation than  
comparable exterior paints



Singapore's  
energy savings

**10%**

for a 15-storey  
building

**15%**

for an average  
house



Scan and explore



## Carbon footprint cradle-to-grave

In our 2020 sustainability objectives, carbon footprint has a very important role – not only for its measure of climate impact and protection, but also because we are using it as a proxy for how efficiently we are using raw materials and energy in our products.

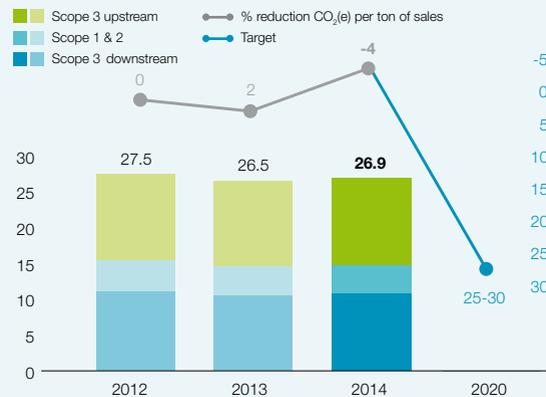
Our target is to reduce our cradle-to-grave carbon footprint by 25 to 30 percent per ton of sales between 2012 and 2020. Impact from VOC emissions is also included. We will achieve this through innovative products/solutions, technology and energy management and by creating more value from fewer resources.

Our assessment this year indicates a total footprint of around 27 million tons of CO<sub>2</sub>(e) and a CO<sub>2</sub>(e) per ton of sold product nearly 4 percent higher than the 2012 level. The cradle-to-grave assessment shows that around 40 percent is from raw materials extraction and processing (Scope 3 upstream), 15 percent from our own direct and indirect emissions from energy consumption (Scope 1 and 2), and 45 percent from the use and end-of-life phase (Scope 3 downstream).

We have made some good improvements. New power contracts in, for example, Moses Lake and Columbus, and increased production in our Chemical Islands (using renewable power) have reduced the footprint significantly. Energy efficiency has been improved at several production sites, such as Ningbo in China and Columbus in the US. However, these improvements have been outweighed by changes in product mix, a deterioration of power mix in Germany and lower utilization of our CHP unit in the Netherlands, leading to the use of more power from the Dutch grid. The absolute carbon footprint of our own operations has reduced by 17 percent since 2012.

### Cradle-to-grave carbon footprint

in million tons of CO<sub>2</sub>(e) and % reduction per ton of sales



The carbon footprint of the six main greenhouse gases is measured from cradle-to-grave based on the international Greenhouse Gas (GHG) Protocol and Lifecycle Assessment ISO 14040-44. See Assessment method on our website.

### Cradle-to-grave carbon footprint

Total in million tons CO<sub>2</sub>(e) and reduction per ton of sales

	2012	2013	2014
<b>Decorative Paints</b>			
Total	5.0	4.2	3.9
% reduction per ton of sales	0	3	0
<b>Performance Coatings</b>			
Total	13.0	12.9	13.6
% reduction per ton of sales	0	0	-2
<b>Specialty Chemicals</b>			
Total	9.5	9.4	9.4
% reduction per ton of sales	0	2	-2
<b>AkzoNobel</b>			
Scope 3 upstream	11.0	10.5	10.7
Scope 1 & 2* (see note below)	4.4	4.1	4.0
Scope 3 downstream	12.1	11.9	12.2
Total	27.5	26.5	26.9
% reduction per ton of sales	0	2	-4

\*Scope 1 and 2 includes emissions from our facilities and our own transport, including VOCs.

We have assessed all Scope 3 categories according to the GHG Protocol Scope 3 standard. (See Scope 3 emissions on our website).

More information on our assessment method for carbon footprint cradle-to-grave can be found in Note 2.

## Management plans

We have initiated a detailed review of our plans to achieve this 2020 target.

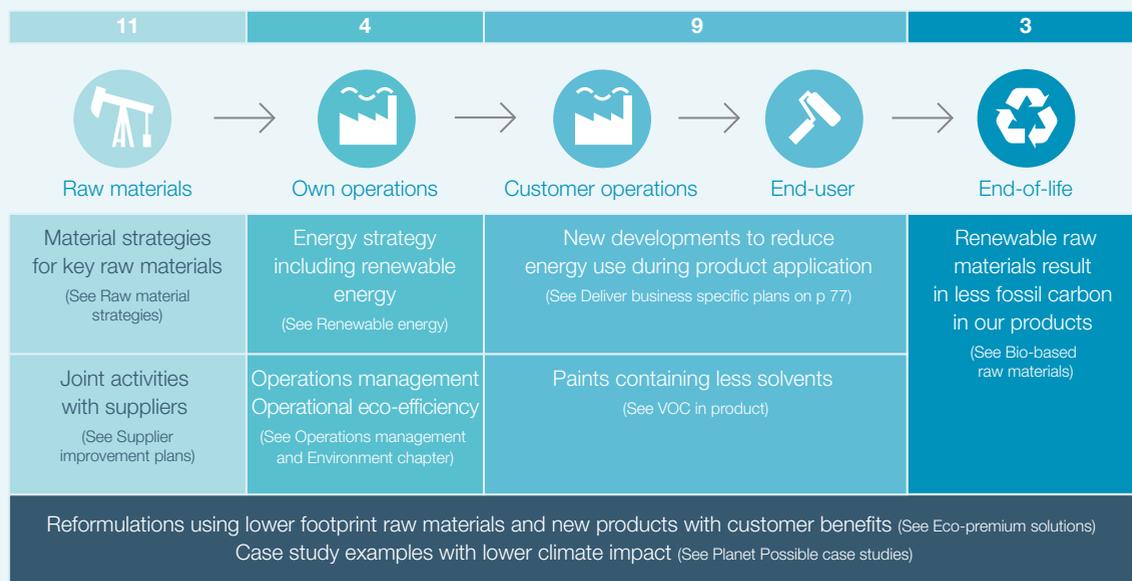
Our businesses have developed quantified carbon management plans that identify specific improvement opportunities and programs. These plans are summarized at Business Area and company level to manage and follow up carbon footprint reduction targets.

The illustration on the next page highlights the impact of our main initiatives in different areas of our value chain:

- Raw materials which are more energy and material efficient for our customers
- Improved energy efficiency and fuel mix for our energy intensive operations
- Improvements in formulation to reduce product footprint

The following sections discuss improvement activities for raw materials, our operations and in the product solutions we deliver to customers.

**AkzoNobel carbon footprint** in million tons CO<sub>2</sub>(e)



## Raw materials

Raw materials contribute around 40 percent to our cradle-to-grave carbon footprint and 63 percent to our cost of sales.

### Raw material strategies

The procurement strategy for the next few years is to move further beyond availability-price-synergy towards cross-functional sourcing, integration and value chain orientation. Buying on price will move towards total cost of ownership, while selected supplier relationships will 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.

A cross-functional approach with our key suppliers is now set as the standard in our updated key supplier management process. This enables us to structure the cooperation regarding joint sustainability and innovation topics with our key suppliers.

During the year, we continued the development and implementation of our raw material strategies. These included 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. We continuously review these strategies in an integrated cross-functional Project Management Office, run monthly, 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.

### 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. Health and sustainability aspects, such as product safety and environmental concerns, are key criteria applied. The objective is to migrate our materials/suppliers over time on to 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, improved sustainability and reduced risk.

### Supplier improvement plans

We are also working with key suppliers to develop specific carbon footprint improvement plans, through operational improvements, material substitution and/or specification optimization. In 2014, this cross-functional supplier engagement has resulted in carbon footprint reductions in the areas of titanium dioxide and packaging.

### Bio-based raw materials

Bio-based raw materials are an important contributor to our sustainability agenda; a considerable share of AkzoNobel’s environmental footprint is embodied in the raw materials we buy, and most bio-based materials exhibit lower footprints. While many of our materials are already bio-based, we are also seeing the construction and commissioning of the first commercial scale production facilities for several new additional bio-based raw materials. In order to lead the deployment of these materials in our markets, we have been setting up partnerships across our supply chain. This supports the emergence of a new bio-based industry, and at the same time enables AkzoNobel to tap into alternative feedstock sources, to be able to offer more sustainable products, and to reduce the cradle-to-grave carbon footprints.

In 2014, we progressed our existing partnerships and announced additional partnerships for several of our key raw materials:

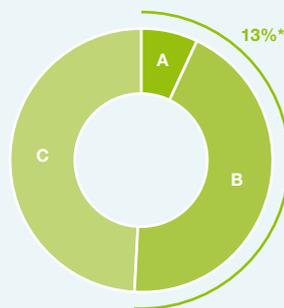
- **Algae-derived oils:** The previous joint development agreement with biotech company Solazyme has been expanded to provide for funded development leading towards a multi-year supply agreement targeting annual supply of up to 10,000 tons of renewable Tailored™ algal oils. The target product is designed to have improved functional and environmental performance, as well as a lower overall cost to AkzoNobel
- **Biobased epichlorohydrin:** In partnership with Solvay and epoxy resin producers, we plan to increase the use of bio-based epichlorohydrin to 20 percent of AkzoNobel's global indirect use by 2016
- **Cellulosic-based acetic acid:** We are exploring options for acetic acid as a by-product of wood processing industries and, together with biorefinery developer ZeaChem, we are exploring the potential for a large-scale facility in Europe producing acetic acid (and derivatives) from cellulosic sugars (e.g. forestry waste)
- **Bio-based solvents in Latin America:** This partnership with Solvay-Rhodia targets volumes of up to 10 kilotons per year of bio-based solvents by 2017
- **Chemicals derived from sunlight and CO<sub>2</sub>:** With cleantech company Photanol, we have agreed to work on "green" chemical building blocks that will eventually replace raw materials AkzoNobel currently obtains from fossil-based production. The collaboration is focused on Photanol's existing proprietary technology, which uses light to directly convert CO<sub>2</sub> from the air into predetermined raw materials such as acetic acid and butanol. The only by-product is oxygen
- **Waste-derived chemicals:** An agreement with Canada's Enkern has been signed to develop a project partnership to explore the development of waste-to-chemicals facilities in Europe. This is part of a major Dutch partnership to explore the use of waste streams as a feedstock for chemical production, hence

closing the loop by converting waste back into useful products

- **Sugar beet-derived chemicals:** AkzoNobel has joined forces with SuikerUnie, Rabobank, Deloitte, the Investment and Development Agency for the Northern Netherlands (NOM), Groningen Seaports, and the Province of Groningen, to investigate the possibility of producing chemicals from beet-derived sugar feedstock. The study aims to identify one or more successful business cases for commercial production in Delfzijl

The announced partnerships have the potential to make a major impact in improving the sustainability of our supply chain in the long term. In 2014, 13 percent of all our organic raw materials came from bio-based (renewable) sources (2013: 13 percent). This is 7 percent (2013: 5 percent) of the total volume of raw materials purchased, i.e. including other raw materials such as salt, minerals and clays.

**Total volume of raw materials** in % per source



\*13 percent of organic raw materials are from renewable sources.

<b>A</b> Renewable raw materials (bio-based)	7
<b>B</b> Fossil-derived materials (petrochemicals)	44
<b>C</b> Inorganic materials (e.g. salt, minerals, clays)	49

The relative increase in renewable raw materials and the decrease in inorganic raw materials were mainly the result of changes in product mix.

## Own operations

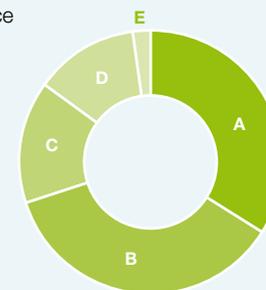
### Renewable energy

The energy we use on our sites contributes about 15 percent to our cradle-to-grave carbon footprint and about 8 percent of our cost of sales. Renewable energy is therefore an important aspect of the improvements required to achieve our 2020 strategic carbon footprint target.

Our Renewable Energy Supply Strategy has three focus areas: protecting our current renewable share, participating in cost effective, large energy ventures

**Total energy** in % by source

<b>A</b> Renewable energy	34
<b>B</b> Natural gas	36
<b>C</b> Coal	15
<b>D</b> Nuclear	13
<b>E</b> Other fossil fuels	2



### Renewable energy

In % of total electricity, heat and energy use	2012	2013	2014	Target 2020
Renewable electricity (%)	39	36	39	–
Renewable heat (%)	10	12	14	–
Renewable energy (%)	33	31	34	45

and exploring commercially feasible on-site renewable energy generation.

The diagram on the previous page details our energy mix and renewable energy use. Specific projects implemented or in progress include:

- Nordic wind consortium VindIn started up its first Finnish park, being the third park in total, in Svaskulla, Närpes on October 1. Five more parks are under development, with the next one to be decided in early 2015
- Conversion of biomass facilities from electricity to steam production, which will double energy output and reduce environmental impact
- Explored various consortia on biomass and wind to get access to cost effective renewable energy
- At Moses Lake in the US, the energy mix was changed from 73 to 92 percent renewable energy, resulting in a reduction of 30,000 tons of indirect CO<sub>2</sub>
- Our Pulp and Performance Chemicals business started two new production locations in 2014 (Jupia and Imperatriz), using 100 percent renewable energy

Due to these initiatives, the proportion of renewable energy in our operations increased to 34 percent (2013: 31 percent).

### Operations management

AkzoNobel has a strong drive to embed continuous improvement in supply chain management and manufacturing. A company-wide approach has been defined named ALPS (AkzoNobel Leading Performance System). Standardized processes, metrics and training programs are part of ALPS. Deployment in all three Business Areas to all manufacturing sites in AkzoNobel will continue in the next few years.

The program is supported by the AkzoNobel Academy, offering a continuous improvement curriculum, as well as functional training programs. Safety, customer service,

eco-efficiency and cost productivity continue to improve as a result of the program.

Full details of our operational eco-efficiency program are included in Notes 15-20.

### Logistics, distribution and car lease

As part of 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 Green Freight Europe in the EU, focusing on CO<sub>2</sub> reduction. The carbon emission ambition for our own passenger car fleet was 130 g/km, which has now been reached. We have set a new ambition to reach 115 g/km by the end of 2016. In Europe, we reduced from 143 g/km in 2011 to 128 g/km in 2014.

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## Customer product solutions

Our sustainability agenda emphasizes resource effectiveness and solutions for our customers, which in turn help them to be more energy and resource effective. We aim to continue developing more sustainable solutions and stay ahead of the competition. The headline metric we have used since 2009, eco-premium solutions, measures products or solutions which have a significant benefit ahead of the mainstream products in the market in defined sustainability aspects (e.g. GHG emissions) when assessed across the total value chain (see Eco-premium solutions). This metric is challenging and is used as a driver for more sustainable innovations. A comparison with mainstream is now being recognized as good practice at many companies and organizations (ref. WBCSD Addressing the Avoided Emissions Challenge).

In total, 12 percent of our 2014 revenue was from eco-premium solutions that avoid GHG emissions for our customers, compared with the mainstream solution. Some examples of solutions are UV radiation cured coatings, more fuel efficient antifoulings for ships and warm mix additives in asphalt. Other products which are helping to reduce global GHG emissions are not captured by this leading measure. For example, more than 80 percent of our decorative paints are water based or low/zero VOC (as opposed to solvent based) and our powder coatings reduce VOC emissions in use (compared with solvent based alternative solutions). These products are only counted as an eco-premium solution where the standard in the market is still solvent based. Another example is surfactants manufactured using renewable raw materials (rather than petroleum based).

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## Suppliers and sourcing

Working with our suppliers in order to create a sustainable supply base and deliver customer benefits, as well as improving resource efficiency, is a fundamental requirement of our strategy. This means that we have to work together effectively. We have supplier management programs in place that support both performance improvement and opportunities for joint developments. One specific project focuses on the introduction of renewable raw materials in our supply chains in collaboration with selected partners.

Further information on our engagement with suppliers and the management processes is included in Note 7.

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## Capable engaged employees

Employees are routinely involved in delivering many aspects of our sustainability agenda, such as improving energy or resource efficiency at our sites, developing and selling eco-premium solutions to customers, managing all areas of safety and assessing the sustainability aspects of investments. We want to build on all these activities to accelerate performance against our objectives.

Awareness training to help everybody understand their contribution is available for current and new employees through a company level e-learning program, with follow-up “events” and business specific programs. Our learning and development specialists are working to embed the sustainability agenda in all company level management programs in the AkzoNobel Academy. The focus in 2014 was an updated Graduate Development Program. A number of functional specific programs have been piloted during the year, with a more structured program starting in 2015.

We continued to drive employee engagement through our Planet Possible sustainability agenda, with webinars and videos. Our Decorative Paints business has progressed with their two-year engagement plan. Using a story approach, combined with a competition, overall awareness was increased along with an understanding of the breadth of sustainability activities taking place across the organization. This approach will be extended across all other businesses in 2015. Employees are also actively involved with their work locations through local Green Teams and community activities around the world.

Further information on our employee KPIs and management processes is included in Employees and community under Note 12.

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## Customer engagement

Our customers are increasingly looking for products and solutions that will make their business more sustainable. In order to meet their current and future needs, we encourage customers to work with us so that we can deliver breakthrough solutions that provide a downstream sustainability benefit while delivering economic value to both parties. In our North American Wood Coatings business we have worked closely with a long-standing customer to deliver a new formaldehyde-free coating system for office furniture. It allows the customer to meet the latest indoor air quality standards while ensuring better levels of product performance compared with its previous coating system.

We are equipping our Sales and Marketing employees to initiate Planet Possible conversations with our customers. Our approach and best practice examples in the Buildings and Infrastructure end-user segment are highlighted for customers in our Planet Possible brochure. Within our Decorative Paints business, we have provided a Planet Possible marketing toolkit for both professional and consumer brands.

Further information on our work with customers is included in the case studies and the Strategic performance section of this Report 2014.

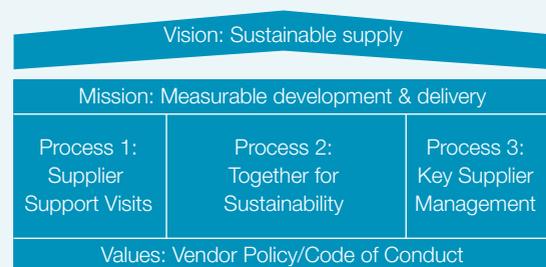
AkzoNobel works closely with suppliers to identify and minimize supply chain risks in order to provide secure and sustainable supply to its customers. Supplier management programs are in place to drive continuous improvement of existing supply chains and also to develop meaningful collaboration and joint development opportunities.

We have identified two supplier segments for particular attention, based on the potential risks and opportunities:

- Critical suppliers are those in high growth countries where we want to build a long-term, mature supply base. Selection may be based on risks associated with labor conditions, environmental performance or business integrity, or security of supply of important materials
- Key suppliers are selected because of their importance to the business – spend or dependency – as well as the potential for partnership, joint innovation and collaboration on long-term sustainability initiatives

In order to improve the alignment between our initiatives for all supplier segments, we have enhanced and formalized our sustainable supply framework, as reflected below.

**Supplier sustainability framework**



**Key performance indicators – supplier management**

	2011	2012	2013	2014	Ambition 2014	Ambition 2015	Ambition 2016
Critical PR <sup>1</sup> spend covered by supplier management framework (% of spend)	–	69	80	83	85	88	90
Product related suppliers signed Vendor Policy (% of spend)	95	97	96	98	96	98	98
NPR <sup>2</sup> suppliers signed Vendor Policy (% of spend)	77	80	83	80	80	80	85
Suppliers on SSV program since 2007 <sup>3</sup>	304	373	392	432	–	–	–
Third party online sustainability assessments <sup>4</sup>	–	–	–	539	200	600	–
Third party on-site sustainability audits <sup>5</sup>	–	–	–	20	20	40	–

<sup>1</sup> PR = Product related (raw materials and packaging).  
<sup>2</sup> NPR = Non-product related.  
<sup>3</sup> SSV program targets are included in the Critical PR spend coverage KPI.  
<sup>4</sup> Includes TfS shared assessments.  
<sup>5</sup> Includes TfS shared audits.

Our Supplier sustainability framework is founded on AkzoNobel's core principles and company values. We demand the highest ethics and integrity in all supplier relationships. AkzoNobel's Vendor Policy links our principles, values, and Code of Conduct into one cohesive document which sets out our clear expectations regarding adherence to our core principles and company values at all times.

Three formal processes are now in place to help AkzoNobel ensure compliance, manage risk and promote supplier development. Our Supplier Support Visit and Key Supplier Management programs focus on two distinctly different supplier segments: critical suppliers in emerging markets and globally strategic (key) suppliers. Our third and newest program, Together for Sustainability (TfS), applies to all supplier segments. TfS provides standardized, third party assessments and audits into our routine supplier management process.

The above elements equip AkzoNobel to measure supplier development and delivery against the company's sustainability goals.

In 2013, we began reporting a new KPI: the Critical product related (PR) spend that is actively managed by one of our supplier framework processes. This KPI provides a meaningful measure of how well AkzoNobel is building the sustainability, capability and capacity of its suppliers in critical high growth markets around the world.

In 2014, third party supplier assessments and audits from the TfS initiative were effectively integrated into our program to further secure our critical spend coverage and maximize supplier contributions toward our sustainability objectives.

We have defined critical spend as all PR spend (raw materials and packaging) from high growth countries. Spend is considered to be covered by this metric if at least one of the following conditions is met:

- The supplier is part of our Key Supplier Management process
- The supplier is part of our Supplier Support Visits program and has been followed up in compliance with program guidelines
- The supplier's sustainability performance has been assessed via AkzoNobel's third party supplier assessment and audit program

- The supplier has a signed Vendor Policy, delivers less than €5 million from high growth countries and is not classified as a critical supplier (and therefore part of the Supplier Support Visits program)

As a result of these focused efforts, we raised our Critical PR spend coverage from 80 percent in 2013 to 83 percent in 2014.

The Supplier sustainability framework is put in place to support continuous improvement of suppliers, to prioritize improvement activities across our supply base and to accelerate delivery of our corporate sustainability goals. Each of the elements in the sustainable supply framework is further explained below.

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## Vendor Policy

The Vendor Policy covers 98 percent of the product related (PR) spend and 80 percent of the non-product related (NPR) spend, including all critical suppliers and key suppliers. Our aim is to have all our suppliers comply with the AkzoNobel Vendor Policy, which includes our Code of Conduct, confirming their compliance with environmental, social and governance factors.

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## Supplier Support Visits

The Supplier Support Visits (SSV) program is designed to develop long-term local suppliers in high growth markets by raising their capability and performance. Introduced in 2007, the SSV program has been highly successful and is an important supplier management tool. The supportive visits focus on critical suppliers and are carried out by teams from Procurement and HSE. Formal follow-up visits by these teams are conducted to verify implementation of agreed plans and overall progress. In order to ensure continued development of sustainable supply chains in high growth markets, selected approved SSV

suppliers continue their sustainability journey by entering AkzoNobel's third party assessment and audit program. Awareness of, and compliance with, corporate social responsibilities is measured with continued support from local cross-functional AkzoNobel teams.

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## Key Supplier Management

As part of our ongoing operational effectiveness program, our Key Supplier Management process helps focus our internal resources on suppliers we have defined as critical to AkzoNobel, both now and in the future. These suppliers are essential to supporting us in realizing our strategic objectives. With many of these key suppliers we also have a formal key supplier agreement in place, underpinning the aims of the Key Supplier Management process. Sustainability objectives are now included in all new key supplier agreements.

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## Together for Sustainability (TfS)

Full implementation of this program in 2014 has impacted all supplier segments, including product related and non-product related suppliers. TfS is an industry initiative made up of 12 leading European chemical companies and continues to expand. It aims to improve sustainability practices within the global supply chains of the chemical industry, building on established global principles such as the United Nations Global Compact and the Responsible Care® Global Charter. With TfS, we aim to implement effective, leading edge practices across the industry. We are implementing standardized global CSR assessments and on-site audits to monitor and improve sustainability practices in our supply chains.

Global implementation of TfS provides the following benefits:

- Confirms compliance with our Vendor Policy standards and Code of Conduct across a selected global supplier portfolio
- Supplements our existing SSV program by ensuring continued development of critical suppliers in high growth markets
- Strengthens our risk identification and mitigation processes
- Further integrates auditable corrective action planning into the supplier development process
- Provides third party verification of AkzoNobel activities against industry best practices

As part of an annual third party assessment of AkzoNobel, the quality of our corporate supplier management activities is verified against industry best practice. AkzoNobel was granted a Gold recognition level in 2014 by EcoVadis, putting us among the best performing companies assessed by EcoVadis globally in our industry category. Our Supplier sustainability framework provides an overall approach to quantifying supplier progression and delivery against key performance elements in both high growth and mature markets.

In 2014, we began piloting an internal supplier rating system designed to measure the current level of sustainability awareness and maturity of our strategic and critical suppliers. Clear and quantifiable key performance indicators are contained in this process to help drive continuous improvement of all suppliers and delivery of sustainability benefits to AkzoNobel in the area of carbon footprint reduction. Progress will be reported in our Report 2015.

## Key performance indicators – safety

	2011	2012	2013	2014	Ambition 2014	Ambition 2015	Ambition 2020
<b>People</b>							
Total reportable injury rate employees/supervised contractors (per million hours)	3.1	2.4	2.3	1.8	2.0	<2.0	<1.0
Manufacturing sites with behavior-based safety program (% of sites)	76	76	96	98	100	100	–
Life-Saving Rules implemented (% of sites)	–	–	100	100	100	–	–
<b>Process</b>							
Regulatory actions (Level 4)	0	0	0	0	0	0	0
Significant loss of containment (Level D)	2	0	1	0	0	0	0
<b>Product</b>							
Priority substances with management plan (%)	23	42	62	82	80	100	–
REACH compliance third phase (%)	–	–	–	15	15	25	100
<b>Management</b>							
Safety incidents (Level 3)	8	3	0	1	0	0	0
Management and reassurance audits	66	61	56	63	–	–	–

Our Safety Common Platform established company-wide improvement programs in people, process and product safety, supported by continuous improvement and capability building. The Safety Common Platform sets out milestones to achieve a world class level of safety excellence by 2020. We aim to differentiate ourselves by our thoroughness in embedding best practice safety processes in all our operations, using common approaches and systems. Behavior-based safety has now been implemented at all our manufacturing sites and at more than 50 percent of non-production work locations and groups – including stores, warehouses, laboratories and technical service teams – using a risk-based approach. The effectiveness of the local behavior-based safety programs is reviewed annually. Our common set of Life-Saving Rules (LSR) has been introduced for all employees. Breaches of these rules that result in injuries or safety incidents resulted in the maximum disciplinary

sanction allowed under local legislation in 15 cases. Our company-wide approach to managing the risk from the use of priority substances has resulted in the phase-out or restriction of priority substances at a global level.

Key line managers have now received refresher training in the company's expectations and the required competencies for safety leadership. A single system for HSE performance reporting has been in place for several years and a new single system for reporting incidents and analyzing incident trends is now fully operational.

During 2014, management focus and employee engagement at every level delivered a further reduction of more than 25 percent in the number of injuries. Particular contributions to meeting our milestones came from the risk-based approaches of our behavior-based safety program, and the additional focus and support provided to

sites that are furthest behind in terms of safety performance.

During 2015, AkzoNobel will extend behavior-based safety to all work locations worldwide. Those who drive on company business will be included in a company-wide program of training based on safe driving behavior, including awareness training, e-learning and practical training. Our process safety management framework has been introduced at high hazard sites and will be extended to medium hazard sites in 2015.

A product stewardship maturity framework has been established as part of our renewed product stewardship strategy and training in product stewardship principles will be extended to all relevant business teams. Responsibility for implementing these programs lies with the businesses, with leading units providing experience and best practice that can be shared with others in order to accelerate progress.

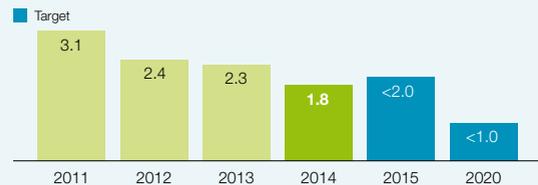
As a key element in the next phase of improvement, we will provide advanced safety leadership training for manufacturing site management, including direct dialog with our most senior leaders on safety performance and improvement plans. The program will provide site managers with the opportunity to benchmark internally, receive coaching from experienced peers and share best practices worldwide.

Overall performance indicators for people safety show that the company continues to make improvements towards the targets set for 2015. Implementation of the people safety programs coincides with a continued decrease in the number of injuries to employees, supervised and independent contractors.

Our behavior-based safety program, which actively engages all personnel in identifying and addressing at-risk behavior, has been tailored to the needs of our non-manufacturing personnel and rolled out.

Our main performance indicators for people safety are the total reportable injury rate (TRR) and the lost time injury (LTI) rate.

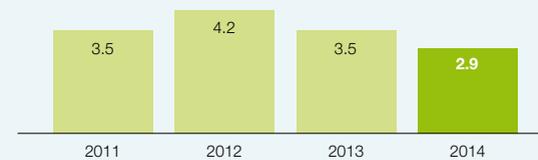
**Employee and supervised contractors total reportable injuries** injury rate



**Total reportable injury rate per Business Area**

injury rate	2013	2014
Decorative Paints	1.9	1.6
Performance Coatings	2.8	1.8
Specialty Chemicals	2.2	2.4

**Independent contractors total reportable injuries** injury rate



The total reportable injury 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. In line with OSHA guidelines, supervised contractors (SC) are reported with employees, since day-to-day management is by AkzoNobel. Independent contractors are managed by their own companies.

- The TRR for employees and supervised contractors decreased to 1.8 (2013: 2.3)
- The overall downward trend in reportable injuries coincides with both the implementation of our Life-Saving Rules at all facilities, and the global roll-out of the people, process and product safety programs that are part of the Safety Common Platform. Implementation was complemented by a strong focus on compliance and operational discipline, performance monitoring and enforcement if necessary. We will continue focusing on continuous improvement through these programs in order to achieve the 2020 target of a TRR of less than 1.0 for employees and supervised contractors
- In 2014, the lost time injury (LTI) rate for employees and supervised contractors decreased more than 30 percent to 0.9 (2013: 1.3)
- There were no employee or contractor fatalities during the year
- Behavior-based safety actively engages all personnel in identifying and addressing at-risk behavior. This year, the program has been subject to formal review at manufacturing sites (100 percent reviewed). The process has been made specific for various types of non-manufacturing personnel and was rolled out to around half of these groups. In total, 60 percent of non-manufacturing personnel have been included

(2014 ambition: 50 percent). In 2015, all remaining non-manufacturing personnel will be included

- The downward trend extended to the TRR of independent contractors. Following the decrease of last year, the rate dropped again to 2.9 in 2014

**Employee health**

As well as ensuring a safe working environment and healthy working conditions, we also foster employee health and well-being, as well as managing illness-related absenteeism.

**Employee health**

	2012	2013	2014
Total illness absence rate	2.0	2.1	2.1
Occupational illness rate	0.2	0.1	0.2
Wellness Checkpoint use	>11,300	>13,700	>15,000

- The total illness absence rate (TIAR) remained stable at 2.1 percent (2013: 2.1 percent). This is slightly higher than two years ago, due to the divestment of units with low TIAR. We continue to monitor this indicator for the whole company, aiming to stay at a level of 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 (2013: 0.1)
- Our voluntary health risk appraisal tool, the Wellness Checkpoint, is highly appreciated and is being used by an increasing number of employees and their families. By the end of 2014, more than 15,000 people had joined the program since its launch in 2008

## Distribution and motor vehicle incidents

Distribution and motor vehicle incidents continue to be a risk to the safety of employees and contractors. Most incidents occur on the road and in countries where enforcement of traffic regulations is still developing. The total number of distribution incidents and the number of motor vehicle incidents increased slightly. Regarding the increase in distribution incidents, we saw slightly more shipping and rail distribution incidents involving the transportation of our products by third party contractors. Through our Product stewardship program (Note 10), we insist that contractors assess all risks involved in the distribution process and take the right safety measures, which involves us auditing their performance.

### Distribution incidents

	2011	2012	2013	2014
Road	67	44	44	43
Sea	3	2	2	3
Rail	10	0	2	6
Air	0	0	0	0
<b>Total</b>	<b>80</b>	<b>46</b>	<b>48</b>	<b>52</b>

### Motor vehicle incidents

	2011	2012	2013	2014
Incidents with injury	29	28	19	20
Fatalities – employees	0	1	0	0

- The number of distribution incidents increased from 48 in 2013 to 52 in 2014. Most of these incidents (43 out of 52), occurred on the road
- The number of motor vehicle incidents reported increased from 19 in 2013, to 20 in 2014
- To further reduce the number of motor vehicle incidents, we raised awareness for safe driving during our annual

Safety Day and we developed a Safe Driving training program to be implemented in the period 2014-2015

- As the first step of the Safe Driving program, a Safe Driving Awareness e-learning training was launched in the second half of 2014. The training is available to all employees and is mandatory for all identified company drivers (employees who drive while at work). By the end of the year, 90 percent (close to 10,000) of our company drivers had completed this training. In addition almost 6,000 colleagues voluntarily completed the training

## Process safety management

In 2014, the Process safety management (PSM) framework was introduced as the set of minimum process safety requirements at all our sites. These requirements are compatible with major PSM legislation in the European Union and the US.

Implementation of the framework is phased. Sites have been prioritized based on their residual risk, taking into account their inherent production hazards and current levels of process safety performance. In 2014, PSM implementation was initiated at the 46 sites assessed as most safety-critical. Other sites will follow in 2015 and 2016.

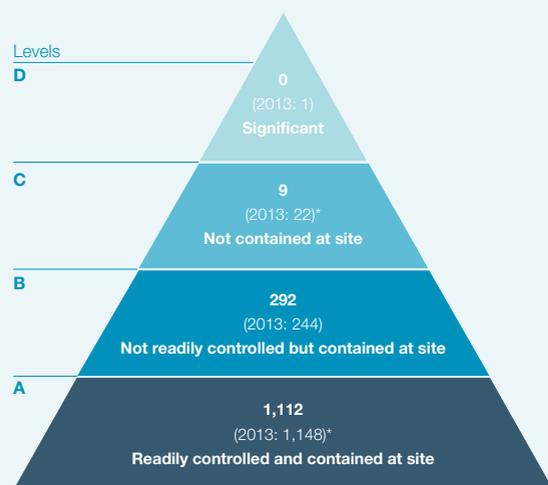
Each site will need to complete four milestones: training, a gap analysis, implementation and completion, and production of predefined deliverables. All sites are expected to complete the four milestones by the end of 2018. Implementation progress is monitored and reported on a monthly basis to the Executive Committee and to line management.

## Loss of containment

Akzo Nobel uses “loss of primary containment” as a main indicator of process safety performance at our manufacturing sites.

- The number of losses of containment classed as Level D went down from 1 in 2013 to zero in 2014
- We recorded nine minor spills or leakages. Four of the spills were contained on site. In five cases, a small amount of the spilled material went off site. All of the spills were reported to the authorities and fully investigated, while immediate action was taken to prevent reoccurrence

### Loss of containment incidents



Loss of containment is defined as an unplanned release of material, product, raw material or energy to the environment (including those resulting from human error). Losses of containment are divided into four categories, dependent on severity, from small on-site spill (Level A) to a significant escape (Level D).  
\* Restated as a result of reclassification of incidents.

- There was a general improvement in the safety performance of our high hazard sites. The number of high hazard sites that have reached safety maturity “reference level” (considered satisfactory) has increased significantly. In total, 83 percent of high hazard sites achieved this level in all elements of the AkzoNobel safety management system, while 86 percent of all sites reached the reference level in the process safety elements

Our Product safety process is a key building block of the AkzoNobel safety strategy and protects people and the environment from unsafe exposure to hazardous materials. It also promotes the use of sustainable products, going beyond the traditional approach of reactive regulatory compliance, enabling us to take a leading position in product stewardship by providing our customers with safer products that meet or exceed their expectations. During 2014, our focus has been on Safety Common Platform programs.

### Priority substance management

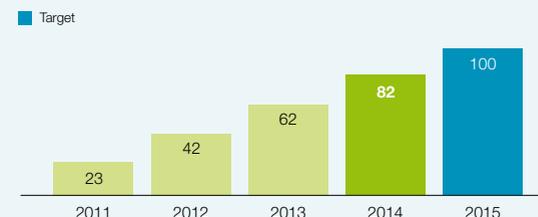
Our company-wide priority substance process takes a systematic approach to the identification, review and management of hazardous substances that we use in our products and chemical processes. Taking this proactive approach promotes the use of safer and sustainable products and means we often take action to manage harmful substances in advance of legislation, future-proofing our products against changes in regulations.

The process requires that all hazardous substances used by the company are identified and scored on the basis of their long-term human and environmental hazards, and where public concern exists over their use. Those with higher scores are designated as priority substances and are reviewed by experts in the company. Where a safer alternative exists and there is a favorable business case, the priority substance is substituted with a less hazardous and more sustainable material. If substitution is not currently possible, a full risk assessment is performed by our experts following state-of-the-art procedures from the EU REACH regulations. After review, we manage their use by limiting uses of priority substances to those uses that have been shown to be safe. If safe use cannot be shown, they are prohibited from further use or production within AkzoNobel.

We are on target to review and manage all our priority substances by the end of 2015. In 2014, the total number reviewed and managed in the program was 145 (82 percent of 176), meeting our objective of 80 percent for 2014. Of the priority substances reviewed in the program so far, 54 have been phased out and uses of 91 restricted.

### Priority substances

% reviewed and managed



A priority substance is reviewed and managed when it has been reviewed under the AkzoNobel priority substance process and is listed as prohibited or restricted in the AkzoNobel company-wide Priority substance standard (STD 6).

Examples of priority substances that were reviewed and restricted in 2014 are boric acid and isopropylated triphenyl phosphate (ITP). These substances must not exceed maximum levels in AkzoNobel products and strict risk management measures must be followed when they are used.

The priority substance methodology is now embedded into our company raw material databases and our procurement and innovation processes, so less harmful raw materials can be sourced in AkzoNobel. In 2015, we will complete the current phase of the priority substance program and develop the second phase of the process, ready for launch in 2016.

During 2014, we presented our priority substances program to our stakeholders, including customers, non-governmental organizations and investor associations and received positive feedback to our

approach. Adopting this proactive approach to substance management enables us to take a leading position in sustainable product stewardship and supports the development and introduction of eco-premium solutions to the market.

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## Product distribution

In order to ensure our products are transported and distributed safely by our contractors, we insist that all risks involved in the distribution process are assessed and that they take the right safety measures. We also audit their performance.

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## Regulatory affairs

We carefully monitor changes and prepare ourselves for new regulations that will affect our products and processes. In 2014, we successfully launched a new company-wide regulatory information system which ensures up-to-the-minute information about product safety legislation is available to all regulatory affairs professionals within AkzoNobel.

During 2014, our primary activities included:

### Substance management regulations

Our REACH team is now busy preparing information to submit for registration of our substances that are in scope of the third phase of the EU REACH regulation. All applications for registration must be submitted by May 31, 2018, and we have set targets to monitor our progress.

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#### EU REACH third phase

in %	2014	2015	2016	2017	2018
Progress towards EU REACH third phase	15	25	50	75	100

We are also preparing carefully to ensure that we comply with new substance management regulations in South Korea (K-REACH) that will come into force in 2015.

### Classification and labeling of AkzoNobel products

We are on schedule with the implementation of a global harmonized system for labeling of chemical substances and products. An e-learning awareness module is available for employees through the AkzoNobel Academy to ensure changes in labels and safety datasheets are understood.

### Advocacy

We continue to be active in industry bodies, in public forums and with stakeholders discussing product safety issues at the local, regional and global level. Participation in this way gives us an opportunity to engage regulators and other stakeholders before new rules are finalized. Our aim is to support legislation, standards and initiatives that promote and support the use of safer and more sustainable products in our industry.

For example, we continue to maintain links with, and fully support, the objectives of the Global Alliance to Eliminate Lead in Paint (GAELP), a program coordinated by the United Nations Environmental Program (UNEP) to encourage industry and governments to take action to remove lead compounds from paint. In September, we made a statement to the biennial meeting of GAELP that as safer lead-free substitutes are widely available, there is no need or justification for lead compounds to be intentionally added to any paint.

After a successful presentation to the Green Chemistry and Commerce Council (GC3) in the US, we were invited by a participating NGO, the Environmental Defence Fund (EDF), to participate in a project on safer chemical replacements. Working with our Chelates business and EDF, we completed a case study on our biodegradable and bio-based chelate, Dissolvine GL. EDF has now selected the study for publication on the

business portion of its website and it will be used as a case study to illustrate how to develop and introduce safer chemical replacements.

In China, through our participation in the advocacy committee of the Association of International Chemical Manufacturers (AICM), we participated in discussions leading to a change in status of five organic solvents under environmental management laws.

### Continuous improvement

Our product stewardship and product safety processes are underpinned with a requirement for continuous improvement. In 2014, we piloted our product stewardship self-assessment questionnaire (SAQ) as a tool for ensuring continuous improvement. Using these tools, businesses will assess their level of maturity and plan their next steps to achieving a leading level in product stewardship.

## 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 rules and procedures are set up and updated in accordance with international standards such as ISO-14001, RC-14001, OHSAS-18001 and PAS 55 (public standard for process safety). Many sites and businesses also have external certification for their management systems, which are subject to internal and external audit.

### External certification

in % of manufacturing sites	2011	2012	2013	2014
ISO-14001/RC-14001	73	75	78	79
OHSAS-18001/RC-18001	37	42	51	53

## Maturity framework

We have a common maturity framework for measuring HSE management progress at our sites which includes a self-assessment and audit. The HSE maturity framework is being used to drive continuous improvement. The average improvement of sites was 5 percent in 2013 and 6 percent in 2014, while there was a further reduction of 22 percent in the total reportable injury rate (TRR).

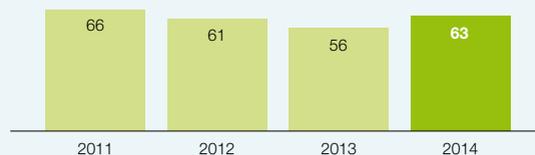
### Self-assessment questionnaire (SAQ)

The SAQ, which covers all elements of the HSE management system, has been repositioned as the company-wide HSE improvement planning tool. To maintain relevance to major programs rolled out during recent years (e.g. the PSM framework), the questionnaire was thoroughly revised during 2014. The new version will be effective from January 2015.

### HSE audit

The periodic HSE audit for sites uses the same maturity questionnaire as the one sites use for their continuous improvement activity (SAQ). The audits are conducted by HSE experts from the businesses and managed by the global Internal Audit function. All sites carry out an annual self-assessment and the results are used to prepare site improvement plans, while it also provides input for the corporate HSE audits. Together, the corporate HSE regulations and auditing create the assurance framework.

### Management audits number of audits



For most sites, the audit frequency is every five years. For sites with a high hazard rating, this frequency is every three years. A formal review of the intrinsic hazard rating for all sites takes place every year leading to updates if necessary.

A new introduction during 2014 was the so-called multi-site HSE audits. These are carried out at locations where more than one business is represented. Over the course of the year, we carried out 55 corporate HSE audits (2013: 46), three site closure audits (2013: 4) and five reassurance audits (2013: 6), which are required for sites with high risk findings.

The newly established global Process Safety Management program will support all sites in improving management of asset integrity and process safety, which have been identified as key areas for improvement in recent years. The first results are visible for the high hazard sites.

Early in the year, lead auditors and new trainees from North America, Latin America, Europe and Asia were trained in the different regions.

## Safety incidents

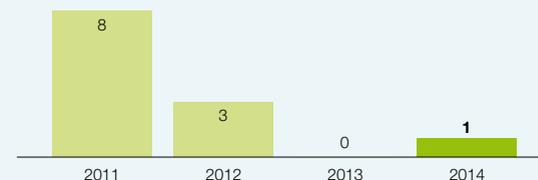
Safety incidents are those that involve severe consequences requiring an independent investigation. We investigate all safety incidents to increase the safety of operations. The lessons learned are shared company-wide.

We classify safety incidents based on severity of outcome (Level 1 - Level 3). The total number of Level 1, 2 and 3 safety incidents slightly increased to 15 (2013: 14). Of these 15, there was one Level 2 and one Level 3 incident, compared with 2013, when all incidents recorded were at the lower Level 1 (severe local impact).

Level 3 safety incident:

- A member of the public, a bus driver, died following a traffic accident involving a bus contracted to AkzoNobel at Itupeva in Brazil

### Safety incidents (Level 3)



Safety incidents (Level 3): Incidents involving loss of life, more than five severe injuries, environmental, assets or business damage totaling more than €25 million, or extensive reputational damage.

Four of the 15 safety incidents involved entrapment in moving machinery, three involved driving and three slips and falls. These reinforce our continued focus on safe driver training, behavior-based safety and Life-Saving Rules. Implementation progress, and compliance, is monitored and shared with the Executive Committee and line management on a monthly basis.

## Regulatory actions

We have defined four categories of regulatory actions, from self-reported issues (Level 1) to a formal notice of a criminal prosecution or penalty greater than €100,000 (Level 4). Compared with 2013, the regulatory action Level 4 has been added, since it is more in line with materiality levels for AkzoNobel.

As in previous years, we did not receive any formal notifications of a criminal prosecution or penalty greater than €100,000, which suggests that our people, product and process safety programs, stewardship and behavior-based safety programs continue to have an effect on reducing the number of serious injuries and significant losses of containment.

### Regulatory actions

	2011	2012	2013	2014
Regulatory actions (Level 4)	0	0	0	0

Regulatory action (Level 4): A formal notice of a criminal prosecution or (conditional) penalty greater than €100,000. These are reported to indicate to management the potential for reputational damage and the effect on our license to operate.

## HSE capability building

HSE professionals and line managers with critical HSE functions develop their competencies based on our integrated supply chain competencies framework, proficiency levels and job profiles. Core programs are delivered and further developed by using a blended learning approach which includes, for example, assignments, e-learning, classroom training, virtual classrooms and webinars.

In 2014, the HSE offering expanded with learning activities for senior leaders, frontline leaders in manufacturing and non-manufacturing leaders. These activities have been piloted and will become a part of the HSE curriculum in 2015. Next year, emphasis will also be directed towards the impact of change in behavior and learning on-the-job.

We will provide advanced safety leadership training for manufacturing site management, including direct dialog with our most senior leaders on safety performance and improvement plans. The program will provide site managers with the opportunity to benchmark internally, receive coaching from experienced peers and share best practices worldwide.

Awareness of product stewardship among our business management teams has been raised. In 2014, we piloted awareness training with two of our business teams, which focused on identifying product stewardship opportunities that add value to AkzoNobel. We will continue to roll this training out more widely in 2015.

We also continue to build a community of highly capable Product Safety and Regulatory Affairs (PSRA) professionals within the company. In 2014, we finalized a curriculum and competency framework which maps out the skills needed to progress within the PSRA function in AkzoNobel. Our aligned PSRA training programs provide training in the competencies required. We held PSRA Level 1 training (fundamentals) in South America and in Asia. In total, 79 percent of eligible PSRA professionals have now completed this training, while in 2015 we will make it available for other functions. We also held specialized (PSRA Level 2) training in human risk assessment and national substance management regulations, including Korea, Indonesia and China.

In 2015, we will continue to roll out Level 2 and Level 3 (advanced) training for our PSRA community.

### HSE capability development

in % of target group	2012	2013	2014	Ambition 2014	Ambition 2015
HSE critical leaders workshop	23	62	90	60	100
Level 1 PSRA program	0	40	79	60	90

## Key performance indicators – employees

	2011	2012	2013	2014	Target 2015
<b>People data</b>					
Employees at year-end (FTE)	57,240	55,272	49,561	47,207	–
<b>Employee engagement</b>					
Employee engagement (ViewPoint score (1-5 scale))	3.74	3.80	3.88	3.97	>4.00
<b>Diversity and inclusion</b>					
% of females in total workforce	24	24	24	24	–
% of employees from high growth markets	40	40	47	48	–
% of female executives	13	15	16	17	20
% of executives from high growth markets	13	13	14	16	20
% of female executive potentials	26	27	28	24*	30
% of executive potentials from high growth markets	31	31	34	30*	30
<b>Talent management</b>					
% cross-BU moves of leadership talents	6	5	7	13**	10
% internal promotion into executive level	80	70	75	68	80
% retention of total workforce	–	88	89	87	–
% retention of leadership talent	96	96	92	93**	95
% retention of leadership talent – under-represented groups (women and high growth market employees)	94	97	92	89**	95
<b>Learning and development</b>					
ViewPoint score on Learning and growth (Q12) (1-5 scale)	3.80	3.85	3.93	3.99	>4.00

\* The definition of potentials changed in 2014 to better reflect our talent pool.

\*\* In line with the new definition of potentials, the definition of leadership talent also changed in 2014 to better reflect our talent pool.

## Core principles and values

<b>Core principles:</b> Safety Integrity Sustainability	<b>Customer focused</b>	We build successful partnerships with our customers
	<b>Deliver on commitments</b>	We do what we say we will do
	<b>Passion for excellence</b>	We strive to be the best in everything we do, every day
	<b>Winning together</b>	We develop, share and use our personal strengths to win as a team

Our people are the key to our success as an organization. We need to ensure that we have a performance-driven culture and the right people with the right capabilities to deliver on our strategic objectives.

## The right culture

### New core principles and values and behaviors

We want to encourage a high performance culture of engagement, feedback and trust. Our new core principles and values help to shape the behaviors that create this culture. During 2014, we continued to roll-out our new values and behaviors across the company through an awareness raising campaign called Count me in! The campaign was subsequently nominated for a European Excellence Award, in the category Internal Communications.

Pulse surveys have shown that after just one year, 96 percent of our people are aware of the new values and behaviors, while 67 percent indicated that they influence their way of working. We held thousands of Town Hall meetings and Count me in! workshops all over the globe. These were designed to help our people bring the values to life by showing how they are connected to their team objectives. In total, 82 percent of our people said that they have a clear understanding of how the values relate to the company strategy.

Our performance-driven culture is supported by our Performance and Development Dialog process (P&DD), which is mandatory for all employees. The values are now fully integrated into this process, which means that they are a crucial part of the objective setting phase and mid-year review, as well as the year-end performance assessment. In addition to the performance score, a separate values score has been introduced which influences the overall P&DD rating. This rating influences the annual salary review, so employees are rewarded not only for what they achieve, but also for how they achieve it.

### ViewPoint engagement survey

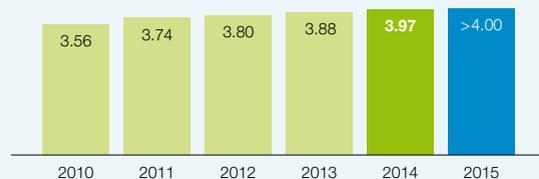
One of our other key measures of progress in the area of culture is employee engagement, which we measure through our annual ViewPoint engagement survey. As well as measuring engagement generally, the survey now also includes questions about our core principles and values, giving us an understanding of the extent to which our people are aware of and live them. We see 2014 as the zero measurement for these questions and will be able to track our progress in the future.

We have also changed the timing of our annual employee engagement survey to better fit with the cycle of the business, so the results can be used to inform business planning, as well as being included in people's objectives.

Compared with last year's results, we have seen an increase in engagement. In the context of our ongoing change and restructuring this is a positive signal. Engagement has increased every year since we started the survey in 2010.

### ViewPoint score employee engagement

(1 – 5 scale)



Our overall engagement score increase of 0.09 to 3.97 (2013: 3.88) means we're on track to achieve our 2015 target of over 4.00.

Manufacturing is generally acknowledged to be one of the more difficult areas to build employee engagement. Our focused interventions in manufacturing led to a significant increase of engagement in this area. We have also learned

that where we focus on the quality of action planning, it leads to an increase in engagement, so this was a significant point of attention in 2014.

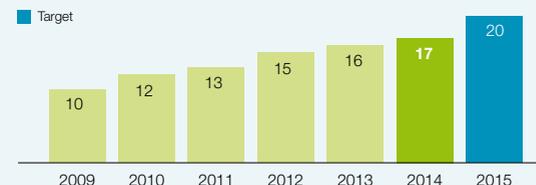
In addition, we have made tools and training available to help our managers improve in the areas of giving and receiving feedback. This is an important factor in creating an engaged, values-driven culture. We will also create platforms to empower our employees to share ideas and best practice in living our values.

### Diversity and inclusion

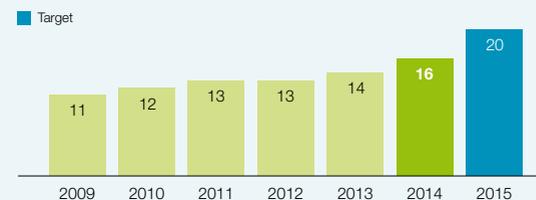
Diversity of thought is an important factor in creating the right culture. Our company's workforce should reflect the societies where we do business. We need to truly represent the many and varied cultures of the markets we serve, and over the last year we have placed a stronger focus on inclusion as an important element of building winning teams.

We're committed to continuously improving in this area. We want our management layers to reflect the diversity of our overall workforce, which is currently 24 percent female and 48 percent from high growth markets. In 2014, we increased the number of executives from high growth markets to 16 percent (2013: 14 percent). We also re-introduced a Women in Leadership training program for our female high potential employees to address some of the barriers that women face in moving to senior leadership roles. We saw the number of female executives increase to 17 percent in 2014 (2013: 16 percent).

### Female executives in %



### High growth market executives in %



## The right people

We are working hard to put in place the right talent management and resourcing processes across the company. This helps us to recruit, retain and develop the people we need to create winning teams.

We're starting to manage talent in a more active way to ensure that we have a sustainable pipeline of internal candidates for our future needs. We have extended our focus from top management to also include other management levels.

Our approach to assessing growth potential now reflects the importance of our values and behaviors, our engagement and diversity and inclusion measures. We have also updated our recruitment policy, which now focuses on hiring people with potential – not just for that role, but for the future as well. And by making our processes simple and easy to understand, as well as

communicating them clearly to our people managers and employees, we are being transparent about how we manage our talent.

Our internal promotion into executive level decreased to 68 percent (2013: 75 percent). This was due to our more rigorous approach to talent management, which resulted in the external recruitment of a number of new executives. This was a conscious choice to bring in new knowledge and skills from outside our organization to further encourage new ideas, innovation and diversity of thought. The new talent management approach also resulted in a change to the definition of leadership talent. This impacted our leadership talent retention figures which increased slightly for the overall group to 93 percent (2013: 92 percent); and declined to 89 percent (2013: 92 percent) for the under-represented group.

## The right capabilities

We know that continuous learning needs to be one of our critical focus areas if we're to remain competitive and create a working environment that makes people feel valued while providing the right conditions for them to perform at their best. We want our people to feel empowered to own their development, so we give them the support and resources they need to grow.

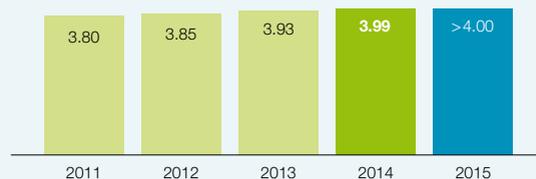
Our online Academy learning platform helps us to drive functional and leadership capability and we are in the process of developing it to become the "go to" place for learning and best practice in AkzoNobel. During 2014, we redefined the governance, systems and structure of the Academy to make sure its philosophy and principles are part of our corporate growth strategy. We have further standardized learning across the organization by rolling out a standard Learning Management System in key countries. This will help us to measure and benchmark learning across businesses and geographies. We have also launched a best practice platform for commercial

excellence and defined a common sales and marketing curriculum.

Throughout the year, we ran more than 50 centrally developed functional excellence and management development programs, impacting more than 4,000 employees. We also increased the number of online programs available to all employees (open enrolment) to more than 200, available in five languages.

During the next few years, we will use the AkzoNobel Academy to further build people manager capability and help them take more responsibility with regard to supporting their people. To date, we have trained 13,000 managers in our Situational Leadership Program globally.

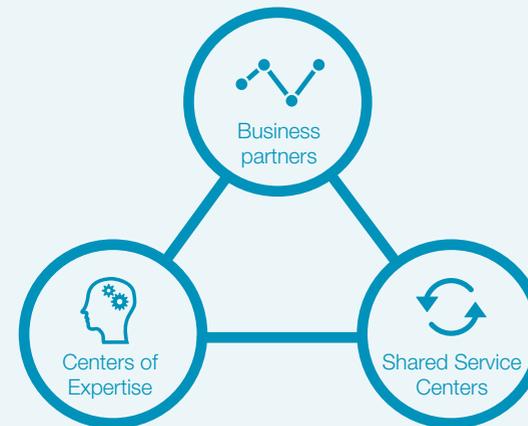
**ViewPoint score on Learning and growth**  
(Q12) (1 – 5 scale)



Our focus on capability development is reflected in our ViewPoint survey score, which has increased year on year.

## Operational excellence

In 2014, we introduced a new operating model for five of our support functions, including Human Resources. The model aims to reduce complexity and costs by introducing standardized processes and systems and harmonizing policies and ways of working across the organization. This will remove duplication and make us more competitive in the future.



The new model means that we'll have one way of doing things, for example in terms of talent management, across the company. This is more efficient and will deliver a better employee experience, as well as making life easier for our people managers. It is based on three key elements:

- Business partners focused on high value added activities that are close to the business. They will offer analytical and strategic support and make sure our standard processes and policies are applied in their area
- Centers of Expertise made up of groups of experts who offer advice and support specific tasks for each of our Business Areas, such as Talent management, Compensation and benefits and Recruitment
- Shared Service Centers to focus on process efficiency and run all transactional support services, such as payroll and HR administration

Our target is an agile, effective, efficient and standardized HR organization which delivers high quality people strategies, service and support to the company at an affordable cost. The implementation of the new operating model allowed us to reduce HR headcount by 16 percent.

In 2014, we continued to restructure our business to execute our company strategy so we can continue to meet the needs of our customers in years to come. We are aware of the impact this has on the employees involved and, 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 outplacement.

During 2014, our workforce decreased due to ongoing restructuring and divestments, but we also added to the headcount, mainly through new hires in high growth markets. For details of how our workforce changed, see Note 4 of the Consolidated financial statements.

Wherever possible, we announce our restructuring plans between 12 and 26 months in advance (recent examples have been Yeronga in Australia, and the site relocation within Powder Coatings China of operations in Ningbo and Suzhou to Changzhou). This allows for better planning in the transition from work-to-work. In most countries, we use the services of an external company to support employees in finding their next position. Exceptions to this are in Italy, based on an agreement with the Italian government, and the Netherlands, where we operate an in-house mobility office to support employees.

As a global company, we fully understand our role and responsibilities when it comes to society and contributing to the communities in which we operate. It forms an integral part of our sustainability agenda. Whenever possible, we try to make a positive difference to the world around us. We engage with people and partner with various organizations to help bring the AkzoNobel brand to life, while also supporting deserving and sustainable projects and causes, using our products when appropriate.

When partnering with organizations and entering into sponsorship agreements, we are guided by the six pillars of our Human Cities initiative. The pillars also provide direction for our community involvement. A big success story is our global “Let’s Colour” program, which inspires people to revitalize their local communities with our paint products. Run by our Decorative Paints business, the initiative also encourages the active participation of our employees.

Another vital part of our partnership approach is the development of young people, highlighted by our work with the Plan organization, which includes the AkzoNobel Education Fund. Meanwhile, our global sponsorship program is currently focused on key partnerships with the Cruyff Foundation, the Rijksmuseum and the Van Gogh Museum in the Netherlands, and the Extreme Sailing Series.

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## Our products

When possible, we endeavor to assist society through our products. Ferrazone, for example, is helping to improve well-being in many communities, particularly in developing countries. Used to fortify food, it is widely regarded as being the most effective way to treat iron deficiency anemia.

Another example is our partnership with the Forest Stewardship Council (FSC) in relation to our wood care products. See Note 3 in this section for more details.

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## “Let’s Colour” program

We believe in the transformative power of color and the positive effect it can have on people’s lives. Color can inject soul and inspiration into a city. It can breathe life into communities and revitalize areas that were once considered dull and lifeless. We express this belief through our global “Let’s Colour” program, which includes both charitable donations of paint and community investment. Not only does it embrace the physical improvement of deprived neighborhoods, but it also facilitates educational development and job training.

Working together with local communities – including customers, employees and other influencers – we have already created better living environments for millions of people. Each initiative is designed to renew community spaces and improve people’s well-being. Education is also an important part of the process, both in terms of training people to become painters and teaching children about the value of cooperation and the science of color. By demonstrating our belief through this program, we are also inspiring people to get involved in making their world a better place.

During 2014, we donated around 120,000 liters of paint, worth an estimated €0.4 million. Approximately 1,600 AkzoNobel employees were involved, volunteering roughly 10,000 hours of their time to various “Let’s Colour” projects across the globe. We also trained nearly 5,000 people as painters. In 2014, we estimate that we positively impacted the lives of around seven million people.



## 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 on a sustainable basis. In the past nine years, the program has become firmly embedded in our worldwide organization. Projects have included educating underprivileged youngsters, creating more awareness about the importance of a clean environment and supporting deprived, socially disadvantaged groups, helping them reintegrate into society where possible.

For example, involvement in the set-up and running of soup kitchens, shelters and daycare centers for the homeless, as well as vocational training for unemployed youngsters and women, are taking place on a continuous basis in various parts of the world.

### Cumulative Community Program involvement



The fund is also available to support post-relief aid in case of major disasters in countries where we operate, as long as there is hands-on involvement by our employees. In 2014, our employees in Greiz, Germany, immediately came into action after massive floods hit the city. They helped make a local elementary school accessible again and reconstructed the facilities at a local tennis club.

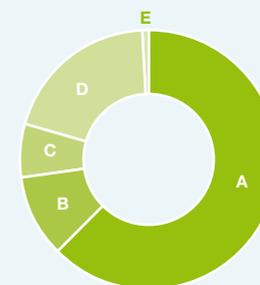
Since the start of the program in 2005, approximately 13,500 volunteers from around 55 countries have worked on 2,260 projects, representing €15 million of investment. Taking into account that many businesses and locations have been working together on major projects and the number of participating volunteers has increased substantially, 2014 can again be regarded as a successful year, benefiting even more deprived groups. A further increase in team-building activities was noticed, enhancing employee engagement, as well as underlining our company value of Winning together.

The Community Program also provides opportunities for employees to develop team-building and leadership skills. In training programs, as well as international conferences, community activities are increasingly incorporated to increase the participants' awareness of local social circumstances. These experiences are recognized to improve their leadership skills and team spirit, as well as employee engagement.

During 2014, 152 new projects were initiated. A closer cooperation took place between various businesses as well as locations. For example, in Brazil, employees from Pulp and Performance Chemicals in Jundiáí united with their colleagues in Itupeva, as well as those from Powder Coatings in São Roque and Decorative Paints in Mauá. They helped construct a major aviary at a wildlife conservation center where up to 200 injured wild birds can be looked after and released freely inside, once they are well enough, or can even be returned to the wild. Many similar joint initiatives took place all over the world.

### 2014 projects by region

A Europe	95
B North America	16
C Latin America	10
D Asia	30
E Other regions	1



More than 2,500 employees voted for their favorite entries in our annual Community Program Best Practices contest. First prize went to employees in a cross-business and cross-site initiative from Decorative Paints, Functional Chemicals and Powder Coatings in Langfang and Tianjin, China, for their "Offering disabled children the chance to earn a living" project. Our volunteers helped The Shepherd's Field Children's Village, where 80 to 100 children are housed, from newborns to teenagers. Most suffer from some form of disability. Employees have visited and helped the center for a number of years, but this year saw a special project undertaken. A major refurbishment of the Rehabilitation and Skills Center has provided a bright, clean and safe environment where the children can learn vital skills that will help them earn a living when they are adults.



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## Education Fund

What would a city be without the people who live there? AkzoNobel is proud to be associated with a variety of organizations and initiatives in ways that truly make a positive difference. These partnerships allow us to bring the AkzoNobel brand to life and create value for our stakeholders. One of our flagship partnerships is with the Plan organization in the Netherlands – a member of the Plan International network – a collaboration which marked its 20th anniversary in 2014. The cooperation was established to help children in developing countries fulfil their potential by improving the quality of their education. It has since evolved to also support the employability of young people via vocational training programs designed to set them on a proper career path. Over the years, tens of thousands of young people have benefited from dozens of projects in countries such as Bolivia, Brazil, China, Ecuador, India, the Philippines and Vietnam. During the 2014 football World Cup in Brazil, we worked together with Plan Nederland and several other partners to support a project which involved training deprived young people to become stewards at a stadium in Natal.

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## Other partnerships

Our work with the Cruyff Foundation is designed to support projects that make sport more accessible to children around the world. As one of their top partners and preferred paint supplier, we help the Foundation to create and maintain facilities in neighborhoods where children lack the possibility to play sports in a safe environment. During 2014, seven new Cruyff Courts were built, including one in Spain, one in Brazil and two in the Netherlands.

Having played a key role in the refurbishment of Amsterdam's famous Rijksmuseum (which fully reopened in 2013), our ongoing partnership saw AkzoNobel continue to supply Sikkens paint during 2014, in addition to the 20,000 liters used for the complete renovation. Meanwhile, our sponsorship of the Van Gogh Museum, also in Amsterdam, developed further during 2014 when we worked together to create a new color palette, inspired by ten of Van Gogh's works. Known as the AkzoNobel Van Gogh Collection, the special range of wall paint is available for purchase via our local decorative paint brands and is just one of the ways in which we are helping to preserve the cultural heritage of Vincent van Gogh and his contemporaries.

One of our more recent partnerships is with the Extreme Sailing Series – a global racing circuit which attracts larger audiences as the action takes place closer to shore. The Extreme 40 catamarans that participate use our Awgrip yacht coatings, which offer a number of important benefits, including superior performance and aesthetics. In total, eight events were staged around the world during 2014 at host cities including Istanbul, Nice, Sydney and Muscat.

# Making sport more accessible

While buildings may help to define the character of a city, it's the open spaces that refresh its soul. If cities are to thrive, they need to offer people places to play, linger and mingle.



That's why we've teamed up with the Cruyff Foundation, which was established in 1997 by famous Dutch footballer Johan Cruyff. The partnership enables AkzoNobel to support the Foundation's projects to make sport more accessible to children around the world.

As one of the leading partners and preferred coatings supplier of the Cruyff Foundation, we're helping to create safe sporting environments in communities across the globe through what are known as Cruyff Courts. These are small-scale facilities set up in city neighborhoods that often lack a safe environment for children to play.

More than 180 have already been established, with AkzoNobel having recently been heavily involved in the launch of courts in Brazil, Spain and Italy.

"To have a good life later on, you need to move yourself around," explains Cruyff. "That's why these places for children to go to, to be safe, just run around and play and do whatever they want, is fantastic for their future."

As well as enabling people to live healthier lives, providing open spaces for them to meet, rest and play is vital to creating dynamic, creative and socially cohesive urban environments. They give energy to a city and, in the case of the Cruyff Courts, allow AkzoNobel to give something back to local communities in many of our key markets.





Scan and explore

## Key performance indicators – environment

	2011	2012	2013	2014	Ambition 2014	Ambition 2015
Operational eco-efficiency footprint measure (% reduction from 2009)	11	13	24	24	25	30
Greenhouse gas emissions per ton of production (own operations, in kg)	256	257	222	224	–	245
Sustainable fresh water management (% of manufacturing sites)	74	83	85	89	90	100

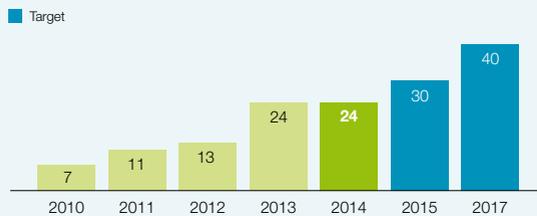
This section outlines environmental impacts in our own operations and related improvements. The key performance indicators are mentioned in the table above. Many of these improvements are driven through our operational eco-efficiency (OEE) program.

## Operational eco-efficiency program

The focus of the OEE agenda is to increase raw material efficiency, reduce consumption of energy, 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.

### OEE footprint improvement

(% reduction from 2009)



The OEE footprint is calculated from the weighted average of nine footprint parameters and production volume.

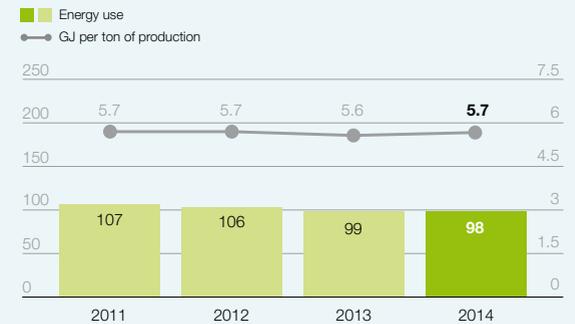
We measure progress on a quarterly basis using the eco-efficiency footprint measure, a company indicator which combines energy, water, waste and air emissions, as well as cost elements. Weighting factors for each parameter are used to calculate the overall footprint. This number is used in combination with production volume to calculate the relative footprint improvement. Between 2009 and 2014, we achieved a relative footprint improvement of 24 percent. The majority of the business units showed an eco-efficiency footprint improvement, but due to product mix changes the final result is equal to last year. We are on track to achieve our target of a relative footprint improvement of 30 percent by 2015, and 40 percent by 2017, with 2009 as the baseline.

Our OEE performance and trends (the footprint and its related parameters) are transparent for the whole of AkzoNobel via the EcoXchange platform. This platform also provides access to know-how, best practices and showcases on eco-efficiency related topics relevant for all locations.

## Energy use

Energy is important for all our operations, especially some of our Specialty Chemicals businesses, because they use energy as a major raw material for their products. Energy efficiency and carbon efficient energy use are therefore important metrics for our operations.

### Energy use in 1000 TJ



Energy use is the sum of fuels, electricity, steam, hot water and other utilities (expressed as fuel equivalents).

### Energy use per Business Area

in 1000 TJ	2013	2014
Decorative Paints	2.0	1.8
Performance Coatings	5.0	4.6
Specialty Chemicals	92.0	92.0

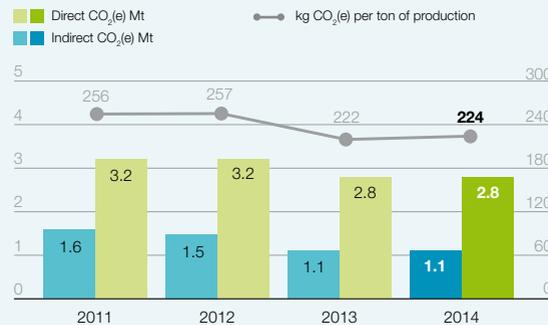
- Energy use per ton of production increased slightly to 5.7 GJ/ton. Absolute energy use was down 1 percent to 98,000 TJ, both in line with a change in product mix
- The total cost of energy in our production was about €0.7 billion
- More details about energy sources can be found in Note 5 and on our website

We use energy scans to increase awareness and identify savings opportunities in all our businesses. During 2014, this resulted in many energy improvement projects, for example:

- As a result of the energy scan at Ningbo in China, a series of energy improvement projects delivered annual savings of 155 TJ and more than €3 million
- A program to optimize spray dryers in Functional Chemicals resulted in annual savings of 23 TJ and more than €400,000, with an investment of less than €400,000
- In Rotterdam (Industrial Chemicals), an evaporator is being rebuilt, resulting in a 5 percent energy reduction
- For 15 production locations, the compressed air system was checked for leakages, resulting in annual savings of €300,000 at €50,000 cost
- Decorative Paints carried out energy scans at three of its sites. These scans identified a total of 55 energy saving opportunities (more than ten are already being implemented), as well as highlighting opportunities to make average reductions in energy use of 20 percent
- In Malmö, Sweden, the heating system was changed from gas heating to district heating, resulting in an energy saving of more than 10 percent
- A metering system for energy was installed in Felling in the UK and was used, for example, to optimize the compressors. The identified improvements resulted in an annual saving of more than €150,000, at an investment of less than €50,000

Greenhouse gas (GHG) emissions from our facilities are primarily related to the fuel and power we use, but also include some CO<sub>2</sub>, methane (CH<sub>4</sub>) and hydrofluorocarbon (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-grave reporting can be found in Note 5 in this section.

**Greenhouse gas emissions** in million tons



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

**Greenhouse gas emissions per Business Area**

in million tons	2013	2014
Decorative Paints	0.1	0.1
Performance Coatings	0.3	0.3
Specialty Chemicals	3.5	3.5

- Total greenhouse gas emissions per ton of production increased by 1 percent to 224 kg/ton CO<sub>2</sub>(e). Absolute GHG emissions remained flat at 3.9 million tons of CO<sub>2</sub>(e). These are both caused by a change in product mix
- A detailed breakdown of our greenhouse gas emissions is available on our website

Air monitoring around our operations is focused on volatile organic compounds (VOC) and NO<sub>x</sub> and SO<sub>x</sub> emissions. We monitor particulates at site level as required.

**Volatile organic compounds (VOC)**

All our businesses will continue to manage VOC emissions from sites, in line with national or supranational (European Commission) legal requirements.

The VOC reduction focus for our paints and coatings businesses is increasingly concentrated 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 4 in this section).

- VOC emissions per ton of production increased by 1 percent to 0.18 kg/ton. Total VOC emissions remained stable at 3.1 kilotons

**Volatile organic compounds** in kilotons



## NOx and SOx

NOx and SOx emissions may have a significant impact on local air quality because of their potential contribution to acidification. Therefore, these compounds are monitored.

- SOx emissions (from process emissions and energy) reduced to 0.22 kg/ton of production. Absolute emissions were down 19 percent to 3.7 kilotons
- Our three sulfur derivatives plants in Germany, the US and Argentina contributed 97 percent of the SOx emissions, and have reduced their contribution by over 0.9 kton/yr
- NOx emissions per ton from our sites remained stable at 0.08 kg/ton of production. Total emissions remained at 1.3 kilotons. Improvements were obtained in Boxing, China, due to reduction of pitch to be incinerated, and in Rotterdam, the Netherlands

### NOx and SOx emissions

in kilotons	2011	2012	2013	2014
NOx	2.0	1.9	1.3	1.3
NOx kg/ton	0.11	0.10	0.08	0.08
SOx	7.7	7.6	4.6	3.7
SOx kg/ton	0.41	0.41	0.26	0.22

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 quantity 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.

## Ozone depleting substances

- Emissions of ozone depleting substances are at a low level – 1.8 tons (2013: 2.9 tons). They are mainly due to Freon22 from maintenance in older air conditioning and cooling units, which are replaced when appropriate

## Material efficiency

Material efficiency is one of our new focus areas, which is wider than our current focus on waste. We will maximize our conversion of raw materials into final product by solving the root cause of the losses. This will not only reduce the waste, but will also, for example, decrease COD and the carbon dioxide scope 3 upstream.

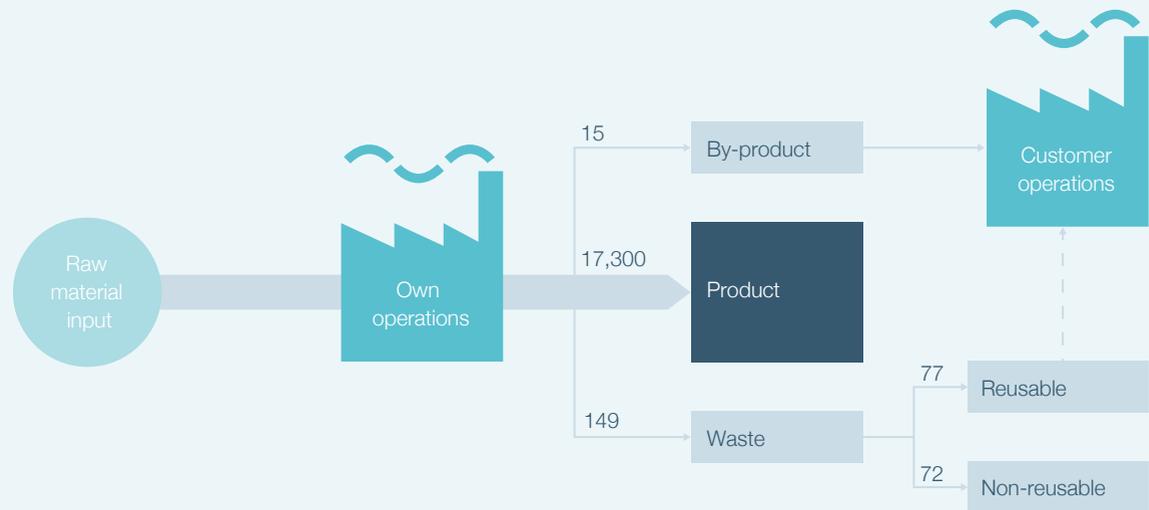
A variety of projects was initiated:

- At Decorative Paints, we used to collect paint from wash water and sell it as a raw material instead of

incinerating it, which reduced our waste stream. Now we are reducing the formation of this wash water, while any that is generated will be used again in production, thus improving our material efficiency

- The Chelates business studied the drivers for the efficiency of reactions, which resulted in a better control regime and a financial benefit of more than €2 million
- Specialty Chemicals started a program to identify opportunities on material efficiency. Facts were collected at 28 sites and based on this information, 12 sites were selected to have a workshop on opportunities

### Raw material flow in kilotons

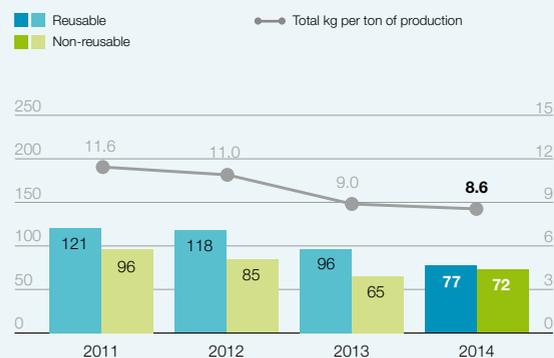


## Waste

Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both our environmental footprint and costs. We have moved our focus from managing/reducing total waste to eliminating waste by increasing material efficiency. We are still moving towards 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 8.6 kg/ton. The total waste volume fell to 149 kilotons, a decrease of 7 percent. The indicative monetary value of the total waste reduction is about €4 million
- Hazardous waste continues to fall
- The focus on waste over past years resulted in a reduction in waste at the majority of our sites

### Total waste in kilotons

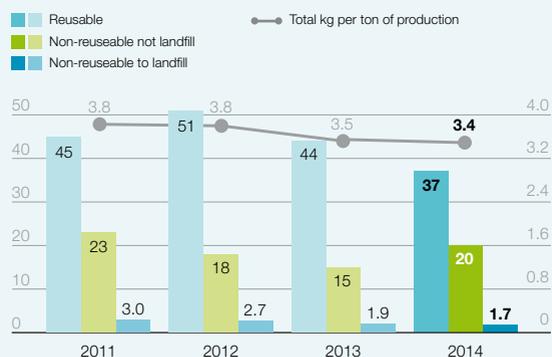


Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard.

### Total waste per Business Area

in kilotons	2013	2014
Decorative Paints	39	35
Performance Coatings	54	55
Specialty Chemicals	64	59

### Hazardous waste in kilotons



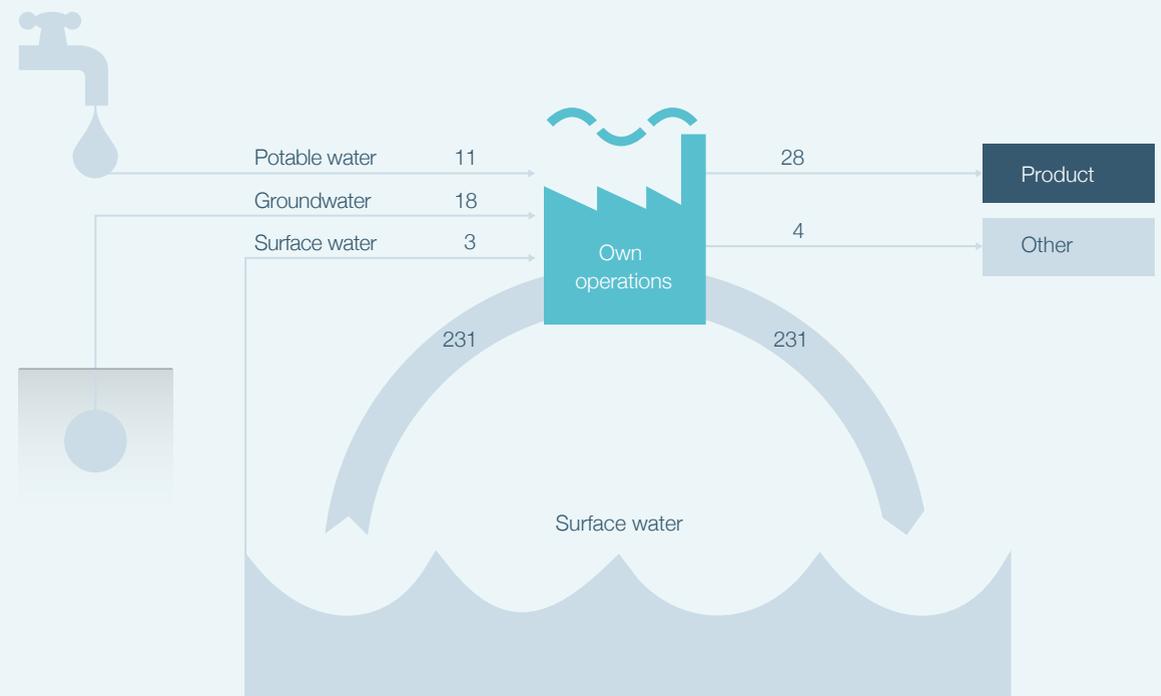
Hazardous waste is waste that is classified and regulated as such according to the national, state or local legislation in place.

## Fresh water availability

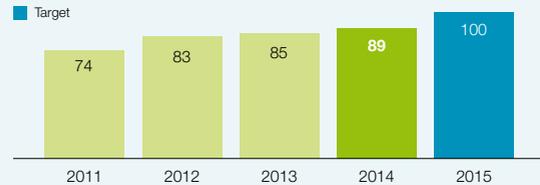
Sustainable water supply is essential to life – and to the sustainability of our business. We rely on water for raw materials production, product formulation and manufacturing, as well as power generation, cooling, cleaning, transporting and for the effective use of some products. Around 89 percent of our fresh water intake is from surface water and 88 percent of our intake is used for cooling and is only slightly heated. We continue to reduce the chemical oxygen demand (COD) of our effluent to surface water.

We monitor our progress using a fresh water risk assessment tool, which is completed at least bi-annually by each manufacturing site. The tool assigns risk levels to water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors. Sustainable fresh water management is defined as a low risk score in all categories. In 2013, the assessment was carried out, and the major risk identified was sourcing water in water scarce areas. In total, 89 percent of our sites (2013: 85 percent) have sustainable fresh water management in place, as measured by the AkzoNobel fresh water management risk assessment tool.

Water flow in million m<sup>3</sup>



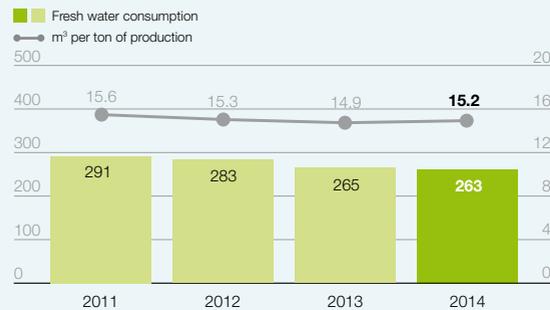
### Sustainable fresh water management in % of manufacturing sites



Sustainable fresh water management is defined as a low risk score in all categories in the AkzoNobel sustainable fresh water assessment tool: water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors.

- Fresh water use per ton of production increased to 15.2 m<sup>3</sup>/ton (2013: 14.9 m<sup>3</sup>/ton)
- Total fresh water use was 263 million m<sup>3</sup>, a decrease of 1 percent (2013: 265 million m<sup>3</sup>) due to lower production rates

### Fresh water use in million m<sup>3</sup>



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

Improvement projects include:

- Water saving workshops at seven Decorative Paints sites identified average savings of more than 20 percent of annual consumption from reduction and re-use projects
- New evaporators at our Rotterdam site will reduce cooling water by 5 million m<sup>3</sup> a year

## Water emissions

In total, 89 percent of the COD is generated in ten production locations, with the remainder being generated by numerous sites. These ten locations are the primary focus for improvement actions.

### Chemical oxygen demand (COD) in kilotons



COD is the amount of oxygen required for the chemical oxidation of substances in the waste water effluent that is discharged into surface waters.

- The COD load to surface water per ton of production remained at 0.08 kg/ton
- The total COD load to surface water was stable at 1.4 kilotons
- Waste water treatment improvements at our Mauà site have reduced COD emissions by 30 tons a year. A planned new treatment plant will reduce COD further by 150 tons per year
- Our Santo Andre site is now connected to the municipal waste water treatment plant, reducing COD emissions by 80 tons a year

## Soil and groundwater remediation

There are costs associated with the assessment and remediation of historical soil and groundwater contamination. We periodically review historic 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 €326 million which we believe is sufficient for the sites where we have ownership or responsibility (See Note 16 of the Consolidated financial statements).

# Independent assurance report

## To the readers of the AkzoNobel Report 2014

### Our conclusion and opinion

We have reviewed the information in the Sustainability statements (pages 193 to 245) and in the Compliance and integrity management chapter (pages 122 to 127) (hereafter The Sustainability Reporting), which are part of the 2014 Annual Report (The Report) of Akzo Nobel N.V. (further: the Company).

Furthermore we have audited Note 1: Managing our sustainability agenda (pages 195 to 198) of the Sustainability statements.

Based on our review, nothing has come to our attention to indicate that The Report is not fairly presented, in all material respects, in accordance with the reporting criteria. Furthermore, in our opinion, the information in Note 1: Managing our sustainability agenda (pages 195 to 198) is presented, in all material respects, in accordance with the reporting criteria.

We report, to the extent we can assess, that the information concerning sustainability in the rest of The Report is consistent with The Sustainability Reporting.

### Basis for our conclusion and opinion

We conducted our engagement in accordance with the Dutch Standard 3810N: "Assurance engagements relating to sustainability reports", which is a specified standard under the International Standard on Assurance Engagement (ISAE) 3000: "Assurance Engagement other than Audits or Reviews of Historical Financial Information".

Our responsibilities under Standard 3810N and procedures performed have been further specified in the paragraph titled "Our responsibility for the assurance of The Sustainability Reporting".

We are independent of AkzoNobel in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in The Netherlands.

Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

### Key assurance matters

Key assurance matters are those matters that, in our professional judgment, were of most significance in our assurance of The Sustainability Reporting. We have communicated the key assurance matters to the Company. The key assurance matters are not a comprehensive reflection of all matters discussed.

These assurance matters were addressed in the context of our assurance of The Sustainability Reporting as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters.

### Judgment in determining material aspects

To ensure that the stakeholders of the Company can base their decisions on the information provided in The Sustainability Reporting its content should be a comprehensive reflection of the Company's material aspects. Material aspects are defined as aspects of which an omission can have a substantial impact on the decisions of stakeholders.

This area was significant to our review in light of the Company's move this year for the first time towards the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative (GRI) and the inherent qualitative judgment in determining material aspects. The GRI G4 guidelines require to put emphasis on the materiality principle supported by a structured process in determining the content of the report. Our review procedures included, among others, a review of the process that the Company has implemented to identify the material aspects for The Sustainability Reporting and the ways in which stakeholders' interests were taken into account as part of that. We further reviewed and discussed the Company's

determination of the material aspects. We conducted a media search to compare the results with the material aspects identified by the Company in order to identify any potentially missing material aspects for The Sustainability Reporting.

### Responsibilities of Management for The Sustainability Reporting

The Board of Management is responsible for the preparation and fair presentation of The Sustainability Reporting in scope as included above under "Our conclusion and opinion" in accordance with the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative supported by internally developed guidelines as described in Note 2: Reporting principles (pages 198 to 201). It is important to view The Sustainability Reporting in The Report in the context of these criteria. We believe these criteria are suitable in view of the purpose of our assurance engagement.

As part of this, the Board of Management is responsible for such internal control as it determines is necessary to enable the preparation of The Sustainability Reporting that is free from material misstatement, whether due to fraud or error.

### Our responsibility for the assurance of The Sustainability Reporting

Our objective is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion regarding The Sustainability Reporting and our opinion regarding the information in Note 1: Managing our sustainability agenda.

Procedures performed for the review of The Sustainability Reporting are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

Our audit of the information in Note 1: Managing our sustainability agenda has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

Our review procedures on The Sustainability Reporting included among others:

- A risk analysis, including a media search, to identify relevant sustainability issues for the Company in the reporting period
- Reviewing the suitability of the internal reporting criteria including conversion factors used
- Evaluating the design and implementation of the systems and processes for the collection, processing and control of the information in scope for the review, including the consolidation of the data
- Interviewing management at corporate and business level responsible for the sustainability and compliance and integrity 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 Reporting
- Evaluating internal and external documentation, based on sampling, to determine whether the information in The Sustainability Reporting is supported by sufficient evidence

- Joining an internal audit of Health, Safety, Environment & Security Management at the Industrial Chemicals site in Frankfurt, Germany
- Reviewing the relevant work of the Internal Audit function

Our additional audit procedures on the information in Note 1: Managing our sustainability agenda included among others:

- Testing the relevant work of the Internal Audit function in respect of the information in Note 1: Managing our sustainability agenda
- Interviews with relevant staff at corporate level responsible for providing the information for Note 1: Managing our sustainability agenda

During the assurance process we discussed the necessary changes of The Sustainability Reporting and reviewed the final version of The Report to ensure that it reflects our findings.

Amsterdam, February 11, 2015

**KPMG Sustainability,  
Part of KPMG Advisory N.V.**

**W.J. Bartels RA, Partner**

# Sustainability performance summary

## Economic/Governance/Social

Area		2010	2011	2012	2013	2014	Target 2015	Target 2020
<b>Product</b>								
Eco-premium solutions with downstream benefits	% of revenue	-	-	17	18	19	-	20
Eco-premium solutions	% of revenue	21	22	22	24	24	30	-
<b>Business integrity</b>								
Code of Conduct alleged complaints handled by the Compliance Committee	number	23	24	24	9	11	-	-
Code of Conduct trained	% of employees	95	95	96	95	NA <sup>1</sup>	-	-
<b>Health and Safety</b>								
Fatalities employees	number	1	2	2	0	0	0	0
Total reportable injury rate employees/supervised contractors	/million hours	3.6	3.1	2.4	2.3	1.8	<2.0	<1.0
Lost time injury rate employees/supervised contractors	/million hours	1.6	1.3	1.1	1.3	0.9	1.3	-
Occupational illness rate employees	/million hours	0.3	0.3	0.2	0.1	0.3	-	-
Total illness absence rate employees	%	1.9	2.0	2.0	2.1	2.1	1.9	-
Fatalities contractors (supervised plus independent)	number	0	1	0	0	0	0	0
Total reportable injury rate independent contractors	/million hours	3.0	3.5	4.2	3.5	2.9	-	-
Manufacturing sites with behavior-based safety program	% of sites	72	76	76	96	98	100	-
Distribution incidents	number	91	80	46	48	52	-	-
Motor vehicle incidents with injury	number	34	29	28	19	20	-	-
<b>Employees</b>								
Employee numbers (FTE)	number	55,600	57,240	55,272	49,561	47,207	-	-
Female executives	%	12	13	15	16	17	20	-
Executives from high growth markets	%	12	13	13	14	16	20	-
Employee engagement index	1-5 scale	3.56	3.74	3.80	3.88	3.97	>4.00	-
Community Program investment	in € millions	1.5	1.5	1.5	1.0	1.0	-	-
<b>Reliable operations</b>								
Management audits plus reassurance audits	number	61	66	61	56	63	-	-
Safety incidents (Level 3)	number	10	8	3	0	1	0	0
Safety incidents (Level 1, 2, 3)	number	32	36	23	14	15	-	-
Significant loss of containment (Level D)	number	0	2	0	1	0	0	0
Regulatory actions (Level 4)	number	0	0	0	0	0	0	0
<b>Sourcing</b>								
Critical PR <sup>2</sup> spend covered by supplier management framework	% of spend	-	-	69	80	83	88	-
Product related suppliers signed Vendor Policy	% of spend	91	95	97	96	98	98	-
NPR <sup>3</sup> suppliers signed Vendor Policy	% of spend	-	77	80	83	80	80	-
Suppliers on SSV program since 2007 <sup>4</sup>	number	266	304	373	392	432	-	-
Renewable raw materials	% organic RM	-	-	13	13	13	-	-

<sup>1</sup> No 2014 data are available due to implementation of new Learning Management System.

<sup>2</sup> PR – Product related (raw materials and packaging).

<sup>3</sup> NPR – Non-product related.

<sup>4</sup> SSV program targets are included in the Critical PR spend coverage KPI.

## Environmental

Area		2010	2011	2012	2013	2014	Target 2015	Target 2020
<b>Raw material efficiency</b>								
Total waste	kiloton	258	217	203	161	149	-	-
per ton of production	kg/ton	13.1	11.6	11.0	9.0	8.6	-10%	-
Total non-reusable waste	kiloton	103	96	85	65	72	-	-
per ton of production	kg/ton	5.3	5.1	4.6	3.6	4.1	-	-
Hazardous waste total	kiloton	77	71	71	62	58	-	-
per ton of production	kg/ton	3.9	3.8	3.8	3.5	3.4	-	-
Hazardous waste non-reusable	kiloton	29	26	20	17	22	-	-
per ton of production	kg/ton	1.5	1.4	1.1	1.0	1.2	-	-
Hazardous waste to landfill	kiloton	4.7	3.0	2.7	1.9	1.7	-	-
per ton of production	kg/ton	0.24	0.16	0.15	0.11	0.10	-	-
<b>Maintain natural resources/fresh air</b>								
Fresh water use	million m <sup>3</sup>	309	291	283	265	263	-	-
per ton of production	m <sup>3</sup> /ton	15.7	15.6	15.3	14.9	15.2	-	-
COD emissions	kiloton	1.9	1.8	1.6	1.4	1.4	-	-
per ton of production	kg/ton	0.10	0.10	0.09	0.08	0.08	-	-
Manufacturing sites with sustainable fresh water	%	48	74	83	85	89	100	-
VOC emissions	kiloton	4.3	3.6	3.6	3.1	3.1	-	-
per ton of production	kg/ton	0.22	0.19	0.19	0.17	0.18	0.19	-
NOx emissions	kiloton	2.0	2.0	1.9	1.3	1.3	-	-
per ton of production	kg/ton	0.10	0.11	0.10	0.08	0.08	-	-
SOx emissions	kiloton	7.1	7.7	7.6	4.6	3.7	-	-
per ton of production	kg/ton	0.36	0.41	0.41	0.26	0.22	-	-
Direct CO <sub>2</sub> (e) emissions (Scope 1)	million tons	2.0	1.6	1.5	1.1	1.1	-	-
per ton of production	kg/ton	102	85	82	64	63	-10%	-
Indirect CO <sub>2</sub> (e) emissions (Scope 2)	million tons	3.2	3.2	3.2	2.8	2.8	-	-
per ton of production	kg/ton	165	171	175	158	161	-10%	-
Total energy consumption	1000TJ	111	107	106	99	98	-	-
per ton of production	GJ/ton	5.7	5.7	5.7	5.6	5.7	-	-
<b>Value chain</b>								
Total CO <sub>2</sub> (e) emissions (cradle-to-grave) <sup>1</sup>	million tons	-	-	27.5	26.5	26.9	-	-
per ton of product <sup>1</sup>	ton/ton	-	-	1.7	1.6	1.7	-	-25-30%
Total CO <sub>2</sub> (e) emissions (cradle-to-gate) <sup>2</sup>	million tons	15.9	16.1	15.9	-	-	-	-
per ton of product <sup>2</sup>	kg/ton	960	950	950	-	-	-	-

<sup>1</sup> Reported from 2012. Includes impact from VOC emissions.

<sup>2</sup> Reported up to 2012.

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# Financial calendar

2015

April 21

**Report for the first quarter**

April 22

Annual General Meeting of shareholders

April 24

Ex-dividend date of 2014 final dividend

April 27

Record date of 2014 final dividend

April 28 – May 13

Election period cash or stock final dividend

May 15

Determination of exchange ratio

May 19

Payment date cash dividend and delivery of new shares

July 21

**Report for the second quarter**

October 22

**Report for the third quarter**

2016

February 11

**Report for the full-year 2015 and the fourth quarter**

# 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.

## **AGM**

Annual General Meeting of shareholders.

## **ALPS**

AkzoNobel Leading Performance System.

## **BBS**

Behavior-based safety. A global program run at AkzoNobel manufacturing facilities and other sites.

## **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 CO<sub>2</sub>(e) emitted.

## **Code of Conduct**

Our Code of Conduct defines our company values and how we work. It incorporates fundamental principles on issues such as business integrity, labor relations, health, safety, environment and security and community involvement.

## **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.

## **EBITDA**

Operating income before depreciation, amortization and incidental items.

## **Eco-efficiency**

Eco-efficiency means doing more with less; creating goods and services while using fewer resources and creating less waste and pollution.

## **Eco-premium solutions (EPS)**

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, health and well-being), and not significantly worse in any other criteria.

## **Eco-premium solutions with downstream benefits**

Provide tangible material or energy efficiency benefits for our customers, compared with competitive products.

## **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<sub>2</sub>, NOx and SOx, VOCs, chemical oxygen demand, hazardous and non-hazardous waste. Definitions are in the Sustainability statements section.

## **GHG**

Greenhouse gases, including CO<sub>2</sub>, CO, CH<sub>4</sub>, N<sub>2</sub>O and HFCs, which have a global warming impact. We also include the impact of VOCs in our targets.

## **GBS**

Global Business Services, which covers functional support activities such as Human Resources, Finance and Information Management, as well as non-product related Procurement.

## **HSE**

Health, safety and environment.

## **Invested capital**

Total assets (excluding cash and cash equivalents, investments in associates, the receivable from pension funds in an asset position, assets held for sale) less current income tax payable, deferred tax liabilities and trade and other payables.

## **Key value chain (KVC)**

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 revenue/production.

## **LCA**

Lifecycle assessments are the basis of our value chain sustainability programs. Eco-efficiency analysis (EEA) is our standard assessment method.

## **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**

Mature markets are 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**

Defined as long-term borrowings plus short-term borrowings less cash and cash equivalents.

**Operating income**

Operating income is defined in accordance with IFRS and includes the relevant incidental items.

**Operational cash flow**

We use operational cash flow to monitor cash generation. It is defined as operating income excluding depreciation and amortization, adjusted for the change in operating working capital and capital expenditures.

**Operational eco-efficiency**

Refers to the eco-efficiency of our manufacturing operations. Our aim is to improve operational eco-efficiency by reducing the resources used and emissions/waste from our sites during the manufacture of our products.

**OTIF**

On-time in-full, referring to customer service.

**P&D Dialog**

The Performance & Development 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).

**REI**

Resource Efficiency Index is gross margin divided by cradle-to-grave carbon footprint. The index measures value created from use of raw materials and energy.

**ROI (return on investment)**

This is a key profitability measure and is calculated as operating income as a percentage of average invested capital.

**ROS (return on sales)**

This is a key profitability measure and is calculated as operating income as a percentage of revenue.

**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 reputational damage to AkzoNobel stakeholders.

**Shareholders' equity per share**

Akzo Nobel N.V. shareholders' equity divided by the number of common shares outstanding at year-end.

**RobecoSAM assessment**

Assesses the sustainability performance of companies selected for the Dow Jones Sustainability Index (DJSI). The DJSI tracks the performance of the global sustainability leaders. The index comprises the top 10 percent in each sector for the 2,500 largest companies.

**Total reportable rate of injuries (TRR)**

The number of injuries per million hours worked. Full definitions are in the Sustainability statements.

**TSR (total shareholder return)**

Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

**Vendor Policy/SSV**

Vendor Policy, Supplier Support Visits, Key Supplier Management and Together for Sustainable are all elements of our supplier sustainability program.

**VOC**

Volatile organic compounds.

**Disclaimer**

In this Report 2014, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units. In this publication the terms “AkzoNobel” and “the company” refer to Akzo Nobel N.V. and its consolidated companies in general. The company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Business performance”, they refer to the business concerned.

**Safe harbor statement**

This Report 2014 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.

**Integrated Report 2014**

AkzoNobel's annual financial report has been combined with the sustainability report into one Report 2014. The Report 2014 includes elements of the reporting guidelines issued by the International Integrated Reporting Council (IIRC). 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.

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**We welcome feedback on our Report  
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# TEAL

Color of the Year 2014

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AkzoNobel is a leading global paints and coatings company and a major producer of specialty chemicals. Calling on centuries of expertise, we supply industries and consumers worldwide with innovative products and sustainable technologies designed to meet the growing demands of our fast-changing planet. Headquartered in Amsterdam, the Netherlands, we have approximately 47,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as one of the leaders in the area of sustainability, we are committed to making life more liveable and our cities more human.

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