

Report 2013

**AkzoNobel** 

# How we create value

As the leading global paints and coatings company and a major producer of specialty chemicals, we know only too well that our future hinges on our ability to create value by doing more with less.

More innovation, less traditional solutions; more renewable energy and materials, less fossil-based; more value chain focus while improving our financial performance; more investment in talent and career planning.

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, we're also creating social value by developing our employees and generating intellectual value by continuing to innovate in order to supply more sustainable products and solutions for our customers. This will ultimately lead to more financial value for our investors.

## Input

Total energy use  
**99,000 TJ**  
or 5.6 GJ per ton of production

Total energy bill  
**€0.6 billion**

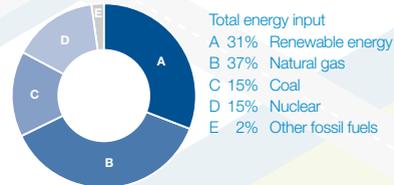
Fresh water consumption  
**265 million m<sup>3</sup>**  
or 14.9 m<sup>3</sup> per ton of production

Cost of raw materials and packaging  
**€5.4 billion**

Upstream CO<sub>2</sub>(e) emissions including VOCs  
**11 million tons**

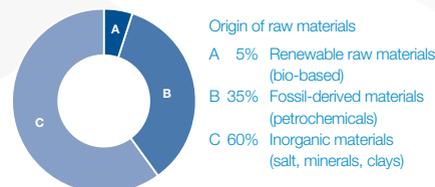
## Energy

We continue to improve our energy efficiency and increase our share of renewable energy, which is currently at 31 percent.



## Raw materials and packaging

We value our supplier relationships. Around 96 percent have signed our Vendor Policy, which helps to ensure a sustainable supply chain. Renewable raw materials are now 13 percent of the organic (fossil-based) materials that we buy. An increase will lower our dependence on fossil-based resources.



## Our organization

Capital expenditures **€666 million** Value of all assets **€16.1 billion**

Employee engagement score (1-5 scale)  
**3.88**

Employee benefits  
**€3.0 billion**



Employees  
**49,600**

Total reportable rate of injuries  
**2.3**

Own operations CO<sub>2</sub>(e) emissions  
**3.9 million tons**

Total waste  
**161 million tons**

**85%** of sites with sustainable fresh water management

RD&I investments  
**€373 million**

## Asset value

The value of our assets is €16.1 billion. We invested €666 million in 2013 to keep our facilities in good shape, as well as expanding our manufacturing capability. We continue to improve process and product safety.

## Human value

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

## Environmental value

We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

## Innovation value

Innovation is vital for our current and future success. Currently, 18 percent of our revenue is derived from eco-premium solutions with customer benefits. We continue to work towards sustainable solutions that our customers expect from us.

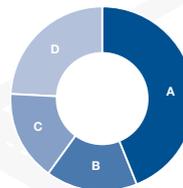


## Customer value

In 2013 we sold products to many thousands of customers. We continue to improve our customer focus and develop products and solutions that help them to be successful in their markets.

## Financial value

With a ROS% of 6.6 percent, we are making progress towards achieving our 9 percent target for 2015, and with our ROI% of 9.6 percent, we are progressing towards our 14 percent target for 2015.



Revenue per end-user segment  
 A 44% Buildings and Infrastructure  
 B 16% Transportation  
 C 16% Consumer Goods  
 D 24% Industrial

Revenue  
**€14.6 billion**

Operating income  
**€958 million**

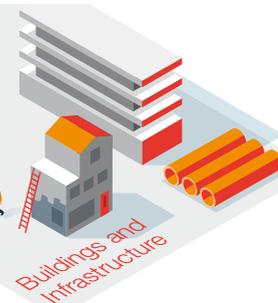
Earnings per share  
**€3.00**

## Community value

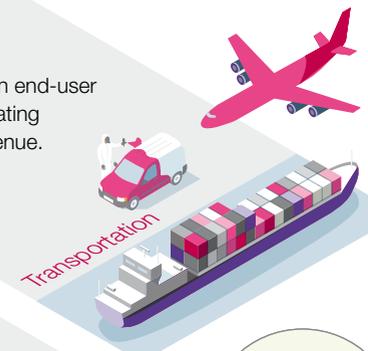
We contributed €1.0 million to community programs, 2,000 employees volunteered, and six million lives improved via our "Let's Colour" program. We also paid €230 million in taxes.

Downstream CO<sub>2</sub>(e) emissions including VOCs  
**12 million tons**

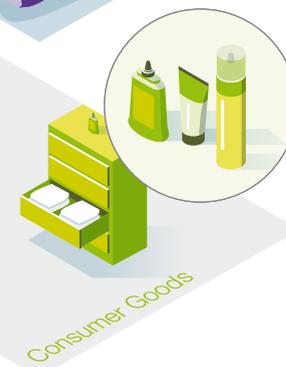
Buildings and Infrastructure is our largest end-user segment, with €6.4 billion of revenue.



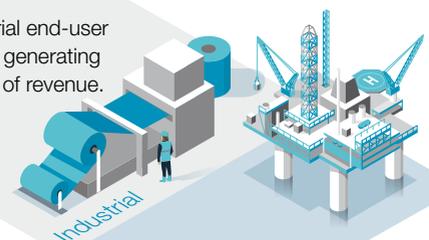
The Transportation end-user segment is generating €2.4 billion of revenue.



The Consumer Goods end-user segment is generating €2.3 billion of revenue.



The Industrial end-user segment is generating €3.5 billion of revenue.



# AkzoNobel at a glance in 2013

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

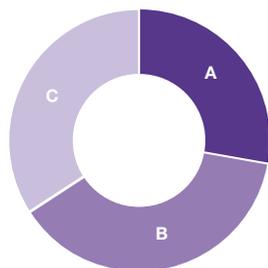


### Revenue (in € billions)

# €14.6

### Revenue by Business Area

<b>A</b> Decorative Paints	28%
<b>B</b> Performance Coatings	38%
<b>C</b> Specialty Chemicals	34%

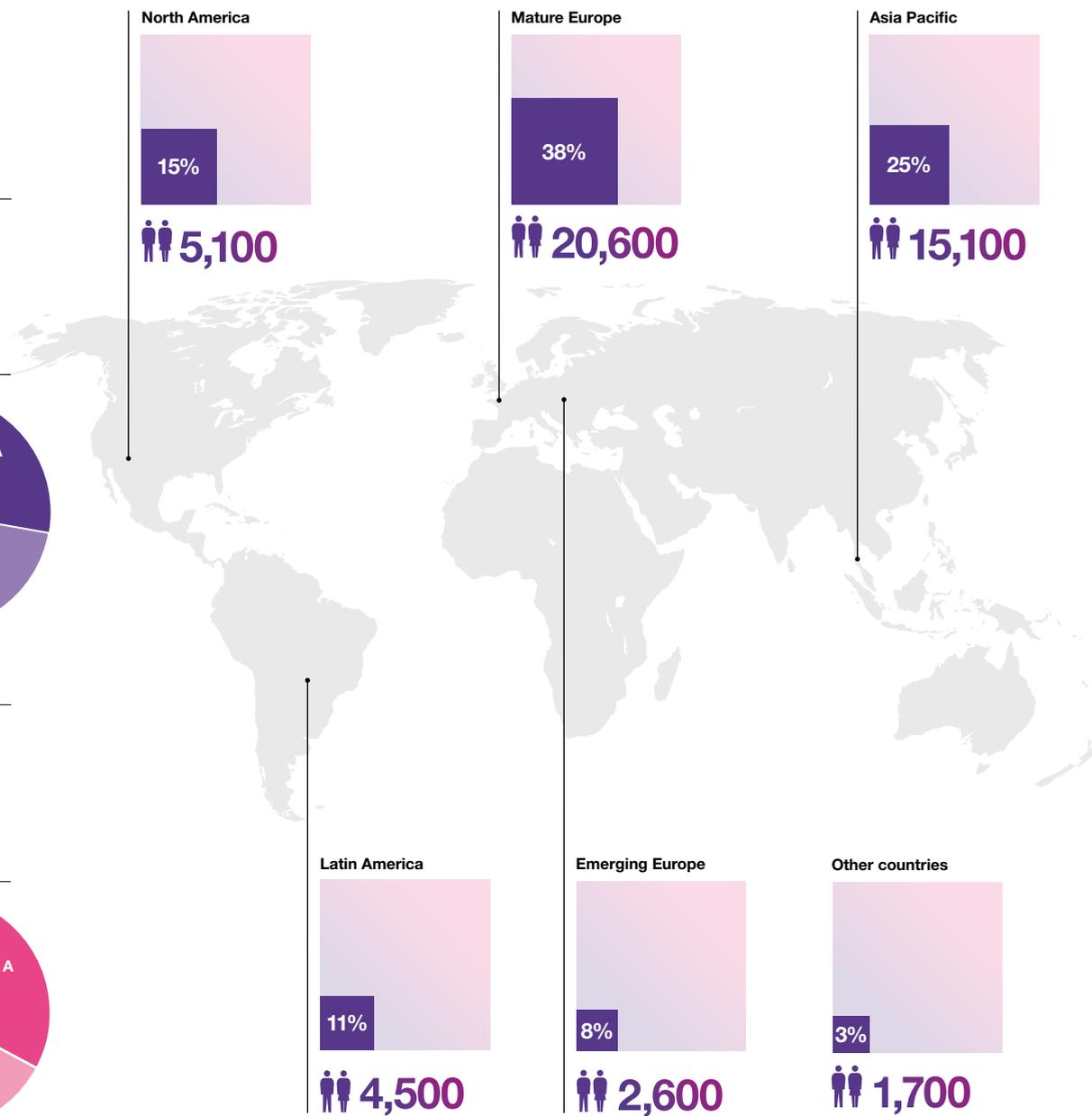
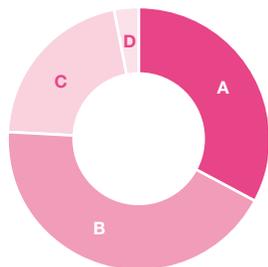


### Employees

# 49,600

### Employees by Business Area

<b>A</b> Decorative Paints	33%
<b>B</b> Performance Coatings	43%
<b>C</b> Specialty Chemicals	21%
<b>D</b> Other	3%



In 2013, we took further steps to adjust our company to the new business reality. It was a challenging year, but we continued to make progress, drive value creation and strengthen our financial position.

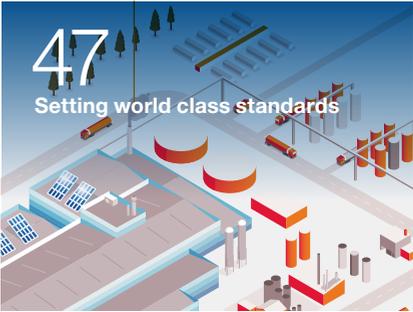
More details can be found in this Report 2013, which offers an in-depth look at our performance and activities during the year.



In an effort to make our reporting as transparent and comprehensive as possible, AkzoNobel's Report 2013 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 offer additional information, such as videos and downloadable graphs and tables.

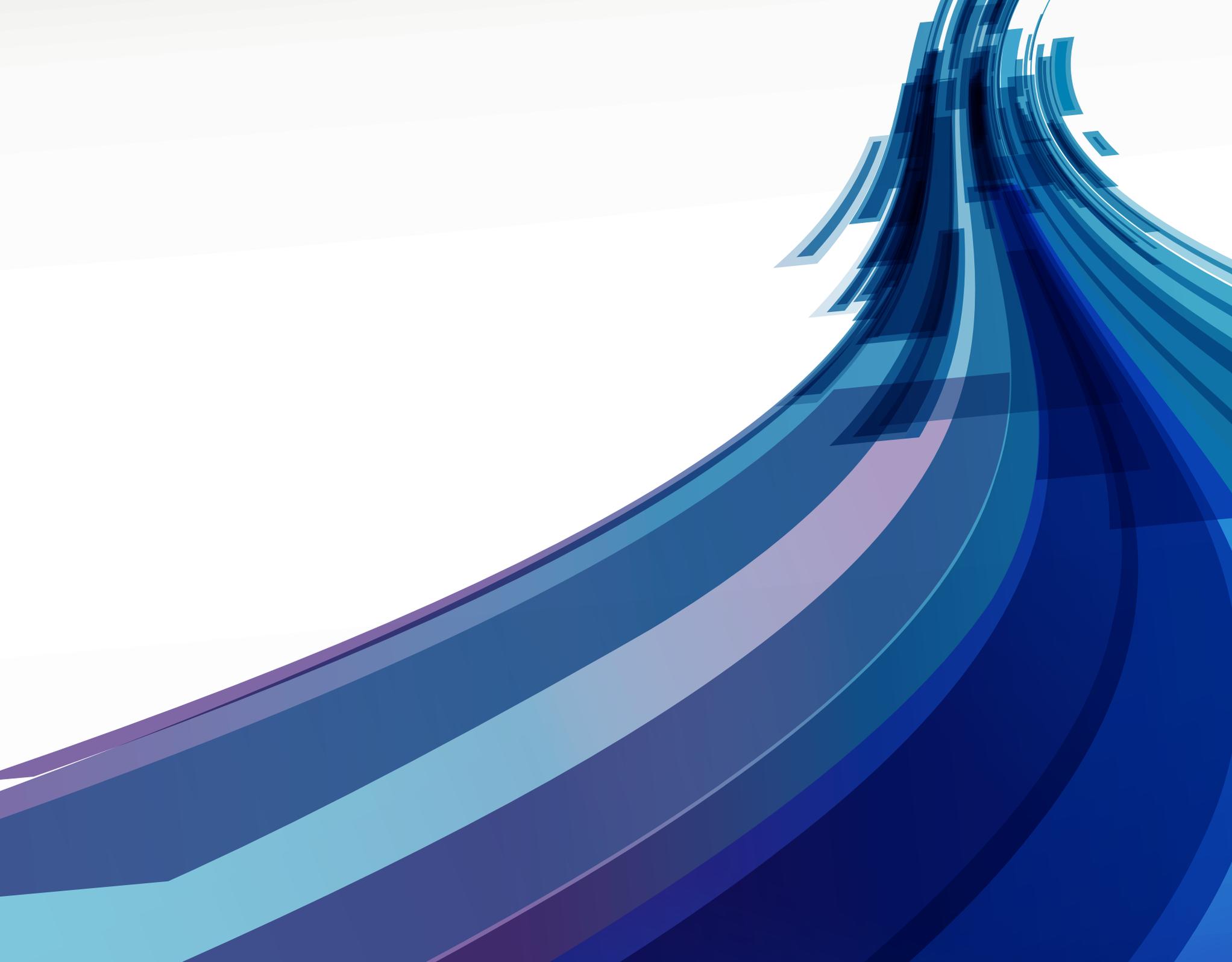
# Case studies

Throughout our Report 2013 you will find various case studies highlighting just part of our contribution to the world around us.



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# Strategy

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

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# Leading market positions delivering leading performance



“We continued to make progress on our strategy and 2015 targets”

## Dear stakeholder

2013 was a year of initiating a process of change. We launched a new organic growth and operational excellence strategy with a new vision, new financial targets and clearly defined targets for sustainability.

Our new executive team also established itself, and we adapted the short and long-term incentives for an extended group of executives in order to align them with our new strategy. The original targets for our performance improvement program were delivered a year early, and we moved into a more continuous improvement mode going forward. It was also a year when we launched new values to drive a performance culture, while a commercial excellence program has been established to drive growth.

Coming into 2013, there was little indication that economic conditions were going to rebound, and while some indicators slowly began to suggest that the tide was turning, we saw little evidence in our businesses. Against this uncertain backdrop, we continued to make progress on our strategy and 2015 targets. Our commitment to improving our profitability, even in a testing economic environment, was exemplified by the fact that our performance improvement program delivered more than the targeted €500 million EBITDA a year early. We have now transitioned into a period of continuous improvement, with cost savings coming through and increased traction in several important programs at corporate and Business Area levels.

Despite the market headwinds, we improved our return on sales in the third and fourth quarters and remain on track to deliver our 2015 targets. Key profitability ratios and cash flow also improved, while the receipt of funds from the divestments of our Decorative Paints North America and Building Adhesives businesses meant that we did not need to refinance borrowings, which helped us to improve our net debt position at year-end. Capital expenditures were reduced, reflecting the completion of many of our longer term strategic investment programs, while operating working capital further declined.

Having sold our North American Decorative Paints activities, we continued to take decisive action to reorganize the business and make it more competitive. This included the strategic divestments of Building Adhesives and our German decorative paints stores, as well as continuing our efforts to streamline the product range and further reduce complexity. We also continued to invest, opening a new plant in India and announcing the construction of two new facilities in China, while our new decorative paints site in the UK will commence full operations in 2015.

#### **Growing demand**

Performance Coatings made steady progress, with Marine and Protective Coatings and Aerospace Coatings securing several major contracts, while Specialty Finishes had a strong year on the back of growing demand for coatings for mobile devices. Our Specialty Chemicals businesses, on the other hand, were negatively affected by a fairly weak year for the industry as a whole. A major restructuring program is currently underway which will not only adjust our manufacturing footprint and drive efficiency, but will also enable us to capitalize on the investments that we have made in the world's high growth regions. A strategic portfolio review resulted in the divestment of our Primary Amides and Purate activities, while on the investment side, our Industrial Chemicals plant in Frankfurt is due to become operational in 2014.

Despite the difficult economic environment, we continued to introduce a wide range of new products and technologies to the market. This included a number of eco-premium products, such as a heat-reflective range of powder coatings and a highly efficient biocidal antifouling for ships which offers a controlled release over time. Our continued focus on innovation underlines the fact that even though the business environment remains challenging, we are committed to investing in both product and process innovation and remain fully focused on increasing our share of revenue from products that offer a sustainability advantage for customers. In order to accelerate our efforts in this area, in 2013, we also launched our Planet Possible concept. Essentially a commitment to doing more

with less, it will help to build on our long-standing reputation as a leader in the field of sustainability, evidenced by being ranked first in the broad Materials industry group on the Dow Jones Sustainability Index, which includes the chemicals, mining and materials sectors.

Another key development was the launch of our new values and behaviors, which are fully aligned with our new strategy. I'm a firm believer that people make an organization and by energizing the company around a new set of values we will ensure everyone is playing a role in helping us to meet our strategic goals and deliver leading performance. We have established three core principles - Safety, Integrity and Sustainability – and four values – Customer focused, Deliver on commitments, Passion for excellence, Winning together. To help all our employees become familiar with them and understand their importance, an extensive global roll-out has been taking place which has included more than 200 town hall sessions hosted by various senior leaders, including members of the Executive Committee. I participated in many of these myself and was very encouraged by the enthusiasm our people showed and their eagerness to define which behavioral changes will make the greatest impact on their business results.

#### **Energized leadership**

Fostering this winning culture is one of the key responsibilities of Marten Booisma, the most recent addition to our Executive Committee. Marten is our Chief Human Resource Officer and his significant international experience will be invaluable as we look to deliver the change in culture that's needed. He is part of an Executive Committee which has seen a number of changes in the last 18 months, including the appointments of Conrad Keijzer (responsible for Performance Coatings) and Ruud Joosten (Decorative Paints). They joined Werner Fuhrmann (Specialty Chemicals) and Sven Dumoulin (General Counsel), to complete an Executive Committee with extensive experience and expertise. Another key appointment in 2013 was that of David Allen as our new Head of Supply Chain, Research and Development. We now have a very strong and

energized leadership team in place made up of people who really understand their business, who are hands-on and not only have a strategic mindset, but also know what it takes to lead an organization. One of our immediate tasks will be to find a successor for CFO Keith Nichols, who announced that he will be leaving the company at the end of June 2014. Keith has played a vital role in helping to transform the company over the last eight years and I would like to personally thank him for his outstanding contribution.

It is difficult to look ahead with any certainty, but what is clear is that we are in a strong financial position, have a focused strategy in place and have already made progress in starting to deliver on our strategic targets. There is also clarity in where we want to go and what we want to do. We have set realistic targets and have mapped out a journey to drive value creation which has already begun. There are still many issues to address, including safety, a more rigorous approach to talent development and transitioning our culture and behaviors based on a continuous improvement mindset. I'm confident, however, that we are driving forward in the right direction and that our focus on organic growth and operational excellence will result in the leading performance that we have set out to achieve.

On behalf of the Executive Committee, I would like to thank our shareholders and all our colleagues around the world for their hard work and valued contribution during 2013.



#### **Ton Büchner**

CEO and Chairman of the Board of Management and Executive Committee

# Our businesses

## 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
- Decorative Paints Asia
- Decorative Paints Latin America

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

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

## 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. Due to our strong product portfolio, leading technologies and extensive distribution network, we hold leading positions in the markets we serve.

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 International, Sikkens, Interpon and Awlgrip.

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

## 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. These include products used in paints, detergents, foods, plastics, cosmetics, construction, pulp and paper, pharmaceuticals, electronics, agro and oilfield applications.

The business operates four units:

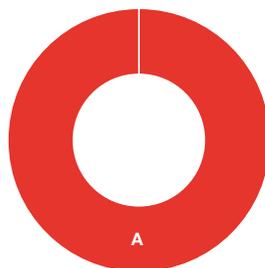
- Functional Chemicals (e.g. chelates, ethylene amines)
- Industrial Chemicals (e.g. chlor-alkali, caustic soda, salt)
- Pulp and Performance Chemicals (e.g. bleaching, colloidal silicas)
- Surface Chemistry (e.g. surfactants, synthetic polymers and bio-polymers)

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

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

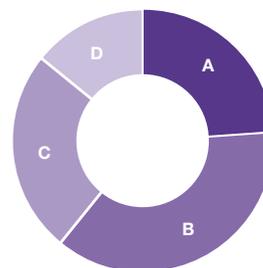
**Decorative Paints 2013 revenue split per-end user segment**  
in %

<b>A</b> Buildings and Infrastructure	100
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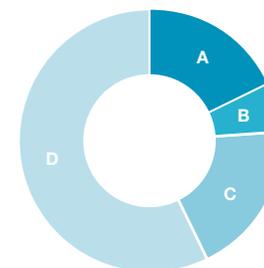
**Performance Coatings 2013 revenue split per end-user segment**  
in %

<b>A</b> Buildings and Infrastructure	24
<b>B</b> Transportation	37
<b>C</b> Consumer Goods	25
<b>D</b> Industrial	14



**Specialty Chemicals 2013 revenue split per end-user segment**  
in %

<b>A</b> Buildings and Infrastructure	18
<b>B</b> Transportation	6
<b>C</b> Consumer Goods	19
<b>D</b> Industrial	57



# End-user segments

## Buildings and Infrastructure

We supply a wide variety of products to build, decorate, protect, maintain and renovate building interiors and exteriors. Various products are also used for the construction and maintenance of infrastructure, such as airports, bridges and roads. We divide our global Buildings and Infrastructure activities into three specific sub-segments:

### New build projects

- Residential
- Commercial
- Infrastructure

### Maintenance, renovation and repair

- Residential
- Commercial
- Infrastructure

### Building products and components

- Windows
- Doors
- Joinery
- Flooring
- Roofing and siding
- Structural components

## Transportation

We supply products that are widely used in the maintenance of cars, trucks, ships, airplanes and trains, as well as for parts manufacture and assembly. They play important functional roles, such as protection and aesthetics. Our specialty chemicals are also key parts of the process that makes components. We are active in three sub-segments:

### Automotive repair

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

### Automotive OEM, parts and assembly

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

### Marine and air transport

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

## Consumer Goods

We supply a large range of products used in consumer electronics, furniture, domestic appliances, food and beverage, personal care and cleaning. Our specialty chemicals are either vital to the process that makes components, or they are key functional ingredients. Our coatings also play an aesthetic or design role. We have two sub-segments:

### Consumer durables

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

### Consumer packaged goods

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

## Industrial

We supply products for oil and gas, metals and mining, electricity/utilities, agriculture, chemical manufacturing and pulp and paper. They are used during production, or play a functional role in the end product. We also sell liquid protective and powder coatings, which provide functionality such as fire and corrosion protection. We have two sub-segments:

### Natural resource and energy industries

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

### Process industries

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



# Buildings and Infrastructure

**This end-user segment includes a variety of products used to build, decorate, protect, maintain and renovate buildings and infrastructure interiors and exteriors. It is our largest segment (44 percent of revenue), with the Maintenance, renovation and repair sub-segment particularly important for our Decorative Paints business.**

## Trends

There was significant contraction during the recession, with limited recovery in mature economies. In Europe, most analysts believe the decline has halted and in some markets, such as the UK, housing transactions and house prices are rising. Moderate growth levels have returned in North America. Government stimulus activity remains a factor in many

markets, notably infrastructure, although this is reducing somewhat. The outlook for high growth regions remains positive due to population and wealth growth, but growth rates going forward are lower, particularly in China, where growth has moderated considerably.

## Future sustainability developments

Given the contribution of the built environment to scarce resource use, demand for products that contribute to a reduction in non-renewable energy use and energy cost reduction is a major factor, and this will continue. According to the World Business Council for Sustainable Development (WBCSD), by 2050, 70 percent of the world's population will live in urban areas and 95 percent of new building stock will use zero net energy. The proportion of

buildings heated by fossil fuels will also fall below 6 percent. Sustainability issues beyond energy use and carbon emissions, such as air quality, will continue to have an impact.

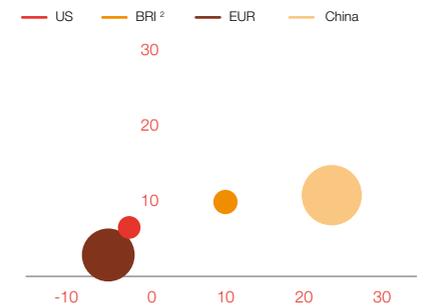
## Implications for strategy and actions

We will need to manage product lines and restructure operations to respond to structurally reduced demand levels in mature markets. In high growth regions, we must have strong market positions and brands where relevant. Globally, we need business models based on a value-cost trade-off and must innovate to respond to sustainability and other end-user needs to create triggers for purchasing our products. We also need to continue restructuring in mature geographies, while in high growth areas we must ensure strong positions and appropriate business models.

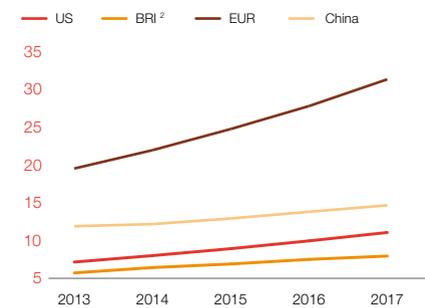
## Where some of our products are used:



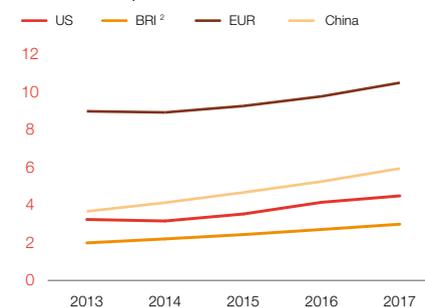
**Total construction<sup>1</sup>**  
\$ billion, output 2013



**Total market new build construction<sup>1</sup>**  
hundreds units



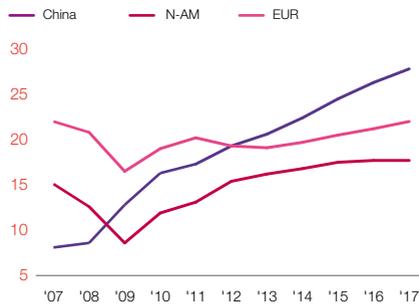
**Total market maintenance and repair<sup>1</sup>**  
\$ billion, output



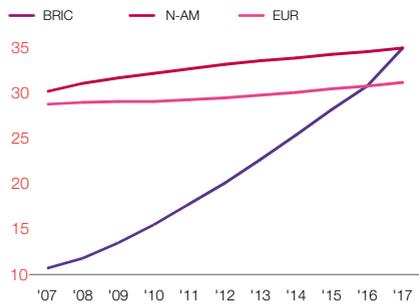
<sup>1</sup> Source: IHS/Construction IC, January 2014.

<sup>2</sup> BRI: Brazil, Russia, India.

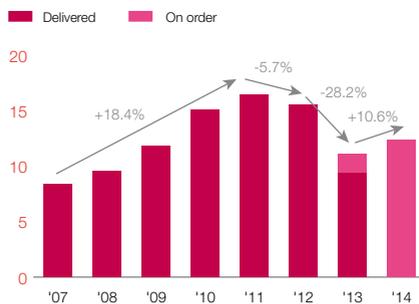
## Light vehicle production<sup>1</sup> million units



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



## New build ship deliveries<sup>2</sup> million deadweight tons



**This end-user segment covers parts, assembly and maintenance of all forms of transport. At 16 percent of our revenue, this is one of the two smaller segments for AkzoNobel. Our coatings are vital for both protection and aesthetics in vehicles and our chemicals are used in processes that make components.**

### Trends

New build markets in this segment are quite cyclical, with substantial drops in demand during an economic downturn. The timing of the downturn can differ, however. Car production was already recovering from the recent economic crisis in 2010 and has been on a reasonable growth path since then. We expect this pattern to continue going forward, with growth roughly tracking GDP in all geographies. In terms of shipbuilding it is not clear whether the bottom of the cycle has been reached. Based on the order book, a robust recovery is expected to begin in 2014, but the timing of this is still uncertain as previous forecasts had shown recovery beginning in 2013. The maintenance market in all parts of the Transportation segment is much more stable, but slower growing, as evidenced by the vehicle car park, an important contributor to vehicle repair market dynamics.

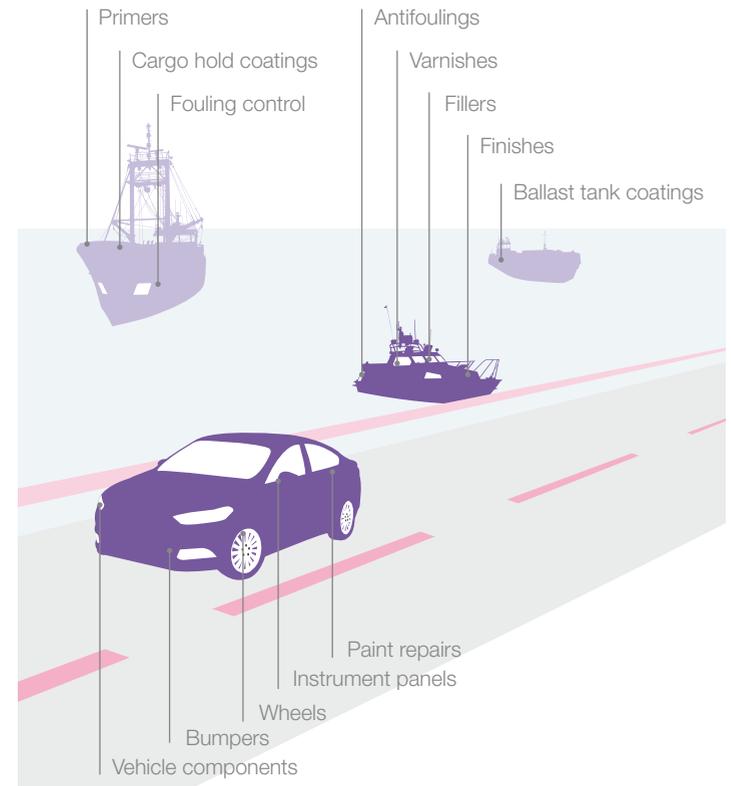
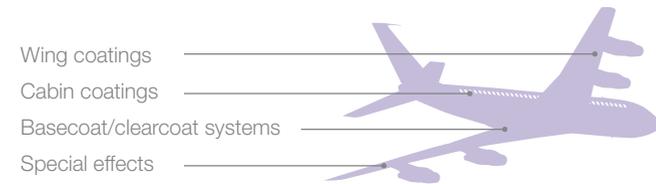
### Future sustainability developments

Reduced energy use in the manufacture and running of vehicles is clearly a major issue. Therefore, expected changes in the segment due to reduced energy use are considerable. According to the WBCSD's Vision 2050 report, 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 continues to shift, we need to continue to ensure that we are well-positioned geographically both in terms of supply and the decision-making process, which often takes place in other physical locations. We also need to have products with the right functionality, aesthetics and price level to consistently meet the requirements in this very demanding segment. This includes providing products that contribute to reduced energy use throughout the value chain.

### Where you can find some of our products:



<sup>1</sup> Source: IHS, January 2014.

<sup>2</sup> Source: Clarkson Research Services Limited, December 2013.

**This end-user segment covers durables such as consumer electronics, furniture and domestic appliances, as well as food and beverage, personal care and cleaning products. At 16 percent of revenue, it is one of our two smaller segments, to which we sell both coatings and chemicals.**

### Trends

There is a shift from mature to high growth regions. In some sectors (consumer electronics and domestic appliances), this has been so dramatic that production in high growth regions now outstrips the mature economies. In other sectors (furniture, food and beverage, personal

care), while growth in production and demand is higher in high growth areas, the main global production base remains in Europe and North America. Reasonable growth rates are expected in all sectors, but for some, such as consumer electronics, domestic appliance and personal care, growth rates are expected to be higher.

The geographic shift has changed demand patterns, with an emphasis in high growth markets on more affordable goods. But shifts in consumption are not restricted to high growth markets. Globally, there is evidence of the “vanishing middle”, with consumers buying either premium products or basic alternatives.

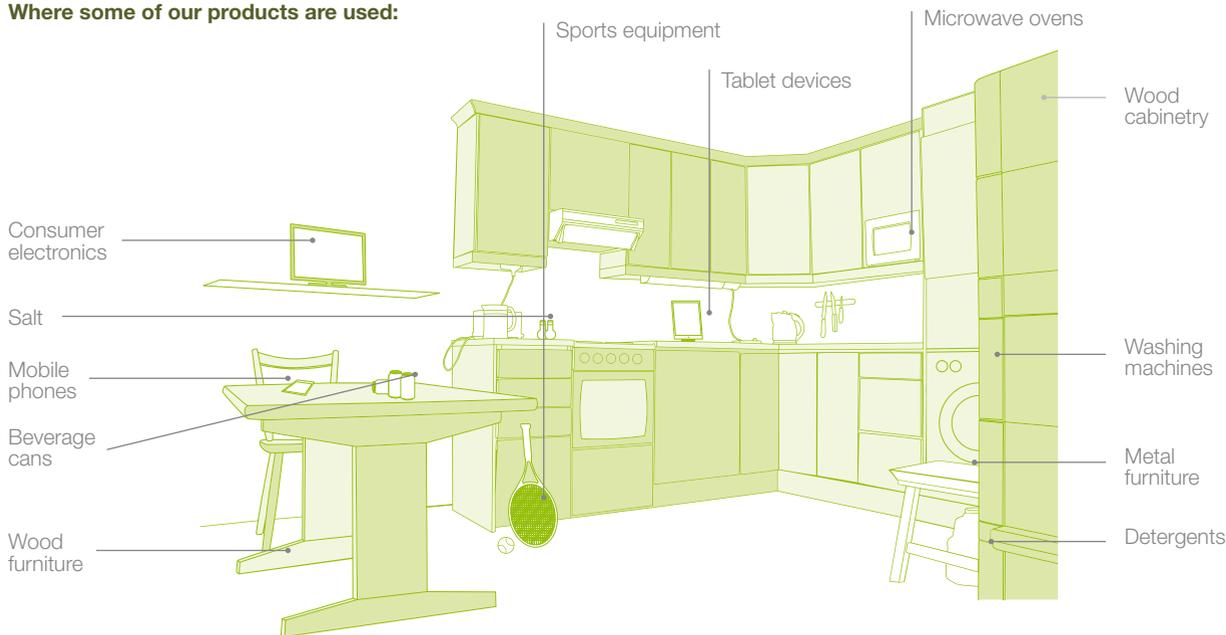
### Future sustainability developments

The WBCSD expects consumer durables to last longer, with package recycling being integrated into business models. By 2050, it is forecast people will only use five tons of non-renewable materials each, down from today’s 85 tons (US).

### Implications for strategy and actions

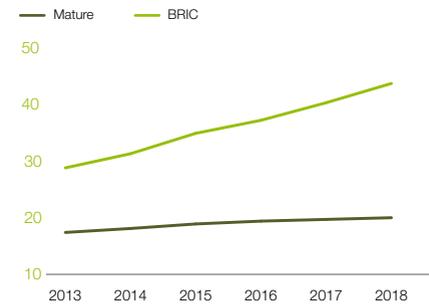
We need to optimize our design, sales, technical service and production to address the geographic shift, including building more capabilities in high growth areas and continuing to restructure in mature regions. We also need differentiated business models with appropriate value and cost trade-offs.

### Where some of our products are used:



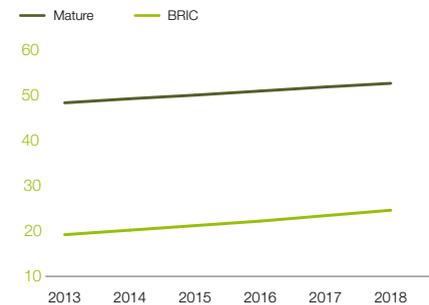
### Domestic appliance production<sup>1</sup>

\$ billion, value added



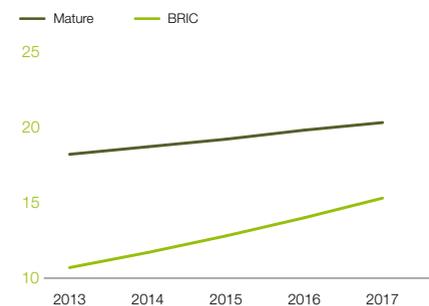
### Food and beverage production<sup>1</sup>

\$ billion, value added



### Personal care<sup>2</sup>

\$ billion, retail value

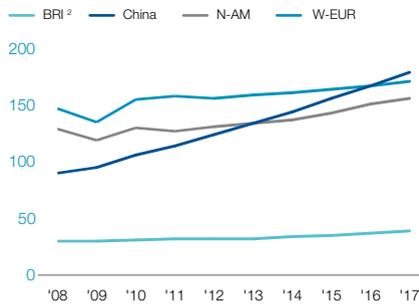


<sup>1</sup> Source: Oxford Economics, January 2014.

<sup>2</sup> Source: Euromonitor International, December 2013.

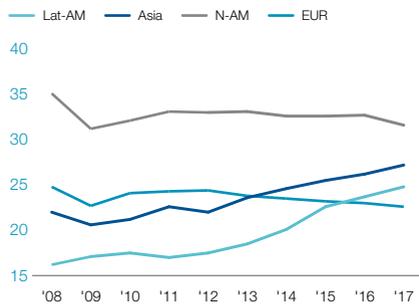
### Chemical production<sup>1</sup>

\$ billion, value added



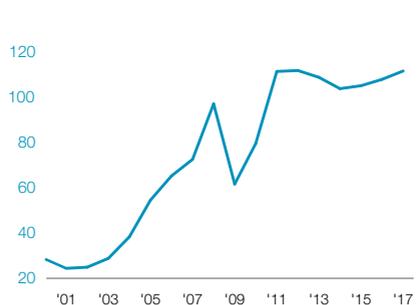
### Bleached chemical pulp production<sup>1</sup>

\$ billion, output



### Brent crude oil price<sup>3</sup>

\$ barrel



**This end-user segment covers production activities such as oil and gas, mining, agriculture and chemical and pulp manufacturing. It is our second largest segment, being 24 percent of revenue. We supply key chemicals for industrial processes and coatings.**

#### Trends

Many industrial markets are fairly cyclical, with some exceptions, such as pulp production. Most have recovered since the recession, partly because the downturn was muted by high growth market demand. For example the chemicals industry in Western Europe returned to peak levels in 2010 and has since grown at modest

rates, a trend we expect to continue. We also expect higher growth levels in North America, due partly to the impact of shale gas. China remains important, due to both production and demand growth, but these rates are moderating somewhat. Production growth in other high growth regions is forecast to be much lower, except in select markets such as bleached pulp production, where South America is key and growing rapidly. Growth in oil and gas should remain high due to high oil prices.

#### Future sustainability developments

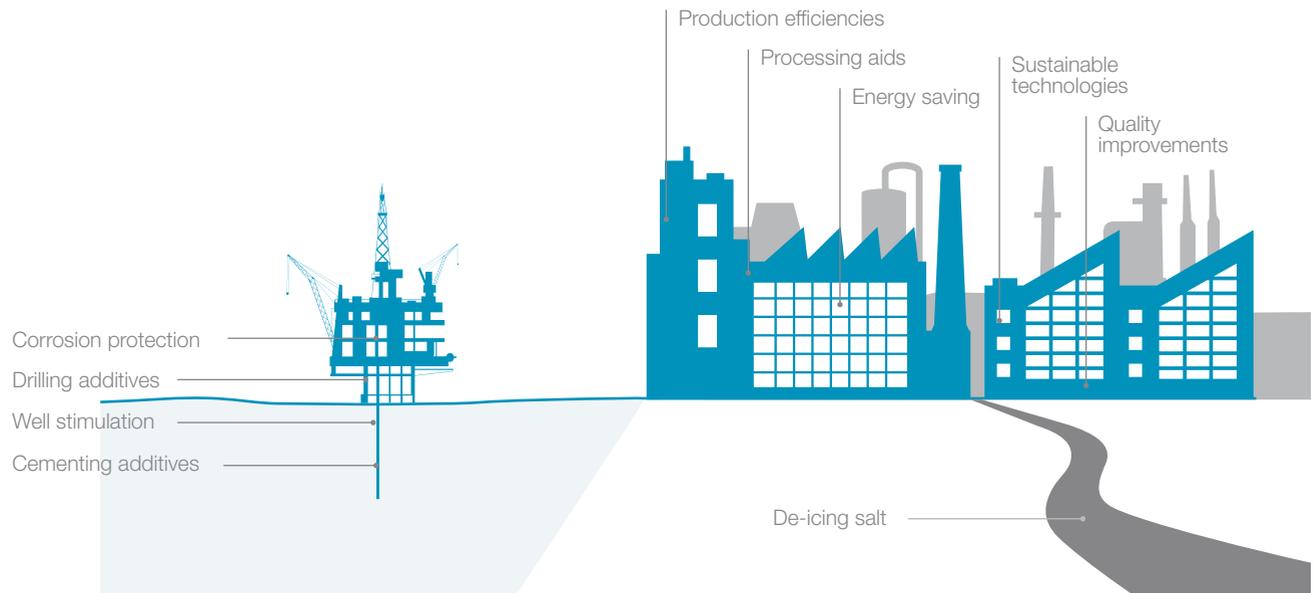
Sustainability continues to be a key driver. A major increase is expected in the eco-efficiency of resources and materials (four to ten times

improvement by 2050 according to the WBCSD). Increasingly, “closed loop” processes will lead to reductions in waste that goes to landfill.

#### Implications for strategy and actions

Globally, we need to continue improving productivity and innovation rates to remain competitive. We must also continue to optimize our manufacturing footprint in Europe (where growth is limited), capitalize on opportunities created by shale gas in North America and continue developing marketing and selling capabilities in China and other high growth markets to take advantage of higher growth rates.

#### Where some of our products are used:



<sup>1</sup> Source: Oxford Economics, January 2014.

<sup>2</sup> BRI: Brazil, Russia, India.

<sup>3</sup> Source: RISI, January 2014.

# Strategy and targets

## Our strategic targets

### Return on sales

Achieve return on sales (operating income/revenue) of 9 percent by 2015

### Return on investment

Achieve return on investment (operating income/average invested capital) of 14 percent by 2015

### Net debt/EBITDA

Maintain net debt/EBITDA lower than 2.0 by 2015

### Resource efficiency

Improve resource efficiency across the full value chain

### Carbon emissions

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

### Eco-premium solutions

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

## Planet Possible

We are fully aware that our future hinges on our ability to do radically more while using less. So in order to secure our own business success – and that of our customers – we have to create more value from fewer resources.

Some people think the planet won't be able to support nine billion people by 2050. But we do. Which is why we've adopted a sustainability approach geared towards accelerating the pace of our commitment.

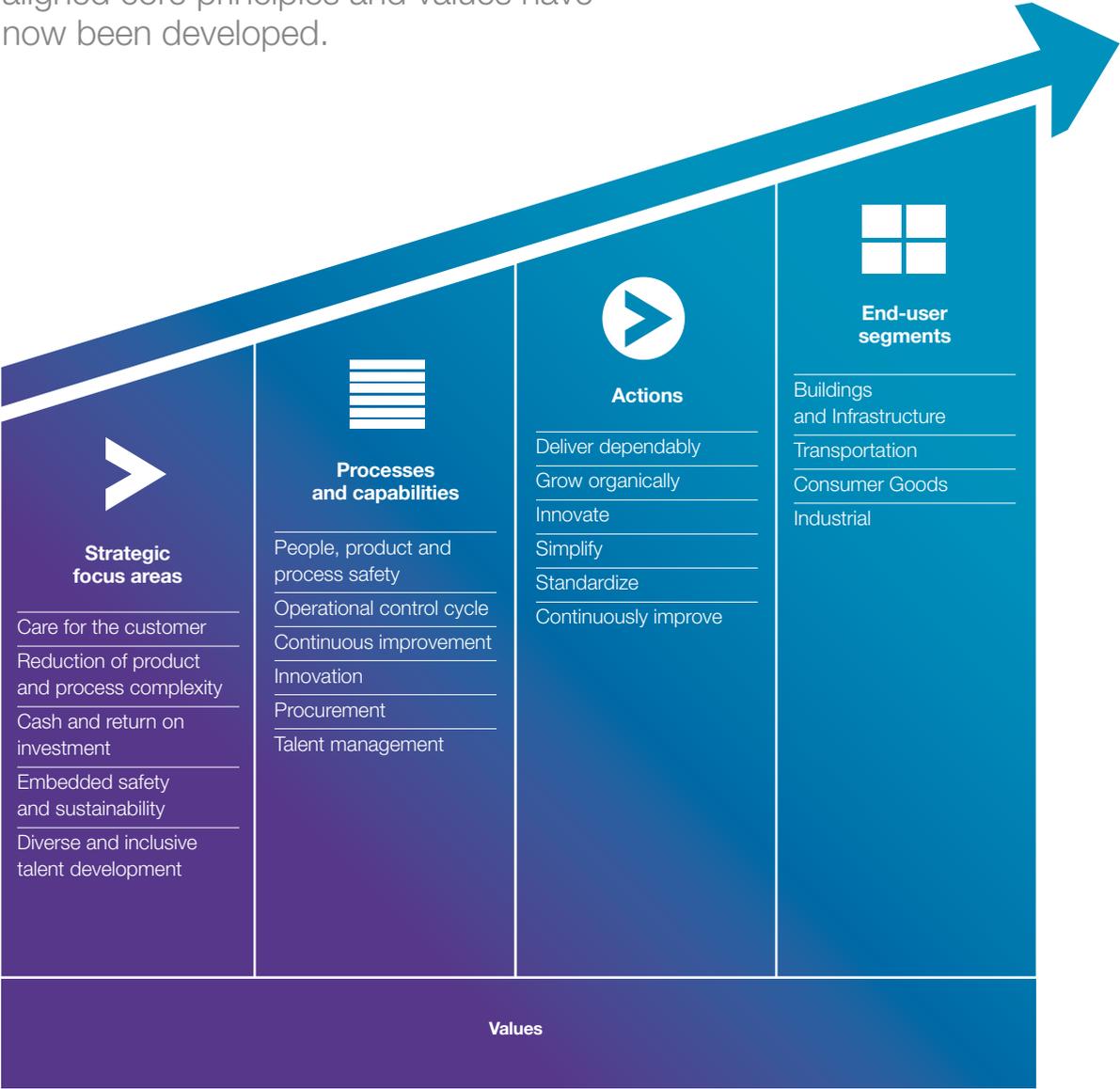
We are looking to proactively engage with partners who fully support our Planet Possible strategy and want to better understand the changes that will be required in our market segments in order to open up infinite possibilities in a finite world.

Because at AkzoNobel, we firmly believe that the planet being limited by resources doesn't mean our ambition and imagination have to be restricted as well. So we are committed to finding opportunities where there don't appear to be any.

Welcome to Planet Possible



In 2013, we announced a new vision, targets and strategy. Since then, it has been fine-tuned and cascaded throughout the company. Key enablers such as aligned core principles and values have now been developed.



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

## Strategic focus areas

We have identified five areas that we will focus on in terms of strategy development across the company. The following provides a brief description of what we have been doing and what we plan to do in each of them.

### Care for the customer

The starting point for market success has to be care for our customers. This incorporates understanding both the trends in the end-user segments that we serve and those in the needs-based customer segments, as well as developing appropriate product and service value propositions to serve these segments. All of this will help to ensure that we are able to develop and/or maintain our leading market positions.

However, if we are to achieve our vision of delivering leading performance from our leading market positions, we must go beyond value proposition development and create and utilize commercially excellent processes. For example, we have to manage our products and margins in a disciplined manner based on a deep understanding of the cost-to-serve our customers. We also need to develop and train our sales force to sell effectively and efficiently.

To ensure that our commercial excellence initiatives are fully attuned to our market sectors, we have decided to pursue these initiatives within each of our three Business Areas, based on an overarching company-wide framework. More information on specific implementation plans per Business Area can be found on the relevant pages within the Business performance section.

### Reduction of product and process complexity

Achieving leading performance means that we will need to have an appropriate cost position in all aspects of our business. To deliver this, we need to simplify and standardize our product portfolio and our business processes. We will deliver the former by implementing the product and margin management approach that has already been described. We will achieve the latter by implementing company-wide processes and Business Area level capabilities.

A key area of focus in process complexity reduction at the AkzoNobel level is in global business services. For functional support activities such as human resources, finance and information management, we are in the process of putting a three-pronged approach in place, with centers of excellence, business partners and regional shared service centers. This has already been carried out with some functions in certain parts of the world, leading to meaningful improvements in terms of effectiveness and efficiency.

Reducing product and process complexity will yield required benefits in terms of costs. But it should also yield additional benefits in terms of carbon footprint reduction and the management of priority substances. Because taking a more proactive approach to product and process management will involve evaluating and selecting the best formulations and approaches in terms of performance, as well as robustness from a sustainability perspective.

Examples of this include: (a) the introduction of raw material slates to reduce and rationalize the procurement of existing – and the introduction of new – raw materials used in the production of performance coatings and (b) the development of continuous reactive distillation processes for the production of specialty chemicals and coatings intermediates at lower cost and with significantly reduced production of waste.

### Cash and return on investment

In the past few years, we have not generated sufficient cash to fully fund our requirements and our return on investment has been too low given our cost of capital. Addressing this situation is fundamental to achieving our targets. In 2013, we significantly reduced our net debt by reducing our capital expenditures, lowering our operating working capital and through divestments. We also took a major step by successfully completing our performance improvement program a year ahead of schedule, but recognize that this is still not enough. We are in the process of creating a continuous improvement process for all parts of our company which will generate year-on-year cost savings to offset inflation and other increases.

A key contributor to a simultaneous improvement in costs, cash and return on investment will be taking a more differentiated and selective approach to investments. To facilitate this, we have thoroughly reviewed all our portfolios and carefully defined which market sectors we will be investing in, with a focus on organic growth, as well as defining where we need to focus more in terms of structural cost reductions.

We will also remain acutely aware of both the sustainability and financial consequences of our decisions. We are convinced that choosing sustainable solutions makes good business sense and that we can generate more value from fewer resources, whether these resources are monetary, people-based or raw material-based. Therefore, we will be even more rigorous in bringing sustainability into our investment decisions.

### **Embedded safety and sustainability**

In 2013, for the second year in a row, we were ranked top of the Dow Jones Sustainability Indices for the Materials industry group. We have now been in the top three in our sector for eight consecutive years. This is a record we are very proud of, and which we have achieved by being committed to the concept that we shouldn't make separate business and sustainability decisions. We also recognize that we cannot rest on our laurels, because we need to constantly look for the next level of development in our safety and sustainability agenda.

Building on our solid sustainability foundations, in 2013 we developed a new approach to sustainability based on input from all parts of the company, as well as from external stakeholders. We fundamentally believe that financial and sustainability performance are aligned and are therefore firmly committed to what we call Planet Possible. In the next generation of sustainability development, we believe that leadership will require a much stronger external focus. By tailoring solutions to customer and end-user needs, we will make sustainability profitable, both now and in the future.

There are four main components to this new sustainability strategy, which we refer to as our Planet Possible approach. They are:

- **Sustainable business**

We will create business value through products and solutions that provide both functionality and other sustainable benefits, as well as cost savings from operational efficiency. Overall, we will track our progress against this aspect of our strategy using a measure of eco-premium solutions with downstream benefits. These are solutions that generate direct resource, environmental and energy benefits for our customers, consumers and users

- **Resource efficiency**

We will accelerate resource efficiency improvements across the value chain. This includes yield improvements from manufacturing excellence and lowest imaginable cost formulations, as well as increased use of renewable materials and energy by our suppliers and in our own operations

- **Capable, engaged people**

We will continue to train and develop our people to their maximum potential and work hard to ensure that they remain highly motivated and committed to our future success

- **Maintaining strong existing foundations**

Based on a company-wide process, we will continue to improve in people, process and product safety. We will also maintain our integrity management processes (see Compliance and integrity management chapter) and our community involvement, facilitated by our AkzoNobel Community Program

### **Diverse and inclusive talent development**

If we are to deliver on our vision and ambitions, we need to ensure the active participation of a strong and motivated workforce, which reflects the diversity of the end-user segments we serve.

Therefore, we have to continue building our programs and processes in order to achieve substantially higher levels of employee engagement and diversity at various levels in the company. We will do this through focusing our resources on company-wide talent management that:

- Actively redresses the gender balance in our management layers and ensures that our management reflects our geographical presence
- Provides continuous learning and development opportunities at all levels of our organization
- Increases employee engagement

The new integrated Talent Management process, which was introduced in 2013, will bring increased objectivity to the identification of talent, a more targeted approach to the development of leadership potential and increased process transparency. This, when combined with the new skills-based curriculum offered to all employees via the AkzoNobel Academy, and the further alignment of learning and development with our strategy, will put us in a strong position to deliver leading performance over the coming years.

# Processes and capabilities

We believe that in order to make the required progress on our strategic focus areas, we must have a select set of company-wide core processes. Our intention is to develop, implement and embed processes that truly distinguish AkzoNobel. Our AkzoNobel Academy will be fundamental to ensuring that we deliver this. Each of these core processes is described briefly below.

## **People, product and process safety**

Safety comes first at AkzoNobel, both figuratively and literally. Our safety process includes:

- Assessing the safety culture, management systems and progress
- Identifying “at risk” behaviors, hazards and priority harmful substances
- Observing behaviors, developing hazard scenarios, scoring and notifying priority substances
- Analyzing behavior observations and assessing process safety and priority substance risks
- Removing barriers to safe behavior, managing process safety risks, restricting or prohibiting certain substances
- Driving continuous improvement

## **Operational Control Cycle**

The Operational Control Cycle is a connected cycle based on a continuous improvement approach. The objective is to drive operational performance and continuous improvement, align views on the outlook going forward and make and follow up on relevant operational decisions quickly. It starts with a CEO/CFO/BA cycle, but also includes BA/BU and CEO/Functional cycles and continues throughout the organization. This process has now been in place for more than a year and is already having a significant impact in terms of strategy implementation.

## **Continuous improvement**

Process standardization is fundamental to making improvements in our strategic focus areas. But this isn't enough for us to deliver on our vision of leading performance. We need to make step changes in some parts of our business, using expert-led projects to generate major improvements. Once these step changes have been achieved, we need to make incremental, ongoing improvements based on a continuous plan-do-review-act approach in all areas of the organization.

## **Innovation**

Given the nature of our business, which involves specialty products, innovation is very important to our success and we must have best practice innovation processes. We are developing processes that start with customer insight and incorporate structured ideation, selection and prioritization, and disciplined

execution through and beyond launch, utilizing a robust project management approach.

## **Procurement**

Raw material spend is a significant component of our cost base. There are also situations whereby the same company can be a supplier, competitor and customer of our businesses. Careful management of procurement process is therefore very important. These processes will be based on defining requirements guided by business strategy, a robust strategic sourcing process, disciplined key supplier management and an efficient purchase-to-pay operational process.

## **Talent management**

In order to deliver diverse and inclusive talent development, we must have one talent management process company-wide, which engages and motivates a high quality, diverse workforce. This talent management process includes:

- Planning for talent needs
- Developing and retaining talent
- Assessing performance and potential
- Identifying leaders through creation of a common leadership potential profile
- Deploying personnel based on solid succession planning and rich internal talent pools
- Strategic workforce planning
- Attracting, acquiring and on-boarding based on a clear employee value proposition

## 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. We will:

- Deliver dependably
- Grow organically
- Innovate
- Simplify
- Standardize
- Continuously improve

Since we announced these high level actions in early 2013, all functions and businesses within the company have been developing appropriate action plans, as evidenced in the Business performance section of this Report 2013.

## End-user segments

We are convinced that by prioritizing activities in our strategic focus areas, implementing our core processes and taking defined operational effectiveness actions based on our new values and behaviors, our internal approach will support delivery on our vision and targets. However, we will only achieve our vision if our internal approach is delivered successfully to the markets via our end-user segments.

To ensure that our action plans are appropriate for our end-user segments, we have initiated a disciplined ongoing approach to evaluating the outlook for our end-user segments and sub-segments based on external research and analysis. Profiles of the trends for these four end-user segments – Buildings and Infrastructure, Transportation, Consumer Goods and Industrial – are included earlier in this Strategy section.

## Core principles and values

Everyone at AkzoNobel is central to our strategy and its implementation. To enable the successful roll-out of our strategic agenda and, in turn, the achievement of our vision, we must be clear not only about what we will do, but also how we will do it. Through a process that involved individuals from across the company, we defined the following:

### Core principles

There are certain behaviors that we expect from all our employees under all circumstances. We call these non-negotiable behaviors, or core principles. We have defined three – Safety, Integrity and Sustainability.

### Values

- Customer focused – we build successful partnerships with our customers
- Deliver on commitments – we do what we say we will do
- Passion for excellence – we strive to be the best in everything we do, every day
- Winning together – we develop, share and use our personal strengths to win as a team

These principles and values have now been translated into 26 languages and we have defined a set of behavioral dos and don'ts so that all our employees around the world will understand what we expect from them. We are in the process of embedding these core principles and values into all of our processes, beginning with talent management.



## Doing more with less

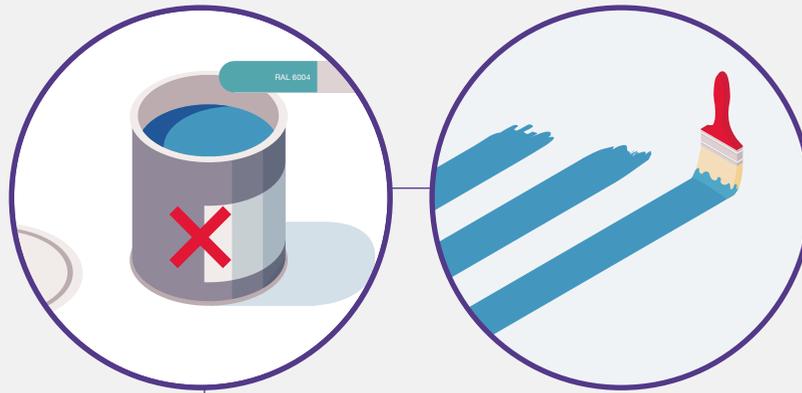
Manufacturing, by its very nature, can result in the loss of some raw materials during the various processes involved. Paints and coatings are no exception, with materials being generated that can't be sold as products to customers. This includes off-spec batches, quality control samples, powder fines and outdated stocks, as well as damaged goods that are returned to us.

In the past, these were often disposed of as waste, for example by incineration or landfill. But as part of our continuing efforts to radically reduce our waste streams, we've now found customers for these previously obsolete materials.

Representatives from our various paints and coatings businesses joined forces with specialists from supply chain, legal and our corporate departments to form a dedicated task force. Together, they developed contracts which made it possible for the company to sell what used to be regarded as waste for further use as low tier paints. This included making all the required documents available, such as safety data sheets and product codes.

Customers now use what we sell them as raw materials in their own processes and market products under their own brand names. Typical low tier products are water-borne and solvent-borne paints, as well as powder coatings. Audits are also carried out to ensure that our products are being legitimately applied for further use.

In 2013, 11,000 tons of paints and coatings were sold as a result of this initiative, saving AkzoNobel an estimated €4.5 million.



Material that can't be sold as products to customers includes off-spec batches, QC samples, powder fines and outdated stocks



# 11,000 tons

of paints and coatings containing our  
obsolete materials was sold in 2013



Estimated cost savings for AkzoNobel

# €4.5 million

# 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 foster a high awareness of business risks and internal control, geared to 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 Our leadership section).

#### **AkzoNobel risk management framework**

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

#### **Risk appetite**

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

- **Strategic:** In pursuing our strategic ambitions, we are prepared to take considerable risk related to 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 efforts are 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 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

#### **Risk management in 2013**

Enterprise Risk Management is a bottom-up process which provides full coverage of the organization and ensures that we focus on what we consider to be the areas of major risk exposure. The scoping of our 2013 risk management activities was performed by the Executive Committee, business unit Managing Directors and Corporate Directors, in association with the risk management function. Besides the focus on coverage of our organization, emphasis is put on organizational changes, key strategic projects and high growth regions.

In 2013, we facilitated 93 Enterprise Risk Management workshops. In these workshops, more than 2,000 unique risk scenarios were identified and prioritized by responsible management teams and functional experts. In addition, in selected areas with low risk tolerance, dedicated risk assessments were performed to preserve our risk appetite. All major risks were responded to by the unit that identified them. The outcome of all risk assessments was reported to the next higher management level. 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.

Risks we have seen materializing to a full or lesser extent in 2013 were in the area of extreme weather events impacting our operations (e.g. floods, storms, fires), soft trading conditions in general, adverse energy costs primarily in Europe, several HSE incidents, product claims and significant negative exchange rate fluctuations with a harmful impact on our financial results.

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

## Internal

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### Strategic

- Identification of major transforming technologies

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### Operational

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

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### Financial

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### Compliance

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## External

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### Strategic

- **Worsening of economic conditions**
- **International operations**

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### Operational

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

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### Financial

- **Cash flow**
- Retirement and healthcare benefits
- Decline of asset values
- Fluctuations in exchange rates

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### Compliance

- Complying with laws and regulations
-

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## Internal Strategic

### Identification of major transforming technologies

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

#### Risk corrective actions

The risk of missing relevant technology developments is mitigated in four ways. Firstly, we adequately support research and development with a spend of 2.6 percent of revenue (€373 million). Secondly, as defined in our core innovation process, our key projects have detailed technology roadmaps which assess relevant technology horizons and pathways to acquire and deploy new technologies. Thirdly, we have an established and managed global open innovation capability to identify, assess (as opportunities or threats) and acquire the most recent and promising emerging sciences and technologies. These technology platforms are used as an integral part of our ideation process, where we define technology and market opportunities. Finally, we have a Chief Scientist to advise and guide the Head of Supply Chain, Research and Development and the RD&I Leadership Team on diverse aspects of external research and to benchmark our own R&D capabilities.

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## Internal Operational – Top five risk

### Attraction and retention of talent

Successfully executing our strategy is, to a large extent, dependent on having the right people.

#### Risk corrective actions

Diverse and inclusive talent development was identified as a Strategic focus area in the 2013 Strategy review. Consequently, we have developed a new global process for integrated talent management. This focuses on the further professionalization of recruitment, a more rigorous approach to the identification and development of leadership potential and a more transparent approach to career development opportunities. In addition, as part of the overall performance improvement program, we have further developed the AkzoNobel Academy. This is focused on building functional capability across the company and developing a higher level of project and change management skills, as well as providing a platform for the sharing of best practices. We have also continued with the harmonization of key HR administration processes to provide efficient service and free up time for the business partnering that is crucial to helping us attract, develop and retain talented people.

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## Internal Operational

### Production process risks

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

#### Risk corrective actions

We continuously strive to improve our safety performance. Each year, we organize a company-wide Safety Day focusing on enforcing our TakeCare program. TakeCare is the umbrella for all existing and future safety initiatives at business and central level. Among other initiatives, this encompasses our Life-Saving Rules program, which includes a “golden principle” and eight basic safety rules that have been mandatory for all AkzoNobel employees and all our contractors since April 2013. We continue with our business continuity planning and have appropriate risk transfer arrangements in place. To help realize our 2015 safety target for total reportable injuries (TRR) of <2.0 incidents per million hours worked, we have increased management attention on people safety, as well as implementing enhanced process safety (such as asset integrity) and occupational health standards, and improving the HSE audit process. See Note 7-10 of the Sustainability statements for more information about our safety improvements.

#### Internal Operational – Top five risk

### Management of change

In order to implement our strategic agenda we are changing our operating model, which includes the setting up of a Global business services function. We are also undertaking various restructuring projects which require significant change, as well as stakeholder management and project management expertise. Failure to successfully execute these initiatives could lead to industrial action and, ultimately, to not achieving our strategic ambitions.

#### Risk corrective actions

In 2013, we introduced new Core Principles and Values which will set in motion the behavioral changes that will help to accelerate the implementation of our strategy. 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 and thrust from the top for the company's change agenda. Project management and change management are both included in the curriculum of the AkzoNobel Academy.

#### External Strategic – Top five risk

### Worsening of economic conditions

One of the principal uncertainties continues to be the development of the global economy, which remains fragile, and it is difficult to predict customer demand and raw material costs. Chronic fiscal imbalances may further adversely impact the global, regional or national economies in markets where we operate. AkzoNobel is susceptible to decreased growth rates within high growth markets and/or continued economic and market downturn in mature markets. The effects lead to a decline of demand and deteriorating financial results, thereby not realizing our financial targets.

#### Risk corrective actions

As a key element of our strategy, we are committed to bringing down our operational cost base and reducing complexity. This will be done through introducing and implementing standardized core functional processes in each region across the organization, helping to reduce operational costs, as well as making the company more agile and competitive. We are also continuing with our performance improvement programs in the three Business Areas and began a structured program of commercial excellence to offset the effects of decreasing economic growth rates.

#### External Strategic – Top five risk

### 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.

#### Risk corrective actions

We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Political, economic and legislative conditions are carefully monitored by responsible functions at corporate, Business Area and business unit level. The Executive Committee decides on all significant investments and the countries and industry segments in which AkzoNobel conducts its business. Country organizations are in place in order to mitigate country specific, but business generic risks.

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## External Operational

### Energy pricing and emission trading rights

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

#### **Risk corrective actions**

We will continue to analyze and review our competitive positions and we are proactively managing energy usage and costs. We operate several cogeneration units which enable us to make efficient use of combined heat and power. We are implementing our Carbon Policy and are working on energy efficiency programs. In addition, we are driving to diversify our energy source portfolio to reduce the amount of gas-based heat, for example by investing in energy from waste and biomass. Carbon management plans are closely monitored and strategically managed. We have policies for energy contracts and have long-term purchase contracts in place (see Note 23 of the Financial statements).

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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 new technologies and compounds.

#### **Risk corrective actions**

Quality improvement programs are in place in our different Business Areas. Improving our management of change procedures in this area is a joint responsibility for the RD&I, Supply Chain, Marketing and Procurement functions. In addition, product stewardship has been incorporated into the company's HSE and operational eco-efficiency agenda. Product stewardship is also integrated into product slate decisions in the Operational Excellence program. We also have a central policy to optimize insurance coverage which relates to specific insurance programs covering product liability.

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## External Operational

### Environmental liabilities

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

#### **Risk corrective actions**

We are committed to conducting all our activities in the safest and most responsible manner. We have a specialist group managing these issues. Contingency plans and assignment arrangements are in place to mitigate known risks and regular reviews are conducted to monitor progress and assess financial and reputational exposure. Our policy is to accrue and charge against earnings environmental clean-up costs, damages or indemnifications when it is probable that a liability has materialized and an amount can be estimated (see Note 20 of the Financial statements).

## External Operational

### Sourcing of raw materials

Prices for key raw materials can be volatile and are affected by economic conditions. The table on the right 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. Changes in product mix may adversely affect future results and growth. We are, to some extent, able to pass on higher input prices to our customers, but this largely depends on market conditions.

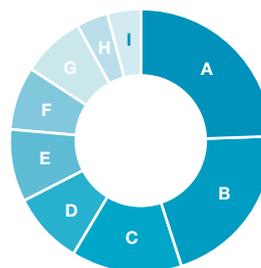
#### Risk corrective actions

In 2013, Procurement was selected as a company-wide core process. As part of this process, our strategic sourcing methodology includes the structural periodic review of all critical raw materials, aiming to bundle the purchasing power in both product related and non-product related requirements. We use our purchasing power and long-term supplier relationships to acquire raw materials and safeguard their constant delivery in a sustainable manner, to secure volumes and cooperate on innovation and sustainability. We have an inventory of single sourced raw materials and are actively pursuing plans to mitigate dependencies. We monitor markets in which we operate for opportunities and adapt our purchasing accordingly. We also monitor our critical value chains to understand the critical suppliers and markets of our suppliers. This enables us to signal risks and opportunities at an earlier stage.

The graph below shows the percentages of our €5.4 billion total spend in raw materials, excluding energy.

**Breakdown of total raw material spend** in %  
(excluding Decorative Paints North America, divested in April 2013)

A	Chemicals & intermediates	23
B	Resins	21
C	Additives	14
D	Solvents	9
E	Packaging	9
F	Titanium dioxide	8
G	Coatings specialties	8
H	Pigments	4
I	Other raw materials	4



## External Financial

### Retirement and healthcare benefits

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

#### Risk corrective actions

We practice proactive pension risk management. 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. Changes in the value of the assets or liabilities of these defined benefit schemes, and therefore their funded status, and investment and other decisions by their independent trustees, may require additional funding from the employing entities and may adversely impact our business and results. Additional funding may, in the case of the UK schemes, also result from decisions by the UK Pension Regulator or, in certain cases, by the scheme actuary and trustee, subject to the powers of the UK Pensions Regulator. In each case, additional funding may adversely affect our business and results. We are committed to further de-risking over time. For more information about our post-retirement benefit provisions, see Note 15 of the Financial statements.

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## External Financial

### Fluctuations in exchange rates

Exchange rate fluctuations can have a harmful impact on our financial results, as experienced in 2013. We have operations in more than 80 countries and report in euros. We are particularly sensitive to the relation between the euro and US dollar, pound sterling, Swedish krona and Latin American and Asian currencies.

#### Risk corrective actions

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

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## External Financial

### Decline of asset values

Impairments and book losses could adversely affect our financial results.

#### Risk corrective actions

The Executive Committee continuously monitors acquisition and divestment opportunities and the management of assets held for sale. We do impairment tests for intangibles with indefinite lives (goodwill, some brands) every year and whenever an impairment trigger exists. For tangibles and other fixed assets, we do impairment tests whenever an impairment trigger exists (see Notes 7 and 8 of the Financial statements).

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## External Financial – Top five risk

### Cash flow

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

#### Risk corrective actions

Our balance sheet and debt profile are strong. We have a long-term senior unsecured debt rating of BBB+ by Standard & Poor's and Baa1 by Moody's. We are committed to maintaining a strong investment grade rating. Regular review meetings are held between rating agencies and AkzoNobel senior management. We will engage in restructuring of underperforming parts of our portfolio if deemed strategically appropriate. We have a prudent financing strategy and a strict cash management policy, which are governed by our centralized treasury function (see Note 23 of the Financial statements). Focus on cash management is stressed in our monthly Operational Control Cycle meetings and relevant metrics are included in our updated remuneration policies.

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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.

#### Risk corrective actions

We are monitoring and adapting to significant and rapid changes in the legal systems, regulatory controls, customs and practices in the countries in which we operate. These affect a wide range of areas including competition law, anti-bribery and export control and sanctions. We are dedicated to minimizing our compliance risk with special emphasis on the application of our Code of Conduct. We advertise the use of our company-wide complaints procedure called SpeakUp!, which enables all our employees to report irregularities in relation to our Code of Conduct. We provide mandatory training regarding the code to all employees and additional mandatory training regarding specific relevant subjects to selected employees. We monitor compliance through our comprehensive annual non-financial letter of representation process, as well as our annual competition law compliance declaration (see the Governance and compliance section).



# Business performance

The following chapter gives a detailed summary of progress on our main strategic targets and other key performance indicators, as well as looking at how each of our Business Areas performed during 2013. Information on market characteristics is also provided.

Overall strategic progress	32
Decorative Paints	38
Performance Coatings	48
Specialty Chemicals	60

# 2013 performance

## Strategic targets

### Return on sales

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. For operating income 2012, the goodwill impairment is excluded.

- The ROS target is 9.0 percent by 2015
- ROS for 2013 was 6.6 percent (2012: 5.9 percent)
- Operating income includes net incidental gains of €61 million and €348 million restructuring costs (2012: €292 million)
- ROS pre-restructuring costs and incidentals increased from 8.2 percent to 8.5 percent
- Both revenue and operating income were affected by adverse currency effects and divestments

### Return on investment

We use return on investment (ROI) as a performance indicator to reflect profitability 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. For operating income 2012, the goodwill impairment is excluded.

- The ROI target is 14.0 percent by 2015
- ROI for 2013 was 9.6 percent (2012: 7.7 percent or 8.9 percent if the impairment in Decorative Paints was excluded from invested capital for the full year)
- ROI pre-restructuring costs and incidentals increased from 10.7 percent in 2012 to 12.4 percent in 2013
- Invested capital was €0.8 billion lower than in 2012 due to working capital management, foreign currency translation and a transfer of some businesses and assets to assets held for sale

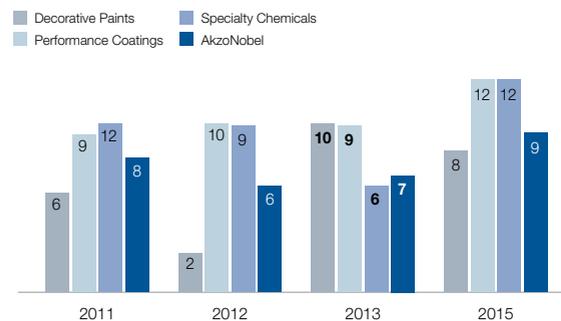
### Net debt/EBITDA

Net debt/EBITDA reflects our strategy to maintain a solid investment grade.

- The net debt/EBITDA target is <2.0 times
- At year-end 2013, this ratio was 1.0 (2012: 1.4)
- Net debt was down €769 million due to the net effect of cash from operating activities, divestments, capital expenditures and dividend payments
- EBITDA was €1,513 million (2012: €1,597 million) due to higher restructuring costs and adverse currency effects. EBITDA does not include any incidental results

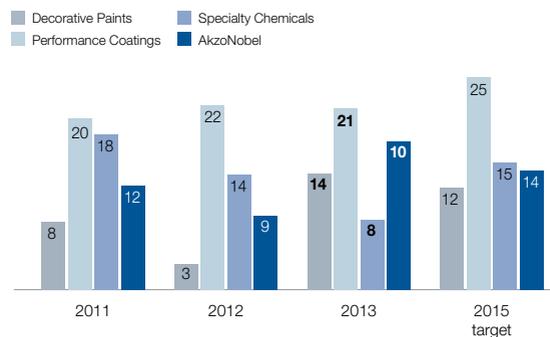
### Return on sales (ROS) development

Operating income in % of revenue



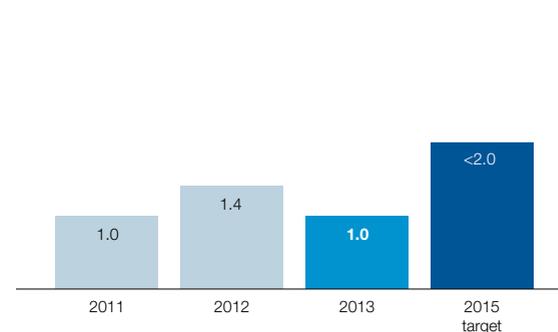
### Return on investment (ROI) development

Operating income/average invested capital in %



### Net debt/EBITDA

Ratio

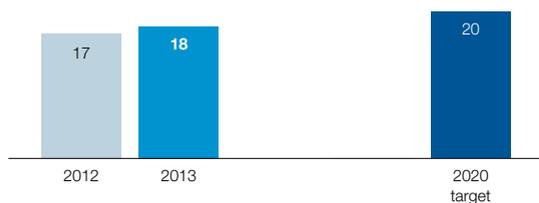


### Eco-premium solutions with customer benefits

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.

- Eco-premium solutions stimulate top line and bottom line growth opportunities
- In 2013, revenue from eco-premium products and services with downstream benefits totaled €2.7 billion, or 18 percent of total revenue
- It may appear that we are already close to realizing our 2020 target of 20 percent of revenue. However since this eco-premium solution metric compares our products and solutions with the mainstream in the market, our progress will be impacted by improvements in competitor offerings and changes in legislation

### Eco-premium solutions with customer benefits in % of revenue



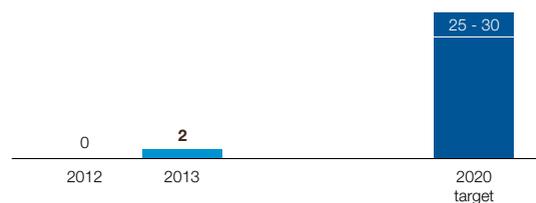
For more details see Sustainability statements Note 4.

### 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.

- This year indicates a total footprint of around 27 million tons of CO<sub>2</sub>(e) and a reduction of CO<sub>2</sub>(e) per ton of sold product of 2 percent
- The reduction derives mainly from reformulations and higher sales of lower impact paints, and from power consumption with lower carbon footprint impact in some facilities
- Other changes in product mix and higher production volumes in facilities with a less favorable energy mix have limited the impact of these improvements

### 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 (REI)

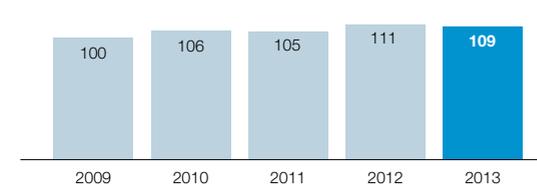
In the chemicals industry, sustained business success will require product and process innovations that generate much more added value from each unit of raw materials and energy used across the value chain – be it with our suppliers, in our own operations or with the users of our products.

The Resource Efficiency Index is defined as gross profit (or gross margin) divided by cradle-to-grave carbon footprint – reported as an index. Our aim is to use this metric to drive further improvements in resource efficiency across the value chain.

We are reporting for the first time in 2013. A review of our performance over the past five years reveals a gradually increasing trend. Contributory factors include:

- 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

### Resource Efficiency Index gross profit/CO<sub>2</sub>(e) indexed



For more details see Sustainability statements Value chain section.

# 2013 performance

## Other indicators

### Financial overview

2013 revenue was down 5 percent, mainly due to adverse currency effects and divestments. Operating income was €958 million and included €61 million incidental results. Excluding these, operating income was €897 million (2012: €908 million excluding impairment). Net debt was €769 million lower at €1,529 million (2012: €2,298 million). The performance improvement program exceeded targets and has now successfully been completed, one year ahead of schedule.

### Summary of financial outcomes

In € millions	2012	2013	Δ%
Revenue	15,390	14,590	(5)
Operating income	908 <sup>1</sup>	958	6
ROS%	5.9	6.6	
Invested capital	10,062	9,281	
ROI%	7.7 <sup>2</sup>	9.6	
EBITDA	1,597	1,513	(5)
Capital expenditures	826	666	
Net cash from operating activities	737	716	(3)
Net debt	2,298	1,529	
Net income attributable to shareholders	(2,092)	724	
Earnings per share from total operations (in €)	(8.82)	3.00	
Adjusted earnings per share (in €)	2.55	2.62	
Number of employees	50,610	49,560	

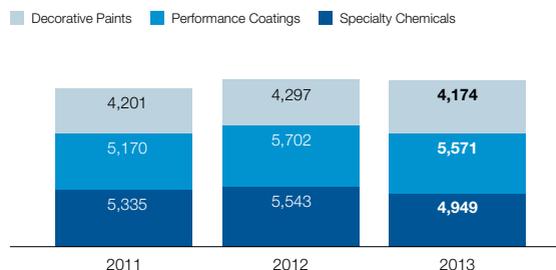
<sup>1</sup> The goodwill impairment in 2012 numbers is excluded from operating income to present comparable financial outcomes.

<sup>2</sup> With impairment of Decorative Paints excluded from invested capital for the full year: 8.9 percent.

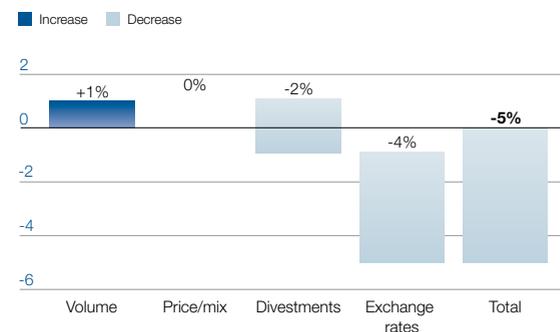
### Revenue

- Revenue in Decorative Paints declined 3 percent compared with 2012 due to adverse currency effects and divestments. Volumes were up 3 percent for the year with increases in all regions except Europe, which was flat overall, reflecting the difficult trading conditions
- Revenue in Performance Coatings declined 2 percent compared with the previous year, due to adverse currencies and overall flat volumes, but with continued variability between individual segments. Volumes were down at the start of the year compared with 2012 – reflecting the difficult trading conditions – but gradually improved
- It was a year of continued soft demand for Specialty Chemicals, with low activity being particularly evident in construction-related products, pulp bleaching and the plastics industries. In addition to the general slowdown in demand, we had new plant start-ups and extended maintenance stops earlier in the year, which impacted production temporarily

### Revenue in € millions



### Revenue development in % versus 2012



### Divestments

During 2013, several divestments were concluded:

- The divestment of Decorative Paints North America. This business was reported as a discontinued operation. The divestment resulted in a gain of €141 million and cash inflows of €779 million
- The divestment of Building Adhesives was completed on October 1, 2013, resulting in a gain of €198 million and cash inflows of €247 million

In addition, we concluded smaller divestments, such as the Primary Amides and Purate businesses, and agreed to sell the German stores in Decorative Paints in 2014. In 2012, Chemicals Pakistan was divested.

## Operating income

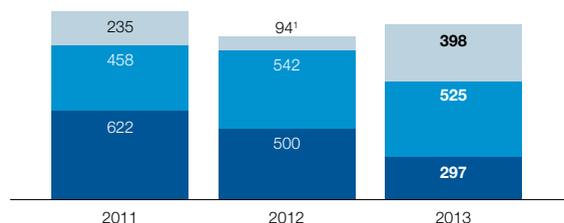
- Decorative Paints' results include the gain of €198 million on the divestment of Building Adhesives. Margins improved due to margin management and lower raw material prices. Performance improvement programs and restructuring measures have lowered the cost base. Restructuring charges were below 2012
- In Performance Coatings, margins were stable despite higher restructuring costs
- Specialty Chemicals' results include a non-cash impairment charge of €139 million on a business held for sale. Focus on cost control and margin management was maintained in all businesses, with a comprehensive performance improvement program being implemented at Functional Chemicals

Full-year average raw material costs were down, having stabilized during the year.

The performance improvement program announced in October 2011 has exceeded targets and achieved €545 million in EBITDA for the period 2011 through 2013. This successfully completes the performance improvement program a year ahead of schedule. Further efficiency and cost reduction measures have been identified as part of continuous improvement initiatives which are integrated in the regular business activities. Full-year restructuring costs were €348 million (2012: €292 million).

## Operating income in € millions

■ Decorative Paints ■ Performance Coatings ■ Specialty Chemicals



<sup>1</sup> Excluding goodwill impairment.

## Invested capital

Invested capital at year-end 2013 totaled €9.3 billion, €0.8 billion lower than at year-end 2012. Invested capital was mainly impacted by the net effect of:

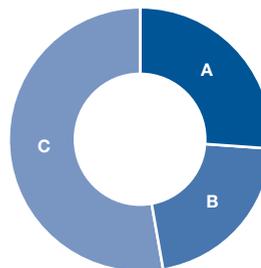
- A decrease of operating working capital of €0.2 billion due to working capital management. Expressed as a percentage of revenue, operating working capital was 9.9 percent (year-end 2012: 10.7 percent)
- A decrease of €0.4 billion due to foreign currency translation, caused by the stronger euro
- Qualifying certain businesses and assets as assets held for sale

We are prioritizing our investments given the weak recovery of the markets and our focus on cash and return on investment. We therefore expect our 2014 capital expenditures to be in line with 2013, of which 40-50 percent is related to growth.

## Capital expenditure 2013

100% = €666 million (4.6% of revenue)

A Decorative Paints	26
B Performance Coatings	22
C Specialty Chemicals	52



## Net debt and cash flows

Operating activities in 2013 resulted in cash inflows of €716 million (2012: €737 million). The change is the net impact of higher operating income (excluding impairment) and lower cash outflow from provisions, partly offset by lower inflow from working capital, as 2012 had an exceptional impact.

Net debt decreased from €2,298 million at year-end 2012 to €1,529 million at year-end 2013 as a consequence of the net impact of:

- Cash inflows from divestments (€313 million) and discontinued operations (€675 million)
- Cash inflows from operating activities of €716 million
- Capital expenditures of €666 million
- Dividend payments of €286 million (€210 million to shareholders and €76 million to non-controlling interests)

We have set a cap on the ratio of net debt/EBITDA of 2.0. Currently that ratio is 1.0. Our strategy is to maintain a solid investment grade.

## Safety

A company-wide HSE platform established common improvement programs in people, process and product safety. We aim to differentiate ourselves by our thoroughness in embedding best practice safety processes in all our operations, using common approaches and systems.

- We achieved significant progress in total reportable injury rate towards our target of <2.0 by 2015
- We implemented our new Life-Saving Rules as part of a global TakeCare behavioral safety program
- We enhanced the stringency of our behavior-based safety program – more than 96 percent of our manufacturing sites are already consistent with the higher standards
- We refocused the process safety aspect of our HSE self-assessment program in order to make improvements at high hazard sites

## Workforce

At year-end 2013, our workforce totaled 49,560 employees (year-end 2012: 50,610 employees). The net decrease was due to:

- Divestments, affecting 440 employees
- A decrease of 1,740 employees due to ongoing restructuring
- An increase of 1,130 employees due to new hires, mainly in high growth markets

We accelerated restructuring activities during 2013 and will continue to significantly restructure our businesses in 2014 to reduce our cost base. These programs will run globally, with a focus on mature markets.

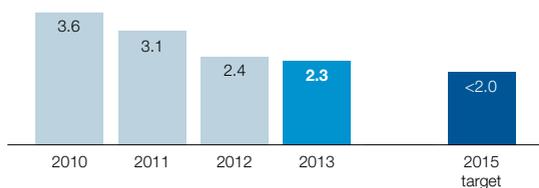
## Dividend

Our dividend policy is to pay a stable to rising dividend. We will propose a 2013 final dividend of €1.12 per share, which would make a total 2013 dividend of €1.45 (2012: €1.45) per share. There will be a stock dividend option with cash dividend as default.

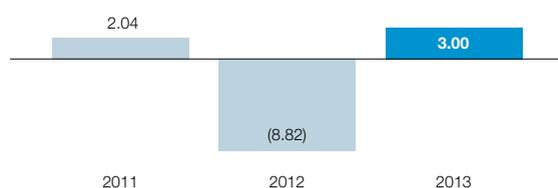
## Outlook

Although we saw early signs of stabilization in the second half of 2013 in some of our businesses, the economic environment remains fragile and foreign currencies volatile. We will continue to significantly restructure our businesses in 2014 to reduce our cost base further to offset the expected continued weak recovery. The company is on track to achieve its strategic targets for 2015.

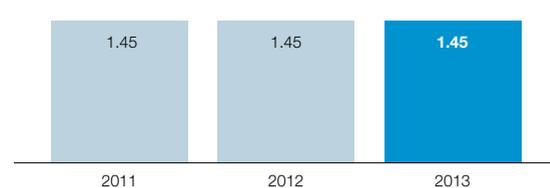
**Employee and supervised contractors total reportable injuries** injury rate



**Earnings per share (EPS) total operations** in €



**Dividend** in €





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### Putting more wind in our sails

One of the key aims of our Planet Possible approach to sustainability (doing more with less) is to reduce our reliance on fossil fuels. Not only will this have environmental benefits, but it will also reduce our dependency on fossil fuel markets and carbon pricing.

A renewable energy supply strategy is now in place, which includes participating in large-scale energy ventures and exploring on-site renewable energy generation.

One business that has been particularly active is Pulp and Performance Chemicals – which has the largest share of renewable energy in our existing portfolio. Around 60 percent of the business' operations already run on renewable power, which could rise to 80 percent by 2020. However, as is the case throughout the company, this will need to be achieved in a cost-effective manner, supporting our other business goals.

One of many ongoing projects is based in the Nordics, where the company is part-owner of the VindIn consortium, which has been set up to produce renewable energy competitively. VindIn already has 35 wind turbines in operation, with more to come over the next few years. The target is to generate 1,000 GWh annually.

So far, VindIn has made substantial progress in Sweden, where two wind farms are in operation and seven more are under development. A further seven projects are also being worked on in Finland.

## How Decorative Paints creates value

As a leading global supplier of decorative paints, our brands are crucial to our success. Our activities are fully focused on the Buildings and Infrastructure end-user segment, serving the do-it-yourself market and professional painters.

Our innovation is geared towards low energy processes, with a strong emphasis on reducing our upstream supply chain impact by changing formulations to water-borne 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.



Employees **16,200**



Employee engagement score (1-5 scale) **3.93**

Total reportable rate of injuries **1.9**

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

Total waste **39 kilotons**

### Asset value

The value of our assets is €4.3 billion. We invested €171 million in 2013 to keep our facilities in good shape, as well as expanding our manufacturing capability.

### Human value

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

### Environmental value

We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

### Innovation value

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



### Customer value

In 2013 we sold to many thousands of customers. We continue to improve our customer focus and develop products and solutions that help them to be successful in their markets.

### Financial value

ROS% at 9.5 percent includes the divestment gain on Building Adhesives of €198 million. Excluding this gain, ROS% is 4.8 percent. ROI% excluding this gain is 6.9 percent.

Revenue  
**€4,174 million**

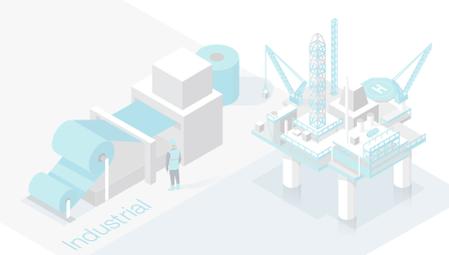
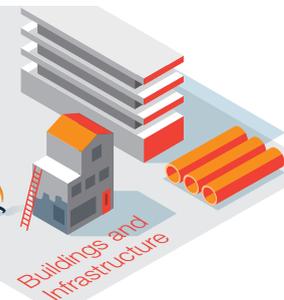
Operating income  
**€398 million**  
including €198 million gain on Building Adhesives

### Community value

We participate in community programs, education programs and local sponsorships. Via our "Let's Colour" program, we improved around six million lives in 2013.



Revenue per end-user segment:  
A 100% Buildings and Infrastructure



# Decorative Paints



From left to right: Peter van Campen, Jeremy Rowe, Jan-Piet van Kesteren, Liang Qi Lin, Ruud Joosten, Amit Jain, Jaap Kuiper, Kees Ekelmans, Guy Williams.

**“We are taking decisive action to streamline our product range, reduce complexity and become more competitive”**

#### **Ruud Joosten**

Member of the Executive Committee responsible for Decorative Paints

Our Decorative Paints activities had a positive year, outperforming 2012 by some distance, despite continued market weakness, unfavorable exchange rates and the impact of further restructuring costs.

China in particular had a very strong year, while South East Asia and Pacific showed signs of recovery and Latin America started to pick up again. Europe, however, remained challenging, with no real recovery being evident during the course of the year. Most of the gains in the region were generated through cost-cutting, working capital management and margin improvement initiatives, although the UK and notably Russia performed very well.

Given the strategic importance of Europe to our Deco activities, we are taking decisive action to streamline our product range and operations, reduce complexity and become more competitive. This was highlighted by the sale in December of our German professional paint stores, which will enable

us to sharpen our distribution focus and concentrate on strengthening our efficiency and profitability in Germany. We have also been taking steps to optimize our activities in France by improving the stores network that we have there, further contributing to the company's performance improvement ambitions.

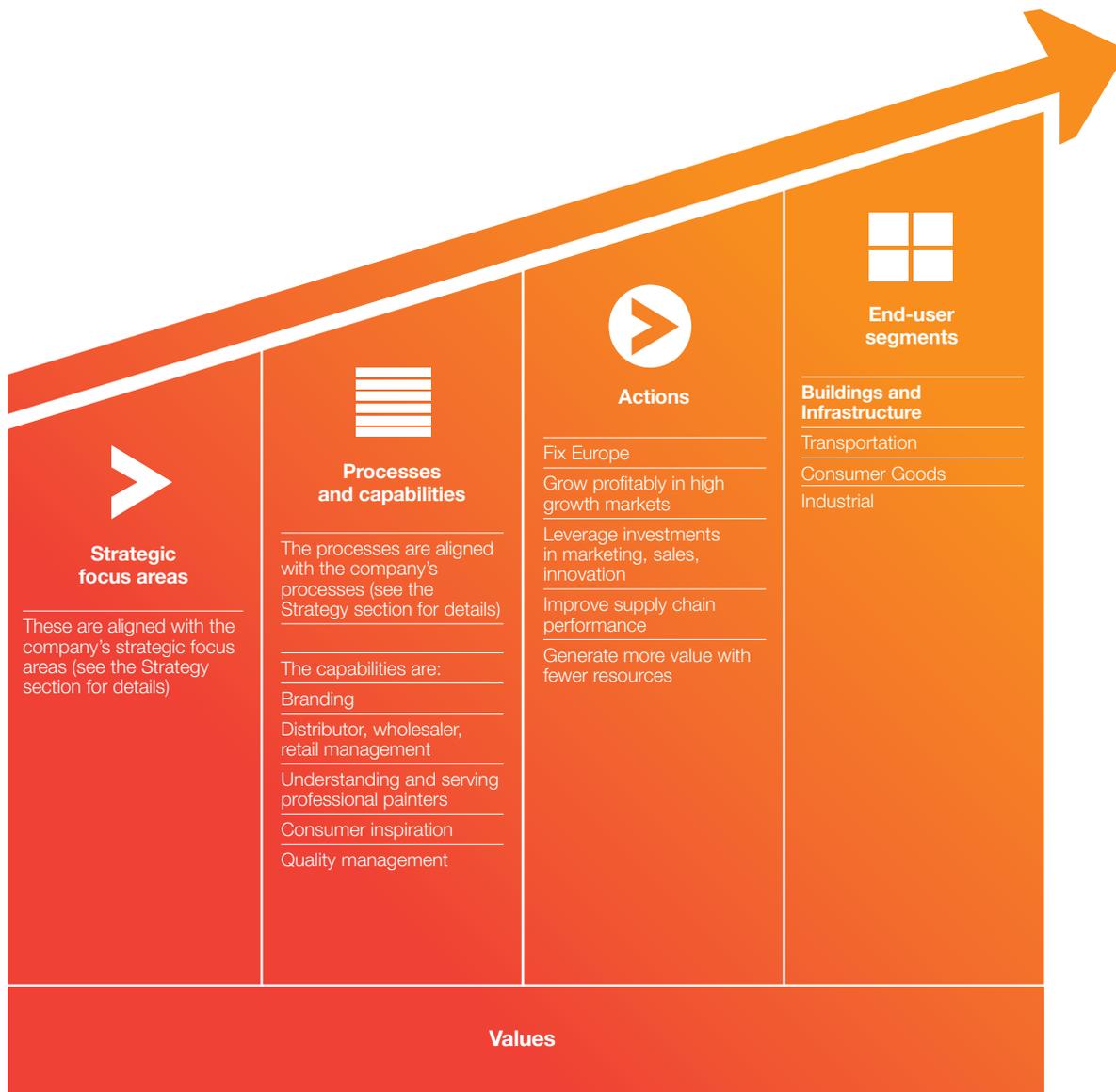
Another key divestment completed in 2013 involved our Building Adhesives business, which was sold following a strategic review of its fit within our portfolio. The sale was announced a few months after we finalized the €0.8 billion divestment of our North American Decorative Paints business. Our focus now is on continuing to improve the performance of our European activities and accelerating profitable growth in high growth markets such as Asia and Latin America. We have already made good progress in simplifying the organization – including the introduction of an enhanced leadership structure – and plan to implement a new business model for Europe which will make us more agile and better positioned to increase market penetration.

We also continued to invest throughout 2013, which proves that we're taking a long-term view – in Europe as well as the high growth markets. A new €20 million plant was inaugurated in Gwalior, India, and we announced plans to build a production facility in Chengdu, China, which will start-up in 2015. In addition, a new research center was opened in the Netherlands, while construction work is continuing at Ashington

in the UK, where we are developing a world class decorative paints site. Scheduled to open in 2015, it will feature our award-winning system for harvesting rainwater, which will significantly reduce annual fresh water usage. In addition, the global brand identity roll-out continued to make strong progress and our “Let's Colour” campaign gathered further momentum across the world.

Our focus on innovation was also stepped up, particularly with regards to the development of eco-premium solutions that benefit the customer. In 2013, these generated 27 percent of revenue, supported by several new product launches across the globe. Another notable achievement in the area of sustainability saw us reduce cradle-to-grave carbon emissions per ton of product sold for the third consecutive year – this year by 3 percent. Safety performance was noteworthy as well. The TRR was below the company's 2015 target of 2.0 (down from 3.5 in 2011) something we should be particularly proud of, although we'll look to improve even further.

With an improved 2013 performance to build on, we will continue to address our cost base and target profitable growth. At the same time, we'll be working even harder to develop bigger and better sustainable innovations for our customers in order to create a leading Deco organization which is fully focused on achieving the company's strategic targets.



Vision:

**The leading global Decorative Paints company in size and performance**

Decorative Paints expected 2015 financial outcomes:

Return on sales: 7.5%

Return on investment: 12%

# Decorative paints market overview

## End-user segment strategy context

Decorative paints makes up just under half of the world market for paints and coatings. All revenue generated by the decorative paints industry stems from the Buildings and Infrastructure end-user segment. This segment was hit hard by the recent recession and still hasn't fully recovered globally.

## Market leadership positions

Decorative Paints Europe

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

Decorative Paints Latin America

<b>2nd</b>	Latin America
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Decorative Paints Asia

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

## Buildings and Infrastructure

Decorative paints are primarily used in two sub-segments within Buildings and Infrastructure – Maintenance, renovation and repair and New build projects. We estimate that a substantial part of our revenue (around 75 percent) is derived from the former, rather than the latter. Maintenance, renovation and repair is less cyclical than New build projects, but also has generally lower growth over the full cycle. More context on each of these two sub-segments follows.

## New build projects

Badly affected by the recent economic downturn, this segment is beginning to regain momentum in many countries. There has already been a return to growth in the high growth geographies. Given our strength in many of these regions, this is a very positive development from an AkzoNobel perspective. However, we expect that growth going forward will be at lower, or even much lower, levels than we have seen previously, particularly in China. In mature markets relevant for AkzoNobel, some slight recovery is visible in Europe, but the picture remains uncertain.

## Maintenance, renovation and repair

Looking ahead, predictions are for double digit growth in Maintenance, renovation and repair in high growth markets, but with reduced growth rates in some other key markets, such as China and Brazil. In mature regions, we already see a limited return to growth, evidenced by increased housing transactions and house prices, notably in the UK, one of our key European markets.

## Strategic direction

Already the global leader in terms of size, our vision is to become the leading global decorative paints company in size and performance. We are strongly focused on improving our performance to achieve return on sales of 7.5 percent and return on investment of more than 12 percent by 2015.

Key to our success in achieving this vision of leading size and performance is the implementation of a new operating model. This will be based on a simplified organization with standardized and simplified processes, functional excellence and optimized ways of working. It will be underpinned by clear accountability and a harmonized set of key performance indicators.

We are nearing completion of our work to carefully map out our new model and the processes that support it, as well as identifying responsibilities and developing a set of indices to allow us to measure and monitor improvement versus expectations. We have established a program management office to maximize the likelihood of successful delivery on all of the key components of our strategy, as outlined below.

Beyond the implementation of our new organizational model, the actions we are taking to deliver on these targets are to fix Europe; grow profitably in high growth markets; leverage investments in marketing, sales and innovation; and improve supply chain performance. Here is a brief look at what we accomplished in 2013 and what we are planning for 2014.

### **Fix Europe**

We successfully implemented considerable restructuring-based cost improvements from 2008 to 2012. However, given the substantial market downturn, these measures are no longer sufficient, so we are taking more stringent and comprehensive measures to reduce costs and prepare ourselves for the future.

We continue to consolidate our manufacturing and distribution footprint, but our supply chain is only the starting point. We are also undertaking significant organizational changes in marketing and sales in Europe and reducing the cost base, while ensuring that our customer-facing teams are better equipped to focus on addressing the needs of local customers by using efficient platforms and solutions. In addition, we are carrying out a major program of process redesign in back office functions to drive back office consolidation and restructuring.

While we align our cost base to the new market reality, we are also maintaining a strong focus on our customers and markets. This includes further building on one of our traditional strengths – understanding and serving professional painters – as well as consolidating our strong position in large-scale retail operations and continuing to build a robust approach to digital marketing. Once growth returns, we believe that the combination of rigorous efficiency improvement and these market-facing initiatives will mean that we are uniquely positioned for profitable growth.

### **Grow profitably in high growth markets**

We are proud of our strong positions in many high growth markets, such as China, Brazil, Indonesia, Turkey, Vietnam, Poland and South Africa. We continued to invest in 2013 and plan to grow further in 2014, and are seeing the benefits of this in terms of top line growth.

However, with lower growth rates predicted in high growth geographies, we must also ensure that all of our growth is profitable growth. Central to this will be the success we achieve in the mid-market. Our high growth market positions are generally based on the premium sector, so mid-market growth is a key component of our strategy. In order to deliver this growth profitably, we must ensure that we have appropriate value propositions, based on appropriate cost-value trade-offs.

Beyond the mid-market, most of our market-facing initiatives are based on learning from a more global approach. So in high growth markets, we will benefit from repeatable models in terms of understanding and serving professional painters and digital marketing. Eventually, we will also utilize the same approach to back office efficiency currently being implemented in Europe, as well as continuing to take a consistent approach to supply chain efficiency and effectiveness across the globe.

To grow profitably in high growth markets, we will need to continue attracting, developing and retaining people in what is a highly competitive labor market. To address this, we are focusing on university recruitment and offering challenging opportunities for graduates to gain experience and develop in a highly professional environment.

### **Leverage investments in marketing, sales and innovation**

Branding and consumer inspiration are core capabilities for our Decorative Paints business. To ensure that we benefit from our scale and make our size an asset, we will continue to develop models regionally or globally and roll these models out in relevant countries. During 2013, good examples of this principle were the global launches of Dulux Ambiance, Dulux Colours of the World and Dulux Weathershield.

Furthermore, we are continuing to invest heavily in our global “Let’s Colour” brand, both commercially and through our community programs. In the UK, our “Let’s Colour” programs have led to improved share and profit, while we are experiencing the same impact in China. Together, with our professional trade partners, we have rolled out successful store, specification and loyalty programs and this will continue. In addition, we are rolling out our global web platform across successive markets.

### **Improve supply chain performance**

Since the ICI acquisition in 2008, we have extensively restructured our operations footprint in Europe in order to leverage our scale and address the considerable market contraction from the recession. Specifically, we have closed 13 manufacturing units and nearly 50 warehouses. At the same time, we are also investing for the future. For example, we recently completed a new factory in India, have significantly expanded our plant in Southern China and are planning a new facility in Western China. In the UK, we are consolidating our manufacturing activities from Slough and Prudhoe into a new, state-of-the-art greenfield plant in Ashington. All of this construction is based on new, more efficient paint manufacturing technology.

We will continue to review our supply chain footprint to ensure we adapt our facilities to best fit the market we serve. Once current restructuring plans are complete, we plan to move away from a project mindset and pursue a continuous improvement approach, aiming for ongoing year-on-year cost savings.

With this in mind, in 2013 we embarked on a large-scale roll-out of a training and development plan across our European factories to drive the “lean” (i.e. waste reduction) approach to manufacturing excellence. The lead sites are already showing good improvement from harvesting low hanging fruit.

### **Generate more value with fewer resources**

Embedded sustainability is a core component of our Decorative Paints strategy. As is the case with all three AkzoNobel Business Areas, our focus is on generating more value from fewer resources as part of our Planet Possible sustainability strategy. To implement this, we are working internally across functions and externally with suppliers and customers. Specific areas of focus are volatile organic compound (VOC) reduction, eco-premium solutions, packaging/end-of-life and own operations.

#### **VOC reduction**

Traditional solvent borne products have high levels of VOCs. The introduction of new technologies such as “water in oil” and improvements in water-borne products have already led to a reduction in average VOC per liter of 20 percent from 2009 to 2012. We continue to push for further reductions in this area from both new technological innovation and market education – a real challenge in some markets.

#### **Eco-premium solutions**

Eco-premium products with downstream benefits account for 27 percent of our Decorative Paints sales. Examples of such products are Dulux Trade Light & Space (which makes rooms feel brighter); Dulux Forest Breath (which has been specially developed to enhance air quality); and Cetol HLS Plus, which uses our “water in oil” technology to help reduce solvent use and lower emissions during application. For more information about our eco-premium solutions, see Note 4 of the Sustainability statements.

### **Packaging and end-of-life**

We continue to look for ways to optimize our packaging to ensure that it protects the product, while minimizing packaging material. We have a program of work to lightweight cans and increase the amount of recycled content in cans.

These two aspects are interrelated as, for instance, recycled content in cans often results in less robust cans. So the challenge is to optimize the balance between weight and recycled content. We also have a number of trials underway looking at how waste paint can be used. Potential solutions range from diverting materials to community projects to reincorporating leftover paint into new paints.

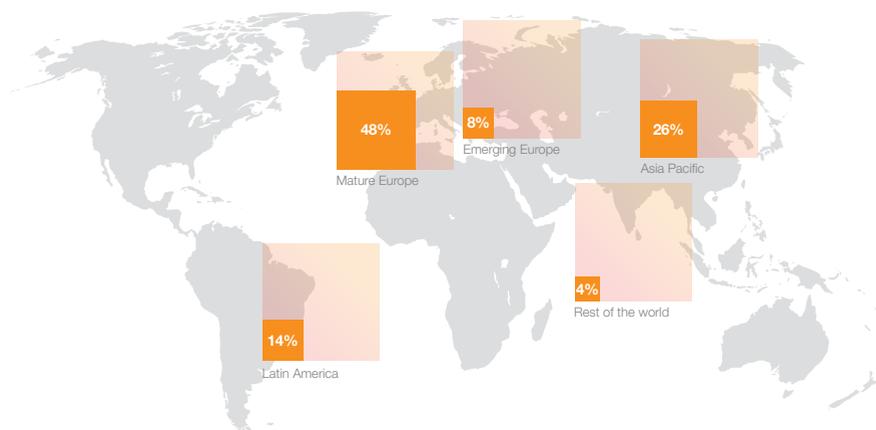
#### **Own operations**

The environmental impact of our own operations is a relatively small amount compared with the whole value chain, but we continue to look for ways to minimize our resource use. This means building footprint reduction activities (which generally also result in cost savings) into our supply chain continuous improvement program.

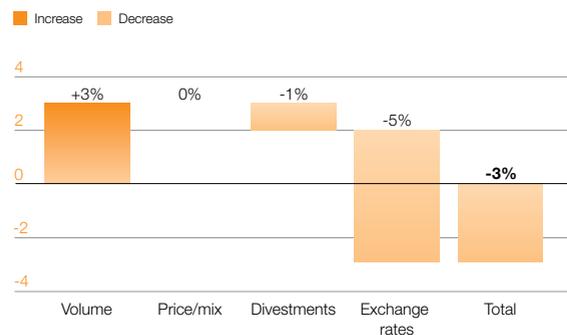
It also means ensuring that we optimize resource use in new build facilities. For example, our new UK site will be our most sustainable, as it will use half the energy and generate half the waste of the plants that it will replace.

# Key developments 2013

## Geo-mix revenue by destination



## Revenue development in % versus 2012



## Key figures in € millions

	2012 <sup>1</sup>	2013
Revenue	4,297	4,174
Operating income	94	398 <sup>2</sup>
ROS%	2.2	9.5
Invested capital	2,981	2,589
Capital expenditures	206	171
ROI%	2.0	13.7

<sup>1</sup> Excluding goodwill impairment.  
<sup>2</sup> Including the divestment gain on Building Adhesives of €198 million.

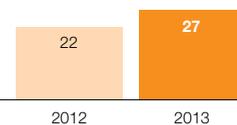
## Revenue breakdown by business unit in %



A Decorative Paints Europe	60
B Decorative Paints Latin America	14
C Decorative Paints Asia	26

## Eco-premium solutions with customer benefits

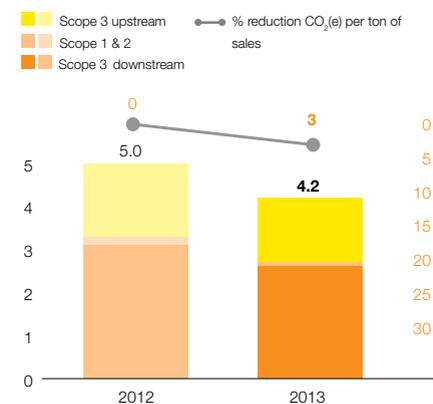
% of revenue



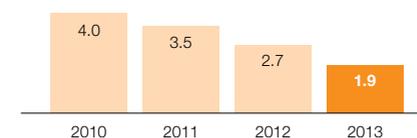
## Employees by region at year-end

	2012	2013
Latin America	1,800	1,800
Mature Europe	8,400	7,500
Emerging Europe	1,400	1,300
Asia Pacific	4,500	4,700
Other countries	900	900
<b>Total</b>	<b>17,000</b>	<b>16,200</b>

## Cradle-to-grave carbon footprint in million tons of CO<sub>2</sub>(e)



## Total reportable rate of injuries per million hours



# Key developments 2013

## Decorative Paints

### Some of our customers



### Top raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

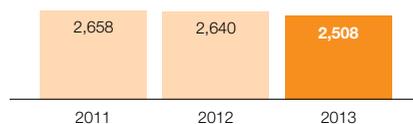
### Key cost drivers

- Oil prices
- Energy prices
- Steel prices

## Decorative Paints Europe

- Solid year under difficult market conditions
- Markets in Western and Southern Europe were mostly stable or in decline, while weakening currencies impacted our business in Eastern Europe and Africa
- Despite the difficult climate, we grew our overall paints volume, with the UK, Russia, South Africa and the Netherlands contributing in particular
- As we continue to align to the new market reality across Europe, the ongoing organizational restructuring delivered significant cost reductions and, along with stronger marketing and distribution, contributed to the overall improvement
- We divested Building Adhesives and sold 69 of our 72 professional paint stores in Germany to focus on our core business
- The Flourish brands were successfully rolled out across all premium consumer brands in Europe and Africa, while Dulux increased its share in the UK retail and trade markets
- New Dutch R&D center opened

Revenue in € millions



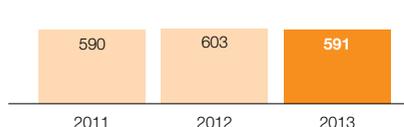
### Key brands



## Decorative Paints Latin America

- Financial performance improved considerably compared with 2012, while operational excellence was bolstered by successful implementation of SAP in Brazil
- Revenue growth in local currency was driven by successful product launches, especially under the Coral brand, and a distinctive customer loyalty approach whereby trade partners actively participated in the hugely successful Tudo de Cor (Let's Colour) program in their own neighborhoods.
- The 1,000<sup>th</sup> Tudo de Cor project was staged and involved Brazilian soccer coach Felipe Scolari, who helped paint a hospital in his home town
- Coral – named brand of the year in Brazil – launched a blockbuster, water-based trim paint, Coralit Zero, which promotes the switch from solvent-based to water-based enamels

Revenue in € millions



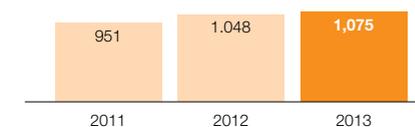
### Key brands



## Decorative Paints Asia

- The China business significantly outperformed the market, mainly due to premium segment growth and cost control
- Operating income increased substantially in South East Asia and Pacific, with 2013 being a particularly strong year for Indonesia, while the market in Vietnam began to recover
- In India, the business adapted to a change in market dynamics to take advantage of major growth in the mid-tier paints sector and combined this with accelerated distribution in smaller towns
- The Ambiance range was launched in China, where efforts to drive our zero VOC range of products is continuing
- New mass market offerings were introduced in Malaysia and Indonesia, while Dulux EasyClean was relaunched in South East Asia with a new campaign based around KidProof technology
- A new paint factory was opened in Gwalior, India, and we added 56 small towns to our distribution network

Revenue in € millions

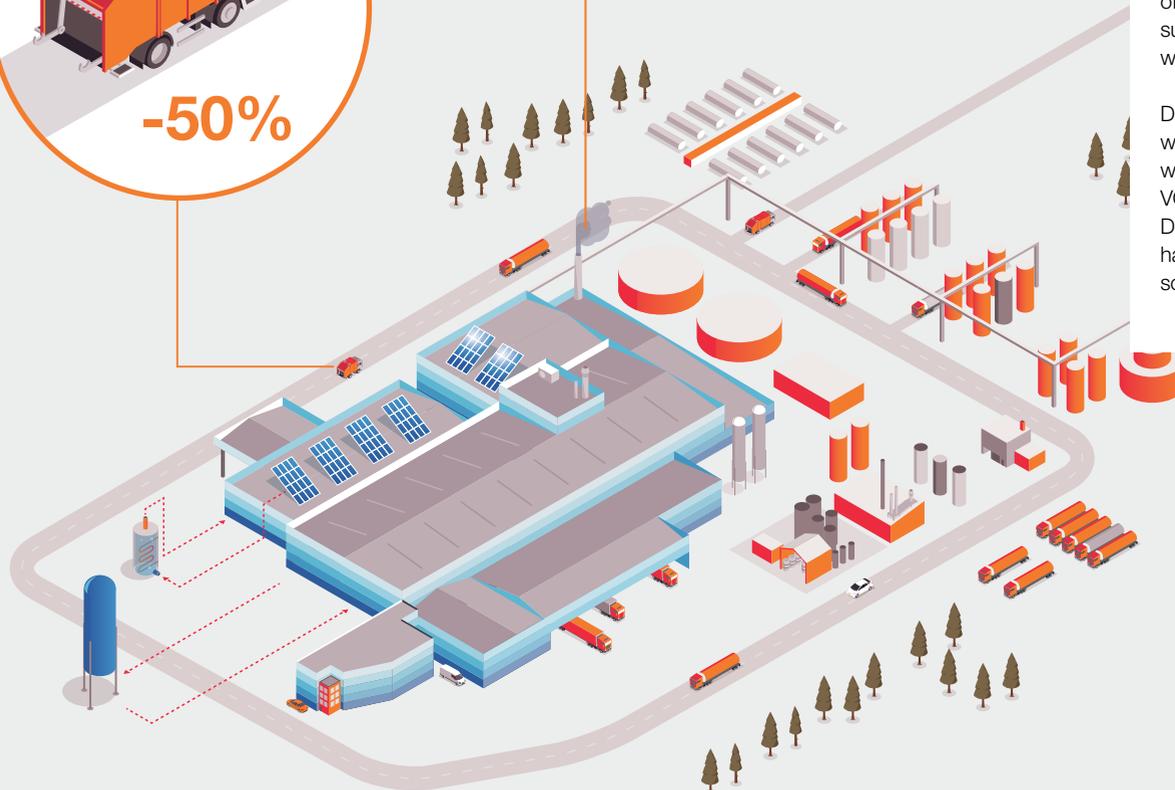


### Key brands





The amount of paint Ashington will be capable of producing for sale in the UK and Europe



## Setting world class standards

As the top ranked company in the Materials industry group on the Dow Jones Sustainability Index, we ensure that sustainability runs right through the company. So when we announced the construction of a £100 million world class decorative paint facility in the UK, its environmental footprint was always going to be a major factor.

A clear sign of our strategic commitment to focus our deco activities on key markets in Europe and high growth regions, the new plant is being built in Ashington in the north-east of England. Housing nine fully automated paint filling lines, it will be capable of producing up to 100 million liters of paint a year for sale in the UK and Europe – double what is possible from existing UK operations in Slough and Prudhoe.

Featuring cutting-edge manufacturing technology, the new facility will not only reduce energy consumption per liter of paint produced by 60 percent, but will also deliver a minimum of 10 percent of site energy from on-site, low carbon sources such as biomass, photovoltaic panels and solar thermal water heating.

Designed to be one of the most sustainable plants in the world, Ashington also aims to achieve 100 percent re-use of water and 90 percent re-use of solvents, as well as reducing VOC emissions by 75 percent and waste by 50 percent. Due to become the heart of our UK deco operations, the site has targeted an “excellent” BREEAM accreditation and is scheduled to be fully operational in 2015.



## How Performance Coatings creates value

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 impact across the value chain.

Innovation is also key to our cutting-edge product development, which is often highly technical in order to meet strict customer specifications. Particular emphasis is placed on supplying products that offer environmental benefits for our customers.



Employees **21,400**



Total reportable rate of injuries **2.8**

Employee engagement score (1-5 scale) **3.85**

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

Total waste **54 kilotons**

### Asset value

The value of our assets is €4.1 billion. We invested €143 million in 2013 to keep our facilities in good shape, as well as expanding our manufacturing capability. We continue to improve process and product safety.

### Human value

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

### Environmental value

We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

### Innovation value

RD&I investments have resulted in 13 percent of revenue derived from eco-premium solutions with customer benefits.



### Customer value

In 2013 we sold to many thousands of customers. We continue to improve our customer focus and develop products and solutions that help them to be successful in their markets.

### Financial value

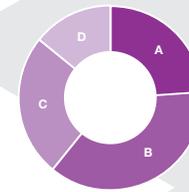
ROS% and ROI% are in line with 2012 and on track to achieve the strategic targets for 2015 of 20 percent and 25 percent respectively.

Revenue  
**€5,571** million

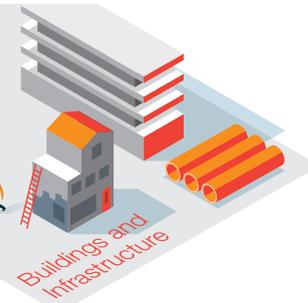
Operating income  
**€525** million

### Community value

We participate in a number of community programs, education programs and local sponsorships, including a partnership with the Cruyff Foundation.



Revenue per end-user segment  
A 24% Buildings and Infrastructure  
B 37% Transportation  
C 25% Consumer Goods  
D 14% Industrial



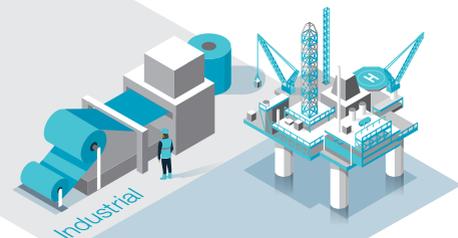
Buildings and Infrastructure



Transportation



Consumer Goods



Industrial

# Performance Coatings



From left to right: Rob Molenaar, AB Ghosh, Conrad Keijzer, John Wolff, Jim Rees.

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

**Conrad Keijzer**

Member of the Executive Committee responsible for Performance Coatings

Things got off to a weak start, with difficult market conditions in most regions (except North America) which resulted in a drop in volumes in the first half of the year. Conditions recovered somewhat as the year progressed and by the third and fourth quarters our volumes improved.

In the second half of 2013, many of our high growth markets experienced weakening currencies, which impacted our reported results and the cost base in some regions where raw materials are still predominantly imported. Several one-off costs related to restructuring also had an additional negative effect on our results.

Despite these market challenges, we continued to make steady progress with our growth strategy. In China, for example, we started construction of a new powder coatings manufacturing facility in Chengdu, scheduled to open in 2014. We also broke ground for a new powder coatings facility in

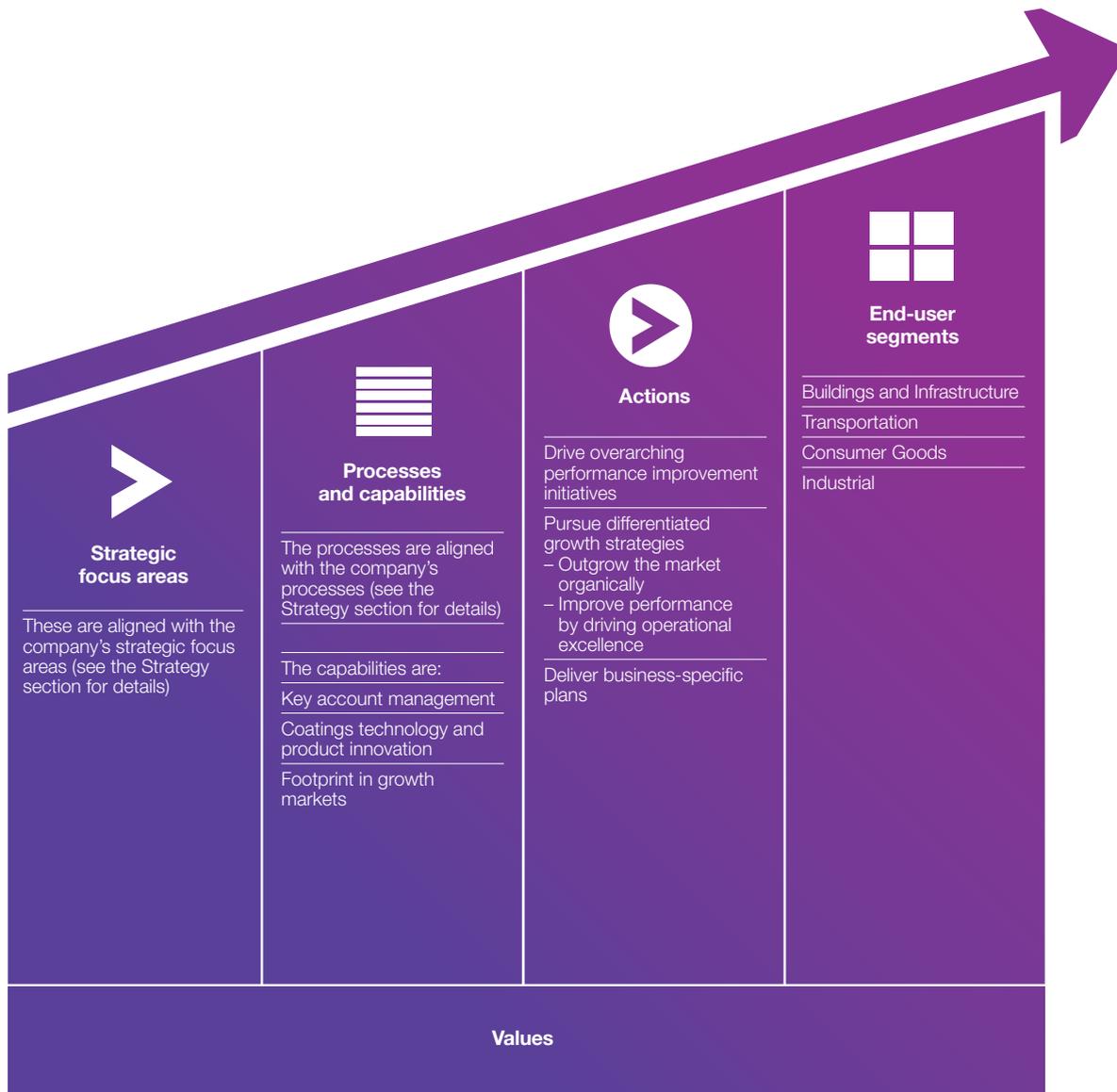
Dubai. In addition, we opened a new design center for the specialty finishes market in Offenbach, Germany, and more than doubled capacity at our resin factory in Songjiang, China.

Marine and Protective Coatings launched new paint technologies, including Intersleek 1100SR and Intercept next generation fouling control products. Intersleek provides better slime resistance, while Intercept is a highly efficient biocidal anti-fouling with a controlled release over time. The Protective business was involved in a number of high profile projects during the course of the year. This included the ongoing supply of coatings and fire protection products for Shell's Prelude, the world's largest ever floating vessel. We are also supplying a large quantity of protective coatings for Ichthys, the world's largest LNG project, off the coast of Australia.

Our Automotive and Aerospace Coatings business had a good year. Refinish volumes began to recover and the activity in Aerospace was particularly encouraging, with many airlines placing major orders. Successes included the re-painting and re-branding of the American Airlines fleet, along with important customer wins among the fast-growing airlines in China and the Middle East. Strategic partnerships were also secured by Vehicle Refinishes with several major customers, including Volkswagen, Toyota and Fiat.

Meanwhile, Specialty Finishes benefited from continued strength in the consumer electronics market and sales of coatings for mobile devices. In terms of safety, the overall TRR increased from 2.6 to 2.8 incidents per million hours worked. To address this, all of our sites have implemented Behavior-Based Safety and Life-Saving Rules programs and we continue to work towards our 2015 TRR target of less than 2.0.

To improve our cost base and drive competitiveness, we have looked hard at our production footprint – particularly in Europe – and have announced the intended closure of our production sites in Elbeuf (France), Guarulhos (Brazil), Birmingham (UK), Nuremberg (Germany), Gamleby (Sweden), Suzhou (China) and Romano (Italy).



Vision:

**To be the leading coatings company from a performance perspective**

Performance Coatings expected 2015 financial outcomes:

Return on sales: 12%

Return on investment: 25%

### End-user segment strategy context

Performance coatings make up slightly more than half of the world market for paints and coatings. They are used in all four of our end-user segments, Buildings and Infrastructure, Transportation, Consumer Goods and Industrial. Most end-user segments have shown some recovery from the recession of 2008 to 2009, and their overall outlook is cautiously positive. However, there are two main areas of uncertainty. Firstly, although there is growing consensus that we are now reaching the bottom of the cycle in marine new building, the upturn has not yet occurred. Secondly, concerns remain about Buildings and Infrastructure and related markets (such as furniture and appliances) in Europe.

Additional information follows on the outlook for each of our end-user segments, along with the implications for our Performance Coatings Business Area.

### Market leadership positions

#### Marine and Protective Coatings

1st	Protective coatings
	Yacht coatings
2nd	Marine coatings

#### Automotive and Aerospace Coatings

1st	Specialty finishes
2nd	Aerospace coatings
3rd	Vehicle refinish

#### Industrial Coatings

1st	Coil coatings
	Wood finishes and adhesives
2nd	Packaging coatings

#### Powder Coatings

1st	Powder coatings
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### Buildings and Infrastructure

The largest sub-segment for our Performance Coatings Business Area within Buildings and Infrastructure is Building products and components, accounting for nearly 90 percent of total revenues in the segment. We sell powder coatings, coil coatings, wood finishes and wood adhesives to this particular sub-segment. Protective coatings are supplied to both of the other sub-segments, New build projects and Maintenance, renovation and repair. Our customer base, and consequently our products and revenues, are oriented towards new build and larger construction projects.

Analysts expect reasonable growth in most geographies in all parts of Buildings and Infrastructure. Our view on the market outlook is largely consistent with this. However, we remain concerned about the outlook for our businesses selling into sectors of the Building products and components sub-segment that are oriented towards the residential market in Europe (such as Wood Finishes and Wood Adhesives), where evidence of market recovery is still limited. We will therefore continue to take a conservative view on growth for these businesses and have developed business plans on the basis of these more cautious growth estimates.

### Transportation

Transportation is the largest end-user segment for our Performance Coatings Business Area. The vast majority of our Transportation revenues come from the Automotive repair and Marine and air transport sub-segments, with our revenues being roughly evenly split between the two. Although these sub-segments are approximately equal in size, they are very different in terms of their growth patterns and outlooks.

We expect stable but below GDP growth in the Automotive repair sub-segment. Growth will largely come from high growth markets, as the expected growth in mature geographies is low. In high growth regions, vehicle sector growth is somewhat above GDP growth, but this does not necessarily directly transfer to growth in coatings demand, as insurance and repair rates are not yet at mature market levels.

As mentioned earlier, the outlook for the Marine business is a key issue in terms of our Performance Coatings outlook. The recent late cycle drop in marine new building, combined with low freight rates, has restricted any growth in demand for marine coatings. The consensus view of analysts is that we are reaching the bottom of the cycle and the sub-segment will now return to growth, but evidence of this is not yet available. The aerospace business has already returned to above GDP growth, but the aerospace coatings market is small compared with marine coatings, so this has limited impact.

In addition to the above, we have revenues in the Transportation segment coming from the Automotive OEM, parts and assembly end-user sub-segment. Our position here is limited to powder coatings (used for wheels, for example) and specialty finishes (used for exterior and interior plastic components, such as fascias). Looking ahead, we expect moderate growth as the market has now recovered from the substantial downturn experienced in 2008 to 2009.

**Consumer Goods**

The majority of our Performance Coatings revenue in the Consumer Goods end-user segment comes from the Consumer durables sub-segment, into which we sell powder coatings, wood finishes, wood adhesives and specialty finishes. Nearly all parts of this sub-segment have fully recovered from the recession and are now on a reasonably normal growth trajectory at or slightly above GDP, with production continuing to increase more rapidly in high growth geographies to serve both domestic and export markets. The exception is in furniture which, as indicated earlier, is strongly linked to housing markets. Analysts expect growth going forward in furniture to be below GDP growth levels until we see full recovery in Buildings and Infrastructure.

We sell our packaging coatings into the Consumer packaged goods sub-segment. This is much more stable, because while consumers may down trade to some extent during a recession, they don't stop buying basic necessities such as food, beverages and personal care products. The downturn therefore was very limited. Going forward, growth should continue to be stable at GDP growth levels.

**Industrial**

This is the smallest end-user segment for our Performance Coatings Business Area, where we sell protective and functional powder coatings. As both are oriented towards the oil and gas market, the outlook is for above GDP growth as high oil prices and strong high growth market demand continue to make a wide variety of projects economic.

### Strategic direction

The vision for our Performance Coatings business is to be the leading coatings company from a performance perspective. By 2015, our expected outcomes are to achieve a return on sales level of 12 percent and a return on investment of 25 percent. The actions that we are taking to deliver on these targets are:

- Drive overarching performance improvement initiatives
- Improve our market positions
- Deliver business-specific plans

### Drive overarching performance improvement initiatives

We have defined improvement actions that apply to all parts of our business. These initiatives are instrumental to both revenue and cost improvement. The actions include:

- Continuously reducing external spend. Procured raw materials make up a significant percentage of our Performance Coatings cost base, so it is fundamental to our success that we appropriately manage our external spend. We will take measures to ensure continuous year-on-year savings by leveraging our scale and simplifying our product designs across the full Business Area to maximize and capture opportunities created by similarities in terms of raw materials and suppliers
- Continuously improving our operations. We will continue to adapt our operational footprint to the geographic shifts in demand and drive benefits through concentrating production from several business units on to larger sites. We will further improve our performance through productivity improvement techniques and reduction of inventory and logistics costs
- Drive commercial excellence to increase sales effectiveness. We are focusing on improving sales force effectiveness based on best-in-class processes in key account management, specification selling and customer relationship management, as well as a harmonized approach to training

### Pursue differentiated growth strategies

To continue growing our business while improving performance levels, we will focus and prioritize our activities on market sectors and geographies where we have the best opportunities.

We have defined two strategic priorities for our businesses:

- Outgrow the market organically. For parts of our business that are in attractive markets and where our competitive position is strong, we will be focusing on profitable growth
- Improve performance by driving operational excellence. In parts of our business where the growth opportunities are less favorable, our focus will be on improving profitability by driving operational excellence

### Deliver business-specific plans

Each individual business will continue to develop key capability areas that will support the delivery of leading performance and eco-premium solutions in the market.

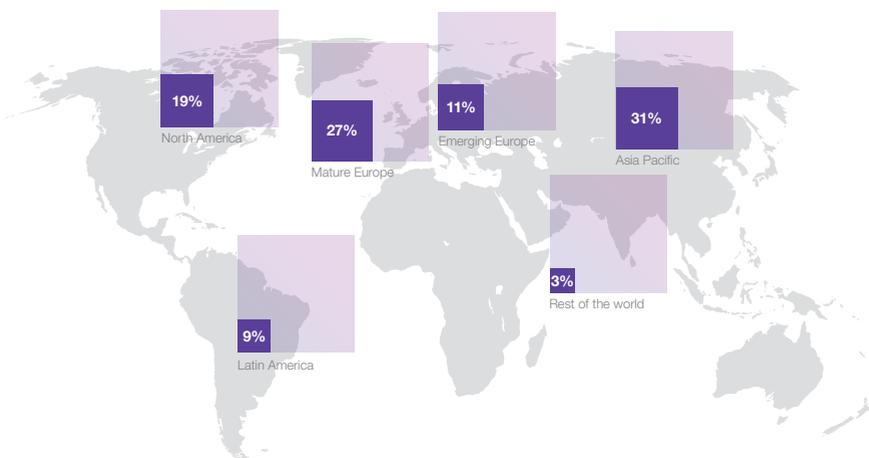
- In Automotive and Aerospace Coatings, our color and design expertise is fundamental to our success. We are a global leader in this area based on digitized color matching tools which allow us to effectively and efficiently work with customers to provide the perfect color. Our state-of-the-art digitized color system was instrumental in the rapid and cost-effective roll-out of Autowave upgrades. Autowave is a technology upgrade for vehicle refinishes coatings improving our customers' environmental footprint through less waste and the increased use of water-borne technology
- In Marine and Protective Coatings, our leading anti-corrosion, fouling control and fire protection technologies drive our success. We will continue to lead innovation in these areas, building on recent product introductions such as Intersleek 1100SR foul release, which provides industry-leading anti-slime performance, while at the same time delivering the same level of environmental benefits as our existing Intersleek range. Another good example of this is the introduction of our Intercept antifouling range, which offers predictable linear polishing performance, enabling

operators to plan and budget effectively throughout the docking cycle

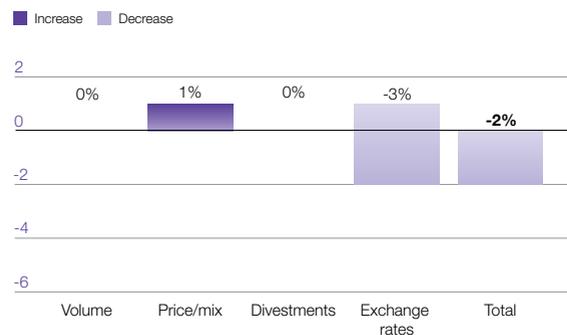
- In Powder Coatings, our global scale and deep understanding of the end-user segments are key to our success. As the largest powder coatings supplier in the world, Interpon offers the widest product line in the industry. Our leading technologies and innovations include highly durable and stylish coatings for architects; clear coats to protect aluminum wheels from corrosion for automakers; and Resicoat, a tailored product specified for use by pipeline operators. We will continue leveraging our global presence and our strong innovation pipeline to offer our customers the best choice and technologies
- In Industrial Coatings, high durability coatings, superior color and styling capabilities, as well as the introduction of eco-friendly solutions, are key to our success. We work with customers who are large industrial OEM manufacturers where we are a key part of their supply chain – providing them with products and solutions to make their production processes more efficient and their customers' products better. We continue to invest in innovation to provide improved coating solutions, such as chromate-free coil coatings, BPA-free packaging coatings and low-formaldehyde wood finishes and adhesives

# Key developments 2013

## Geo-mix revenue by destination



## Revenue development in % versus 2012



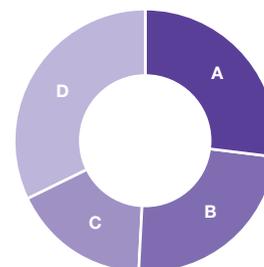
## Key figures in € millions

	2012	2013
Revenue	5,702	5,571
Operating income	542	525
ROS%	9.5	9.4
Invested capital	2,439	2,251
Capital expenditures	123	143
ROI%	21.7	21.3

## Employees by region at year-end

	2012	2013
North America	3,100	3,100
Latin America	1,700	1,600
Mature Europe	6,700	6,400
Emerging Europe	1,100	1,200
Asia Pacific	8,100	8,200
Other countries	600	900
<b>Total</b>	<b>21,300</b>	<b>21,400</b>

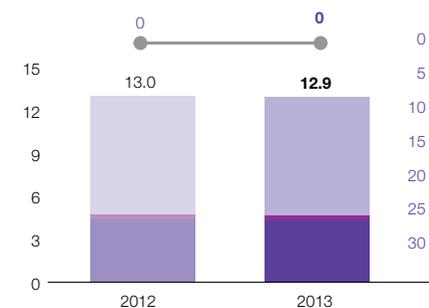
## Revenue breakdown by business unit in %



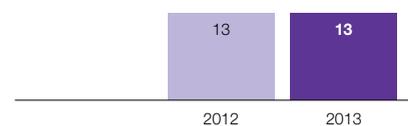
<b>A</b> Marine and Protective Coatings	27
<b>B</b> Automotive and Aerospace Coatings	24
<b>C</b> Powder Coatings	17
<b>D</b> Industrial Coatings	32

## Cradle-to-grave carbon footprint in million tons of CO<sub>2</sub>(e)

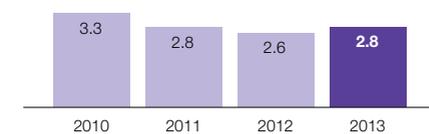
■ Scope 3 upstream     ● % reduction CO<sub>2</sub>(e) per ton of sales  
■ Scope 1 & 2     ● % reduction CO<sub>2</sub>(e) per ton of sales  
■ Scope 3 downstream



## Eco-premium solutions with customer benefits % of revenue



## Total reportable rate of injuries per million hours



# Key developments 2013

## Marine and Protective Coatings

- Revenue was 5 percent lower as a result of exchange rates and mix
- We benefited significantly from our reorganization into global units and functional lines. Operating expenses were reduced compared to 2012, with the benefit of exchange rates and the higher level of efficiencies offsetting inflation
- A strong portfolio of projects led to continued growth in Protective Coatings in the oil and gas industry
- In North America, a new distribution model for Protective Coatings was successfully implemented following the divestment of the company's Decorative Paints North America business. We also capitalized on market growth in the Middle East and Korea
- Marine Coatings increased its business in the deep sea maintenance and repair market, offsetting the global decline in new build
- New product technologies were introduced in Marine Coatings (including Intersleek 1100SR and Intercept 7000/8000), helping AkzoNobel to regain its leadership position in fouling control innovation
- Yacht Coatings successfully introduced Nautical, a value brand addressing the private label market, while additional new products were launched supporting the retail yacht market

### Key brands



### Some of our customers

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

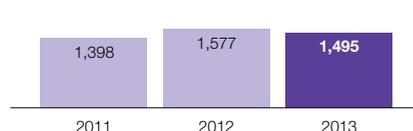
### Top raw materials

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

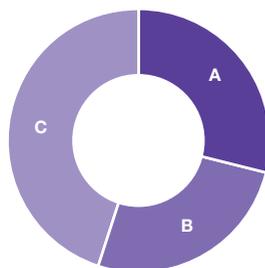
### Key cost drivers

- Oil feedstock chain
- Metals, base chemicals prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	27
B Americas	25
C Asia Pacific	48

## Automotive and Aerospace Coatings

- Revenue was up 2 percent on 2012, driven by price/mix and volumes, partially offset by adverse currencies
- Volumes in the vehicle refinishes market showed recovery in the US and Canada. Latin America and China continued to grow, while demand in Western Europe remained weak
- Strong customer demand was experienced in the consumer electronics and aerospace markets, driven by continued innovation and technology leadership
- We merged our Automotive Plastics and Specialty Finishes businesses to bring synergies and better customer focus to the transportation segment. This completed the integration of the former Schramm business and resulted in the closure of four production sites
- Sikkens Autowave 2.0 was launched in the vehicle refinish segment, a low VOC water-borne basecoat with best-in-class color and application performance
- We are on track to complete the construction of a new production facility for vehicle refinishes, automotive plastics and aerospace coatings in Changzhou, China. Due to start up in the second half of 2014, the new site near Shanghai will serve the growing market in China with locally manufactured products

### Key brands



### Some of our customers

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

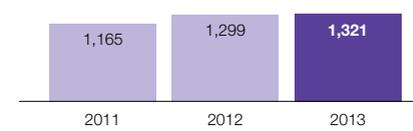
### Top raw materials

- Pigments
- Acrylic resins
- Acrylic dispersions

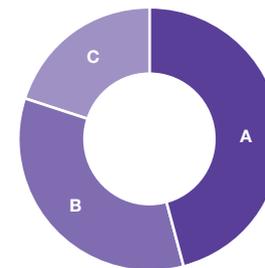
### Key cost drivers

- Metals, base chemicals prices
- Oil, energy prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	41
B Americas	30
C Asia Pacific	29

## Industrial Coatings

- Revenue declined 3 percent, due to adverse currencies, while overall volumes also declined, with growth in Coil more than offset by declines in Packaging and Wood
- Performance improvements in Wood Finishes and Adhesives and Coil and Extrusion Coatings were offset by increased restructuring costs
- Streamlining of our coil coatings manufacturing footprint in Europe was announced involving the transfer of production to sites in Russia, Sweden and Germany
- We continued to achieve growth in our high growth markets, with Coil Coatings and Packaging Coatings benefiting in Asia in particular
- We added capacity for Packaging Coatings in India and a new resin reactor in Songjiang, China, where we are also establishing a new Industrial Coatings RD&I center
- In Packaging Coatings, we are well positioned in leading the industry to move away from bisphenol A-based epoxy coatings

### Key brands



### Some of our customers

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

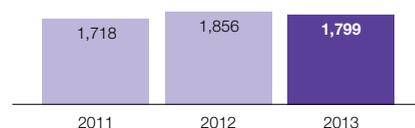
### Top raw materials

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

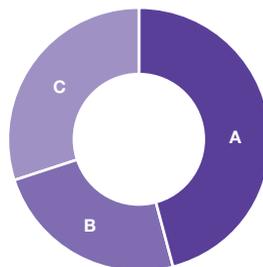
### Key cost drivers

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

### Revenue in € millions



### Geo-mix revenue by destination in %



<b>A</b> EMEA	45
<b>B</b> Americas	35
<b>C</b> Asia Pacific	20

## Powder Coatings

- Revenue declined 2 percent compared with 2012, impacted by adverse currencies and partially offset by positive volume and price/mix
- Europe, the Americas and most high growth markets showed positive results with growth in volumes
- In the automotive and architectural markets, we improved our leading positions, resulting in improved volumes and revenues
- We announced an investment to build a new powder coatings manufacturing facility in Chengdu to capture growing demand in Western China
- The closure of sites in Ningbo and Suzhou, China, was announced, with production being consolidated at the existing Automotive and Aerospace Coatings site in Changzhou
- We launched a new heat-reflective range of powder coatings for buildings, Interpon D2525 Eternity, as well as new Interpon Align dry-on-dry coatings technology, which is designed to improve productivity and lower energy consumption

### Key brands



### Some of our customers

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

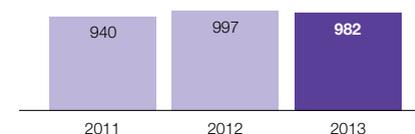
### Top raw materials

- Polyester and epoxy resins
- Titanium dioxide

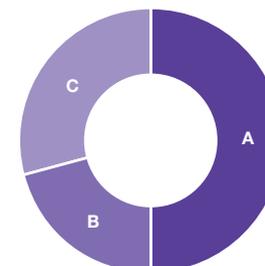
### Key cost drivers

- Gasoline/naphtha prices

### Revenue in € millions



### Geo-mix revenue by destination in %



<b>A</b> EMEA	46
<b>B</b> Americas	22
<b>C</b> Asia Pacific	32

## No job too big

The saying goes that no job is too big, and that's certainly the case for our Marine and Protective Coatings business and its Intersleek 900 fluoropolymer foul release coating. The product was specified for the construction of the Shell Prelude floating liquefied natural gas (FLNG) facility which, once complete, will be the world's largest floating structure.

Approximately 40,000 liters of Intersleek 900 was used on the 488-meter long underwater hull of the Prelude, representing the product's biggest ever single application. Intersleek 900 was specifically designed for use in slow moving or static conditions, with its ultra-low drag making it the most effective foul release coating on the market.

With its exceptionally smooth, slippery, low friction surface, Intersleek 900 stops organisms from attaching themselves to vessels, saving operators time and money at sea by cutting fuel costs and improving operational efficiency. It also prevents transfer of invasive species from one environment to another.

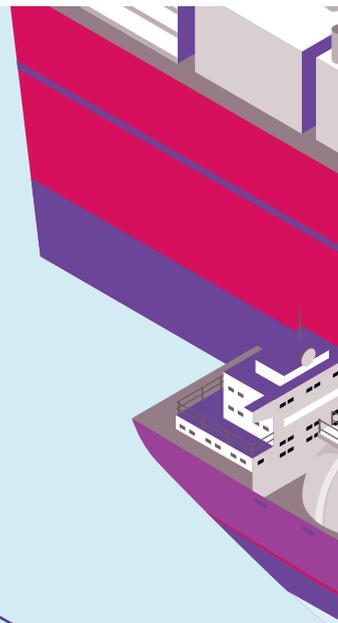
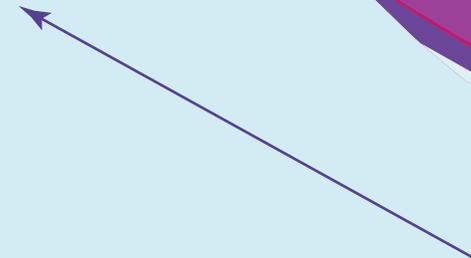
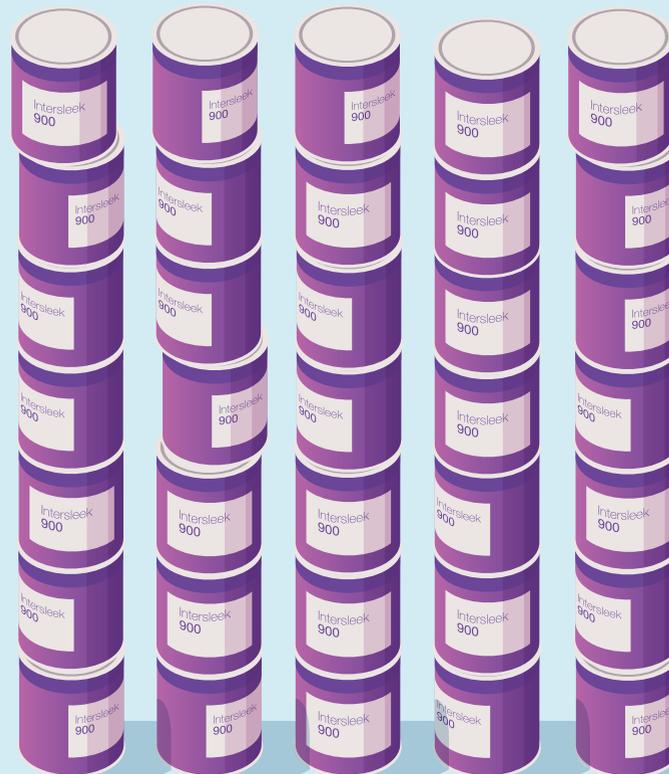
A report produced by one of the shipping industry's leading research bodies, Professor James Corbett's Energy and Environmental Research Associates, recently proved that Intersleek 900 can reduce greenhouse gas and other emissions by an average of 9 percent.

Weighing in at 600,000 tons, the Prelude will operate in a remote basin around 475 kilometers north-east of Broome, Western Australia, for around 25 years. It will allow Shell to produce natural gas at sea, turn it into liquefied natural gas and transfer it directly to the ships that will transport it to customers.



# 40,000 liters

Approximately 40,000 liters of Intersleek 900 was used on the 488-meter long underwater hull of the Prelude, representing the product's biggest ever single application.





**488**  
meters

Low friction surface prevents organisms from attaching themselves to vessels.

## How Specialty Chemicals creates value

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.



### Asset value

The value of our assets is €4.4 billion. We invested €346 million in 2013 to keep our facilities in good shape, as well as expanding our manufacturing capability. We continue to improve process and product safety.

### Human value

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

### Environmental value

We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

### Innovation value

RD&I investments have resulted in 16 percent of revenue derived from eco-premium solutions with customer benefits.



### Customer value

In 2013 we sold to many thousands of customers. We continue to improve our customer focus and develop products and solutions that help them to be successful in their markets.

### Financial value

Excluding the impairment of €139 million, ROS% is 8.8 percent and ROI% is 12.1 percent. We are on track to achieve our 2015 targets.

Revenue  
**€4,949 million**

Operating income  
**€297 million**  
including €139 million impairment on a business held for sale

### Community value

We participate in community programs, education programs and local sponsorships.



# Specialty Chemicals



From left to right: Knut Schwalenberg, Niek Stapel, Werner Fuhrmann, Jan Svård, Graeme Armstrong.

## “We are swiftly responding to changing trends in the chemicals industry”

**Werner Fuhrmann**

Member of the Executive Committee responsible for Specialty Chemicals

It was a weak year for the chemical industry as a whole, notably in Europe – where demand was down across the board – with volatility in supply and demand also evident in China. This inevitably had a negative effect on our financial performance. Despite the strain on operating income caused by the difficult market conditions, we maintained our focus on several key growth initiatives and continued to optimize our global capabilities.

From a financial perspective, in addition to volume declines, unfavorable exchange rates in particular worked against us, with the euro turning out to be stronger than expected and currencies in South East Asia and Brazil being somewhat weaker. A higher number of one-off items, including an impairment of €139 million, also adversely affected our final results, along with the revenue effect of the divestment of Chemicals Pakistan.

Trading conditions were therefore very challenging and we had to take swifter action than originally planned in order to ensure that we achieve our 2015 ambitions. A major restruc-

turing program is being implemented which is designed to cut costs, drive efficiency and adjust our manufacturing footprint. By taking this action, we are not only making ourselves functionally excellent, but are also preparing ourselves for the future. Because once opportunities for growth do arise, we will be well positioned to take full advantage of the initiatives we already have in place, many of which were launched in 2013.

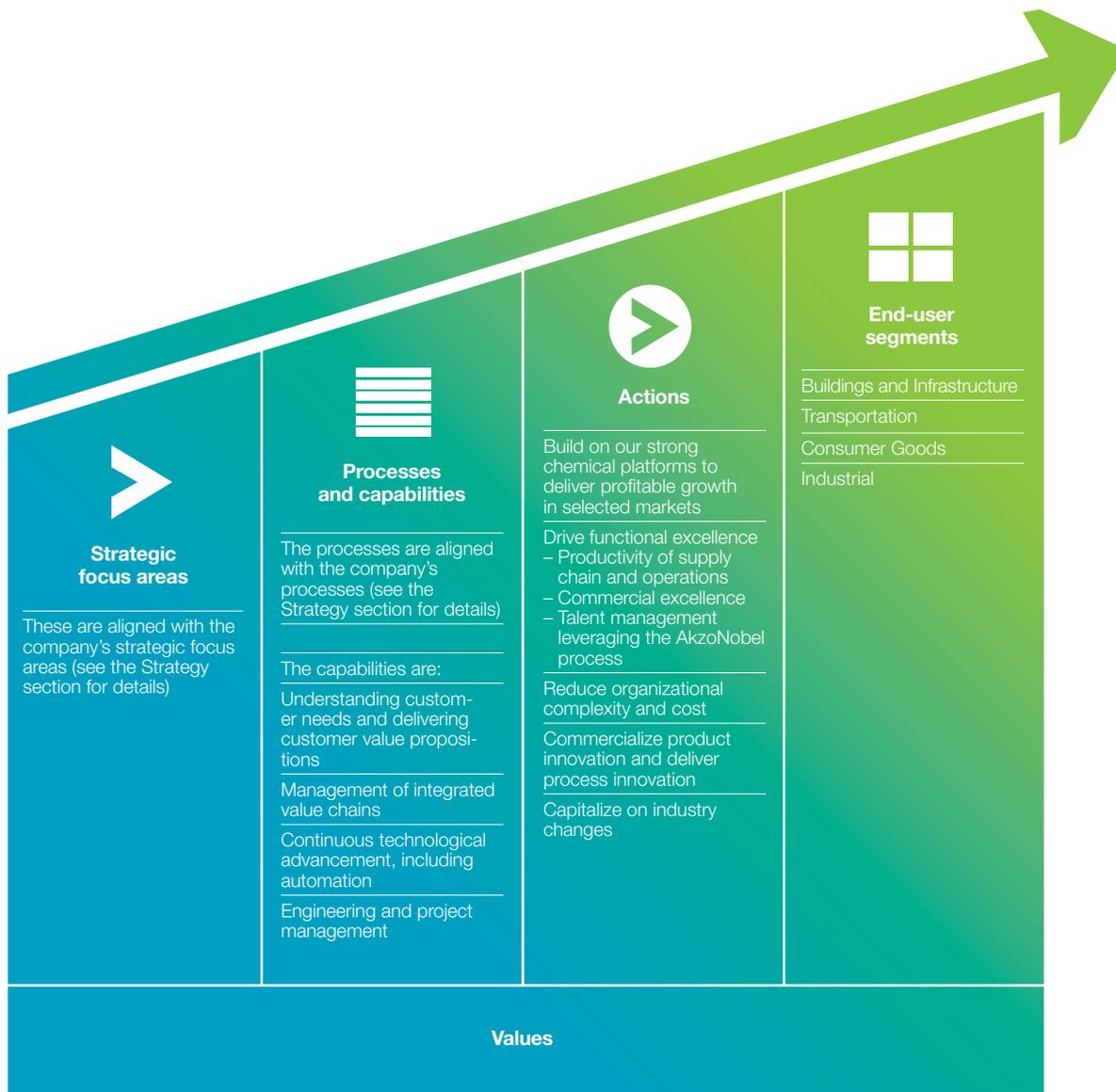
For example, as well as starting up our Jupia Chemical Island in Brazil and a new facility for Bermocoll cellulose derivatives in Ningbo, China, we also announced expansion plans for our Surface Chemistry business in both Ningbo and Boxing. In addition, a newly expanded Expancel site was inaugurated in Sweden. Our Middle East organization also grew stronger as the company continued to invest in regions where future growth is expected.

As we continue to strive for operational excellence, a number of improvement programs were introduced, with several of them being centered on our Pulp and Performance Chemicals and Functional Chemicals businesses. Functional Chemicals in particular has endured difficult conditions in recent years, mainly due to the temporary over-supply in the market of ethylene amines. Various other products also encountered difficult conditions in 2013, which forced us to introduce a number of initiatives designed to significantly increase the business' profitability. In Pulp and Performance Chemicals, a number of closures and divestments have been concluded

in order to adjust our manufacturing footprint. Results were reasonable though, impacted mainly by softer demand and margin pressure.

Industrial Chemicals also encountered a challenging business environment and had the additional burden of an extended planned maintenance stop in the Rotterdam value chain. Expensive gas prices, especially in the Netherlands, had a further adverse impact. Surface Chemistry also saw weaker demand, but delivered results very close to the excellent 2012 performance. The business continued to build on the acquisition of Boxing Oleochemicals, which was accompanied by a reduction in FTEs, and benefited somewhat from the upbeat mood in the US chemical industry.

We continue to consolidate progress in safety performance, particularly in the area of people safety, where we are close to achieving the company's 2015 TRR target of less than 2.0. Several positive developments in terms of further improving the sustainable nature of our operations should also be mentioned. These include securing additional steam supply from Twence for salt production in Hengelo, the Netherlands, helping to lower our CO<sub>2</sub> emissions. In addition, we have entered into partnerships with Zechem and Solvay for the increased purchasing of renewable raw materials, while our StimWell and EcoFill products are now being marketed commercially, helping to increase our share of eco-premium solutions that offer customer benefits.



Vision:

**Delivering leading performance based on sustainable chemical platforms driving profitable growth in selected markets**

Specialty Chemicals expected 2015 financial outcomes:

Return on sales: 12%

Return on investment: 15%

### End-user segment strategy context

We supply specialty chemicals to all four of our end-user segments, based largely (80 percent of our revenues) on five main value chain platforms. These platforms are: salt/chlorine, surfactants, ethylene oxide, bleaching chemicals and organic peroxides. The outlook for the end-user segment relevant for our value chain platforms is described as follows.

---

### Market leadership 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

### Industrial

Accounting for nearly 60 percent of revenues, the Industrial end-user segment is by far the largest for our Specialty Chemicals Business Area. All five of our platforms supply this end-user segment, with our main revenue streams coming from:

- Sales from our surfactant and ethylene oxide platforms into the oil, gas, mining and agricultural industries. The outlook for these industries is quite positive, as continued increases in wealth in high growth areas is driving demand. With high oil prices, many oil and gas projects are economic. There is also considerable demand for products that facilitate oil production, such as our chelates and surfactants. Similar trends are evident in most mining and agricultural industries
- Sales from our bleaching chemicals platform into the parts of the pulp and paper industry that use chemical bleaching. Pulp and paper is rather stable in terms of demand and is growing well today in South America and Asia and we expect this trend to continue
- Sales from our salt/chlorine platform and organic peroxides platform into a wide variety of chemical processes. A particular area of focus is the plastics industry, into which we supply salt, chlorine, initiators and various other products

### Buildings and Infrastructure

Our specialty chemicals are used throughout the supply chain that serves the construction industry. Primarily through the salt/chlorine platform and organic peroxides platform, we supply salt, chlorine, initiators and various other products used in the manufacture of plastics that are, in turn, used to make doors, windows and other construction material plastics. Together, all these products generate approximately 20 percent of our Specialty Chemicals Business Area revenues. In this segment, we are expecting a return to growth in Europe, although the recovery is not yet secure. Growth will continue in high growth regions, but at a lower level than we have seen historically.

## Consumer Goods

Most of the 19 percent of Specialty Chemicals revenues generated by the Consumer Goods end-user segment comes from our surfactants and ethylene oxide platforms. These products are used in a wide variety of consumer packaged goods applications, including personal care products, cleaning, dishwashing and fabric softeners. The expected growth in demand for these end-uses is at, or slightly above, GDP growth in mature markets, but above GDP growth levels in high growth geographies. Products such as hair conditioners, fabric softeners and dishwasher detergent are clearly not necessities and may even require the purchase of domestic appliances before they can be used, so the penetration of these end-uses continues to increase.

## Transportation

At just over 5 percent of our Specialty Chemicals revenues, Transportation is the smallest end-user segment. As is the case in Buildings and Infrastructure, we sell a wide variety of products, generally used in the manufacture of automotive plastics, primarily via our salt/chlorine and organic peroxides platforms. Over recent years, these businesses have benefited from market recovery following the economic downturn, but these markets are now growing steadily at roughly GDP growth rates.

## Strategic direction

The vision for our Specialty Chemicals business is to deliver leading performance based on sustainable chemical platforms driving profitable growth in select 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. To achieve these ambitions we will:

- Build on our strong chemical platforms to deliver profitable growth in selected markets
- Drive functional excellence
  - Productivity of supply chain and operations
  - Commercial excellence
  - Talent management leveraging the AkzoNobel process
- Reduce organizational complexity and cost
- Commercialize product innovation and deliver process innovation
- Capitalize on industry changes

More details on what we achieved in 2013, and our plans for 2014 in terms of each of these actions, follow.

## Build on our strong chemical platforms

The Specialty Chemicals business is inherently more capital intensive than our other two Business Areas, so if we are to achieve the expected improvements in return on investment, we must carefully allocate our capital to the opportunities that have the greatest potential for profitable growth.

Although we are positive about the robust outlook for the markets that we serve and are confident about our competitive position in these markets, we must evaluate which of the platforms provide us with the most promising opportunities and then differentially direct our capital into the best opportunities for profitable growth.

We have defined two main approaches:

- In parts of our business where there are attractive market growth opportunities and we have a strong competitive position, we aim to outgrow the market. We will do this based on organic growth. We will also ensure that while we grow we will leverage our scale so that we not only grow in terms of revenue, but we also simultaneously improve our margins through better leverage of scale. For example, in bleaching chemicals, we are investing for growth in sodium chlorate chemical islands in Brazil, while in surfactants, we are investing for growth in more attractive end-user markets
- In other chemical platforms (for example the salt/chlorine chain), where the markets are more mature or offer us less growth potential, we also intend to improve our profitability, but we will do so on the basis of driving operational excellence. We will still invest in these businesses, particularly in terms of process technology. Growth investments will be selectively reviewed, such as our current investment in Frankfurt, or for performance improvement (for example in automation)

### **Drive functional excellence**

To reach our return on sales expectations, we need to develop best-in-class capabilities in vital functional areas. To leverage our scale and create these capabilities effectively and efficiently, we will do this in a consistent manner across the Business Area.

Key areas of functional focus are:

- Improvement in productivity of the supply chain and operations. As part of the company's overall performance improvement program, we have conducted over 70 site improvement projects, with savings up to €5 million per site. In addition to cost reductions, we achieved significant improvements in operational eco-efficiency, thereby lowering our carbon footprint. We have also established a Lean Six Sigma platform within the Business Area as part of a company-wide chemicals production system designed to further optimize certain processes in operations. We will also launch programs for increased focus on yield, waste and quality to cut costs and optimize resource use. We will do this by creating a center of excellence for training and implementation of best practice processes for supply chain activities as the next step in the roll-out of our production system
- Commercial excellence. We have already introduced a margin management program in all our Specialty Chemicals businesses. This program includes standardized customer needs segmentation and pricing tools, as well as a product and service portfolio management process based on a rigorous assessment of cost-to-serve. Our next steps are to create a common customer feedback process and develop and implement a sales force productivity improvement program. Sales force improvements will be based on implementation of standardized sales processes, aligned incentive systems and training programs

- Talent management leveraging the AkzoNobel process. At AkzoNobel level, we are implementing a disciplined approach to diverse and inclusive talent development based on a consistent talent management process. At Specialty Chemicals Business Area level, we will address specific areas of concern, including the need to continue to migrate our employee base to high growth geographies

### **Reduce organizational complexity and cost**

We have carried out substantial restructuring to date as our industry environment has changed, closing or divesting more than ten factories, including those considered non-core businesses, as well as realigning our sites in mature markets. Going forward, we will continue restructuring in line with the company's functional excellence approach, as well as reviewing the structure in multi-site organizations and reducing non-product related spend.

### **Commercialize product innovation and deliver process innovation**

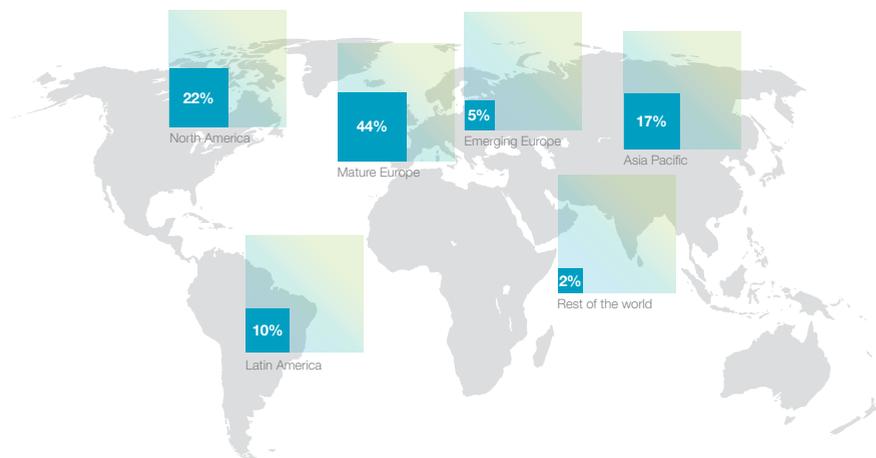
We have already delivered significant process improvements in all of our platforms, including in electrolysis and the salt manufacturing process in the salt/chlorine platform, and offered our customers continuous initiator dosing in the organic peroxides platform. In addition, we regularly introduce new products that provide a variety of benefits, including energy reduction and functional process improvement. One example is Ecosel AsphaltProtection, an additive to de-icing brine which reduces winter damage to road surfaces by up to 50 percent. One of our newest products, it has also been classified as an eco-premium solution with downstream benefits. Going forward, we will continue to standardize and improve processes and introduce new products in new applications to help generate more value from fewer resources across all of the value chains that we serve.

### **Capitalize on industry changes**

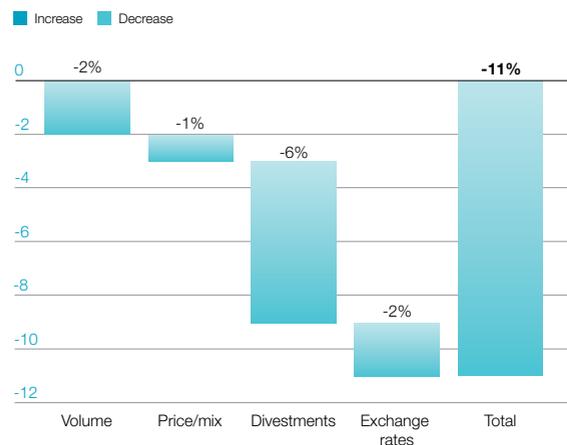
Over the last decade, we have aggressively invested in building production facilities in high growth countries such as China and Brazil, with the objective of aligning our capabilities with changes in the market. Clearly, we must continue to ensure that we adapt to emerging industry developments. This includes additional geographic shifts, as well as shifts in the supply base, such as increasing availability of shale gas and greater availability of renewable raw materials, including energy, as well as feedstocks. By taking a comprehensive view at the Business Area level, we will be able to ensure that we continue to stay ahead of the market, as we have done with our capacity additions in China.

# Key developments 2013

## Geo-mix revenue by destination



## Revenue development in % versus 2012



## Key figures in € millions

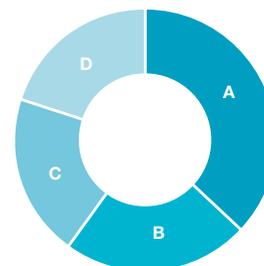
	2012	2013
Revenue	5,543	4,949
Operating income	500	297 <sup>1</sup>
ROS%	9.0	6.0
Invested capital	3,528	3,355
Capital expenditures	484	346
ROI%	13.6	8.2

<sup>1</sup> Including €139 million impairment on a business held for sale.

## Employees by region at year-end

	2012	2013
North America	1,800	1,800
Latin America	1,000	1,000
Mature Europe	5,500	5,500
Emerging Europe	100	100
Asia Pacific	2,300	2,000
<b>Total</b>	<b>10,700</b>	<b>10,400</b>

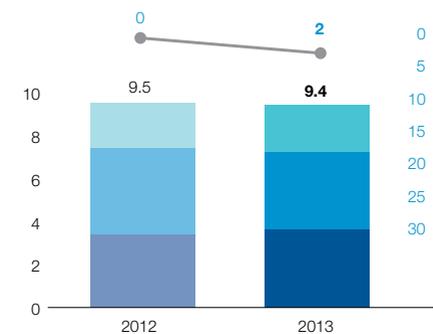
## Revenue breakdown by business unit in %



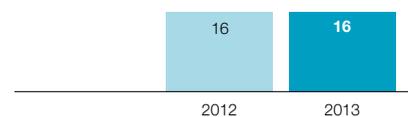
<b>A</b> Functional Chemicals	37
<b>B</b> Industrial Chemicals	23
<b>C</b> Pulp and Performance Chemicals	20
<b>D</b> Surface Chemistry	20

## Cradle-to-grave carbon footprint in million tons of CO<sub>2</sub>(e)

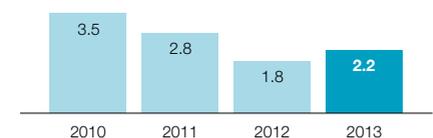
■ Scope 3 upstream     ● % reduction CO<sub>2</sub>(e) per ton of sales  
■ Scope 1 & 2  
■ Scope 3 downstream



## Eco-premium solutions with customer benefits % of revenue



## Total reportable rate of injuries per million hours



# Key developments 2013

## Functional Chemicals

- It was a challenging year financially, mainly due to weak demand in Europe, although markets in North America and Asia strengthened towards the end of the year
- Business performance was boosted by internal cost-cutting programs and restructuring activities at various production sites
- Plans were announced to phase out production of organic peroxides at our Deventer site in the Netherlands by the end of 2016
- Dissolvine StimWell stimulation technology was firmly established in the oil and gas industry due to its environmental and performance benefits, while our Dissolvine GL chelate was recognized by the US EPA with a Design for the Environment label, recognizing the product as being a safer ingredient
- A new production facility for Bermocoll cellulose derivatives was started up in Ningbo, China
- The sale of the Primary Amides business and related manufacturing assets in Korea was completed

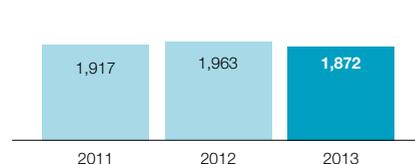
## Industrial Chemicals

- Revenue was on a par with 2012, reflecting the ongoing difficult economic conditions in Europe, our primary market
- Chlor-Alkali was impacted by technical issues at major customers, along with an extended maintenance shut-down at its largest plant, while MCA was in line with expectations, despite a more competitive environment in China
- Salt performed well in core markets, but suffered from the loss of gas storage proceeds from previous years and higher steam costs
- Two expansion projects were concluded, at Taixing, China, for MCA, and Rotterdam, the Netherlands, for DME
- We introduced Ecosol BioCare, an anti-caking agent for road salt, and secured the supply of 25 MWh base load electricity from a biomass incinerator in Delfzijl, the Netherlands, for a seven-year period, which will result in a CO<sub>2</sub> reduction of 130,000 tons per year

### Key brands



### Revenue in € millions



### Some of our customers

- Dow
- BASF
- Yara
- Procter & Gamble
- FMC
- Warwick
- Lyondell-Basell
- Henkel

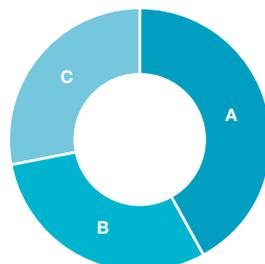
### Top raw materials

- Ammonia, ethylene, methane and propylene
- Chloroformates
- Sulfur, salt, cellulose

### Key cost drivers

- Ethylene
- Sulfur
- Salt
- Energy

### Geo-mix revenue by destination in %

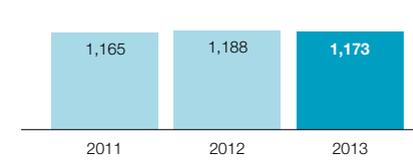


A EMEA	42
B Americas	30
C Asia Pacific	28

### Key brands



### Revenue in € millions



### Some of our customers

- Bayer
- Huntsman
- Shin-Etsu

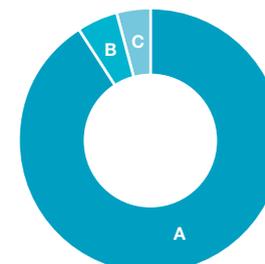
### Top raw materials

- Fuels (for cogeneration)
- Power
- Acetic acid

### Key cost drivers

- Oil, gas and coal prices
- Methanol prices

### Geo-mix revenue by destination in %



A EMEA	91
B Americas	5
C Asia Pacific	4

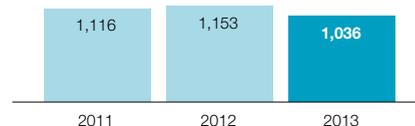
## Pulp and Performance Chemicals

- Volumes for most product lines started slowly, but recovered substantially in all areas in the second half of the year
- The Bleaching Chemicals business saw somewhat lower volumes in North America, but this was offset by growing volumes in South America, while Europe was slightly higher than 2012 and Asia was stable
- Colloidal Silica continued its growth in high added value and differentiated segments, while Expancel, our expandable microspheres business, grew its revenue according to plan versus 2012. Paper Chemicals saw some volume pressure, but was able to increase its margins
- The Jupia Chemical Island in Três Lagoas, Brazil, was inaugurated and a new Expancel plant in Sundsvall, Sweden, also started production
- A number of smaller, non-core businesses were divested during 2013
- Powered by electricity generated from renewable biomass, our Chemical Islands in Brazil continue to provide customers with an innovative and sustainable solution to meet their operational needs

### Key brands



### Revenue in € millions



### Some of our customers

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

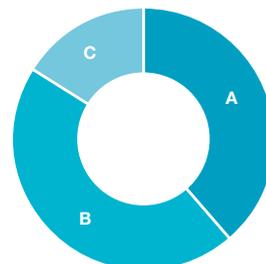
### Top raw materials

- Energy
- Salt
- Rosin
- Sodium silicate

### Key cost drivers

- Energy prices and logistic costs

### Geo-mix revenue by destination in %



A EMEA	39
B Americas	46
C Asia Pacific	15

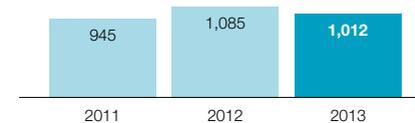
## Surface Chemistry

- Operating income held up well compared with 2012
- Unexpected supply chain and production issues at some US and Chinese sites impacted volumes and revenues, but significant effort has been put into strengthening output and the reliability of our supply chain
- Several performance improvement actions were launched as part of a renewed strategy for the business
- Signed long-term development agreements with key customers in the agro segment
- Began debottlenecking projects at our sites in the US and Europe which will increase capacity by 20 to 30 percent
- Announced a significant investment in China to boost capacity and improved operational excellence at manufacturing sites in Boxing and Ningbo
- Launched Berol LS, which delivers superior degreasing performance in an organic, solvent-free solution
- Completed the OneSAP project without impacting customers, a major accomplishment in a challenging setting

### Key brands



### Revenue in € millions



### Some of our customers

- Elementis
- GE
- Monsanto
- Procter & Gamble
- Potash Corporation of Saskatchewan
- Southern Clay
- Unilever

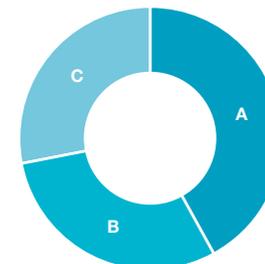
### Top raw materials

- Animal fats and vegetable oils
- Starch (corn, potato, tapioca)

### Key cost drivers

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

### Geo-mix revenue by destination in %



A EMEA	31
B Americas	55
C Asia Pacific	14

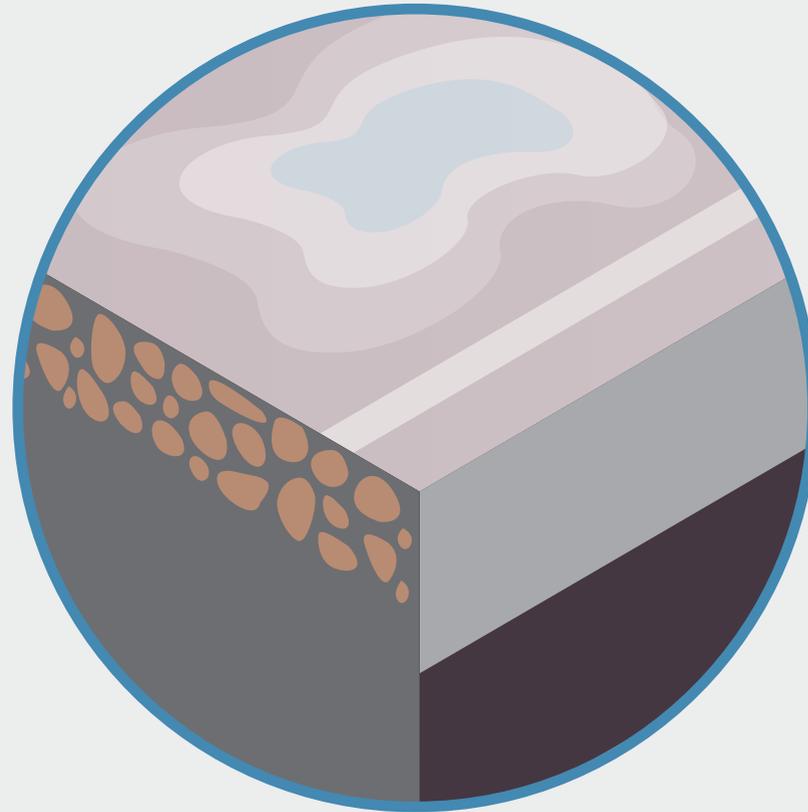
## Making roads safer

Winter can play havoc with road pavements, resulting in dangerous driving conditions and hefty repair bills for road authorities. So anything that can help prevent cracks and what's known as raveling (loss of material from the surface) is likely to make roads considerably safer while also saving money.

Our Industrial Chemicals business has already commercialized Ecosel BioCare, a 100 percent biodegradable anticaking agent for de-icing salt which avoids the use of ferrocyanide, so addressing environmental concerns. Now, our scientists have developed another new product in the Ecosel range of innovative additives for salt, which is known as Ecosel AsphaltProtection.

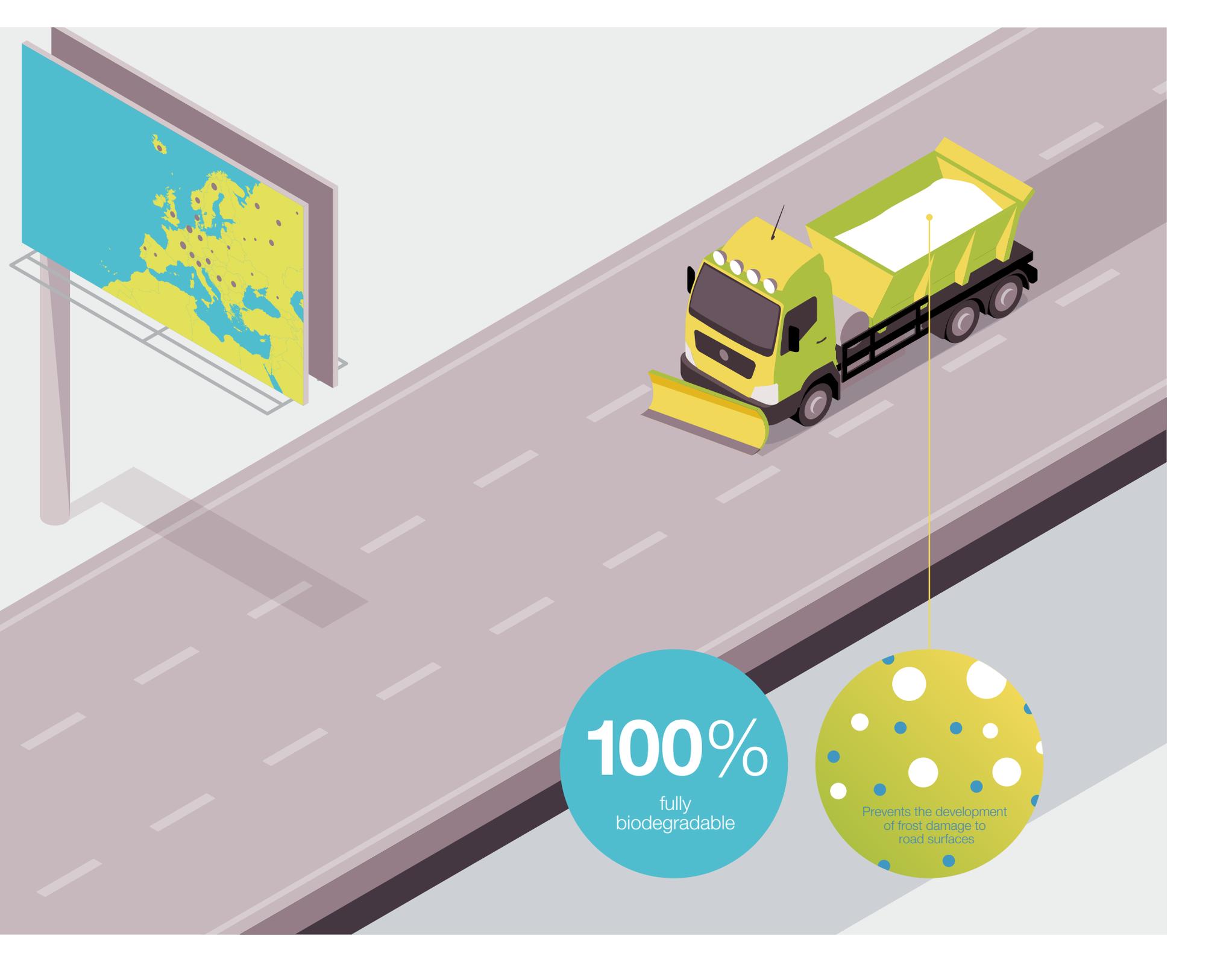
Due to be commercialized in 2014 after being tested with partners in various European countries, the new product – which is also fully biodegradable – is an additive for de-icing brine which prevents the development of frost damage to road surfaces. It works by slowing the freezing process, resulting in soft, slushy ice rather than hard, abrasive ice.

Test results obtained from Austria, Sweden, Denmark and the Netherlands have shown that use of Ecosel AsphaltProtection prevents up to 50 percent of raveling development caused by frost – leading to substantial savings in maintenance and repair budgets, less disturbance to traffic and lifetime extension of asphalt, not to mention safer and better conditions for drivers.



Ecosel AsphaltProtection slows the freezing process, resulting in soft, slushy ice rather than hard, abrasive ice.





**100%**  
fully  
biodegradable

Prevents the development  
of frost damage to  
road surfaces

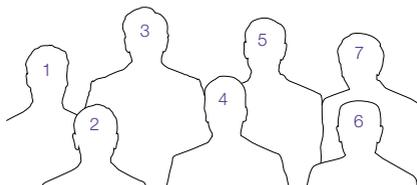


# Our leadership

In this section we introduce our Board of Management and Executive Committee, as well as our Supervisory Board. We also present the Report of the Supervisory Board and provide detailed overviews of their activities during 2013.

Our Board of Management and Executive Committee	74
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# Our Board of Management and Executive Committee



**Ton Büchner (4)**  
**CEO and Chairman of the Board of Management and the Executive Committee (1965, Dutch)**

Prior to joining AkzoNobel in 2012, Ton Büchner was President and CEO of Sulzer Corporation, a position he took up in 2007.

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

His early career was spent in the oil and gas construction industry involving roles at Allseas Engineering in Europe and AkerKvaerner in South East Asia. He then joined Sulzer in 1994, working in a range of operations before his appointment to the executive committee as a divisional president in 2001.

He has lived and worked in the Netherlands, Singapore, Malaysia, China, Switzerland and the US.

**Keith Nichols (6)**  
**CFO and Member of the Board of Management and the Executive Committee (1960, British)**

Keith Nichols joined AkzoNobel in December 2005 from Corus Group plc, where he held the position of Group Treasurer. Prior to joining Corus in 2004, he held a number of senior finance positions within the TNT Post Group, including that of CFO, and before that with WPP plc, BET plc and Storehouse plc.

Having brought extensive international finance experience to AkzoNobel, he played a key role in the divestment of the company's pharmaceutical operations in 2007, and in financing and completing the acquisition

of ICI plc. He was appointed CFO in 2008 to lead and integrate the finance function and oversee the delivery of the ICI acquisition synergies.

He has lived and worked in the UK, the Netherlands, France and the US and is a Fellow of the Association of Corporate Treasurers, as well as holding the MCT in treasury, risk and corporate finance.

**Marten Booisma (1)**  
**Member of the Executive Committee responsible for Human Resources (1966, Dutch)**

Marten Booisma joined AkzoNobel in October 2013 from Royal Ahold, where he was Chief Human Resource Officer, a position he took up in 2007. He has extensive experience in corporate HR and is highly skilled at improving HR processes and developing an effective organization.

He joined Ahold Europe in 1999 and held a number of important management positions, which included being responsible for overall HR strategy in Europe. Earlier in his career he worked for both Unilever and Shell.

Educated in the Netherlands, the UK and the US, he is a Supervisory Board member at Raet.

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

Sven Dumoulin joined AkzoNobel as General Counsel in 2010 and is responsible for legal, compliance, intellectual property and legacy management.

He holds a PhD in law from the University of Groningen and worked as a lawyer with a large Dutch firm prior to joining Unilever in 2003, where he was appointed Group

Secretary four years later. From 2003 to 2007, he held professorships in company law at the Universities of Groningen and Tilburg in the Netherlands.

Outside AkzoNobel, Dumoulin is a member of various Legal Professional Associations in both the Netherlands and abroad. He is a member of the Board of Directors of the CPR International Institute for Conflict Prevention & Resolution, and a Board member of both the Dutch Association for Listed Companies (VEUO). He was also a member of the Dutch Corporate Governance Code Monitoring Committee from 2007 to 2009.

**Werner Fuhrmann (7)**  
**Member of the Executive Committee responsible for Specialty Chemicals (1953, German)**

Before joining the Executive Committee, Werner Fuhrmann held various positions in the field of finance, including Controller of AkzoNobel's Specialty Chemicals business. He was appointed General Manager of Chelates and Sulphur Products in 2000, before becoming Managing Director of Industrial Chemicals in 2005, a position he held until he took on his current role in 2011.

Outside of AkzoNobel, he is Chairman of the Dutch Association of the Chemicals Industry (VNCI), and a Board member of both the European Chemicals Association (Cefic) and American Chemistry Council.

**Ruud Joosten (5)**  
**Member of the Executive Committee responsible for Decorative Paints (1964, Dutch)**

Ruud Joosten joined AkzoNobel in 1996 as International Marketing Manager for the Decorative Paints business.

Since then, he has held various management positions within both Decorative Paints and Specialty Chemicals. In 2008, he was appointed Managing Director of Decorative Paints North and Eastern Europe, located in Warsaw, Poland. Three years later he became Managing Director for Pulp and Performance Chemicals, located in Gothenburg.

A graduate of the Amsterdam Free University, where he gained a Masters in economics, he has lived and worked in the Netherlands, Poland and Sweden.

**Conrad Keijzer (3)**  
**Member of the Executive Committee responsible for Performance Coatings (1968, Dutch)**

Conrad Keijzer joined AkzoNobel in 1994 as Market Development Manager in the company's Industrial Chemicals business, after graduating from Twente University of Technology with a Masters degree in industrial engineering.

Since then, he has held various management positions within the Performance Coatings and Specialty Chemicals Business Areas. In 2004, he was appointed Global Director for Automotive Plastic Coatings. Then in 2008 he served as Managing Director for AkzoNobel Packaging Coatings and two years later as Managing Director for AkzoNobel Industrial Coatings.

Outside of AkzoNobel, he is a Board member of CEPE (the European Council of Paint and Printing Ink producers).

He has lived and worked in the Netherlands, Mexico, the US, Spain and Germany.



# Statement of the Board of Management

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

We have prepared the AkzoNobel Report 2013, and the undertakings included in the consolidation taken as a whole, in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and additional Dutch disclosure requirements for annual reports.

To the best of our knowledge:

- The financial statements in this AkzoNobel Report 2013 give a true and fair view of our assets and liabilities, our financial position at December 31, 2013, and of the result of our consolidated operations for the financial year 2013
- The management report in this AkzoNobel Report 2013 includes a fair review of the development and performance of the businesses and the position of AkzoNobel, and the undertakings included in the consolidation taken as a whole, and describes the principal risks and uncertainties that we face

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

authority schedules, as well as specific measures, such as a risk management system, a system of controls and a system of letters of representation by responsible management at various levels within our company.

All these processes and procedures are aimed at a reasonable level of assurance that we have identified and managed the significant risks of our company and that we meet our operational and financial objectives in compliance with applicable laws and regulations. The individual components of the above set of internal controls are in line with the COSO Enterprise Risk Management Framework. With respect to support to, and monitoring of, compliance with laws and regulations, including our Code of Conduct, a Compliance Committee has been established. Internal Audit provides assurance to the Board of Management whether our internal risk management and control systems, as designed and represented by management, are adequate and effective.

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

- Provide a reasonable level of assurance that the financial reporting in this Report 2013 does not contain any errors of material importance
- Have worked properly during the year 2013

For a detailed description of the risk management system with regard to the strategic, operational and compliance risks and the principal risks identified, reference is made to the Risk management chapter in the Strategy section, as well as the Compliance and integrity management chapter of the Governance and compliance section. We have discussed the above

opinion and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

### Outlook

Although we saw early signs of stabilization in the second half of 2013 in some of our businesses, the economic environment remains fragile and foreign currencies volatile. We will continue to significantly restructure our businesses in 2014 to reduce our cost base further to offset the expected continued weak recovery. The company is on track to achieve its strategic priorities for 2015.

Amsterdam, February 19, 2014

### The Board of Management

Ton Büchner  
Keith Nichols



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### **Learning to be the best**

Every company wants to establish a competitive edge, even more so when the economy makes life difficult and doing business becomes extra challenging. But how do you meet this challenge and get that all-important advantage over your competitors?

At our Automotive and Aerospace Coatings business, one answer has been to train salespeople to clearly communicate how a product can meet a customer's needs and beat the competition more in terms of value than price. Introduced this year in Asia, the new sales training program – which employs an approach known as blended learning – has been highly successful.

Blended learning is different from traditional one-off training events because it combines workshops, role-playing, e-learning and take-home assignments in a single course which takes two months to complete. This approach was used recently in China and India for a Value Proposition Selling program, which involved participants putting their knowledge into practice for four weeks immediately after the course had been completed.

Not only does this approach prompt employees to start applying their newly acquired knowledge straight away, but it also encourages them to take a more active role in their career development. In turn, it leads them to commit more fully to their role and take more responsibility for their performance. The programs also offer a very tangible demonstration of AkzoNobel's commitment to developing the talents of its people.

And initial evidence suggests that it is paying off. In the four weeks following the completion of one course in India, the sales staff added several new customers and increased sales at existing customers.

# Supervisory Board Chairman's statement

2013 was an inspiring year for AkzoNobel. Although we experienced constant headwinds due to the economic environment, the year was notable for the roll-out of our new company strategy. It was also the year in which AkzoNobel was once again ranked number one in the Materials industry group on the Dow Jones Sustainability Index.

The challenging economic conditions persisted throughout 2013 and I do not expect an early improvement in the trends facing our end-user market segments. I am convinced, however, that our CEO Ton Büchner, together with his dedicated team, will be able to drive AkzoNobel through these difficult economic circumstances. The acceleration of the performance improvement program and the strategy announced in February 2013 are clearly the right focus for the company to have.

With the additions of Conrad Keijzer, Ruud Joosten and Marten Booisma to the Executive Committee, we have a committed and enthusiastic team with excellent strategic knowledge and operational skills which will be of great benefit to the company as we look to make swift progress on our strategic agenda.

The new strategy of building on leading market positions and focusing on four end-user segments, as well as concentrating on organic growth, operational excellence and sustainability, has been in place for a year now. Our end-user approach

in particular has helped us to further develop key customer-driven actions. Remuneration has also been aligned with announced targets in order to drive performance towards achieving the strategy. In addition, the performance improvement program we announced in 2011 continued to do well during the course of 2013, with more than the €500 million in EBITDA that we originally targeted being delivered a year early. As a result of this acceleration, I am confident that AkzoNobel will continue to embed a culture of continuous improvement and operational excellence.

I am particularly proud that AkzoNobel was again ranked in first place on the Dow Jones Sustainability Index (in the newly named Materials industry group), the eighth consecutive year we have been ranked in the top three. The ranking underlines the fact that sustainability is at the heart of our strategy and emphasizes our shared belief that sustainability is business and business is sustainability. With this strategy, we have been creating more value for all our stakeholders.

The following pages provide a detailed overview of the Supervisory Board's activities during the reporting year. Relevant information concerning myself and my fellow Supervisory Board members is also provided. Our corporate governance, remuneration policy, compliance and integrity management and shareholder relations are covered in the Governance and compliance section. I hope it will give you a good understanding of the framework under which the company operates. At AkzoNobel, we believe that good corporate governance is integral to the structures and processes that the Supervisory Board, Board of Management and Executive Committee have put in place in order to achieve our strategic objectives.

On behalf of my fellow members of the Supervisory Board, I would like to thank the CEO, the CFO, the other members of

the Executive Committee and all employees for their dedication and hard work for the company in 2013. The Supervisory Board experienced this during a combined visit with the Executive Committee to Turkey. Country visits are important for our understanding of the local businesses and people and they support us in performing our governance tasks.

Finally, I would like to thank my fellow Supervisory Board members for their commitment and support during the year. I believe that the Supervisory Board is a strong and united team with a wide range of experience and expertise that will continue to serve the company well. In April 2014, I will reach the end of my third and final term as a member of the Supervisory Board. As per the 2014 AGM, I will therefore hand over the Chairmanship. A thorough process has been followed to prepare my successor and I am confident that the new Chairman will lead the company into an exciting new era.



**Karel Vuursteen**  
Chairman of the Supervisory Board

# Our Supervisory Board



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

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

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



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

Former CEO of Degussa AG; member of the Supervisory Board of Umicore SA.



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

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

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



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

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

- Chairman of the Audit Committee



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

Former CEO of ABB Financial Services; former Executive Vice-President of SEB; non-executive director of Axfood AB, Lundin Petroleum AB, Skandia Mutual Life Insurance and Diageo plc; Chairman of Lancelot Asset Management AB.

- Member of the Audit Committee



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

Former Chairman and CEO of Unilever N.V. and plc; non-executive director of BP plc; member of the Supervisory Boards of SHV Holdings N.V., Jumbo Group Holding B.V. and AEGON N.V.; Chairman of the Supervisory Boards of TNT Express N.V. and Intergamma B.V.

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



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

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

- Member of the Audit Committee



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

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

- Member of the Audit Committee



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

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

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

## A different class of product

As part of our ongoing efforts to supply more sustainable products to customers, we are increasingly steering our innovation towards the development of what we call eco-premium solutions (EPS). We define these as products that offer a significant sustainability advantage compared with the most commonly available equivalent commercial products.

One such example is our crystal metallic UV topcoats – supplied by our Wood Finishes and Adhesives business – which are used to coat panels for a variety of commercial applications, including schools, airports and restaurants. Not only does the product meet our criteria for qualifying as an EPS (see Note 4 of the Sustainability statements), but it's also an example of an EPS with direct downstream benefits.

The advantages of the product can be highlighted by customer James Hardie, who used the 100 percent UV system to replace a competitor's 2K isocyanate coating which had a VOC content of more than 60 percent.

Not only does the coatings system we provided contain zero VOCs, but it is also non-flammable and significantly more durable for chemical and abrasion resistance. In addition, our customer was also able to cut their solvent emissions by more than 50 percent, reduce their handling of isocyanate, slash their reject rates from 12 percent to 0.2 percent and achieve an increase in their productivity with an instant cure UV process, more than offsetting the energy increase of UV curing in comparison to air drying.

Looking ahead, we have a clear 2020 target to achieve 20 percent of revenue from products and services that provide customers and consumers with a significant sustainability advantage.



# Report of the Supervisory Board

## Main 2013 activities

Succession planning resulting in one new Supervisory Board member candidate, to be proposed for election at the 2014 AGM, in order to broaden the financial knowledge base of the Supervisory Board	Chairman selection and preparation for succession as of the 2014 AGM	Senior executive succession in the Executive Committee, resulting in Marten Booisma becoming the new ExCo member responsible for Human Resources, effective October 1, 2013
The annual internal evaluation concluded that the Supervisory Board and its committees continue to operate effectively	The Supervisory Board visited Istanbul and Gebze in Turkey, providing members with a greater understanding of our local business and their customers	Finalization of monitoring of the performance improvement program following its successful acceleration in 2013

## Meetings

The Supervisory Board held seven meetings during 2013. Six meetings were plenary sessions with the full Executive Committee present for all or part of the meetings. One meeting was held without the full Executive Committee present, only the Board of Management attended that meeting. All Supervisory Board meetings were preceded or succeeded by an executive session of the Supervisory Board, with the Chief Executive Officer (CEO) being invited to four of these meetings. 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 and 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
Karel Vuursteen	7/7	–	3/3	2/2
Sari Baldauf	7/7	–	3/3	2/2
Doif van den Brink	7/7	8/8	–	–
Peggy Bruzelius	6/7	7/8	–	–
Uwe-Ernst Bufe	7/7	–	–	–
Antony Burgmans	6/7	–	3/3	2/2
Sir Peter Ellwood	7/7	8/8	–	–
Louis Hughes	7/7	7/8	–	–
Ben Verwaayen	7/7	–	3/3	2/2

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

### Supervisory Board activities

One of the main activities of the Supervisory Board in 2013 was Supervisory Board member succession planning. Sir Peter Ellwood has decided to step down at the 2014 AGM. The Nomination Committee engaged the services of an executive search agency to assist with the succession. In order to identify a potential candidate, the agency employed 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. As a result, it is the Supervisory Board's intention to nominate Mr. Byron Grote for election to the Supervisory Board at the 2014 AGM. The new member will bring additional financial knowledge and as such be an appropriate successor for Sir Peter Ellwood. The new Supervisory Board member will participate in a tailored induction program covering AkzoNobel's governance and businesses and will also join the ongoing training program in which all Supervisory Board members participate.

Mr. Vuursteen will reach the end of his 12-year maximum tenure, of which the last five years were as Chairman of the Supervisory Board. A diligent and careful approach was adopted in order to identify, select and prepare the new Chairman for his role and responsibilities as of the 2014 AGM.

Considerable time was devoted to discussing the company's strategy and reviewing strategic options with the CEO. Business Area, business unit and functional strategies were presented to the Supervisory Board following the strategic review sessions at company level with the Executive Committee. In 2013, these included the presentation of the Powder Coatings business' strategy, while both the Legal function and Integrated Supply Chain gave strategy updates. The Board of Management kept the Supervisory Board regularly informed of intended organizational changes, appointments of senior managers and major contracts.

The Supervisory Board reviewed the 2013 sustainability performance data through the sustainability dashboard, providing performance indicators for safety performance, eco-efficiency improvement and employee engagement, including diversity and inclusion and talent management. The Supervisory Board recog-

nized 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 number one position in the Materials industry group on the 2013 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 and is fully behind 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.

In September 2013, the Supervisory Board, Board of Management and Executive Committee visited some of the company's businesses in Turkey. This included meetings with local management, customers and other stakeholders, as well as a visit to the Decorative Paints site in Gebze. The visit provided a clear overview of the country from a market segmentation perspective, which helped the Supervisory Board to place the Turkish business in a structured way in the company's new strategy. It was also an excellent opportunity for the Supervisory Board to liaise and engage with local management and to learn more about the politico-economic view of Turkey.

Another key area of attention during the year was the company's performance improvement program, which is focused on achieving operational and functional excellence and is fundamental to the delivery of our 2015 targets in a challenging market environment. The program was closely monitored by three Supervisory Board members, who held five meetings with the CEO or Chief Financial Officer (CFO), the program director and the Corporate Director of Control. During these meetings, the progress of the program was reviewed and discussed in detail, while representatives from the various work streams were also invited to attend on several occasions to provide detailed overviews of their areas of responsibility. In addition to providing reports on the progress made, discussions were held about embedding the results achieved and the quality of implementation. The results of these meetings were reported back to, and discussed with, the full Supervisory Board. As a result of the successful acceleration of the program in 2013, monitoring by Supervisory Board members of the program ended as of January 1, 2014.

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

All Supervisory Board members participated in the annual compliance training session in which the General Counsel and an external law firm provided an overview of AkzoNobel's compliance framework and gave competition law compliance training. Supervisory Board members are also given the possibility to enroll in AkzoNobel's online compliance training modules on an ongoing basis.

A thorough operational planning process followed, resulting in a 2014 budget and operational plan, which was reviewed and approved by the Supervisory Board.

The three members with Business Area responsibilities provided regular updates to inform the Supervisory Board on safety, competitive behavior, projects and year-to-date financials. In 2013, the Supervisory Board moved to a digital meeting platform. This will help improve governance by facilitating communications and enabling a timely view of current and historic company information.

### Financial statements and profit allocation

The financial statements of Akzo Nobel N.V. for the financial year 2013 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 2013 financial statements of Akzo Nobel N.V. meet all requirements for correctness and transparency, and that they form a good basis to account for the supervision provided (see the Financial statements section). The Audit Committee monitors the follow-up by management of the recommendations reported by the external auditor.

The Supervisory Board recommends that the Annual General Meeting of shareholders (AGM) adopts the financial statements as presented in this Report 2013 and, as proposed by the Board of Management, approve the allocation of €352 million for the payment of dividend. This is consistent with the company's aim to provide a stable to rising dividend. The proposed total dividend for 2013 on each of the common shares outstanding is €1.45 and it is proposed that this amount, less the interim dividend of €0.33 – which was paid in November 2013 – be made payable on May 28, 2014. The dividend will, at the shareholder's discretion, be paid either in cash or in shares. In addition, we request that the AGM discharge the members of the Board of Management of their responsibility for the conduct of business in 2013 and the members of the Supervisory Board for their supervision in 2013.

### Board evaluation

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

In a separate meeting without the Board of Management, the full Supervisory Board discussed the results of the evaluation questionnaires. The Supervisory Board also discussed the functioning of the Board of Management and the performance of its individual members. The evaluation of the Chairman was discussed by the Supervisory Board in the Chairman's absence. The Audit Committee invited the Board of Management and other meeting participants to join part of the evaluation discussion. These discussions were recorded and conclusions and actions were discussed and confirmed at the next meeting of the Supervisory Board and the Audit Committee.

Items addressed were overall performance and composition of the Supervisory Board, the Audit Committee and the other committees, strategic issues and key areas for 2014. Other points discussed were the nature and impact of the discussions, strategy oversight, risk management and internal control and succession planning. We are pleased to confirm that our internal evaluation concluded that the Supervisory Board and its committees continued to operate proficiently. The Supervisory Board was positive about the progress made in a number of important areas, such as succession planning and coaching of the new Executive Committee members. Improvement areas are diversity and training.

The Supervisory Board intends to use an external facilitator in the evaluation process every third year. The last external evaluation took place in 2011. We will once again use an external consultancy firm for the 2014 Board evaluation.

### Audit Committee

The Audit Committee held eight meetings during 2013. The roles and responsibilities and composition of the Audit Committee are set out in the Corporate governance statement. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings of this Board.

#### Main 2013 activities

- Review of the effectiveness of internal controls over financial reporting including internal audit findings
- Review of the 2013 annual report and financial statements
- Review of AkzoNobel's dividend direction
- Assessment of the economic crisis and the company's contingency planning
- External auditor independence
- Appointment of new lead auditor
- External auditor tender process

#### Results/financial statements

Before each announcement of the quarterly results and annual financial statements, the Audit Committee reviewed the financial results and consulted on the reports and press releases to be published and issues reviewed by the Disclosure Committee. Supervisory Board members in general participated in this part of the Audit Committee meeting.

### **Risk management and internal control arrangements**

The Audit Committee reviewed AkzoNobel's overall approach to risk management and control, its processes, outcomes and disclosure. It also reflected on the deteriorating market conditions in Europe and the US and discussed contingency planning. During 2013, the Audit Committee discussed:

- Internal control procedures and report
- InControl assurance statement
- Operating working capital management. In several meetings, the Audit Committee discussed OWC to identify improvement actions
- HSE and sustainability audits and summary of findings
- Risk management
- Internal audit reports and planning
- Post investment reviews
- Treasury strategy
- Tax strategy
- Litigation and claims
- Compliance with primary and secondary legislation (internal framework, monitoring and processes and compliance reports)
- Information management strategy

In addition, the Audit Committee reviewed the annual operational plan (including budget), AkzoNobel's dividend directions and proposals. On fulfilling its oversight responsibilities in relation to risk management and internal control arrangements, the Audit Committee met regularly with senior executives and is fully satisfied with the key decisions taken.

### **Internal audit function**

The Audit Committee reviewed the internal audit plan and strategy and agreed its budget and resource requirements. An evaluation of the performance and quality of the internal audit function was also carried out, with members being satisfied with the effectiveness of the function. The Audit Committee also 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, 2013. 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 adequacy of the Audit Committee charter, as well as evaluating the services of the external auditor, and continues to closely monitor international discussions on auditor independence. Both processes were concluded and, as a result, the Audit Committee has recommended to the Supervisory Board not to propose a change in the external auditor's appointment until 2016. In that year, based on Dutch regulations, the company is required to change its audit firm. The tender process and selection of a new firm was concluded in 2013, and the chosen auditors will be proposed by the Supervisory Board to the AGM in April 2014. 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. Weusten, has held this position since July 2007. He will be succeeded by Mr. Van Leeuwen, who will take over in April 2014. Further details on the external auditor can be found in the Corporate governance statement.

### **Evaluation**

The Supervisory Board evaluated the performance of the Audit Committee and the Audit Committee carried out a self-assessment of its performance. Both concluded that the Audit Committee is performing effectively. Reference is made to the paragraph on the Board evaluation in this chapter.

### Remuneration Committee

The Remuneration Committee held three meetings in 2013. The roles and responsibilities and composition of the Remuneration Committee are set out in the Corporate governance statement. 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 Mr. Booisma were reviewed and discussed with the CEO. The committee also reviewed the remuneration of the members of the Supervisory Board and the pension plan of the Executive Committee. Based on the recommendation of the Remuneration Committee, the Supervisory Board intends to propose a change in the annual fixed remuneration at the 2014 AGM.

Further details on the remuneration policy and its implementation for 2013 are outlined in the Remuneration report chapter in the Governance and compliance section. Information on the remuneration of the Board of Management and Supervisory Board can be found in Note 22 of the Consolidated financial statements.

### Nomination Committee

The Nomination Committee held two meetings in 2013. The roles and responsibilities and composition of the Nomination Committee are set out in the Corporate governance statement.

The Nomination Committee made several recommendations to the Supervisory Board during 2013. These included the appointment of Messrs. Joosten and Keijzer as members of the Executive Committee as of the 2013 AGM. The Supervisory Board supported and approved these recommendations.

Together with the CEO, the Committee also devoted considerable time to senior executive succession planning. After a thorough selection process, with the assistance of an executive search agency, a recommendation was made by the Nomination Committee – following proposals by the CEO – for the succession of Mrs. Oudeman. Important selection criteria included a proven track record, global business experience and team spirit. The appointment was subsequently approved by the Supervisory Board. Mr. Booisma was appointed as the Executive Committee member responsible for Human Resources as of October 1, 2013.

For CFO succession, a thorough selection process has been initiated, reviewing external and internal candidates.

In addition, the Nomination Committee successfully identified Mr. Byron Grote to succeed Sir Peter Ellwood as a member of the Supervisory Board and devoted considerable time to discussing the Chairman succession and short and long-term Supervisory Board member succession. Based on the advice of the Nomination Committee, the Supervisory Board recommends the appointment of Mr. Grote as a member of the Supervisory Board at the AGM in 2014. As the Chairman will retire as per the 2014 AGM, the Nomination Committee recommended the Supervisory Board to limit the number of Supervisory Board positions from nine to eight members. The Supervisory Board also recommends the reappointment of Messrs. Burgmans and Hughes at the 2014 AGM. It is the intention of the Supervisory Board to appoint Mr. Burgmans as Chairman of the Supervisory Board after the 2014 AGM.

### Gratitude

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 2013.

Amsterdam, February 19, 2014  
The Supervisory Board

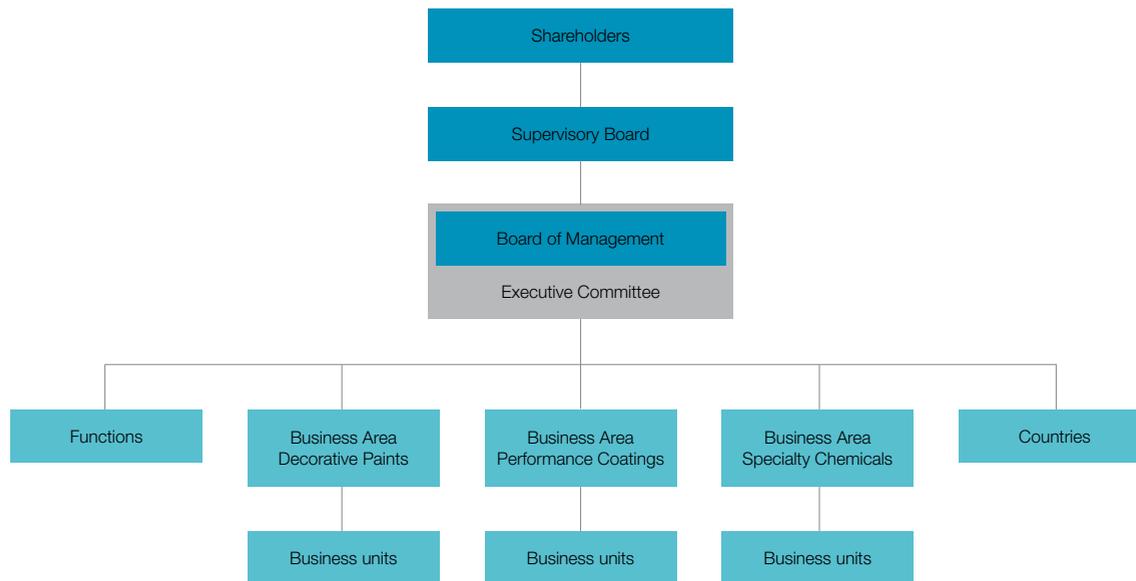


# Governance and compliance

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



Our corporate governance framework is governed by the following regulations:

## Major external regulations

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

## Major internal regulations

- Articles of Association
- Business Code of Conduct
- Share Dealing Rules
- Rules of Procedure for the Supervisory Board
- Rules of Procedure for the Board of Management and the Executive Committee
- Directives and rules
- Authority rules

AkzoNobel aspires to high standards of corporate governance. We consistently enhance and improve our corporate governance standards and framework, emphasizing transparency, in accordance with applicable laws and regulations.

The company's management and supervision structure is organized in a so-called two-tier system, comprising a Board of Management, solely composed of executive directors, and a Supervisory Board, solely composed of non-executive directors. The Supervisory Board supervises the Board of Management and ensures that external experience and knowledge are embedded in the company's conduct. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders (AGM) for the performance of their functions.

Akzo Nobel N.V. is a public limited liability company (Naamloze Vennootschap) established under the laws of the Netherlands. Its common shares are listed on NYSE Euronext Amsterdam. AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US.

Our corporate governance framework is based on the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code adopted in 2003 and amended in 2008 (the Code), applicable securities laws, the company's Articles of Association and the rules and regulations applicable to companies listed on the NYSE Euronext Amsterdam stock exchange. These are complemented by several internal procedures, such as the Business Code of Conduct and the Share Dealing Rules. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations, including a complaints procedure.

To safeguard consistency and coherence for the whole organization, the Executive Committee has established directives, including rules which provide a set of mandatory internal rules and regulations that must be adhered to. The Business Code of Conduct, Business Principles, directives, rules, manuals

and guidelines are part of the company's directives framework, which set out internal rules for employees.

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

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

#### **Board of Management and Executive Committee General**

The Board of Management is entrusted with the management of the company and, as of January 1, 2011, 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 company. The functions currently represented in the Executive Committee are HR and Legal.

In performing its duties, the Executive Committee is guided by the interests of the company and its affiliated enterprises, taking into consideration the relevant interests of the company's stakeholders. Among other responsibilities, the members of the Executive Committee define the strategic direction, establish the policies and manage the company's day-to-day operations.

The members of the Board of Management remain jointly and individually accountable for all decisions made by the Executive Committee. All Executive Committee decisions require a majority of the members of the Board of Management. The Board of Management can decide to reserve decisions for the Board of Management. The Board of Management is accountable for its performance to a separate and independent Supervisory Board. The Board of Management is also answerable to the shareholders of the company at the AGM. The Executive Committee members who are not also a member of the Board of Management report to the CEO.

The CEO leads the Executive Committee in its overall management of the company to achieve its performance goals and objectives. He is the main point of liaison with the Supervisory Board. The CFO is specifically responsible for overseeing AkzoNobel's finances.

The company has organized its activities into three Business Areas: Decorative Paints, Performance Coatings and Specialty Chemicals. Each Business Area is represented by a responsible member of the Executive Committee. To manage our business in a more operational way, an Operational Control Cycle is conducted once per month. For each Business Area, there are Operational Review Meetings which 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 agendas. Twice per year in each Operational Review Meeting, the functional agendas of Sustainability, Human Resources, Commercial Excellence, Integrated Supply Chain and Research, Development and Innovation are discussed.

The Managing Directors of our business units, the Country Directors and the Corporate Functional Directors in charge of the different functions, report to individual Executive Committee members with specific responsibility for their activities and performance.

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

The company has a Sustainability Council, which advises the Executive Committee on strategy developments. 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 Note 1 of the Sustainability statements.

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 our corporate website.

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

### **Appointment**

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

Members of the Board of Management are appointed for four-year terms (or less), with the possibility of reappointment at the expiry of each term. This is in line with the Code.

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

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

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

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

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

Pursuant to the Act on Management and Supervision that came into force on January 1, 2013, a board of management of a large Dutch public company, or "Naamloze Vennootschap", such as Akzo Nobel N.V., has a balanced composition if it consists of at least 30 percent female and 30 percent male members. If a board of management does not have such a balanced composition, it must explain why in its annual report. It must also set out how the company has tried to create a balanced composition, and explain how it will try to get to such a balanced composition in the future. The law does not describe how this rule should be applied in a board consisting of two people and whether a board that consists of two male or two female members is deemed not to have a balanced composition. In the event that candidates for new appointments to the Board of Management must be selected, the Supervisory Board will duly consider the relevant diversity standards and requirements for an international listed company.

#### **Conflict of interest**

The handling of (potential) conflicts of interest between the company and members of the Board of Management is governed by the Articles of Association and the Rules of Procedure for the Board of Management and Executive Committee. A member of the Board of Management and the other members of the Executive Committee shall not participate in the discussions and decision-making on a subject or transaction in relation to which he has a conflict of interest with the company. Decisions to enter into transactions under which members have conflicts of interest that are of material significance to the company – and to the relevant Board of Management or Executive Committee member – require the approval of the Supervisory Board. Any such decisions involving members of the Board of Management will be recorded in the annual report for the relevant year, with reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. In 2013, no transactions were reported under which a member of the Board of Management had a conflict of interest that was of material significance to the company.

#### **Remuneration**

In line with the remuneration policy adopted by the AGM, the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. The Supervisory Board also decides on the remuneration of the other members of the Executive Committee on the proposal of the CEO. The composition of the remuneration of Board of Management members, and the remuneration policy itself, are described in the Remuneration report and the Financial statements (see Note 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.

#### **Supervisory Board**

##### **General**

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

##### **Composition**

The Supervisory Board endorses the principle that the composition of the Supervisory Board is such that the Supervisory Board members are able to act critically and independently of one another and of the Board of Management and the Executive Committee. Each Supervisory Board member is capable

of assessing the broad outline of the overall strategy of the company and its businesses and carrying out its duties properly. The Supervisory Board – which currently consists of nine members – is constituted in a balanced manner to reflect the nature and variety of the company's businesses, their international spread and the desirability to have available expertise in fields such as finance, economic, societal, environmental and legal aspects of international business, government and public administration. Consequently, the current members have a diverse and appropriate mix of knowledge and experience of the markets in which AkzoNobel operates, as well as insights from different markets and non-operational areas. A list of current Supervisory Board members, including their biographies, is given in the Our leadership section.

With reference to the Act on Management and Supervision mentioned earlier, a supervisory board of a large Dutch public company (such as Akzo Nobel N.V.) has a balanced composition if it consists of at least 30 percent female and 30 percent male members. The Supervisory Board understands that the current gender balance does not meet this depiction of a balanced composition because only two of its nine members are female. However, a further aim of the Supervisory Board – which its members believe is currently being met – is that at least one-third of the members should meet the diversity criteria of gender (female) and/or nationality (outside of the European Union). This is in compliance with provision III.3.1 of the Code, which ensures that its composition better reflects both society at large and the markets in which the company operates. When nominating and selecting new candidates for the Supervisory Board in the future, these requirements will be taken into account. AkzoNobel feels that gender is only one part of diversity and that 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.

### **Rules of Procedure of the Supervisory Board**

The Supervisory Board is governed by its Rules of Procedure, which are available on the company's corporate website. The Rules of Procedure include the profile and the Charters of the Committees and sets out the tasks and responsibilities of the Supervisory Board.

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

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

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

### **Appointment**

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures which are the same as those previously outlined for the members of the Board of Management. As a general rule, based on a rotation schedule (available on our corporate website), a Supervisory Board member's tenure is four years. In principle, members are eligible for re-election twice, each time for a period not exceeding four years. However, in deviation from the Code (provision III.3.5), a member can be nominated for re-election

more often if, in specific circumstances, including but not limited to reasons of succession planning, this is considered to be in the company's interest.

In 2013 no (re)appointments to the Supervisory Board were proposed to the AGM. For 2014, one appointment and two re-appointments to the Supervisory Board are 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 an information package containing relevant information on the company and its corporate governance and compliance systems, as well as meetings with senior management and functional leaders. 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 matters and compliance are provided to the Supervisory Board.

### **Independence of the Supervisory Board**

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

### **Conflict of interest**

The Articles of Association and the Rules of Procedure include detailed provisions on how to deal with conflicts of interest and potential conflicts of interest between members of the Supervisory Board and the company. A member of the Supervisory Board shall not participate in the discussions and decision-making on a subject or transaction in relation to which he/she has a conflict of interest with the company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to

the company, and to the relevant Supervisory Board member, require the approval of the Supervisory Board. Any such decisions will be recorded in the annual report for the relevant year, with reference to the conflict of interests and a declaration that the relevant best practice provisions of the Code have been complied with. In 2013, 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 to the Financial statements.

### **Committees**

The Supervisory Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. Each committee has a charter describing its role and responsibilities and the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Supervisory Board Rules of Procedure, published on the company's corporate website. The committees report on their deliberations and findings to the full Supervisory Board. The committee members' attendances in 2013 are shown in the Report of the Supervisory Board.

### **Audit Committee**

The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of the accounting, auditing, reporting and risk management practices of the company, as well as the company's compliance with legal and regulatory requirements, the qualifications, performance and independence of the external auditor and the performance of the internal audit function. The chairman of the Audit Committee is Mr. Van den Brink. The Audit Committee consists of three other members – Mr. Hughes, Mrs. Bruzelius and Sir Peter Ellwood – all of whom have accounting and financial management expertise. As a rule, the CEO, CFO, Corporate

Director Control, Corporate Director Internal Audit and the lead partner of the external auditor, KPMG, attend all regular meetings. After every Audit Committee meeting, members hold a separate meeting with only the internal auditor present, and a separate meeting with only the external auditor present. Other members of management attend as and when requested. The General Counsel reports to the Audit Committee on compliance related matters at every regular meeting of the committee. The chairman of the Audit Committee initiates the evaluation of the functioning of the Audit Committee and its individual members, without the Board of Management being present.

### **Nomination Committee**

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

### **Remuneration Committee**

The Remuneration Committee is responsible for making proposals to the Supervisory Board on the remuneration policy for the Board of Management, for overseeing the remuneration of its individual members and the remaining members of the Executive Committee and for overseeing the remuneration schemes for AkzoNobel executives involving the company's shares. The committee conducts the periodic review of the

performance of the members of the Board of Management and the Executive Committee. The committee also reviews the remuneration package of the members of the Supervisory Board and prepares proposals for adjustments if necessary. The Remuneration Committee consists of four members and is chaired by Mr. Burgmans. Ms. Baldauf, Mr. Verwaayen and Mr. Vuursteen are the other members of the committee.

Further information on the work of the committees is set out in the Report of the Supervisory Board, while details of the remuneration of all Supervisory Board members are set out in Note 22 of the Financial statements.

### **Auditors**

The external auditor is appointed by the AGM on proposal of the Supervisory Board. The current appointment is for an indefinite period of time and is reviewed every four years by the Audit Committee. The same committee advises the Supervisory Board, which communicates the results of this assessment to the AGM. The Audit Committee and the Board of Management annually report their dealings with the external auditor to the Supervisory Board and discuss the auditor's independence. During 2013, in addition to the annual internal quality review on services provided by the external auditor, the Audit Committee kept a close eye on national and international discussions on auditor independence. As a result, the Audit Committee has recommended to the Supervisory Board not to propose a change in the external auditor's appointment until 2016. In that year, 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. For AkzoNobel, this means that it has to change its auditor starting no later than January 1, 2016, it being noted that the company's current audit firm can finalize its audit in respect of the financial year 2015 after the January 1, 2016, date. The tender process and selection of a new firm was concluded in 2013. The selected auditors will be proposed by the Supervisory Board to the AGM in April 2014. This new appointment will be for a defined period as required by law.

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. Weusten, has held this position since July 2007. He will be succeeded by Mr. Van Leeuwen, who will take over in April 2014. The current lead auditor is present at the AGM and may be questioned with regard to his statement on the fairness of the financial statements. The external auditor attends all meetings of the Audit Committee, as well as the meeting of the Supervisory Board at which the financial statements are approved. He receives the financial information and underlying reports of the quarterly figures and is given the opportunity to comment and respond to this information.

#### **Non-audit services**

One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and monitoring of the auditors and the services they provide to the company. 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 Audit Committee Pre-approval Guidelines. All these documents have been revised and are available on the company's corporate website.

#### **Risk management and internal control**

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

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

An Internal Control committee is responsible for maintaining the company's internal control framework. The awareness of the company-wide internal control framework and self-assessment process was improved in 2013 by publishing and distributing the AkzoNobel control framework in an infographic format (see the following page). An area of continued focus in 2013 was the control standards for our key IT systems and making more use of automated controls in these systems.

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 Our leadership section for the statements in respect of the internal risk management and control systems.

#### **Code of Conduct and complaints procedure**

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

#### **Share Dealing Code**

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

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

#### **Share classes and major shareholders**

AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. Common shares are also traded over-the-counter on OTCQX (organized by Pink Sheets) in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2013, a total of 242,625,535 common shares and 48 priority shares had been issued. By December 31, 2013, MFS Investment Management held more than 5 percent of the company's share capital.

The priority shares are held by the Foundation Akzo Nobel. The Foundation's Board consists of members of AkzoNobel's Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the nomination rights for the appointments of members of the Board of Management and of the Supervisory Board, as well as the right to approve amendments to the Articles of Association of the company.

No cumulative preferred shares have been issued to date. It has been communicated that the cumulative preferred shares merely have a financing function, which means that if necessary, and possible, they will be issued at or near to the prevailing quoted price for common shares.

The Annual General Meeting of shareholders held on April 26, 2013, authorized the Board of Management for a period of 18 months after that date – subject to approval from the Supervisory Board – to issue shares in the capital of the company up to a maximum of 10 percent of the issued share capital (or 20 percent in case of a merger or acquisition) and to restrict

The AkzoNobel 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.

### 2. Setting objectives

Clear targets are vital for internal control. These align our vision, strategy and day-to-day business activities.

### 3. Responding to risk

Achieving our targets can be threatened by all possible risks. What these risks are, where they come from and how to handle them is a dynamic and ongoing process.

### 4. Control activities

Controls are executed everywhere, at all levels of the company and in all stages of business processes.

### 1. Control environment

The control environment provides the foundation. On the one hand, it gives organizational structure and assigns responsibilities. On the other, it shows commitment to the company's values and to all employees.

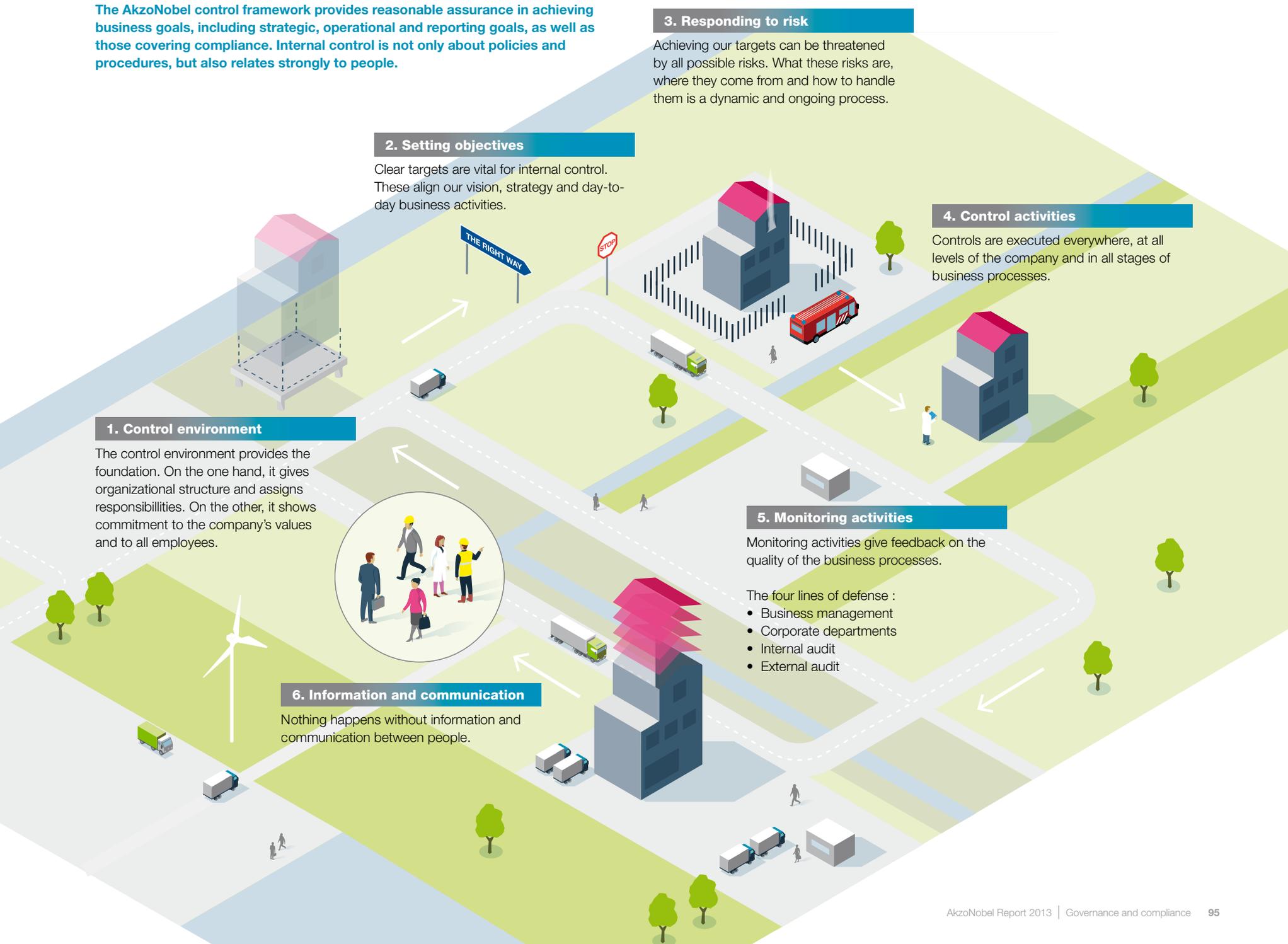
### 5. Monitoring activities

Monitoring activities give feedback on the quality of the business processes.

- The four lines of defense :
- Business management
  - Corporate departments
  - Internal audit
  - External audit

### 6. Information and communication

Nothing happens without information and communication between people.



or exclude the pre-emption rights for existing shareholders for those shares. At the same meeting, the Board of Management was given a mandate to acquire up to a maximum of 10 percent of the issued share capital of the company.

### **Annual General Meeting of shareholders (AGM)**

Currently, General Meetings of shareholders are held at least once a year. The Annual General Meeting of shareholders is convened by public notice. The agenda, the notes to the agenda and the procedure for attendance – including the record date and the procedure for granting a proxy to a third party – are published in advance and posted on the company's website. In 2013, the Shareholders' Communication Channel was used for the final time to distribute the agenda and to allow shareholders who hold their shares through an associated bank to participate in proxy voting at the meeting. The Shareholders' Communication Channel was terminated as of December 31, 2013. However, AkzoNobel will continue to provide "remote voting" possibilities for shareholders, among others by means of e-voting.

Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the Annual General Meeting of shareholders, notwithstanding the subsequent sale of shares thereafter. The notes to the agenda contain all relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the "one share, one vote" principle (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.

The Annual General Meeting of shareholders reviews the annual report and decides on adoption of the financial statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Board of Management. In deviation from the Act on Corporate Governance (Frijns) that came into force on July 1, 2013, holders of common shares in aggregate representing at least 1 percent of the total issued capital may submit proposals for the agenda of the Annual General Meeting of shareholders. These

proposals must be adequately substantiated and must be submitted in writing, or electronically, to the company's head office in Amsterdam at least 60 calendar days in advance of the meeting. The draft minutes of the Annual General Meeting of shareholders (in Dutch) are made available on the company's corporate website within three months of the meeting date. The final and duly signed minutes are made available online within six months of the meeting date.

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

- The financial statements
- Dividends (not interim dividends)
- The election of members of the Board of Management and the Supervisory Board
- The remuneration of the members of the Supervisory Board
- Changes to the remuneration policy for 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

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

According to provision IV.3.11 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used. The priority shares may be considered to constitute a form of anti-takeover measure. In relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board, the Foundation Akzo Nobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company's management and policies is at stake. This may be the case if a public bid for the common shares of the company has been announced, or has been made, or the justified expectation exists that such a

bid will be made without any agreement having been reached in relation to such a bid with the company.

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

In the event of a hostile takeover bid or other action which the Board of Management and Supervisory Board consider to be adverse to the company's interests, the two Boards reserve the right to use all available powers (including the right to invoke a response time in accordance with provisions IV.4.4 and II.1.9 of the Code), while taking into account the relevant interests of the company and its affiliate enterprise and stakeholders.

# Compliance and integrity management

A strong compliance framework is one of the essential foundations of good corporate governance and social responsibility. Based on a comprehensive Code of Conduct, AkzoNobel’s framework 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. Our conduct must be exemplary wherever we operate.

**Compliance framework**

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

**AkzoNobel Code of Conduct**

The Code of Conduct serves as the common reference document which reflects our strategic values and sets out our fundamental principles and rules for doing business. The code applies equally to our corporate actions and the behavior of individual employees, regardless of the market segment, function or country in which we operate. The Code of Conduct, Business Principles, directives, rules, manuals and guidelines are part of the company’s directives framework, which set out internal rules for employees. Available in 27 languages, the code is regularly distributed in paper form and widely available online.

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

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

We 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 and related internal regulations. In those joint ventures we do not control, we encourage our partners to consistently apply the values and principles reflected in our code when doing business.

AkzoNobel expects employees of newly acquired companies to adhere to the Code of Conduct in their daily actions and to live up to our strategic values, our fundamental principles

and rules for doing business. They receive extensive training, which enables them to fully acquaint themselves with the compliance framework and the code.

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 and social and environmental standards as formulated in the code. Vendors confirm that they conduct their business in accordance with core compliance principles through the AkzoNobel Vendor Policy Declaration. In addition, in 2013 we joined 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 6 of the Sustainability statements for more details.

#### **Code of Conduct training, communication and awareness**

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 includes online and classroom training. Around 95 percent of our employees have completed the Code of Conduct training module. Each year, all employees must confirm their awareness of the code as part of the annual performance appraisal discussions. The compliance training curriculum also offers specialized training to improve critical competencies and skills to a designated group of employees on topics such as competition law, anti-bribery, export control, privacy, fraud awareness, anti-harassment and trade secrets.

#### **Code of Conduct corporate 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 their manager, the relevant business level compliance committee, the compliance department, or the corporate Compliance Committee. 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. These reporting mechanisms are part of the complaints procedure and are described in our SpeakUp! policy and manual. All alleged breaches of the code that are brought to the attention of the compliance department are investigated.

In 2013, a total of 151 alleged breaches of the Code of Conduct were reported, both through SpeakUp! and other channels. The divestment of Decorative Paints North America in April 2013 had a significant impact on the overall number of Code of Conduct matters reported, compared with previous years. Of the 151 matters reported, 57 were substantiated, with 24 still under review. Nine were managed by the Compliance Committee as they met certain criteria. By subject, around 54 percent of the matters investigated in 2013 related to business integrity; around 41 percent related to treatment of employees and approximately 5 percent related to HSE concerns. Company-wide, 43 employees were dismissed on grounds related to breaches of the Code of Conduct. Other sanctions and remedial actions in substantiated matters included: review of procedures (eight); warnings (four); coaching (three); suspension (one); and probation (one). Although none of the issues reported were material, we are aware of the need to continue conducting root cause analyses and take appropriate actions.

#### **Compliance governance**

The compliance department, in close collaboration with the Compliance Committee, provides an adequate compliance framework and 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 Committee assists the Executive Committee in its ultimate responsibility to report to the Audit Committee of the Super-

visory Board. 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 HSE and Sustainability.

Business unit management and corporate staff departments are responsible and accountable for raising awareness and compliance within their respective businesses and departments. We have appointed business compliance officers and set up compliance committees in each of the businesses. The compliance officer assesses the main 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 management team, who then take appropriate action.

#### **Compliance and integrity reporting and monitoring**

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

#### **Complaints procedure (SpeakUp!)**

As mentioned earlier, this is the internal system, available 24 hours a day, which encourages employees to report alleged breaches of the Code of Conduct. The system is also available for temporary employees, third parties with whom AkzoNobel has a business relationship (such as customers, suppliers and agents) and members of the general public.

#### **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 2013, 12,700 employees signed this declaration.

## Integrity management

	2010	2011	2012	2013
<b>Code of Conduct reporting</b>				
Code of Conduct number of alleged breaches reported	260	245	295	151
<b>Code of Conduct breakdown of alleged breaches</b>				
Health & Safety	22	18	42	8
Business integrity	122	112	152	82
Treatment of employees	113	112	101	61
Other	3	3	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)	23	24	24	9
Code of Conduct alleged breaches handled by the relevant businesses (in numbers)	237	221	271	142
Substantiated Code of Conduct breaches (within year)	170	149	163	57
Substantiated Code of Conduct breaches (total, including breaches substantiated in a later year)	170	149	178	-*
Number of dismissals for Code of Conduct breaches within year	118	99	131	43
Dismissals for Code of Conduct breaches (total, including employees dismissed in a later year)	120	108	139	-*
<b>Compliance monitoring</b>				
Competition Law Compliance Declaration (number of confirmations)	13,000	14,400	15,900	12,700
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	95	96	95

\*By definition this number is not yet known.

## Non-financial letter of representation (NFL)

At the end of the year, the Managing Director of each business signs the NFL to confirm compliance with the Code of Conduct and other corporate non-financial requirements. The outcome is reviewed with the responsible member of the Executive Committee and General Counsel and the results are reported to the Board of Management and the Audit Committee. Outstanding actions are followed up in each business and progressed in quarterly reviews. The outcome of the NFL process, in combination with the internal control self-assessment process, forms the basis for the Statement of the Board of Management in this Report 2013.

## Share Dealing Code 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 Code.

## 2013 overview

### Training

Our training program and curriculum is a cornerstone of our compliance program. In 2013, we focused in particular on strengthening our anti-bribery compliance framework by introducing a refreshed online anti-bribery training for designated employees. More than 13,000 employees have completed the course. This program provides guidance on the ban on facilitation payments and sets out norms on gifts and hospitality.

We continue to emphasize competition law compliance in the training curriculum. The Executive Committee and Supervisory Board received competition law training in 2013. In addition, the Managing Director of each business met with competition counsel to discuss recent trends and developments in competition law compliance.

## Sensitive Country Program

The Sensitive Country Program was implemented in 2013. Under this program, a small team – consisting of the General

Counsel, another member of the Executive Committee and the Director of Compliance – meets on a quarterly basis. 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 appropriate action regarding trade with customers in specific countries, including enhanced internal review and the imposition of additional restrictions such as bans.

The Sensitive Country Program supplements our export control framework, which contains procedures and training that provide up-to-date guidance for employees on regulatory 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 emerging 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 turn to the Sustainability statements.

# Remuneration report

This report describes our remuneration policy and the remuneration paid to members of the Board of Management in 2013.

The remuneration and the individual contracts of the members of the Board of Management are determined by the Supervisory Board, within the framework of the remuneration policy. The remuneration policy was first adopted by the Annual General Meeting of shareholders (AGM) in 2005 and has 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 been amended several times since then, 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. 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 2013.

## Remuneration policy

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

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

- Base salary
- Performance-related short-term incentive (STI), with shareholding requirement related share matching opportunity
- Performance-related long-term incentive (LTI) in the form of shares
- Post-employment 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.

Because sustainability is considered key to our long-term future, 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. The remaining 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, and the development in ROI during the performance period. The TSR peer group and the vesting schemes are determined by the Supervisory Board. 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 AkzoNobel's relative TSR performance.

#### **Shareholding requirements and share matching**

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

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-employment 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**

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

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

#### **Loans**

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

#### **Implementation of the remuneration policy in 2013**

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 overview members of the Board of Management 2013 (see next page) presents an overview of the remuneration of the members of the Board of Management who were in office in 2013. Reference is made to Note 22 of the Financial statements for more details. The implementation of the remuneration policy in 2013 will be a separate agenda item at the 2014 AGM.

### Base salary

The base salaries of members of the Board of Management increased by 2.26 percent in 2013.

### Short-term incentive (annual bonus)

The objectives of the short-term incentive in 2013 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 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 target 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 2013 included goals set in relation to delivering on the performance improvement program.

ROI, OPI and OCF are based on the company's financial results in constant currencies. ROI was 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, capital expenditure as approved and remaining incidentals. In 2013, the performance against the targets set for ROI, OPI and OCF was as follows:

### 2013 performance on financial measures

Measure	Payout as % of target
ROI	55%
OPI	81%
OCF	66%

Upon its ex-post review of the relationship between the chosen performance criteria and the strategic objectives applied, and of the relationship between remuneration and performance, the Supervisory Board, given the importance of the link between the variable remuneration and the company's performance improvement program and strategic ambitions, decided not to make any adjustment to the financial metrics.

### 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 is seven years, the last stock options that vested under the stock option plan can be exercised until the expiration date in 2014.

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

### Performance share plan

In line with the remuneration policy, as applicable in previous grant years, the vesting of 50 percent of the shares conditionally granted in 2011 under the performance share plan (in respect of which the performance period ended on December 31, 2013) was linked to AkzoNobel's relative sustainability performance by taking AkzoNobel's average position in the RobecoSAM ranking.

For all conditional grants made in 2011, 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 ranked first in 2013 and 2012 and second in 2011 in the relevant RobecoSAM ranking. As a result, AkzoNobel's sustainability performance over the period 2011 through 2013 resulted in a vesting of 141.7 percent for this part of the long-term incentive.

For the 2011 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 2011:

#### 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 over the period 2011 to 2013 resulted in a tenth position within the ranking of the peer group companies. This ranking did not result in any vesting of shares for the TSR part of the share plan.

Based on AkzoNobel's combined sustainability and TSR performance, the final vesting percentage of the 2011 conditional grant after including the dividend yield during the performance period (determined to be 10.09 percent), equalled 77.98 percent.

This resulted in a total vesting of 77.98 percent of the shares that were conditionally granted in 2011. 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 2013 plan amounted to 24,200 for the CEO

#### Compensation overview members of the Board of Management 2013

in €	Ton Büchner Chief Executive Officer	Keith Nichols Chief Financial Officer	Leif Darner <sup>1</sup> Board member Performance Coatings	Tex Gunning <sup>1</sup> Board member Decorative Paints
Base salary	820,000	616,000	200,700	200,700
Short-term incentive	630,900	308,100	–	–
Share awards <sup>2</sup>	807,700	857,900	996,900	1,367,600
Post-employment benefits	291,600	221,800	–	–
Other post-employment benefits <sup>3</sup>	–	–	58,900	58,900
Other emoluments <sup>4</sup>	8,100	228,900	2,500	2,700
Other compensation <sup>5</sup>	–	73,600	50,700	–
<b>Total remuneration</b>	<b>2,558,300</b>	<b>2,306,300</b>	<b>1,309,700</b>	<b>1,629,900</b>

<sup>1</sup> Until April 26, 2013.

<sup>2</sup> Costs relating to share awards (Performance Share Plan and Share Matching Plan) are non-cash and relate to the expenses following IFRS2.

<sup>3</sup> Other post-employment benefits refers to payments intended for building up retirement benefits other than those included in Post-employment benefits.

<sup>4</sup> Other emoluments refers to social security cost. For Mr. Nichols this refers to the employer's contribution in the UK.

<sup>5</sup> Other compensation refers to compensation for living expenses and home leave allowances (Mr. Darner & Mr. Nichols).

and 18,200 for the CFO. The former members of the Board of Management who left the company during 2013 received pro-rata conditional grants under the plan.

The above vesting schemes apply in respect of conditional share grants made until 2013. As of 2013, the relative weighting is ROI performance 35 percent, TSR ranking 35 percent and SAM ranking 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 2013 and to be achieved by the end of 2015 as follows:

**ROI vesting scheme of conditional grant series 2013-2015**

Performance	Vesting (as % of 35% of conditional grant)
≥ 16.5%	150%
14.0% to 16.5%	linear
14.0%	100%
12.5% to 14.0%	linear
12.5%	50%
< 12.5%	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 out for 2008 onwards (i) the number of at target shares conditionally granted; (ii) the number of shares which have vested; (iii) the number of shares held by members of the Board of Management at the end of the lock up period; (iv) the face value at the conditional share grant, at vesting and at the end of the lock up period respectively.

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

decided that where, in the event of a takeover, the payout under the performance share plan is between 100 percent and 150 percent, 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 and therefore the Supervisory Board will in such event primarily take into account the company's TSR performance.

**Claw back and value adjustment**

In 2013 there was no cause for a claw back or value adjustment by the Supervisory Board.

**Shareholding requirements and share matching**

Reference is made to the table under Note 22 of the Financial statements for the number of shares that were held at year-end 2013 and 2012 by the members of the Board of Management. In the table below, an overview is given of the shares acquired by the relevant members of the Board of Management in 2013 that would, subject to the conditions of the share matching plan, qualify for matching by the company.

**Qualifying shares**

Board members	Qualifying shares acquired in 2013
Ton Büchner	1,429
Keith Nichols	–

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

**Pension contributions**

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

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

**Leaving arrangements and other special remuneration paid during 2013**

In 2013, Mr. Darner stepped down from the Board of Management. Details regarding his leaving arrangements were disclosed in the previous annual report. Mr. Gunning retired from his position with the company.

**Employment agreements**

Agreements for members of the Board of Management are concluded for a period not exceeding four years in accordance with the Code. After the initial term, re-appointments may take place for consecutive periods of up to four years each. The notice period by the Board member is subject to a term of three months; notice by the company shall be subject to a six-month term.

Members of the Board of Management normally retire in the year that they reach the age of 62. The employment agreements allow the Supervisory Board to request a Board member to resign between the age of 60 and the regular

retirement age for effective succession planning within the Board. In such an exceptional situation, the Board member concerned will be entitled to the “fixed” remuneration component until the date of retirement.

Reference is made to Note 22 of the Financial statements for an overview of the payments made to former Board members in 2013.

### 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 2013 (ROI, OPI, OCF) will continue to be applied in 2014. As regards the ROI metric for the long-term incentive awards in

2014, the Supervisory Board will consider a more challenging performance range as stated in the table below.

### ROI performance range series 2014-2016

	Threshold	Target	Maximum
Payout opportunity	50%	100%	150%
Target	13%	15%	17%

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

#### Unconditional shares, vested

Board Member	Series	Conditional share grant		Number of vested shares		End of lock up period	
		Number	Value at grant in €	Number	Value at vesting in €	Number	Value in €
Keith Nichols	Series 2008 - 2010	8,733	478,481	–	–	–	–
	Series 2009 - 2011	27,400	806,656	19,125	714,510	9,563	538,779
	Series 2010 - 2012	18,300	849,120	13,471	670,115	6,738	NA
	Series 2011 - 2013	18,600	864,714	14,504	817,171	–	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 2012 - 2014	31,900	1,191,784	–	47,850
	Series 2013 - 2015	24,200	1,203,829	–	36,300
	Matching shares 2012 (vesting 2016)	10,810	403,862	–	10,810
	Matching shares 2013 (vesting 2016)	1,429	71,086	–	1,429
Keith Nichols	Series 2012 - 2014	23,900	892,904	–	35,850
	Series 2013 - 2015	18,200	905,359	–	27,300

<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 2012)

Settlement of \$500 million bond which matured at the end of 2013

## 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 February, a strategy update was issued to reinforce the vision of leading market positions delivering leading performance.

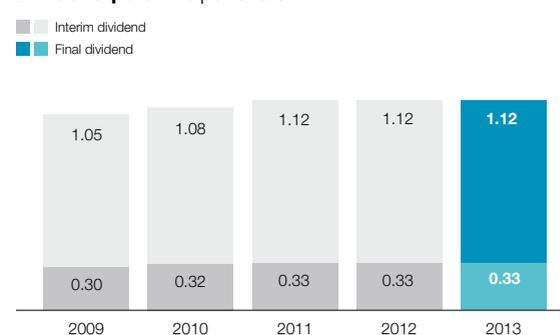
## Dividend policy

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 dividend of €1.45 per common share. AkzoNobel's shares will be trading ex-dividend as of May 2, 2014. In compliance with the listing requirements of Euronext Amsterdam, the record date will be May 6, 2014. The dividend as proposed to the 2014 Annual General Meeting of shareholders will be payable as of May 28, 2014. The dividend paid over the last five years is shown in the graph on this page.

## Dividend paid in € per share

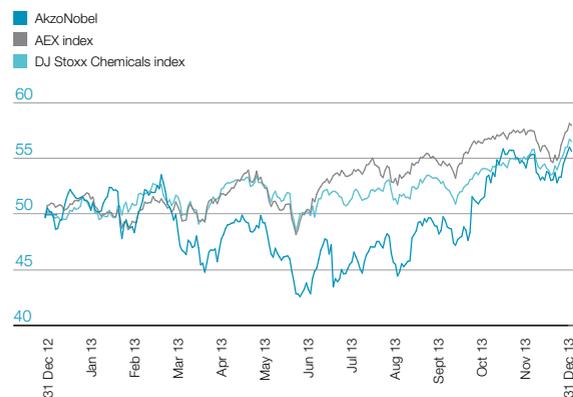


## Share price performance

Our share price increased 12 percent in 2013, 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 graph on the following page.

## Share price performance 2013

AkzoNobel share price in €

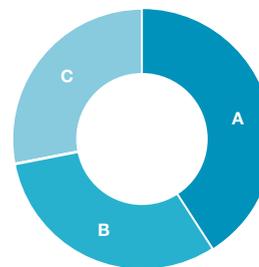


## Analyst recommendations

At year-end 2013, AkzoNobel was covered by 29 equity brokers and the following analyst recommendations were applicable (see diagram next column):

## Analyst recommendations in %

<b>A Buy</b>	41
<b>B Hold</b>	31
<b>C Sell</b>	28



## Listings

AkzoNobel's common shares are listed on the stock exchange of Euronext Amsterdam. AkzoNobel is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 4.43 percent at year-end 2013. In 2013, 206 million AkzoNobel shares were traded on Euronext Amsterdam (2012: 241 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

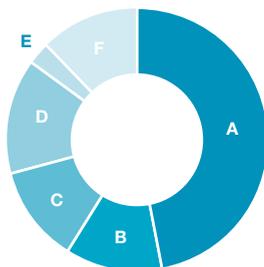
## Key share data

	2011	2012	2013
Year-end (share price in €)	37.36	49.75	55.71
Year-high (share price in €)	53.74	49.75	56.08
Year-low (share price in €)	29.25	35.16	42.65
Year-average (share price in €)	42.2	42.23	49.32
Average daily trade (in € millions)	47.5	39.6	39.8
Average daily trade (in millions of shares)	1.1	0.9	0.8
Number of shares outstanding at year-end (in millions)	234.7	239.0	242.6
Market capitalization at year-end (in € billions)	8.8	11.9	13.5
Net income per share (in €)	2.04	(8.82)*	3.00
Dividend per share (in €)	1.45	1.45	1.45
Dividend yield (in %)	3.4	3.4	2.9

\* As restated.

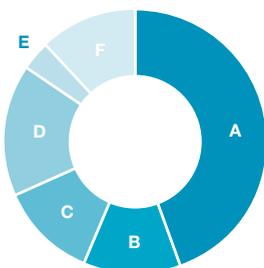
### Distribution of shares 2013

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



### Distribution of shares 2012

<b>A</b> North America	45
<b>B</b> UK/Ireland	12
<b>C</b> The Netherlands	12
<b>D</b> Rest of Europe	16
<b>E</b> Rest of world	3
<b>F</b> Undisclosed	12



### AkzoNobel in key sustainability indices

For the eighth year in a row, AkzoNobel was included in the Dow Jones Sustainability World Index (DJSI World). In 2013, we retained the number one ranking in the newly named Materials industry group. We were also once again represented in the Carbon Disclosure Project, with an improved rating for transparency of reporting and performance. The Carbon Disclosure Project represents more than 500 institutional investors, with over \$60 trillion in assets under management.

In addition we qualified for the Climate Disclosure Leadership Index (CDLI Benelux) during 2013, and became the leader in the Sustainalytics chemicals industry ranking.

### 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 August 2013, the chart on the left shows the geographical spread. Around 9 percent of the company's share capital is held by private investors, most of whom are resident in the Netherlands.

### 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	Negative
Standard & Poor's <sup>2</sup>	BBB+	Stable

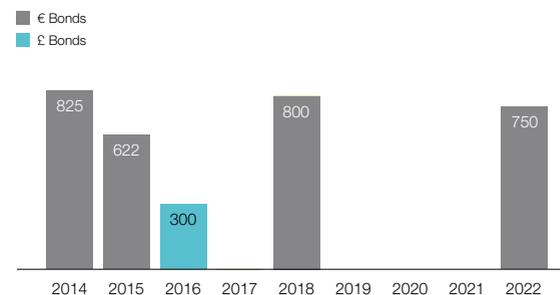
<sup>1</sup> Rating affirmed on July 31, 2013.

<sup>2</sup> Rating affirmed on Jan 22, 2014.

### Bonds

The proceeds from the divestment of the North American Decorative Paints business enabled the repayment of the \$500 million bond which matured at the end of 2013. For a full overview of our bonds, please see the Bond & Credit Information in the Investors section of our corporate website.

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



\* At the end of Q4 2013.

For more information, please refer to [www.akzonobel.com/investors](http://www.akzonobel.com/investors)



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## Consolidated statement of income

In € millions	Note	2012 <sup>1</sup>	2013
<b>Continuing operations</b>			
Revenue		15,390	14,590
Cost of sales	3	(9,591)	(8,951)
<b>Gross profit</b>		<b>5,799</b>	<b>5,639</b>
Impairment	3	(2,106)	(139)
Selling expenses	3	(3,192)	(3,023)
General and administrative expenses	3	(1,275)	(1,345)
Research and development expenses	3	(384)	(373)
Other operating income/(expenses)	3	(40)	199
		<b>(6,997)</b>	<b>(4,681)</b>
<b>Operating income</b>		<b>(1,198)</b>	<b>958</b>
Financing income	5	59	32
Financing expenses related to pensions	5	(3)	(21)
Other financing expenses	5	(261)	(211)
Results from associates and joint ventures	9	13	14
<b>Profit/(loss) before tax</b>		<b>(1,390)</b>	<b>772</b>
Income tax	6	(203)	(111)
<b>Profit/(loss) from continuing operations</b>		<b>(1,593)</b>	<b>661</b>
<b>Discontinued operations</b>			
Profit/(loss) for the period from discontinued operations	2	(436)	131
<b>Profit/(loss) for the period</b>		<b>(2,029)</b>	<b>792</b>
<b>Attributable to</b>			
Shareholders of the company		(2,092)	724
Non-controlling interests		63	68
<b>Profit/(loss) for the period</b>		<b>(2,029)</b>	<b>792</b>
<b>Earnings per share, in €</b>			
Continuing operations			
Basic	14	(6.98)	2.46
Diluted	14	(6.98)	2.44
Discontinued operations			
Basic	14	(1.84)	0.54
Diluted	14	(1.84)	0.54
Total operations			
Basic	14	(8.82)	3.00
Diluted	14	(8.82)	2.98

<sup>1</sup> Restated for the revised IAS 19.

## Consolidated statement of comprehensive income

In € millions	2012 <sup>1</sup>	2013
<b>Profit/(loss) for the period</b>	<b>(2,029)</b>	<b>792</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to statement of income:</b>		
Post-retirement benefits	(1,298)	(200)
Income tax	249	(64)
<b>Net effect</b>	<b>(1,049)</b>	<b>(264)</b>
<b>Items that may be reclassified subsequently to statement of income:</b>		
Exchange differences arising on translation of foreign operations	34	(510)
Cash flow hedges	(7)	(2)
Income tax	5	(7)
<b>Net effect</b>	<b>32</b>	<b>(519)</b>
<b>Other comprehensive income for the period</b>	<b>(1,017)</b>	<b>(783)</b>
<b>Comprehensive income for the period</b>	<b>(3,046)</b>	<b>9</b>
<b>Comprehensive income attributable to</b>		
Shareholders of the company	(3,093)	(20)
Non-controlling interests	47	29
<b>Comprehensive income for the period</b>	<b>(3,046)</b>	<b>9</b>

## Consolidated balance sheet

at year-end, before allocation of profit

In € millions	Note	January 1, 2012 <sup>1</sup>	Year-end 2012 <sup>1</sup>	Year-end 2013
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets	7	7,392	4,454	3,906
Property, plant and equipment	8	3,705	3,739	3,589
Deferred tax assets	6	907	1,146	1,071
Investment in associates and joint ventures	9	198	185	183
Other financial non-current assets	10	1,559	1,297	965
<b>Total non-current assets</b>		<b>13,761</b>	<b>10,821</b>	<b>9,714</b>
<b>Current assets</b>				
Inventories	11	1,924	1,545	1,426
Current tax assets	6	98	91	86
Trade and other receivables	12	2,937	2,698	2,536
Cash and cash equivalents	13	1,635	1,752	2,098
Assets held for sale	2	–	921	203
<b>Total current assets</b>		<b>6,594</b>	<b>7,007</b>	<b>6,349</b>
<b>Total assets</b>		<b>20,355</b>	<b>17,828</b>	<b>16,063</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Shareholders' equity	14	9,031	5,764	5,594
Non-controlling interests		529	464	427
<b>Group equity</b>		<b>9,560</b>	<b>6,228</b>	<b>6,021</b>
<b>Non-current liabilities</b>				
Post-retirement benefit provisions	15	1,728	1,942	1,237
Other provisions	16	664	735	701
Deferred tax liabilities	6	541	434	389
Long-term borrowings	17	3,035	3,388	2,666
<b>Total non-current liabilities</b>		<b>5,968</b>	<b>6,499</b>	<b>4,993</b>
<b>Current liabilities</b>				
Short-term borrowings	18	494	662	961
Current tax liabilities	6	413	390	220
Trade and other payables	19	3,369	3,242	3,218
Current portion of provisions	16	551	455	601
Liabilities held for sale	2	–	352	49
<b>Total current liabilities</b>		<b>4,827</b>	<b>5,101</b>	<b>5,049</b>
<b>Total equity and liabilities</b>		<b>20,355</b>	<b>17,828</b>	<b>16,063</b>

<sup>1</sup> Restated for the revised IAS 19.

## Consolidated statement of cash flows

In € millions	Note	2012 <sup>1</sup>	2013
<b>Profit/(loss) for the period</b>		<b>(2,029)</b>	<b>792</b>
Income from discontinued operations	2	436	(131)
<b>Adjustments to reconcile earnings to cash generated from operating activities</b>			
Amortization/depreciation	7, 8	625	616
Impairment losses	7, 8	2,106	139
Financing income and expenses	5	205	200
Results from associates and joint ventures	9	(13)	(14)
Pre-tax result on divestments		28	(246)
Income tax	6	203	111
Changes in working capital	13	251	(13)
Changes in provisions	13	(703)	(395)
Interest paid		(231)	(228)
Income tax paid	6	(209)	(230)
Other changes		68	115
<b>Net cash from operating activities</b>		<b>737</b>	<b>716</b>
Capital expenditures	8	(826)	(666)
Interest received		48	38
Dividends from associates and joint ventures	9	9	10
Acquisition of consolidated companies	2	(94)	(34)
Proceeds from divestments	2	216	347
Other changes		(79)	(24)
<b>Net cash from investing activities</b>		<b>(726)</b>	<b>(329)</b>
Proceeds from borrowings	17, 18	1,583	249
Borrowings repaid	18	(1,013)	(502)
Acquisition of non-controlling interests	2	(51)	–
Issue of shares for stock option plan	4	8	13
Dividends		(256)	(286)
<b>Net cash from financing activities</b>		<b>271</b>	<b>(526)</b>
<b>Net cash used for continuing operations</b>		<b>282</b>	<b>(139)</b>
Cash flows from discontinued operations	2	(53)	675
<b>Net change in cash and cash equivalents of continued and discontinued operations</b>		<b>229</b>	<b>536</b>
Cash and cash equivalents at January 1	13	1,335	1,558
Effect of exchange rate changes on cash and cash equivalents		(6)	(74)
<b>Cash and cash equivalents</b>		<b>1,558</b>	<b>2,020</b>

<sup>1</sup> Restated for the revised IAS19.

## 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, 2012</b>	469	47	(9)	4	8,520	9,031	529	9,560
Profit/(loss) for the period	–	–	–	–	(2,092)	(2,092)	63	(2,029)
Transfer to goodwill	–	–	(8)	–	–	(8)	–	(8)
Reclassification into the statement of income	–	–	19	39	–	58	–	58
Other comprehensive income	–	–	(18)	12	(1,299)	(1,305)	(16)	(1,321)
Tax on other comprehensive income	–	–	(1)	6	249	254	–	254
<b>Comprehensive income</b>	–	–	<b>(8)</b>	<b>57</b>	<b>(3,142)</b>	<b>(3,093)</b>	<b>47</b>	<b>(3,046)</b>
Dividend paid	7	121	–	–	(342)	(214)	(42)	(256)
Equity-settled transactions	–	–	–	–	43	43	–	43
Issue of common shares	2	6	–	–	–	8	–	8
Acquisitions and divestments	–	–	–	–	(11)	(11)	(70)	(81)
<b>Balance at December 31, 2012 <sup>1</sup></b>	<b>478</b>	<b>174</b>	<b>(17)</b>	<b>61</b>	<b>5,068</b>	<b>5,764</b>	<b>464</b>	<b>6,228</b>
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>	–	–	<b>(2)</b>	<b>(478)</b>	<b>460</b>	<b>(20)</b>	<b>29</b>	<b>9</b>
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>	<b>485</b>	<b>319</b>	<b>(19)</b>	<b>(417)</b>	<b>5,226</b>	<b>5,594</b>	<b>427</b>	<b>6,021</b>

<sup>1</sup> Restated for the revised IAS 19.

## Segment information

Our Decorative Paints businesses supply a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself markets. Our Performance Coatings businesses are represented in most markets of this

industry and we serve a large range of customers including ship and yacht builders and architects, consumer electronics and appliance companies, steel manufacturers, the construction industry, furniture makers, aircraft, bus and truck

producers, can makers and 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%	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012 <sup>1</sup>	2013
Decorative Paints	4,246	4,131	4,297	4,174	(176)	(162)	(2,120)	198	(2,012)	398	2.2	9.5
Performance Coatings	5,635	5,532	5,702	5,571	(131)	(138)	–	–	542	525	9.5	9.4
Specialty Chemicals	5,372	4,787	5,543	4,949	(306)	(308)	(24)	(121)	500	297	9.0	6.0
Corporate and other	137	140	(152)	(104)	(12)	(8)	(26)	(16)	(228)	(262)	–	–
<b>Total</b>	<b>15,390</b>	<b>14,590</b>	<b>15,390</b>	<b>14,590</b>	<b>(625)</b>	<b>(616)</b>	<b>(2,170)</b>	<b>61</b>	<b>(1,198)</b>	<b>958</b>	<b>5.9</b>	<b>6.6</b>

In € millions	Invested capital		Total assets		Total liabilities		Capital expenditures			ROI%
	2012	2013	2012	2013	2012	2013	2012	2013	2012 <sup>1</sup>	2013
Decorative Paints	2,981	2,589	5,777	4,315	2,059	1,987	206	171	2.0	13.7
Performance Coatings	2,439	2,251	4,011	4,062	1,364	1,593	123	143	21.7	21.3
Specialty Chemicals	3,528	3,355	4,774	4,388	1,215	983	484	346	13.6	8.2
Corporate and other	1,114	1,086	2,345	3,095	6,610	5,430	13	6	–	–
Assets held for sale	–	–	921	203	352	49	–	–	–	–
<b>Total</b>	<b>10,062</b>	<b>9,281</b>	<b>17,828</b>	<b>16,063</b>	<b>11,600</b>	<b>10,042</b>	<b>826</b>	<b>666</b>	<b>7.7</b>	<b>9.6</b>

### Regional information

In € millions	Revenue by region of destination		Intangible assets and property, plant and equipment		Invested capital		Capital expenditures	
	2012	2013	2012	2013	2012	2013	2012	2013
The Netherlands	745	765	880	834	1,175	1,174	110	94
Germany	1,258	1,176	507	523	747	725	69	87
Sweden	486	473	433	396	518	424	70	38
UK	901	887	1,006	1,021	1,342	1,286	68	74
Other European countries	3,647	3,531	1,269	910	1,588	1,223	85	66
US and Canada	2,294	2,155	1,081	1,002	1,748	1,730	70	62
Brazil	987	925	524	465	558	557	123	70
Other Latin American countries	636	628	84	74	170	140	16	13
China	1,621	1,643	1,610	1,563	1,364	1,295	135	104
India	371	353	152	138	122	116	16	17
Other Asian countries	1,716	1,380	570	481	525	461	55	23
Other regions	728	674	77	88	205	150	9	18
<b>Total</b>	<b>15,390</b>	<b>14,590</b>	<b>8,193</b>	<b>7,495</b>	<b>10,062</b>	<b>9,281</b>	<b>826</b>	<b>666</b>

<sup>1</sup> Excluding goodwill impairment.

# Notes to the Consolidated financial statements

## 1 Note 1: Summary of significant accounting policies

### General information

Akzo Nobel N.V. is a company headquartered in the Netherlands. The address of our registered office is Strawinskylaan 2555, Amsterdam. We have filed a list of subsidiaries, 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 19, 2014, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to the adoption by the Annual General Meeting of shareholders.

### Consolidation

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

### Change in accounting policies

#### Employee benefits

The amendments to IAS 19 "Employee Benefits", effective January 1, 2013, have been applied in our 2013 financial statements. The amendments include:

- recognizing actuarial gains and losses in other comprehensive income, thus removing the corridor method that was applied so far
- calculating the expected return on plan assets in the statement of income using the discount rate for the defined benefit obligation, instead of applying an expected rate of return on plan assets
- recognizing administration costs as expense as incurred, with the exception that administration costs related to management of plan assets, which are recorded in other comprehensive income
- recognizing past service costs in the statement of income in full as incurred

The effect of the implementation of the amendments to IAS 19 is disclosed in Note 15.

### Other changes

Other accounting pronouncements, including IFRS 13 "Fair Value Measurement" and amendments to IAS 1 "Presentation of Financial Statements", which became effective for 2013, had no material impact on our Consolidated financial statements.

### Discontinued operations (Note 2)

A discontinued operation is a component of our business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of income and statement of cash flows are reclassified as if the operation had been discontinued from the start of the comparative period.

Assets and liabilities are classified as held for sale if it is highly probable that the carrying value will be recovered through a sale transaction within one year rather than through continuing use. When reclassifying assets and liabilities as held for sale, we recognize the assets and liabilities at the lower of their carrying value or fair value less selling costs. Assets held for sale are not depreciated but tested for impairment. Impairment losses on assets

and liabilities held for sale are recognized in the statement of income.

The North American Decorative Paints business, divested in 2013, was classified as a discontinued operation in 2012 and 2013.

### Use of estimates

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the revision period and future periods, if the changed estimates affect both current and future periods. The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation 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:

- Business combinations (Note 2)
- Accounting for income tax (Note 6)
- Impairment of intangible assets and property, plant and equipment (Note 7, 8)
- Accounting for post-retirement benefits (Note 15)
- Provisions (Note 16)

### Statement of cash flows

We have used the indirect method to prepare the statement of cash flows. Cash flows in foreign currencies have been translated at transaction rates. Exchange rate differences affecting cash items are presented separately in the statement of cash flows. Receipts and payments with respect to income tax are included in cash from operating activities. Interest payments are included in cash from operating activities, while interest receipts are included in cash from investing activities. The costs of acquisition

of subsidiaries, associates and joint ventures, and other investments, as long as paid in cash, are included in cash from investing activities. Acquisitions or divestments of subsidiaries are presented net of cash and cash equivalents acquired or disposed of, respectively. Acquisitions of non-controlling interests are reported in cash from financing activities. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged items.

### Earnings per share

We present basic and diluted earnings per share (EPS) for our common shares. Basic EPS is calculated by dividing the profit or loss attributable to holders of our common shares by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to holders of common shares by the weighted average number of common shares outstanding, including the effects for potentially dilutive common shares, which comprise of stock options and performance-related shares granted to employees.

### Operating segments

We determine and present operating segments ("Business Areas") on the information that internally is provided to the Executive Committee, the body that was our chief operating decision maker during 2013. Operating results of a Business Area have been reviewed regularly by the Executive Committee to make decisions about resources to be allocated to the Business Area and assess its performance, and for which discrete financial information is available. Business Area results reported to the Executive Committee include items directly attributable to a Business Area as well as those items that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and corporate costs and are reported in Business Area "Corporate and other".

### Translation of foreign currencies

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate at transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the

balance sheet date. Resulting foreign currency differences are included in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at acquisition date.

The assets and liabilities of entities with other functional currencies are translated into the functional currency of the parent entity, using the exchange rates at the balance sheet date. The income and expenses of entities with other functional currencies are translated into the functional currency, using the exchange rates at transaction date. Foreign exchange differences resulting from translation into the functional currency of investments in subsidiaries and of intercompany loans of a permanent nature with other functional currencies are recorded as a separate component (cumulative translation reserves) within other comprehensive income. These cumulative translation adjustments are reclassified (either fully or partly) to the statement of income upon disposal (either fully or partly) or liquidation of the foreign subsidiary to which the investment or the intercompany loan with a permanent nature relates to. Before being consolidated, the financial statements of subsidiaries established in hyperinflationary countries are adjusted for the effects of changing prices of the local currency.

Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in the cumulative translation reserves (in other comprehensive income), to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged part of a net investment is disposed of, the associated cumulative amount in other comprehensive income is reclassified to the statement of income as an adjustment to the transaction result.

## Exchange rates of key currencies

The principal exchange rates against the euro used in preparing the balance sheet and the statement of income are:

	Balance sheet		Statement of income	
	2012	2013	2012	2013
US dollar	1.319	1.378	1.285	1.328
Pound sterling	0.816	0.834	0.811	0.850
Swedish krona	8.593	8.836	8.705	8.647
Chinese yuan	8.217	8.399	8.109	8.209

## Revenue recognition

Revenue is defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts and similar allowances, and net of sales tax. Revenue is recognized when the significant risks and rewards have been transferred to a third party, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. For revenue from sales of goods these conditions are generally met at the time the product is shipped and delivered to the customer, depending on the delivery conditions. Service revenue is generally recognized as services are rendered.

## Post-retirement benefits (Note 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. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected pension benefits based on employee service during the year and the interest on this obligation with respect to employee service in previous years, net of the expected return on plan assets. The discount rate used in determining the present value of the obligations and the return rate on plan assets is the yield

at reporting date of AA-rated corporate bonds that have maturity dates approximating the terms of our obligations.

When the calculation results in a benefit to AkzoNobel, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan. An economic benefit is available if it is realizable during the life of the plan, or on the settlement of the plan liabilities. The effect of these so-called asset ceiling restrictions and any changes therein, are recognized in other comprehensive income.

In certain countries we also provide post-retirement benefits other than pensions to our employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs related to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation with reference to employee service in previous years.

Actuarial gains and losses that arise in calculating our obligation with reference to a plan, are recognized 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. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation.

Interest on the defined benefit obligation for both pensions and other post-retirement benefits 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.

## Other employee benefits (Note 4, 16)

Other long-term employee benefits include long-service or sabbatical leave, jubilee or other long-service benefits, and other employee benefits payable more than 12 months after the related service is rendered. These provisions are measured at present value, using actuarial assumptions. The discount rate is the yield at reporting date of AA-rated corporate bonds that have maturity dates approximating the terms of our obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

An accrual is recognized for the amounts expected to be paid under short-term bonus or profit sharing plans if a present legal or constructive obligation as a result of past services provided exists and the obligation can be estimated reliably.

## Share-based compensation (Note 4)

We have a performance-related share plan, under which shares are conditionally granted to certain employees. The fair value of the performance-related shares granted is recognized as an expense with a corresponding increase in shareholders' equity. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the performance-related shares. Amortization is accelerated in the event that employment is terminated with retention of share entitlements before the end of the vesting period. The fair value of the performance-related shares for which vesting is based on the company's ranking for sustainability and performance, is the value of the Akzo Nobel N.V. common share on the date of the grant. The fair value for the TSR-linked vesting condition is measured using the Monte Carlo simulation model. This Monte Carlo model takes into account expected dividends, as well as the market conditions expected to impact our TSR performance in relation to selected peers. The amount recognized as an expense is adjusted to reflect the actual number of performance-related shares that vest, except

when forfeiture or extra vesting of performance-related shares is due to a TSR performance that differs from the performance anticipated at the grant of the performance-related shares, because this is a market performance condition.

### **Income tax (Note 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. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

In the balance sheet, current tax includes the expected tax payable and receivable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, as well as any adjustments to tax payable and receivable with respect to previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for taxation purposes. We do not recognize deferred tax for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The nature of the evidence supporting the recognition of the deferred tax assets is the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. The amount of deferred tax assets considered realizable, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

Current and deferred tax assets and liabilities have been offset in cases where there is a legally enforceable right for such set off and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities which intend either to settle current tax on a net basis or their tax assets and liabilities will be realized simultaneously.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed. Non-refundable dividend tax is taken into account in the determination of deferred tax liabilities to the extent of earnings expected to be distributed by subsidiaries in the foreseeable future. If separate tax rates exist for distributed and undistributed profit, the current and deferred taxes are measured at the tax rate applicable to undistributed profit. Deferred tax is not discounted.

### **Research cost and preparation and start-up expenses**

Research cost and preparation and start-up expenses are charged to the statement of income as incurred.

### **Government grants**

Government grants related to costs are deducted from the relevant cost to be compensated in the same period. Emission rights granted by the government are recorded at cost. A provision is recorded if the actual emission is higher than the emission rights granted. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

### **Intangible assets (Note 7)**

Intangible assets are valued at cost less accumulated amortization and impairment charges. All intangible assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. In addition, intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually.

Goodwill in a business combination represents the excess of the consideration paid over the net fair value of the

acquired identifiable assets, liabilities and contingent liabilities. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incidental items on the line other operating income/(expenses) in the statement of income. Any contingent consideration to be transferred will be recognized at fair value at the acquisition date.

If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income. The effects of all transactions with non-controlling interests are recorded in equity if there is no change in control; these transactions will not result in goodwill. Goodwill related to an investment in associates and joint ventures is included in the carrying value of that investment.

Intangible assets with a finite useful life, such as licenses, know-how, brands, customer relationships and intellectual property rights, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets, which generally ranges from 10 to 40 years. Development and software costs are capitalized if the costs can be measured reliably, the related product or process is technically and commercially feasible, sufficient future economic benefits will be generated and sufficient resources are available to complete the development. The expenditures capitalized include the cost of materials, consultancy, licenses, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalized development and software costs are amortized on a straight-line basis over the estimated useful life of related assets, which generally is up to five years. Amortization methods, useful lives and residual values are reassessed annually.

### **Property, plant and equipment (Note 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. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Depreciation is calculated using the straight-line method, based on the estimated useful life. In the majority of cases the useful life of plant equipment and machinery is ten years, and for buildings ranges from 20 to 30 years. Land is not depreciated. In the majority of cases residual value is assumed to be insignificant. Depreciation methods, useful lives and residual values are reassessed annually.

Parts of property, plant and equipment that have different useful lives are accounted for as separate items of property, plant and equipment. Costs of major maintenance activities are capitalized as a separate component of property, plant and equipment, and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant and equipment are expensed in the period in which they occur. Gains and losses on the sale of property, plant and equipment are included in the statement of income.

We have identified conditional asset retirement obligations at a number of our facilities that are mainly related to plant decommissioning. We recognize these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

#### **Impairments (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. The recoverable amount of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs to sell, whereby estimated future cash flows are discounted to their present value. The discount rate used reflects current market assessments of the time value of money and, if appropriate, the risks

specific to the assets. If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The assessment for impairment is performed at the lowest level of assets generating largely independent cash inflows. For goodwill and other intangible assets with an indefinite life, we have determined this to be at business unit level (one level below segment). We allocate impairment losses in respect of cash-generating units first to goodwill and then to the carrying amount of the other assets on a pro rata basis.

Except for goodwill, we reverse impairment losses if and to the extent we have identified a change in estimates used to determine the recoverable amount. We only reverse to the extent that the carrying value of the asset does not exceed the carrying value that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of income.

#### **Leases (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. Minimum lease payments made under finance leases are apportioned between the interest expenses and the reduction of the outstanding liability. The interest expenses are recognized as other financing expenses over the lease term.

Payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized over the term of the lease.

#### **Associates and joint ventures (Note 9)**

Associates are those entities in which we have significant influence, but no control, over the financial and operational policies. Joint ventures are those entities over whose activities we have joint control, established by contractual

agreement and requiring unanimous consent for strategic, financial and operating decisions.

Associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The Consolidated financial statements include our share of the income and expenses of the associates and joint ventures for the period that we have significant influence or joint control, whereby the result is determined using our accounting principles. When the share of losses exceeds the interest in the investee, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless we have incurred legal or constructive obligations on behalf of the investee. Loans to associates and joint ventures are carried at amortized cost less impairment losses.

The results from associates and joint ventures consist of our share in the results of these companies, interest on loans granted to them and the transaction results on divestments of associates and joint ventures. Unrealized gains and losses arising from transactions with associates and joint ventures are eliminated to the extent of our interest in the investee.

#### **Inventories (Note 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 conversion of inventories include direct labor and fixed and variable production overheads, and take into account the stage of completion. The costs of inventories are determined using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

#### **Equity (Note 14)**

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable cost, is net of any tax effects, and is recognized as a deduction from equity. Dividends are recognized as a liability in the period in which they are declared.

### Provisions (Note 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 and take into account legal fees. The expected future cash outflows are discounted at appropriate pre-tax interest rates, reflecting current market assessments of the time value of money and, if applicable, the risks specific to the liability. The increase of provisions as a result of the passage of time is recognized in the statement of income under other financing expenses. Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. We do not provide for future operating costs. Termination benefits for voluntary redundancy are recognized if we have made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

In accordance with our environmental policy and applicable legal requirements, we recognize a provision for environmental clean-up cost when it is probable that a liability has materialized and the amount of cash outflow can be reasonably estimated.

### Financial instruments

Regular purchases and sales of financial assets and liabilities are recognized on trade date, which is the date we commit to purchase or sell the asset. The initial measurement of all financial instruments is fair value. Except for derivatives, the initial measurement of financial instruments is adjusted for directly attributable transaction costs. We have the following categories of financial instruments:

- Derivative financial instruments
- Other financial non-current assets
- Trade and other receivables

- Cash and cash equivalents
- Long-term and short-term borrowings
- Trade and other payables.

### Derivative financial instruments (Note 23)

Derivative financial instruments include forward exchange contracts and commodity contracts, as well as non-closely related embedded derivatives included in normal business contracts. All derivative financial instruments are recognized at fair value on the balance sheet. Fair values are derived from market prices and quotes from dealers and brokers, or are estimated using observable market inputs. When determining fair values, credit risk for our contract party as well as for AkzoNobel is taken into account.

Changes in the fair value of forward exchange and commodity contracts are recognized in the statement of income, unless cash flow hedge accounting or net investment hedge accounting is applied. In that case, the effective part of the fair value changes is deferred in other comprehensive income and released to the related specific lines in the statement of income or balance sheet at the same time as the hedged item.

Both at the hedge inception and at each reporting date, we assess whether the derivatives used are highly effective in offsetting changes in fair values or highly probable cash flows of hedged items. When a derivative is not highly effective, we discontinue hedge accounting prospectively. In the event a fair value hedge relationship is terminated, amortization of fair value hedge adjustments is included in financing income and expense. When a cash flow hedge relationship is terminated, the fair value changes deferred in other comprehensive income (in equity) are released to the statement of income only when the hedged transaction is no longer expected to occur. Otherwise these will be released to the statement of income at the same time as the hedged item.

### Other financial non-current assets (Note 10)

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

### Trade and other receivables (Note 12)

Trade and other receivables are measured at amortized cost, using the effective interest method, less any impairment losses. An allowance for impairment of trade and other receivables is established if the collection of a receivable becomes doubtful.

Such receivable becomes doubtful when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. An impairment loss is recognized in the statement of income, as are subsequent recoveries of previous impairments.

### Cash and cash equivalents (Note 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)

Long-term borrowings are measured at amortized cost, applying the effective interest rate method. Short-term borrowings are measured at amortized cost, using the effective interest method. The interest expense on borrowings is included in other financing expenses. The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the interest at the reporting date, taking into account AkzoNobel's credit risk.

### Trade and other payables (Note 19)

Trade and other payables are measured at amortized cost, using the effective interest method.

### New IFRS accounting standards

IFRS and interpretations thereof not yet in force which may apply to our consolidated financial statements for 2014 and beyond have been assessed for their potential impact. The most important are the following:

#### Other new IFRS accounting standards

Standard	Published	Implementation date in the standard	Endorsed by the European Union	Anticipated impact
IFRS 9 Financial Instruments	November 12, 2009 and subsequent amendments on December 16, 2011 and November 19, 2013	Tentative implementation date of January 1, 2017	Postponed	IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and will eventually replace IAS 39 – the current standard on financial instruments. As its scope will be further expanded during the next years, we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate.
IFRS 10 Consolidated Financial Statements	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	This standard introduces an amended concept of control to determine whether an investee should be consolidated. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This standard will not materially affect our Consolidated financial statements.
IFRS 11 Joint Arrangements	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	This standard addresses the accounting of joint arrangements and eliminates proportionate consolidation. We will apply this standard as from 2014 and have assessed that there will not be a material impact on our Consolidated financial statements.
IFRS 12 Disclosure of Interests in Other Entities	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	This standard contains the disclosure requirements for interests in subsidiaries, joint ventures, associates and other unconsolidated interests. It may affect some disclosures in our Consolidated financial statements as from 2014.
Amendments to IAS 28, Investments in Associates and Joint Ventures	May 12, 2011	January 1, 2013; under EU endorsement postponed to January 1, 2014, with earlier adoption permitted	December 29, 2012	The revised standard addresses the criteria and measurement for investments on which the investor has joint control or significant influence. No material impact on our Consolidated financial statements is expected.
Amendment to IAS 19 Employee benefits (Employee contributions)	June 27, 2013	July 1, 2014, with earlier adoption permitted	Not yet endorsed	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. The effect of this standard will be assessed in 2014.

During 2013, the divestment of the Building Adhesives business was completed. In addition, we concluded smaller divestments, such as the Primary Amides and Purate businesses, and agreed to sell the German stores in Decorative Paints, with completion expected in 2014. No acquisition in 2013, individually nor in total, was deemed material in respect of IFRS 3 disclosure requirements.

In 2012, the acquisition of Boxing Oleochemicals in Specialty Chemicals and the divestment of Chemicals Pakistan were completed.

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.

#### 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.

#### Changes in scope of consolidation

Number of subsidiaries	2012	Europe	North America	Latin America	Asia Pacific	Other countries	2013
Consolidated companies as of January 1	435	224	22	29	103	18	396
First-time consolidations	9	4	–	–	–	2	6
Deconsolidations	(48)	(23)	(3)	(2)	(9)	–	(37)
<b>Consolidated as of December 31</b>	<b>396</b>	<b>205</b>	<b>19</b>	<b>27</b>	<b>94</b>	<b>20</b>	<b>365</b>

#### Balance sheet Decorative Paints North America at divestment date

In € millions	April 1, 2013
Intangible assets	375
Property, plant and equipment	188
Financial non-current assets	5
Inventories	189
Receivables	217
Non-current liabilities and provisions	(90)
Current liabilities	(188)
<b>Net assets and liabilities</b>	<b>696</b>
Cash received	791
Cash disposed of	(12)
<b>Net cash inflow</b>	<b>779</b>

#### Deal result divestment Decorative Paints North America

In € millions	2013
Net cash inflow	779
Net assets and liabilities	(696)
Liabilities assumed and costs allocated to the deal	(10)
Realization cumulative translation reserves	65
Tax on the divestment	3
<b>Deal result</b>	<b>141</b>

## Discontinued operations

In € millions	2012	2013
Revenue	1,190	281
Expenses	(1,255)	(294)
Impairment	(372)	–
<b>Results from operating activities</b>	<b>(437)</b>	<b>(13)</b>
Income tax	20	7
<b>Results from operating activities after tax</b>	<b>(417)</b>	<b>(6)</b>
Gain on the divestment of Decorative Paints North America	–	138
Income tax on the divestment	–	3
<b>Deal result</b>	<b>–</b>	<b>141</b>
Results related to discontinued operations in previous years	(16)	(36)
Tax related to discontinued operations in previous years	(3)	32
<b>Profit for the period</b>	<b>(436)</b>	<b>131</b>

## Cash flows from discontinued operations

In € millions	2012	2013
Net cash from operating activities	(27)	(87)
Net cash from investing activities	(26)	762
<b>Net cash from discontinued operations</b>	<b>(53)</b>	<b>675</b>

## Assets and liabilities held for sale

In € millions	2012	2013
Property, plant and equipment	187	50
Intangible assets	377	111
Other assets	357	42
<b>Total assets</b>	<b>921</b>	<b>203</b>
Total non-current liabilities	159	25
Total current liabilities	193	24
<b>Total liabilities</b>	<b>352</b>	<b>49</b>

At year-end 2013, we qualified certain businesses and assets as held for sale. At year-end 2012, assets held for sale related to Decorative Paints North America.

### 3 Note 3: Operating income

#### Operating income

- Decorative Paints' results include the gain of €198 million on the divestment of Building Adhesives. Margins improved due to margin management and lower raw material prices, both for the full year and the fourth quarter. Performance improvement programs and restructuring measures have lowered the cost base. Restructuring charges were below the previous year
- In Performance Coatings, margins were stable despite higher restructuring costs
- Specialty Chemicals' results include a non-cash impairment charge of €139 million on a business held for sale. Focus on cost control and margin management was maintained in all businesses, with a comprehensive performance improvement program being implemented at Functional Chemicals

Full-year average raw material costs were down, having stabilized during the year.

#### Performance improvement program

The performance improvement program announced in October 2011 has exceeded targets and achieved

€545 million in EBITDA for the period 2011 through 2013. This successfully completes the performance improvement program a year ahead of schedule. Further efficiency and cost reduction measures have been identified as part of continuous improvement initiatives which are integrated in the regular business activities.

Full-year restructuring costs were €348 million (2012: €292 million) with €204 million in Q4 (2012: €115 million).

#### Revenue and cost by nature

In € millions	2012	2013
Revenue	15,390	14,590
Variable selling cost	(709)	(714)
Materials and energy	(7,552)	(6,959)
Amortization and depreciation	(625)	(616)
Employee benefits	(3,018)	(2,950)
Impairment	(2,106)	(139)
Other costs	(2,578)	(2,254)
<b>Operating income</b>	<b>(1,198)</b>	<b>958</b>

#### Costs per category

In € millions	2012				2013			
	Employee benefits	Amortization	Depreciation	Incidentals	Employee benefits	Amortization	Depreciation	Incidentals
Cost of sales	(991)	(6)	(329)	(20)	(998)	(7)	(343)	–
Impairment	–	–	–	(2,106)	–	–	–	(149)
Selling expenses	(1,090)	(118)	(78)	–	(943)	(94)	(75)	–
General and administrative expenses	(722)	(30)	(38)	–	(772)	(36)	(36)	(15)
Research and development expenses	(244)	(8)	(18)	–	(237)	(7)	(18)	–
Other operating income/ (expenses)	29	–	–	(44)	–	–	–	225
<b>Subtotal</b>	<b>(3,018)</b>	<b>(162)</b>	<b>(463)</b>	<b>(2,170)</b>	<b>(2,950)</b>	<b>(144)</b>	<b>(472)</b>	<b>61</b>
Discontinued operations	–	(26)	(40)	–	–	–	–	–
<b>Total</b>	<b>(3,018)</b>	<b>(188)</b>	<b>(503)</b>	<b>(2,170)</b>	<b>(2,950)</b>	<b>(144)</b>	<b>(472)</b>	<b>61</b>

### 4 Note 4: Employee benefits

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

In € millions	2012	2013
Salaries and wages	(2,354)	(2,268)
Pension and other post-retirement cost	(248)	(268)
Other social charges	(416)	(414)
<b>Total</b>	<b>(3,018)</b>	<b>(2,950)</b>

#### Average number of employees

During the year	2012	2013
Decorative Paints	17,200	16,800
Performance Coatings	21,700	21,300
Specialty Chemicals	11,800	10,600
Corporate and other	1,500	1,500
<b>Total</b>	<b>52,200</b>	<b>50,200</b>

The average number of employees working outside the Netherlands was 45,000 (2012: 47,100).

#### Number of employees

At year-end	2012	2013
Decorative Paints	17,000	16,200
Performance Coatings	21,300	21,400
Specialty Chemicals	10,800	10,400
Corporate and other	1,500	1,600
<b>Total</b>	<b>50,600</b>	<b>49,600</b>

At year-end 2013, we employed 49,560 staff for ongoing activities (year-end 2012: 50,610 employees). The net decrease was due to:

- Divestments, affecting 440 employees
- A decrease of 1,740 employees due to ongoing restructuring
- An increase of 1,130 employees, due to new hires in high growth markets.

### Share-based compensation

Share-based compensation relates to the performance-related share plan as well as the share matching plan. Charges recognized in the 2013 statement of income for share-based compensation amounted to €43 million and are included in salaries and wages (2012: €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 2013 was 689 (2012: 656).

The conditional grant of shares up to the series 2012–2014 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 a peer group. As from the series 2013–2015, return on investment (ROI) was added as an additional performance measure. Subsequently, the

weighting changed to 35 percent for both TSR and ROI and 30 percent for SAM.

The shares of the series 2010–2012 have vested and were delivered to the participants in 2013.

The conditional shares of the series 2011–2013 vested as follows:

- our TSR performance over the period 2011–2013 resulted in a 10<sup>th</sup> position within the ranking of the peer group companies. This did not result in vesting of conditional shares
- the average position in the RobecoSAM benchmark resulted in a 1.33<sup>rd</sup> position within the ranking. As a result, the conditional shares of the 2011–2013 series vested for 70.83 percent (series 2010–2012: 66.67 percent), including dividend shares of 10.09 percent, the final vesting percentage amounted to 77.98 percent (series 2010–2012: 73.61 percent)

The fair value of the performance-related share plan at grant date is amortized as a charge against income

over the three-year vesting period. The fair value was €50.89 per performance-related share (without a holding restriction) conditionally granted in 2013 (2012: €40.38).

The share price of a common AkzoNobel share at year-end amounted to €56.34 (2012: €49.75). For further details on our performance-related share plan, see 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 2013 resulted in a total of 2,820 potential matching shares at year-end (2012: 12,005).

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 €40.67 per potential matching share in 2013 (2012: €39.72).

### Performance-related shares

Series	Balance per January 1, 2013	Granted in 2013	Vested in 2013	Forfeited in 2013	Dividend in 2013 <sup>1</sup>	Balance at December 31, 2013	Vested on January 1, 2014
2010 – 2012	537,000	–	(537,000)	–	–	–	–
2011 – 2013	891,339	2,588	–	(277,846)	24,943	641,024	641,024
2012 – 2014	1,074,284	31,999	–	(24,901)	31,853	1,113,235	–
2013 – 2015	–	753,713	–	(12,400)	21,646	762,959	–
<b>Total</b>	<b>2,502,623</b>	<b>788,300</b>	<b>(537,000)</b>	<b>(315,147)</b>	<b>78,442</b>	<b>2,517,218</b>	<b>641,024</b>

<sup>1</sup> Equivalent in shares related to accumulated dividend, which is included in the balances on balance sheet date.

### Stock option plans

Prior to 2008, performance-related stock options were granted to members of the Board of Management and executives. We have not purchased own shares in connection with the stock option plan. The stock options are equity-settled and all exercisable.

For stock options exercised during 2013, the weighted average of the actual share price at date of exercise amounted to €50.43 (2012: €43.21). A number of 0.5 million outstanding stock options are non-dilutive but could potentially dilute basic earnings per share in the future.

### Stock options

Year of issue	Exercise price in €	Outstanding per January 1, 2013	Exercised in 2013	Expired in 2013	Forfeited in 2013	Outstanding at December 31, 2013	Expiry date
2006	46.46	357,636	(287,090)	(70,546)	–	–	April 26, 2013
2007	58.89	496,489	–	–	(2,900)	493,589	April 26, 2014
<b>Total</b>		<b>854,125</b>	<b>(287,090)</b>	<b>(70,546)</b>	<b>(2,900)</b>	<b>493,589</b>	

### Number and weighted average exercise price stock options

	Number of options	Weighted average exercise price in €
<b>Balance at January 1, 2012</b>	<b>1,203,977</b>	<b>49.15</b>
Forfeited during the period	(107,875)	46.45
Exercised during the period	(241,977)	34.36
<b>Balance at December 31, 2012</b>	<b>854,125</b>	<b>53.69</b>
Forfeited during the period	(73,446)	46.95
Exercised during the period	(287,090)	46.46
<b>Balance at December 31, 2013</b>	<b>493,589</b>	<b>58.89</b>

### Financing income and expenses

In € millions	2012	2013
Financing income	59	32
Financing expenses	(239)	(221)
<b>Net interest on net debt</b>	<b>(180)</b>	<b>(189)</b>
<b>Other interest movements</b>		
Financing expenses related to pensions	(3)	(21)
Interest on provisions	(29)	(8)
Other items	7	18
<b>Net other financing charges</b>	<b>(25)</b>	<b>(11)</b>
<b>Net financing expenses</b>	<b>(205)</b>	<b>(200)</b>

Net financing expenses for the year decreased by €5 million, from €205 million to €200 million. Significant variances are:

- Net interest on net debt increased by €9 million to €189 million (2012: €180 million), mainly due to lower return on investments held in an escrow account
- Financing expenses related to pensions increased by €18 million to €21 million (2012: €3 million after restatement) due to lower discount rates reducing the interest income on plan assets
- Interest on provisions decreased by €21 million to €8 million (2012: €29 million) due to higher discount rates in 2013
- Other items increased by €11 million to €18 million (2012: €7 million), mainly due to capitalized interest and a 2012 goodwill adjustment

A reduction of €12 million (2012: €8 million) was included in the interest expenses of capital investment projects under construction. The average interest rate used for capitalization of these borrowing costs was 5.6 percent (2012: 6.1 percent).

Pre-tax income from continued operations amounted to a profit of €772 million (2012: loss €1,390 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	2012	2013
<b>Current tax expense for</b>		
The year	(257)	(147)
Adjustments for prior years	31	6
	<b>(226)</b>	<b>(141)</b>
<b>Deferred tax expense for</b>		
Origination and reversal of temporary differences and tax losses	20	(74)
Re-recognition of deferred tax assets	5	97
Changes in tax rates	(2)	7
	<b>23</b>	<b>30</b>
<b>Total</b>	<b>(203)</b>	<b>(111)</b>

The total tax charge, including discontinued operations was €69 million (2012: €186 million).

#### Effective tax rate reconciliation

The effective income tax rate based on the consolidated statement of income is 14 percent. The tax line includes a non-cash gain as a result of the recognition of €123 million of previously unrecognized deferred tax assets and several non-taxable items. Excluding these effects, the tax rate is 30 percent. The effective tax rate in 2012 – excluding the impairment loss on intangibles of €2,106 million – was affected by several adjustments relating to prior years. In addition, the geographical mix of taxable income affected the tax charge.

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. Based on the Dutch tax system there is only a limited credit for such taxes. The tax rate for 2012 was impacted by an anticipated extraordinary dividend that was received in 2013.

#### Effective consolidated tax rate

in %	2012 <sup>1</sup>	2013
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	3.8	5.7
Tax exempt income/non-deductible expenses	2.7	(3.2)
Non-taxable income from investment in associates and joint ventures	(0.6)	(0.5)
Changes in enacted tax rates	0.3	(0.9)
Recognition of previously unrecognized deferred tax assets	(0.7)	(14.1)
Current year losses for which no deferred tax asset was recognized	1.3	1.7
Current year profits compensated with losses for which no deferred tax assets was recognized	(0.1)	0.0
Under/(over)-provided in prior years	(4.4)	(0.8)
Non-refundable withholding taxes	4.0	1.5
<b>Effective consolidated tax rate</b>	<b>31.3</b>	<b>14.4</b>

<sup>1</sup> Excluding impairment.

#### Deferred tax assets and liabilities

In the deferred tax asset for other provisions (€263 million), an amount of €141 million (2012: €189 million) is related to interest expense carried forward. From the total amount of recognized net deferred tax assets, €916 million (2012: €827 million) is related to entities that have suffered a loss in either 2013 or 2012 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.

#### Expiration year of loss carryforwards recognized in the balance sheet

In € millions	2014	2015	2016	2017	2018	Later	Unlimited	Total
Total loss carryforwards	18	27	44	86	59	202	2,318	2,754
Loss carryforwards not recognized in deferred tax assets	(12)	(19)	(29)	(36)	(45)	(6)	(20)	(167)
<b>Total recognized</b>	<b>6</b>	<b>8</b>	<b>15</b>	<b>50</b>	<b>14</b>	<b>196</b>	<b>2,298</b>	<b>2,587</b>

#### Income tax recognized directly in equity

In € millions	2012	2013
<b>Current tax for</b>		
Currency exchange differences on intercompany loans of a permanent nature	4	(7)
	<b>4</b>	<b>(7)</b>
<b>Deferred tax for</b>		
Share-based compensation	–	3
Hedge accounting	(1)	–
Currency exchange differences on intercompany loans of a permanent nature	2	–
Post-retirements benefits	249	(64)
	<b>250</b>	<b>(61)</b>
<b>Total</b>	<b>254</b>	<b>(68)</b>

#### Unrecognized deferred tax assets

In € millions	2012	2013
Capital losses	267	–
Tax losses	21	41
Deductible temporary differences	190	135
<b>Total</b>	<b>478</b>	<b>176</b>

## Movement in deferred tax in 2012

In € millions	Net balance January 1, 2012	Changes in exchange rates	Acquisitions/ divestments	Recognized in income	Recognized in equity	Held for Sale	Net balance December 31, 2012	Assets	Liabilities
Intangible assets	(701)	12	(6)	65	–	83	(547)	71	618
Property, plant and equipment	(94)	–	10	28	–	9	(47)	84	131
Inventories	29	–	–	–	–	(5)	24	27	3
Trade and other receivables	14	–	–	9	–	(2)	21	26	5
Share-based payments	12	–	–	3	–	–	15	15	–
Post-retirement benefit provisions	176	(7)	–	(164)	316	(25)	296	606	310
Restructuring provisions	15	–	–	14	–	(2)	27	28	1
Other provisions	313	(4)	–	(25)	–	(7)	277	320	43
Other items	178	(2)	–	9	–	(4)	181	214	33
Net operating loss carryforwards	839	(1)	(1)	105	1	–	943	943	–
Deferred tax assets not recognized	(415)	9	1	(6)	(67)	–	(478)	(478)	–
<b>Tax assets/liabilities</b>	<b>366</b>	<b>7</b>	<b>4</b>	<b>38</b>	<b>250</b>	<b>47</b>	<b>712</b>	<b>1,856</b>	<b>1,144</b>
Set-off of tax	–	–	–	–	–	–	–	(710)	(710)
<b>Net deferred taxes</b>	<b>366</b>	<b>7</b>	<b>4</b>	<b>38</b>	<b>250</b>	<b>47</b>	<b>712</b>	<b>1,146</b>	<b>434</b>

## Movement in deferred tax in 2013

In € millions	Net balance January 1, 2013	Changes in exchange rates	Acquisitions/ divestments	Recognized in income	Recognized in equity	Held for Sale	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
Inventories	24	(1)	(3)	16	–	1	37	40	3
Trade and other receivables	21	(2)	(1)	(5)	–	–	13	20	7
Share-based payments	15	–	–	(1)	3	–	17	17	–
Post-retirement benefit provisions	296	(1)	(8)	(109)	4	–	182	279	97
Restructuring provisions	27	(1)	–	–	–	–	26	26	–
Other provisions	277	(11)	(7)	(12)	–	–	247	263	16
Other items	181	(4)	(4)	27	–	–	200	252	52
Net operating 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>(23)</b>	<b>39</b>	<b>(61)</b>	<b>11</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>(23)</b>	<b>39</b>	<b>(61)</b>	<b>11</b>	<b>682</b>	<b>1,071</b>	<b>389</b>

7 Note 7: Intangible assets

**Intangible assets**

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
<b>Balance at January 1, 2012</b>					
Acquisition cost	4,890	2,514	1,256	431	9,091
Cost of internally developed intangibles	–	–	–	141	141
Accumulated amortization/impairment	(1,025)	(160)	(463)	(192)	(1,840)
<b>Carrying value</b>	<b>3,865</b>	<b>2,354</b>	<b>793</b>	<b>380</b>	<b>7,392</b>
<b>Movements in 2012</b>					
Acquisitions through business combinations	58	1	16	7	82
Other investments – including internally developed intangibles	(6)	–	–	79	73
Transfer to assets held for sale	(96)	(180)	(76)	(25)	(377)
Divestments	(40)	–	(2)	(1)	(43)
Impairment	(2,450)	(27)	(6)	–	(2,483)
Amortization <sup>1</sup>	–	(19)	(112)	(57)	(188)
Changes in exchange rates	21	(11)	(18)	6	(2)
<b>Total movements</b>	<b>(2,513)</b>	<b>(236)</b>	<b>(198)</b>	<b>9</b>	<b>(2,938)</b>
<b>Balance at December 31, 2012</b>					
Acquisition cost	4,102	2,226	1,030	445	7,803
Cost of internally developed intangibles	–	–	–	166	166
Accumulated amortization/impairment	(2,750)	(108)	(435)	(221)	(3,514)
<b>Carrying value at year-end 2012</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
Other investments – including internally developed intangibles	1	–	–	29	30
Transfer to assets held for sale	–	–	(76)	(35)	(111)
Divestments	–	–	–	(2)	(2)
Disposals	–	–	–	(5)	(5)
Impairment	(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>					
Acquisition cost	3,966	2,113	854	360	7,293
Cost of internally developed intangibles	–	–	–	196	196
Accumulated amortization/impairment	(2,787)	(118)	(425)	(253)	(3,583)
<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>

<sup>1</sup> Including Decorative Paints North America.

## Goodwill and other intangibles per segment

In € millions	Goodwill		Brands with indefinite useful lives		Other intangibles with finite useful lives		Total intangibles	
	2012	2013	2012	2013	2012	2013	2012	2013
Decorative Paints	17	22	1,881	1,785	398	319	2,296	2,126
Performance Coatings	686	663	–	–	330	302	1,016	965
Specialty Chemicals	649	494	–	–	493	321	1,142	815
<b>Total</b>	<b>1,352</b>	<b>1,179</b>	<b>1,881</b>	<b>1,785</b>	<b>1,221</b>	<b>942</b>	<b>4,454</b>	<b>3,906</b>

## Average revenue growth rates per forecast period

In % per year	2014-2018	2019-2023
Decorative Paints	6.2	4.2
Performance Coatings	4.8	3.2
Specialty Chemicals	3.5	2.3

Other intangibles include licenses, know-how, intellectual property rights and development cost. Both at year-end 2012 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 7.7 percent to 13.5 percent, with a weighted average of 9.2 percent.

A sensitivity test on growth assumptions as well as the pre-tax weighted average cost of capital confirms comfortable headroom in all businesses. As a result, no impairment charge was recognized in relation to the annual impairment test this year. As a result of classifying a business as held for sale in Specialty Chemicals, an impairment charge of €139 million was recognized in 2013.

In 2012, a non-cash impairment charge against our Decorative Paints assets was recognized. In Europe, we recognized an impairment charge of €1,948 million and in South America an amount of €158 million. The total of €2,106 million is disclosed on a separate line in the consolidated statement of income. The impairment of Decorative Paints North America of €372 million is included in results from discontinued operations.

## 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, 2012</b>						
Cost of acquisition	2,330	5,906	750	428	28	9,442
Accumulated depreciation/impairment	(1,087)	(4,074)	(556)	–	(20)	(5,737)
<b>Carrying value</b>	<b>1,243</b>	<b>1,832</b>	<b>194</b>	<b>428</b>	<b>8</b>	<b>3,705</b>
<b>Movements in 2012</b>						
Acquisitions through business combinations	7	19	1	4	–	31
Transfer to assets held for sale	(82)	(88)	–	(15)	(2)	(187)
Divestments	5	(64)	(5)	(22)	1	(85)
Capital expenditures <sup>1</sup>	62	327	91	371	1	852
Transfer between categories	31	64	2	(100)	3	–
Depreciation <sup>1</sup>	(89)	(345)	(68)	–	(1)	(503)
Impairment	(10)	(11)	(6)	(5)	(2)	(34)
Changes in exchange rates	(10)	(14)	5	(21)	–	(40)
<b>Total movements</b>	<b>(86)</b>	<b>(112)</b>	<b>20</b>	<b>212</b>	<b>–</b>	<b>34</b>
<b>Balance at December 31, 2012</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 at year-end 2012</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>

<sup>1</sup> Including Decorative Paints North America.

## Capital expenditures

- In Decorative Paints, we are investing in high growth markets and in creating efficiency in Europe
- In Performance Coatings, we are investing in multiple projects, with the largest being the increase in the production capacity of the Automotive and Aerospace Coatings business in China to meet rising demand
- In Specialty Chemicals, we are investing in facilities being built in Brazil as part of the Chemicals Island concept with Suzano and Eldorado. The plant in Jupia, supplying the world's largest pulp mill Eldorado, became operational earlier in the year. We are also investing in our chlorine plant in Frankfurt, Germany, to convert to membrane electrolysis technology

## Impairments

In 2013, impairment charges have been recognized for an amount of €67 million (2012: €34 million). The impairment charges have been recognized in cost of sales and in other operating income. The impairment charges are related to restructuring activities, mainly in Europe.

## 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 €51 million (2012: €52 million) of which €46 million is related to buildings and land, €1 million to plant equipment and machinery and €4 million to other equipment.

**9** Note 9: Investments in associates and joint ventures

At year-end 2013, the carrying value of investments in associates amounted to €90 million (2012: €83 million) and in joint ventures to €93 million (2012: €102 million). In 2013, the results from associates and joint ventures amounted to a profit of €14 million (2012: €13 million). No significant contingent liabilities existed related to associates and joint ventures, see Note 20.

The most significant associates and joint ventures of AkzoNobel are: Metlac Holdings Brl (49 percent), Metlac Spa (44 percent), Delesto B.V. (50 percent), Eka Chile SA (50 percent), Fort Amanda Specialties LLC (50 percent) and I.C. Insurance Holdings Ltd (49 percent).

**Summary of financial information on a 100 percent basis**

In € millions	Associates		Joint ventures	
	2012	2013	2012	2013
<b>Condensed statement of income</b>				
Revenue	126	143	545	543
Income before tax	18	21	14	11
Net income	12	14	9	8
<b>Condensed balance sheet</b>				
Current assets	116	123	183	193
Non-current assets	77	78	158	119
<b>Total assets</b>	<b>193</b>	<b>201</b>	<b>341</b>	<b>312</b>
Current liabilities	41	47	89	86
Non-current liabilities	28	21	49	38
Shareholders' equity	124	133	203	188
<b>Total liabilities and equity</b>	<b>193</b>	<b>201</b>	<b>341</b>	<b>312</b>

**10** Note 10: Other financial non-current assets

**Other financial non-current assets**

In € millions	2012	2013
Loans and receivables	287	256
Other than financial instruments	1,010	709
<b>Total</b>	<b>1,297</b>	<b>965</b>

The loans and receivables include the subordinated loan of €88 million (2012: €75 million) granted to the Pension Fund APF in the Netherlands and the non-current part of an escrow account of the AkzoNobel (CPS) Pension Scheme in the UK amounting to €100 million, invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund from the escrow account is £25 million (€29 million). The current portion of the escrow account is reported as other receivable within trade and other receivables.

Other financial non-current assets include an amount of €483 million related to pension plans in an asset position (2012: €841 million).

## 11 Note 11: Inventories

Of the total carrying value of inventories at year-end 2013, €67 million is measured at net realizable value (2012: €50 million). In 2013, €31 million was recognized in the statement of income for the write-down of inventories (2012: €39 million), while €26 million of write-downs were reversed (2012: €28 million). There are no inventories subject to retention of title clauses.

### Inventories

In € millions	2012	2013
Raw materials and supplies	520	430
Work in progress	81	75
Finished products and goods for resale	944	921
<b>Total</b>	<b>1,545</b>	<b>1,426</b>

## 12 Note 12: Trade and other receivables

### Trade and other receivables

In € millions	2012	2013
Trade receivables	2,174	2,087
Prepaid expenses	72	54
Tax receivables other than income tax	172	166
Receivables from associates and joint ventures	31	27
Forward exchange and commodity contracts	16	15
Other receivables	233	187
<b>Total</b>	<b>2,698</b>	<b>2,536</b>

Trade receivables are presented net of an allowance for impairment of €91 million (2012: €100 million). In 2013, €40 million of impairment losses were recognized in the statement of income (2012: €46 million).

### Ageing of trade receivables

In € millions	2012	2013
Performing accounts receivable	1,903	1,852
<b>Past due accounts receivables and not impaired</b>		
< 3 months	226	185
3 – 6 months	11	8
> 6 months	3	4
Impaired accounts receivables	131	128
Allowance for impairment	(100)	(91)
<b>Total trade receivables</b>	<b>2,174</b>	<b>2,086</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	2012	2013
Opening balance	108	100
Additions charged to income	46	40
Release of unused amounts	(18)	(22)
Acquisition	(3)	(1)
Utilization	(25)	(19)
Transfer to assets held for sale	(6)	(1)
Currency exchange differences	(2)	(6)
<b>Closing balance</b>	<b>100</b>	<b>91</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	2012	2013
Short-term investments	301	765
Cash on hand and in banks	1,451	1,333
<b>Included under cash and cash equivalents in the balance sheet</b>	<b>1,752</b>	<b>2,098</b>
Debt to credit institutions	(194)	(78)
<b>Total per cash flow statement</b>	<b>1,558</b>	<b>2,020</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, 2013, an amount of €115 million in cash and cash equivalents was restricted (2012: €119 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

**Changes in working capital**

In € millions	2012	2013
Trade and other receivables	(18)	(181)
Inventories	108	(7)
Trade and other payables	161	175
<b>Total</b>	<b>251</b>	<b>(13)</b>

**Changes in provisions**

In € millions	2012	2013
Post retirement provisions	(593)	(417)
Restructuring provisions	9	55
Other provisions	(119)	(33)
<b>Total</b>	<b>(703)</b>	<b>(395)</b>

**Cash flow and net debt**

Operating activities in 2013 resulted in cash inflows of €716 million (2012: €737 million). The change is the net impact of higher operating income (excluding impairment) and lower cash outflow from provisions partly offset by lower inflow from working capital, as 2012 had an exceptional impact.

Net debt decreased from €2,298 million at year-end 2012 to €1,529 million at year-end 2013 as a consequence of the net impact of:

- Cash inflows from divestments (€313 million) and discontinued operations (€675 million)
- Cash inflows from operating activities of €716 million
- Capital expenditures of €666 million
- Dividend payments of €286 million (€210 million to shareholders and €76 million to non-controlling interests)

**Composition of share capital at year-end**

In €	Authorized share capital	Subscribed share capital
Priority shares (48 with nominal value of €400)	19,200	19,200
Cumulative preferred shares (200 million with nominal value of €2)	400,000,000	–
Common shares (600 million with nominal value of €2)	1,200,000,000	485,251,070
<b>Total</b>	<b>1,600,019,200</b>	<b>485,270,270</b>

**Outstanding common shares**

Number of shares	2012	2013
<b>Outstanding at January 1</b>	<b>234,688,341</b>	<b>239,047,452</b>
Issued in connection to stock options exercised and performance-related shares granted	4,359,111	3,578,083
<b>Balance at year-end</b>	<b>239,047,452</b>	<b>242,625,535</b>

**Weighted average number of common shares**

Number of shares	2012	2013
<b>Issued at January 1</b>	<b>234,688,341</b>	<b>239,047,452</b>
Issued common shares during the year	2,551,704	2,180,576
<b>Shares for basic earnings per share for the year</b>	<b>237,240,045</b>	<b>241,228,028</b>
<b>Effect of dilutive shares <sup>1</sup></b>		
For stock options	12,233	5,647
For performance-related shares	2,113,705	2,060,997
For share-matching plan	12,005	14,825
<b>Shares for diluted earnings per share</b>	<b>239,377,988</b>	<b>243,309,497</b>

<sup>1</sup> For 2012, all potentially dilutive shares were non-dilutive due to the loss.

### Subscribed share capital

For further details on subscribed share capital, see Note E in the Company financial statements.

### Other components of shareholders' equity

Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Tax related to cash flow hedges was €nil (2012: €1 million negative).

Cumulative translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of intercompany loans with a permanent nature and liabilities and derivatives that hedge the net investments in a foreign subsidiary. Tax related to exchange differences arising on translation of foreign operations were €7 million negative (2012: €6 million positive).

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 €3 million positive in 2013 (2012: €nil).

### Non-controlling interests

Group equity	Partner	2012		2013	
		Equity stake		Equity stake	
		%	€ mln	%	€ mln
AkzoNobel Swire Paints (Shanghai) Limited, Shanghai, China	Swire Pacific Limited, China	30.00	170	30.00	167
Akzo Nobel India Ltd, Kolkata, India	Privately held, India	27.04	73	27.04	53
PT ICI Paints Indonesia, Jakarta, Indonesia	PT DWI Satrya Utama, Indonesia	45.00	38	45.00	27
ICI Paints (Malaysia) Sdn Bhd, Kuala Lumpur, Malaysia	Privately held, Malaysia	40.05	33	40.05	29
AkzoNobel Swire Paints (Guangzhou) Limited, China	Swire Pacific Limited, Industrial Development Co. Ltd of Guangzhou, China	46.00	36	46.00	41
International Paint (Korea) Ltd, Busan, South-Korea	Noroo Holdings, South Korea	40.00	24	40.00	19
Kayaku Akzo Corp, Tokyo Japan	Nippon Kayaku Co., Ltd., Japan	25.00	10	25.00	8
Akzo Nobel Kemipol AS, Izmir, Turkey	Privately held, Turkey	49.00	14	49.00	15
Marshall Boya, Dilovasi-Kocaeli, Turkey	Marshal Employees' Foundation, Privately held, Turkey	11.75	6	11.75	5
AkzoNobel Boya Sanayi ve Ticaret A.S. (PC), Izmir, Turkey	Privately held, Turkey	25.00	6	25.00	4
Akzo Nobel Pakistan Limited	Privately held, Pakistan	24.19	16	24.19	9
AkzoNobel OmanSAOC	Omar Zawawi establishment LLC		–	50.00	10
Others			38		40
<b>Total</b>			<b>464</b>		<b>427</b>

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 (CPS) 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 Board Committee Pensions, a technical committee to the Board of Management. 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, decline in discount rates, that inflation exceeds expectations, and that retirees live longer than expected. The assets and liabilities 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 fiduciaries to develop strategic asset allocation strategies. Asset liability modelling (ALM) studies are carried out periodically to analyse 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 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. However, derivatives are not used to gear our funds. Limits have been set on the use of derivatives which are periodically subject to review for compliance with the pension fund's investment strategy. CPS has entered into an insurance contract with SwissRe to hedge longevity risk in respect of a portion of its pensioners (see the table at the end of this note).

In line with our pension/investment strategy, we seek to reduce risk in our pension plans over time. In 2013, our North American pension liabilities were significantly reduced by the following actions:

- As a result of the Decorative Paints North America divestment in 2013, at the end of 2012 post-retirement balance sheet provisions of €107 million were classified as held for sale. The sale on April 1, 2013, resulted in the remeasurement and curtailment of US pension and other post-retirement liabilities (at a loss of €18 million)

and the transfer to PPG of the Canadian pension and other post-retirement plans of Decorative Paints and former ICI

- In September 2013, former employees with vested benefits in the US were offered the opportunity to take their benefits as a single lump sum immediately. Some 4,200 participants elected to take the cash sum reducing our liabilities by \$113 million (€85 million) at a settlement loss of €4 million. This followed a similar exercise in December 2012
- In December 2013, AkzoNobel settled pension entitlements of approximately 9,400 retirees and beneficiaries in the US by purchasing annuities from insurance company MetLife for an amount of \$675 million (€490 million) thereby reducing the liabilities by \$655 million (€475 million) with a €15 million settlement loss. To enable this transaction, AkzoNobel made a top-up contribution of \$168 million (€127 million)

In addition, during 2012 and 2013 certain pension plans have been curtailed, which were not material. All of these actions generally will reduce expenses and employer contribution requirements into those plans in future years.

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 2013 were €10 million (2012: €10 million). Alecta's target funding ratio in 2013 was 140 percent although the actual ratio at September 2013 stood at 153 percent. There are also a small number of multi-employer plans in the US in which AkzoNobel participates with annual contributions 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 €172 million in 2013 (2012: €180 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	2012			2013		
	DBO	Plan assets	Funded status	DBO	Plan assets	Funded status
<b>Balance at the beginning of the period</b>	<b>(15,345)</b>	<b>14,605</b>	<b>(740)</b>	<b>(16,674)</b>	<b>15,378</b>	<b>(1,296)</b>
<b>Statement of income</b>						
Current service cost	(61)	–	(61)	(68)	–	(68)
Past service cost/curtailments	(8)	–	(8)	13	–	13
Settlements	66	(58)	8	584	(602)	(18)
Net (interest)/income on net defined benefit (liability)/asset	(707)	704	(3)	(602)	581	(21)
<b>Cost recognized in statement of income</b>	<b>(710)</b>	<b>646</b>	<b>(64)</b>	<b>(73)</b>	<b>(21)</b>	<b>(94)</b>
<b>Remeasurements</b>						
Actuarial gain/(loss) due to liability experience	22	–	22	(92)	–	(92)
Actuarial gain/(loss) due to liability financial assumption changes	(1,418)	–	(1,418)	9	–	9
Actuarial gain/(loss) due to liability demographic assumption changes	(2)	–	(2)	17	–	17
Return on plan assets greater/(less) than discount rate	–	104	104	–	(128)	(128)
<b>Remeasurement effects recognized in other comprehensive income</b>	<b>(1,398)</b>	<b>104</b>	<b>(1,294)</b>	<b>(66)</b>	<b>(128)</b>	<b>(194)</b>
<b>Cash flow</b>						
Employer contributions	–	767	767	–	568	568
Employee contributions	(6)	6	–	(5)	5	–
Benefits and administration costs paid from plan assets	1,055	(1,055)	–	962	(962)	–
<b>Net cash flow</b>	<b>1,049</b>	<b>(282)</b>	<b>767</b>	<b>957</b>	<b>(389)</b>	<b>568</b>
<b>Other</b>						
Acquisitions/divestments/transfers	37	(25)	12	319	(266)	53
Changes in exchange rates	(307)	330	23	349	(326)	23
<b>Total other</b>	<b>(270)</b>	<b>305</b>	<b>35</b>	<b>668</b>	<b>(592)</b>	<b>76</b>
<b>Balance at the end 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>
Asset restriction	–	–	(2)	–	–	(2)
Medicare receivable	–	–	(3)	–	–	(2)
<b>Net balance sheet provision</b>	<b>(16,674)</b>	<b>15,378</b>	<b>(1,301)</b>	<b>(15,188)</b>	<b>14,248</b>	<b>(944)</b>
<b>In the balance sheet under</b>						
Other financial non-current assets			841			483
Post-retirement benefit provisions			(1,942)			(1,237)
Current portion of provisions			(93)			(184)
Liabilities			(107)			(6)
<b>Net balance sheet provision</b>			<b>(1,301)</b>			<b>(944)</b>

In addition to the expenses, administrative expenses are incurred, especially for the UK pension funds, of €12 million (2012: €11 million), which are included in operating income. In addition, we directly incurred asset management expenses of €6 million (2012: €5 million), which have been included in other comprehensive income, as was the €1 million reduction of the restriction of asset recognition in 2012.

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 on post-retirement benefits of €21 million (2012: €3 million), see Note 4.

#### DBO at funded and unfunded pension plans

In € millions	2012	2013
Wholly or partly funded plans	15,934	14,591
Unfunded plans	347	295
<b>Total</b>	<b>16,281</b>	<b>14,886</b>

#### Cash flows

In 2014, we expect to contribute €394 million to our defined benefit pension plans. This includes €96 million of regular pension contributions and €298 million for top-ups, of which £25 million (€30 million) will be paid out of the CPS escrow account (see explanation at the end of this note). We expect to pay a further €23 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, like for example the pensioner settlement with MetLife in the US in 2013.

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	2012		2013	
	Total	% of total	Total	% of total
Equities	2,328	15	1,824	13
Debt - fixed interest government bonds	2,795	18	2,635	18
Debt - index-linked government bonds	2,760	18	2,816	20
Debt - corporate and other bonds	5,001	33	4,339	30
Cash and cash equivalents	924	6	1,117	8
Other	1,570	10	1,517	11
<b>Total</b>	<b>15,378</b>	<b>100</b>	<b>14,248</b>	<b>100</b>

In € millions	Pensions	Other post-retirement benefits
2014	892	23
2015	890	23
2016	898	23
2017	904	23
2018	911	22
2019-2023	4,650	104

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 totalling €531 million (December 31, 2012: €557 million, of which €229 million is invested in real estate (December 31, 2012: €249 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 €2 million at year-end 2013 (year-end 2012: €3 million).

Pension balances recorded under other financial non-current assets (December 31, 2013: €483 million; December 31, 2012: €841 million) could be recognized under IFRIC14 because economic 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.

## Key figures and assumptions by plan

In € millions or %	2012					2013				
	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	59%	19%	20%	2%		63%	20%	15%	2%	
Defined benefit obligation at year-end	(9,738)	(3,147)	(3,396)	(393)	(16,674)	(9,576)	(3,051)	(2,259)	(302)	(15,188)
Fair value of plan assets at year-end	10,523	2,804	2,051	–	15,378	10,007	2,941	1,300	–	14,248
Plan funded status	785	(343)	(1,345)	(393)	(1,296)	431	(110)	(959)	(302)	(940)
Restriction on asset recognition	–	–	(2)	–	(2)	–	–	(2)	–	(2)
Medicare receivable	–	–	–	(3)	(3)	–	–	–	(2)	(2)
<b>Amounts recognized on the balance sheet</b>	<b>785</b>	<b>(343)</b>	<b>(1,347)</b>	<b>(396)</b>	<b>(1,301)</b>	<b>431</b>	<b>(110)</b>	<b>(961)</b>	<b>(304)</b>	<b>(944)</b>
Percentage of total current service cost	15%	21%	51%	13%		13%	22%	56%	9%	
Current service cost	9	13	31	8	61	9	15	38	6	68
Employer contributions	433	146	159	29	767	170	91	281	26	568
Discount rate	4.1%	4.1%	3.4%	3.5%	3.9%	4.3%	4.4%	3.9%	4.2%	4.2%
Rate of compensation increase	3.6%	3.8%	2.3%	–	3.4%	4.3%	4.4%	2.9%	–	4.1%
Inflation	2.6%	2.8%	1.5%	–	2.4%	3.3%	3.4%	2.1%	–	3.2%
Pension increases	2.6%	2.3%	1.5%	–	2.3%	3.1%	2.4%	1.9%	–	2.7%
Healthcare cost trend rate for next year				5.9%	5.9%				5.5%	5.5%
Rate to which cost trend rate is assumed to decline				3.8%	3.8%				3.8%	3.8%
Year that rate reaches the ultimate trend rate				2019-2032	2019-2032				2019-2032	2019-2032
<b>Life expectancy (in years)</b>										
<b>Currently aged 60</b>										
Males	26.7	26.5	24.2	24.1	26.1	26.8	26.7	25.0	24.9	26.5
Females	29.3	28.4	27.1	26.3	28.6	29.3	28.4	28.1	26.7	28.9
<b>Currently aged 45, from age 60</b>										
Males	27.8	27.7	25.3	24.4	27.2	28.0	27.9	26.6	26.0	27.7
Females	30.6	29.7	28.2	26.3	29.8	30.5	29.6	29.6	27.3	30.1

## 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	632	266	167	16	1,081
Price inflation: 0.5% increase <sup>1</sup>	368	168	92	–	628
Life expectancy: 1 year increase from age 60	412	105	59	5	581
Healthcare cost trend rate: 0.5% increase	–	–	–	7	7
<b>Maturity information</b>					
Weighted average duration of DBO (years)	13.0	17.1	14.4	9.5	13.9

<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 determent.

The effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. Whilst 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 different plans. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation 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 overall 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 some extent, be expected to offset movements in the DBO resulting from changes in the given assumptions.

In € millions	ICIPF	CPS
Type of plan	Defined benefit, based upon years of service and final salary	
Benefits	Retirement pension for employee Dependants 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	
Governance	Trustee directors: 5 member nominated 1 independent (Law Debenture) 5 appointed with the agreement of 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	
Latest valuation	March 31, 2011	March 31, 2012
Deficit at previous valuation	£1.0 billion (€1.2 billion)	£220 million (€264 million) allowing for the escrow account
Recovery plan	£178.5 million (€214 million) per annum to 2017 inclusive paid in January each year	£42 million (€50 million) per annum to 2018 inclusive, plus £25 million (€30 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, 2013	£1.1 billion (€1.3 billion)	£0.25 million (€0.3 million)
Strategic asset allocation		
Matching	80%	58%
Return seeking	20%	42%
Other	Not applicable	Longevity hedge contract with SwissRe to cover 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 2013 is £108 million (€130 million)
Membership		
Active	459	753
Deferred	10,713	19,992
Pensioner	49,765	20,659
Total	60,937	41,404

## Effect of the implementation of the revised IAS 19

In € millions	Original	Restated
<b>Balance sheet January 1, 2012</b>		
Deferred tax assets	813	907
Other financial non-current assets	1,187	1,559
Post-retirement benefit provisions	1,156	1,831
Deferred tax liabilities	567	541
Shareholders' equity	9,212	9,031
Non-controlling interests	531	529
<b>Statement of income 2012</b>		
Operating income	(1,244)	(1,198)
Financing expenses related to pensions	(65)	(3)
Income tax	(172)	(203)
Profit/(loss) for the period	(2,106)	(2,029)
<b>Attributable to</b>		
Shareholders of the company	(2,169)	(2,092)
Non-controlling interests	63	63
<b>Earnings per share from total operations (in €)</b>		
Basic	(9.14)	(8.82)
Diluted	(9.14)	(8.82)
<b>Statement of comprehensive income 2012</b>		
Actuarial gains and losses, and other items relating to pensions and other post-retirement benefits	–	(1,298)
Exchange differences arising on translations of foreign operations	8	34
Income tax relating to other comprehensive income	–	249
Other comprehensive income for the period	6	(1,017)
Comprehensive income for the period	(2,100)	(3,046)
<b>Attributable to</b>		
Shareholders of the company	(2,146)	(3,093)
Non-controlling interests	46	47
<b>Balance sheet December 31, 2012</b>		
Deferred tax assets	830	1,146
Other financial non-current assets	1,748	1,297
Post-retirement benefit provisions	1,126	2,142
Deferred tax liabilities	442	420
Shareholders' equity	6,892	5,764
Non-controlling interests	465	464

**Movements in other provisions**

In € millions	Restructuring of activities	Environmental costs	Other	Total
<b>Balance at January 1, 2013</b>	<b>184</b>	<b>424</b>	<b>489</b>	<b>1,097</b>
Additions made during the year	191	7	158	356
Utilization	(111)	(48)	(65)	(224)
Amounts reversed during the year	(26)	(24)	(17)	(67)
Unwind of discount	1	(4)	8	5
Acquisitions/divestments	–	(1)	(4)	(5)
Transfer to Liabilities held for sale	–	(8)	(1)	(9)
Changes in exchange rates	(3)	(17)	(15)	(35)
<b>Balance at December 31, 2013</b>	<b>236</b>	<b>329</b>	<b>553</b>	<b>1,118</b>
Non-current portion of provisions	75	283	343	701
Current portion of provisions	161	46	210	417
<b>Balance at December 31, 2013</b>	<b>236</b>	<b>329</b>	<b>553</b>	<b>1,118</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.

**Other provisions**

Other 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 other provisions are expected to be within one to five years. In calculating the other provisions, a pre-tax discount rate of on average 3.5 percent has been used.

**Current portion of provisions**

Current portion of post-retirement benefit provisions (€184 million) and other provisions (€417 million) adds up to €601 million (2012: €455 million).

**Long-term borrowings**

In € millions	2012	2013
Debt issued	3,289	2,458
Debt to credit institutions	10	48
Other borrowings	89	160
<b>Total</b>	<b>3,388</b>	<b>2,666</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 2013, the average effective interest rate on debt issued was 5.3 percent (2012: 5.6 percent).

**Debt issued**

In € millions	2012	2013
7 3/4 % 2008/14 (€825 million)	823	–
7 1/4 % 2009/15 (€621 million)	630	626
8 % 2009/16 (€250 million)	305	299
4 % 2011/18 (€800 million)	792	793
2 5/8 % 2012/22 (€750 million)	739	740
Other	–	–
<b>Total</b>	<b>3,289</b>	<b>2,458</b>

**Aggregated maturities of long-term borrowings**

In € millions	2015 – 2018	After 2018
Debt issued	1,718	740
Debt to credit institutions	22	26
Other borrowings	119	41
<b>Total</b>	<b>1,859</b>	<b>807</b>

**18** Note 18: Short-term borrowings

We have a €1.8 billion multi-currency revolving credit, which has been extended in 2013 with an additional year to 2018. At year-end 2013 and 2012, this facility had not been drawn. At year-end 2013 and 2012, none of the borrowings was secured by collateral.

Financial lease liabilities are included in other borrowings and aggregated €51 million (2012: €52 million). An amount of €6 million will mature within one year and €18 million will mature in the period 2015 through 2018 and €27 million after 2018.

**Short-term borrowings**

In € millions	2012	2013
Debt to credit institutions	194	78
Current portion of long-term borrowings	468	883
<b>Total</b>	<b>662</b>	<b>961</b>

In 2013, a bond of \$500 million matured. In January 2014, a bond totaling €825 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 2013 and 2012.

**19** Note 19: Trade and other payables**Trade and other payables**

In € millions	2012	2013
Suppliers	1,990	1,944
Amounts payable to employees	258	361
Derivatives	38	42
Taxes and social security contributions	230	216
Prepayments by customers	156	184
Dividends	19	14
Payable to related parties	32	32
Other liabilities	519	425
<b>Total</b>	<b>3,242</b>	<b>3,218</b>

### Environmental matters

We are confronted with substantial costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against us in various countries. In some cases this concerns sites divested in prior years or derelict sites belonging to companies acquired in the past.

It is our policy to accrue and charge against earnings environmental clean-up costs when it is probable that a liability has materialized and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and clean-ups proceed and additional information becomes available. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the geological circumstances, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

The provisions for environmental costs accounted for in aggregated €329 million at year-end 2013 (2012: €424 million). The provision has been discounted using an average pre-tax discount rate of 3.9 percent (2012: 2.9 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 1990's. CDC Project 13 SA has initiated civil proceedings against AkzoNobel and other companies before the Amsterdam District Court in relation to the Sodium Chlorate infringements in the 1990's. These claims are disputed. An appeal by the company is pending with the General Court against the decision by the European Commission to impose fines on the company for violations of EU competition laws regarding Heat Stabilizers.

AkzoNobel has provided various indemnities and guarantees in respect of past divestments to the relevant purchasers and their permitted assigns (if applicable), which in general are capped in time and/or amount (in proportion to the value received). In connection with the Organon BioSciences divestment to Schering-Plough, AkzoNobel has limited its maximum exposure to claims to €850 million. The provided guarantees and indemnities have varying maturity periods. AkzoNobel has received various claims under such indemnities and guarantees. In some instances, AkzoNobel has been named as a direct defendant despite the divestments.

A number of other claims are pending, all of which are contested. We are also involved in disputes with tax authorities in several jurisdictions.

Provisions are recognized when an outflow of economic benefits for settlement is probable and the amount is reliably estimable. It should be understood that, in light of possible future developments, such as (a) potential additional lawsuits, (b) possible future settlements, and (c) rulings or judgments in pending lawsuits, certain cases may result in additional liabilities and related costs. At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence. While the outcome of said cases, claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final

outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

### Commitments

Purchase commitments for property, plant and equipment aggregated €93 million (2012: €89 million).

### Maturity operational lease contracts

In € millions	2012	2013
Due within one year	127	106
Due between one and five years	266	215
Due after more than five years	170	126
<b>Total</b>	<b>563</b>	<b>447</b>

The 2012 numbers have been restated to exclude the operational lease commitments of the North American Decorative Paints business.

Lease payments during 2013 amounted to €127 million. Guarantees related to associates and joint ventures at year-end 2013 totaled €9 million (2012: €10 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 2013, a significant related party transaction was a €99 million gas supply (2012: €115 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 2013, 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 2013. 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 Note 10 and 15.

## 22 Note 22: Remuneration of the Supervisory Board and the Board of Management

The members of the Supervisory Board and the Executive Committee are considered key management personnel. Total compensation to key management personnel amounted to €15.4 million (2012: €24.1 million), which includes €1.3 million related to the Dutch crisis tax (of which €0.9 million related to members of Board of Management). An amount of €7.0 million related to short-term employee benefits (2012: €10.4 million), €1.2 million to post-employment benefits and other post-employment compensation (2012: €1.5 million) and €5.8 million to share-based compensation (2012: €8.1 million).

### Supervisory Board

Members of the Supervisory Board receive a fixed remuneration: €100,000 for the Chairman, €60,000 for the Deputy Chairman and €50,000 for the other members. Members of committees receive an extra compensation. Members living outside the Netherlands receive an attendance fee dependent on the country of residence. Members who are resident in the Netherlands do not receive an attendance fee except for meetings held outside the Netherlands.

In accordance with the Articles of Association and good corporate governance practice, the remuneration of

Supervisory Board members is not dependent on the results of the company.

We do not grant share-based compensation to our Supervisory Board members, neither do we provide loans. Travel expenses and facilities for members of the Supervisory Board are borne by the company and reviewed by the Audit Committee. The shares in the company owned by Supervisory Board members serve as a long-term investment in the company.

### Shares held by the members of the Supervisory Board

Number of shares at year-end	2012	2013
Karel Vuursteen	400	400
Sari Baldauf	–	–
Uwe-Ernst Bufe	500	500
Dolf van den Brink	500	500
Peggy Bruzelius	500	500
Antony Burgmans	500	500
Peter Ellwood	500	500
Louis Hughes	500	538
Ben Verwaayen	–	–

### Supervisory Board

In €	Total remuneration 2012	Remuneration	Attendance fee	Committee allowance fees	Employer's charges	Total remuneration 2013
Karel Vuursteen, Chairman	121,100	100,000	5,000	15,000	3,900	123,900
Sari Baldauf <sup>1</sup>	52,400	50,000	17,500	10,000	–	77,500
Uwe-Ernst Bufe, Deputy Chairman	78,600	60,000	17,500	–	–	77,500
Dolf van den Brink	72,500	50,000	5,000	20,000	–	75,000
Peggy Bruzelius	94,500	50,000	15,000	15,000	17,300	97,300
Antony Burgmans	67,500	50,000	5,000	15,000	–	70,000
Peter Ellwood	84,900	50,000	17,500	15,000	3,900	86,400
Louis Hughes	93,600	50,000	30,000	15,000	3,900	98,900
Ben Verwaayen <sup>1</sup>	52,400	50,000	17,500	10,000	3,000	80,500
<b>Total</b>	<b>717,500</b>	<b>510,000</b>	<b>130,000</b>	<b>115,000</b>	<b>32,000</b>	<b>787,000</b>

<sup>1</sup> As of May, 2012.

### 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 2013 are linked to return on investment (20 percent), operating income (20 percent),

operating cash flows (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 (€228,900) related to employer's contribution in the UK. The other costs for Mr. Nichols (€73,600) and Mr. Darner (€50,700) related to living expenses and home leave allowances.

### Post-employment benefits and other post-employment compensation

Other post-employment compensation are payments to a person intended for building up retirement benefits other than those included in Post-employment benefits. Pension contributions were calculated over the 2013 remuneration. These amounts together with the contributions over the 2013 short-term incentives are included in the post-employment benefits and other post-employment compensation.

### Share-based compensation

The costs for share-based compensation are non-cash and related to the performance-related share plan and the share matching plan following IFRS 2. The fair value of the performance-related share plan at grant date is amortized as a charge against income over the three-year vesting period. The fair value amounted to €41.28 per performance-related share conditionally granted in 2013 for those members of the Board of Management facing a two year holding restriction (2012: €32.43) and €50.89 for those members whose holding restriction will lapse after the end of their Board member's term (2012: €38.79). The fair value for the shares related to the share-matching plan amounted to €40.67 (2012: €39.72).

### Former members of the Board of Management

In 2013, charges for former members of the Board of Management amounted to €4.8 million (2012: €18,000) mainly due to taxation on excessive pay ('Belastingheffing excessive belongingsbestanddelen') and Dutch crisis tax.

### Board remuneration 2012

In €	Salary	Short-term incentives	Other short-term benefits	Post-employment benefits	Other post-employment compensation	Share-based compensation	Termination benefits	Total remuneration
Ton Büchner	534,700	170,900	5,700	–	128,900	399,500	–	1,239,700
Keith Nichols	602,000	224,500	182,400	109,100	78,000	880,400	–	2,076,400
Leif Darner	602,000	200,100	689,500	229,500	–	1,248,600	796,300	3,766,000
Tex Gunning	602,000	200,100	584,600	236,700	–	951,300	–	2,574,700
<b>Total</b>	<b>2,340,700</b>	<b>795,600</b>	<b>1,462,200</b>	<b>575,300</b>	<b>206,900</b>	<b>3,479,800</b>	<b>796,300</b>	<b>9,656,800</b>

### Board remuneration 2013

In €	Salary	Short-term incentives	Other short-term benefits	Post-employment benefits	Other post-employment 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
Leif Darner <sup>1</sup>	200,700	–	53,200	58,900	–	996,900	1,309,700
Tex Gunning <sup>1</sup>	200,700	–	2,700	58,900	–	1,367,600	1,629,900
<b>Total</b>	<b>1,837,400</b>	<b>939,000</b>	<b>366,500</b>	<b>117,800</b>	<b>513,400</b>	<b>4,030,100</b>	<b>7,804,200</b>

<sup>1</sup> Until April 26, 2013.

### Performance-related shares

With regard to the performance related shares granted to the members of the Board of Management in 2011, the final vesting percentage of the series 2011-2013 equaled 70.83 percent (series 2010-2012: 66.67 percent), including dividend shares 77.98 percent (series 2010-2012: 73.61 percent). The members of the Board of Management will retain the shares for a minimum period of two years after vesting or (if shorter) for the duration of their tenure as member of the Board of Management.

### Share-matching plan

The members of the Board of Management are required to buy AkzoNobel shares. Under certain conditions, such shares may be matched by the company. See the Remuneration report for further details on individual arrangements.

### Shares held by the Board of Management

Number of shares at year-end	2012	2013
Ton Büchner	10,810	16,243
Keith Nichols	16,632	21,870

### Number of performance-related shares

	Series	Balance at January 1, 2013	Granted in 2013	Vested in 2013	Forfeited in 2013	Dividend in 2013	Balance at December 31, 2013	Vested on January 1, 2014
Ton Büchner	2012 – 2014	33,099	–	–	–	967	34,066	–
	2013 – 2015	–	24,200	–	–	707	24,907	–
Keith Nichols	2010 – 2012	13,471	–	(13,471)	–	–	–	–
	2011 – 2013	19,895	–	–	(5,973)	582	14,504	14,504
	2012 – 2014	24,799	–	–	–	724	25,523	–
	2013 – 2015	–	18,200	–	–	531	18,731	–
Leif Darner	2010 – 2012	13,471	–	(13,471)	–	–	–	–
	2011 – 2013	19,895	–	–	(5,973)	582	14,504	14,504
	2012 – 2014	24,799	–	–	–	724	25,523	–
	2013 – 2015	–	6,067	–	–	177	6,244	–
Tex Gunning	2010 – 2012	13,471	–	(13,471)	–	–	–	–
	2011 – 2013	19,895	–	–	(5,973)	582	14,504	14,504
	2012 – 2014	24,799	–	–	–	724	25,523	–
	2013 – 2015	–	6,067	–	–	177	6,244	–

### Number of potential matching shares

	Year of share investment	Potential match	Matched in 2013	Forfeited in 2013	Balance at year-end 2013
Ton Büchner	2012	10,810	–	–	10,810
	2013	1,429	–	–	1,429
Tex Gunning	2012	1,002	(1,002)	–	–
	2013	702	(702)	–	–

### Stock options

	Year of issue	Exercise price in €	Outstanding at January 1, 2013	Forfeited in 2013	Exercised in 2013	Outstanding at year-end 2013	Expiry date
Keith Nichols	2006	46.46	3,000	–	3,000	–	April 26, 2013
	2007	58.89	3,750	–	–	3,750	April 26, 2014
Leif Darner	2006	46.46	13,000	–	13,000	–	April 26, 2013
	2007	58.89	13,000	–	–	13,000	April 26, 2014

### 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 2013, we had €2.1 billion available as cash and cash equivalents (2012: €1.8 billion), see Note 13. In addition, we have a €1.8 billion multi-currency revolving credit facility, which has been extended in 2013 with an additional year to 2018. At year-end 2013 and 2012, 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 2013 and 2012. The table shows our cash outflows per maturity group. The amounts disclosed in the table are the contractual undiscounted cash flows.

### Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between one and 5 years	Over 5 years
<b>At year-end 2012</b>			
Borrowings	656	1,794	1,548
Interest on borrowings	211	332	121
Finance lease liabilities	6	17	29
Trade and other payables	3,242	–	–
<b>FX contracts (hedges)</b>			
Outflow	2,380	–	–
Inflow	(2,417)	–	–
<b>Other derivatives</b>			
Outflow	12	14	–
Inflow	–	–	–
<b>Total</b>	<b>4,090</b>	<b>2,157</b>	<b>1,698</b>
<b>At year-end 2013</b>			
Borrowings	955	1,841	780
Interest on borrowings	134	269	70
Finance lease liabilities	6	18	27
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>

### 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 2013, the credit risk was €4.9 billion (2012: €4.7 billion) for cash, loans and trade and other receivables. Our credit risk is well spread amongst both global and local counterparties. Our largest counterparty risk amounted to €270 million at year-end 2013.

### Foreign exchange risk management

#### Trade and financing transactions

We operate in a large number of countries, where we have clients and suppliers, many of whom are outside of the local functional currency environment. This creates currency exposure which is partly netted out on consolidation.

The purpose of our foreign currency hedging activities is to protect us from the risk that the functional currency net cash flows resulting from trade or financing transactions are adversely affected by changes in exchange rates. Our policy is to hedge our transactional foreign exchange rate exposures above predefined thresholds from recognized assets and liabilities. Cash flow hedge accounting is applied

by exception. Derivative transactions with external parties are bound by overnight limits per currency.

In general, forward exchange contracts that we enter into have a maturity of less than one year. When necessary, forward exchange contracts are rolled over at maturity. Currency derivatives are not used for speculative purposes.

#### Hedged notional amounts at year-end

In € millions	Buy	Sell	Buy	Sell
	2012	2012	2013	2013
US dollar	273	616	267	684
Pound sterling	68	541	67	665
Swedish krona	275	58	302	30
Other	273	517	270	379
<b>Total</b>	<b>889</b>	<b>1,732</b>	<b>906</b>	<b>1,758</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 2013, the hedge was fully effective.

In 2011, 2012 and 2013 we applied cash flow hedge accounting of CNY793 million for an acquisition of which CNY90 million was still outstanding at the end of 2013. There was no material gain/loss in 2012 and 2013 on the effective hedges.

The foreign exchange and interest rate risks related to divestments completed in 2013 amounting to \$56 million and CAD190 million were hedged in 2012 using forward contracts and cash flow hedge accounting was applied. The loss on the effective hedges amounted to €3 million (2012: €5 million gain). There was no cash flow hedge reserve related to divestments outstanding at the end of 2013 (2012: €3 million gain).

#### 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 2013 amounted to a loss of €4 million, net of tax (year-end 2012: a loss of €10 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 2013, there are contracts outstanding, however, with a marginal fair value. The fair value of the contracts at the year-end 2012 was €4 million loss, net of tax. We did not apply hedge accounting in relation to these contracts.

In order to hedge the price risk of electricity that is used for the Specialty Chemicals plants in Sweden and Finland, we entered into future contracts on the power exchange Nord Pool Spot, based on expected use of electricity over the period 2014–2017. We apply cash flow hedge accounting to these contracts in order to mitigate the accounting mismatch that would otherwise occur. The effective part of the fair value of these contracts amounted to a €16 million loss net of tax recorded in equity (2012: €10 million net deferred loss), which are expected to affect profit within the next four years. All hedges were effective in 2013 and 2012.

##### 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 90 percent

fixed at year-end 2012 to 75 percent fixed at year-end 2013. During 2013, no interest rate swap contracts were outstanding.

Fair value hedges closed out in previous years resulted in an adjustment to the carrying amount of a bond of which €12 million was amortized and recognized as income on the interest line (2012: €13 million).

The effective interest rate on issued debt (excluding hedge results) over 2013 was 5.6 percent (2012: 6.0 percent). Combined with the amortization of interest rate swaps closed out in 2011, the effective interest rate on issued debt was 5.3 percent (2012: 5.6 percent).

##### Capital risk management

Our objectives when managing capital are to safeguard our ability to satisfy our capital providers and to maintain a capital structure that optimizes our cost of capital. For this we maintain a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Moody's and Standard & 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.

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 2013 at year-end amounted to 0.56 (2012: 0.30). 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 pension and other post-retirement benefit obligations. Net borrowings is calculated as a total of long and short-term borrowings less cash and cash equivalents, adding an after-tax amount for the underfunding of pension and other post-retirement benefit obligations and lease commitments. In 2013, a bond of \$500 million matured.

### 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)

Level 1 fair valuation methods were used for €2.6 billion of the long-term borrowings and €0.8 billion of the short-term borrowings. All other fair values were determined using level 2 fair valuation methods, except for €87 million level 3 (discounted cash flow) fair valuation.

### Fair value per financial instruments category

In € millions	Carrying amount	Out of scope of IFRS 7	Carrying value per IAS 39 category		Total carrying value	Fair value
			Loans and receivables/ other liabilities	At fair value through profit or loss		
<b>2012 year-end</b>						
Other financial non-current assets	1,297	977	320	–	320	335
Trade and other receivables	2,698	244	2,438	16	2,454	2,454
Cash and cash equivalents	1,752	–	–	1,752	1,752	1,752
<b>Total financial assets</b>	<b>5,747</b>	<b>1,221</b>	<b>2,758</b>	<b>1,768</b>	<b>4,526</b>	<b>4,541</b>
Long-term borrowings	3,388	–	3,388	–	3,388	3,713
Short-term borrowings	662	–	662	–	662	678
Trade and other payables	3,242	1,240	1,990	12	2,002	2,002
<b>Total financial liabilities</b>	<b>7,292</b>	<b>1,240</b>	<b>6,040</b>	<b>12</b>	<b>6,052</b>	<b>6,393</b>
<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>

## Offsetting financial assets and financial liabilities

In € millions	Note	Gross amounts of financial instruments in the statement of financial position	Offset in balance sheet	Net balance sheet amount	Amount under master netting agreement	Net amount
<b>2012 year-end</b>						
Forward exchange contracts used for hedging	12	16	–	16	(9)	7
Commodity contracts used for hedging		7	(7)	–	–	–
<b>Total financial assets</b>		<b>23</b>	<b>(7)</b>	<b>16</b>	<b>(9)</b>	<b>7</b>
Forward exchange contracts used for hedging	19	12	–	12	(9)	3
Commodity contracts used for hedging		33	(7)	26	–	26
<b>Total financial liabilities</b>		<b>45</b>	<b>(7)</b>	<b>38</b>	<b>(9)</b>	<b>29</b>
<b>2013 year-end</b>						
Forward exchange contracts used for hedging	12	15	–	15	(7)	8
Commodity contracts used for hedging		13	(13)	–	–	–
<b>Total financial assets</b>		<b>28</b>	<b>(13)</b>	<b>15</b>	<b>(7)</b>	<b>8</b>
Forward exchange contracts used for hedging	19	16	–	16	(7)	9
Commodity contracts used for hedging		39	(13)	26	–	26
<b>Total financial liabilities</b>		<b>55</b>	<b>(13)</b>	<b>42</b>	<b>(7)</b>	<b>35</b>

### 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.

The table sets out the carrying amounts of recognized financial instruments that are subject to above agreements.

## Sensitivities

Sensitivity object	Sensitivity, measured at year-end 2013	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: €5 million (2012: profit €4 million). Equity: €nil (2012: €nil)
	A 10 percent strengthening of the euro versus the Pound sterling	Profit: €2 million (2012: profit €5 million). Equity: €nil (2012: €nil)
	A 10 percent strengthening of the euro versus Swedish krona	Profit: €2 million (2012: profit €1 million). Equity: €nil (2012: €nil)
		Net investment hedge accounting is applied to GBP250 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	Equity: €12 million (2012: €10 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 (€3.16 per MWh) as compared with market prices	Equity: €6 million (2012: €10 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 (€ 8 per barrel) as compared with market prices.	Profit: € 6 million (2012: €8 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: €2 million (2012 profit: €6 million)
	A 100 basis points increase of US LIBOR interest rates	Profit: €2 million (2012 loss: €4 million)
	A 100 basis points increase of GBP LIBOR interest rates	Profit: €1 million (2012 loss: €nil)

## Company financial statements

**A** Note A: General information

### Statement of income

In € millions		2012 <sup>1</sup>	2013
Net income from subsidiaries, associates and joint ventures		(2,231)	680
Other net income		139	44
<b>Total net income/(loss)</b>		<b>(2,092)</b>	<b>724</b>

### Balance sheet as of December 31, before allocation of profit

In € millions	Note	2012 <sup>1</sup>	2013
<b>Assets</b>			
<b>Non-current assets</b>			
Financial non-current assets	B	13,358	13,822
<b>Total non-current assets</b>		<b>13,358</b>	<b>13,822</b>
<b>Current assets</b>			
Trade and other receivables	C	80	66
Cash and cash equivalents	D	473	1,084
<b>Total current assets</b>		<b>553</b>	<b>1,150</b>
<b>Total assets</b>		<b>13,911</b>	<b>14,972</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Subscribed share capital		478	485
Additional paid-in capital		174	319
Change in fair value of derivatives		(17)	(19)
Other statutory reserves		264	275
Cumulative translation reserves		61	(417)
Actuarial gains and losses		(1,231)	(1,495)
Other reserves		8,205	5,802
Undistributed profit		(2,170)	644
<b>Shareholders' equity</b>	E	<b>5,764</b>	<b>5,594</b>
<b>Non-current liabilities</b>			
Provisions for subsidiaries	B	454	490
Long-term borrowings	F	7,345	8,533
<b>Total non-current liabilities</b>		<b>7,799</b>	<b>9,023</b>
<b>Current liabilities</b>			
Other short-term debt	G	348	355
<b>Total current liabilities</b>		<b>348</b>	<b>355</b>
<b>Total equity and liabilities</b>		<b>13,911</b>	<b>14,972</b>

<sup>1</sup> Restated for the revised IAS19.

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

In € millions	Statutory reserves						Actuarial gains and losses	Other reserves	Undistributed results	Shareholders' equity
	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Other Statutory reserves	Cumulative translation reserves					
<b>Balance at January 1, 2012</b>	469	47	(9)	240	4	(181)	8,061	400	9,031	
Changes in fair value of derivatives	-	-	(8)	-	-	-	-	-	(8)	
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	-	-	-	-	57	-	-	-	57	
Post-retirement benefits	-	-	-	-	-	(1,050)	-	-	(1,050)	
Net income	-	-	-	-	-	-	-	(2,092)	(2,092)	
<b>Comprehensive income</b>	-	-	(8)	-	57	(1,050)	-	(2,092)	(3,093)	
Dividend paid	7	121	-	-	-	-	-	(342)	(214)	
Equity-settled transactions	-	-	-	-	-	-	43	-	43	
Issue of common shares	2	6	-	-	-	-	-	-	8	
Addition to other reserves	-	-	-	24	-	-	112	(136)	-	
Acquisition of non-controlling interests	-	-	-	-	-	-	(11)	-	(11)	
<b>Balance at December 31, 2012 <sup>1</sup></b>	<b>478</b>	<b>174</b>	<b>(17)</b>	<b>264</b>	<b>61</b>	<b>(1,231)</b>	<b>8,205</b>	<b>(2,170)</b>	<b>5,764</b>	
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>	

<sup>1</sup> Restated for the revised IAS19.

**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, 2012</b>	<b>10,560</b>	<b>5,289</b>	<b>90</b>	<b>15,939</b>
Acquisitions/capital contributions	156	–	–	156
Divestments/capital repayments	–	–	(2)	(2)
Net income from subsidiaries, associates and joint ventures	(2,231)	–	–	(2,231)
Post-retirement benefits	(1,050)	–	–	(1,050)
Equity-settled transactions	35	–	–	35
Change in fair value of derivatives	3	–	–	3
Loans granted	–	1,856	–	1,856
Repayment of loans	–	(1,422)	–	(1,422)
Changes in exchange rates	78	6	–	84
Dividend/other changes	(153)	–	(7)	(160)
Transfer to provision for subsidiaries	150	–	–	150
<b>Balance at December 31, 2012</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/other changes	(95)	–	13	(82)
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>

<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	2012	2013
Receivables from subsidiaries	25	11
Receivable from associates and joint ventures	14	15
FX contracts	6	4
Other receivables	35	36
<b>Total</b>	<b>80</b>	<b>66</b>

**D** Note D: Cash and cash equivalents

**Cash and cash equivalents**

In € millions	2012	2013
Short-term investments	21	645
Cash on hand and in banks	452	439
<b>Total</b>	<b>473</b>	<b>1,084</b>

**E** Note E: Shareholder's equity

**Subscribed share capital**

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Annual General Meeting of shareholders. The holders of the priority shares are entitled to dividend of 6 percent per share or the statutory interest in the Netherlands, whichever is lower, plus any accrued and unpaid dividends. They are entitled to 200 votes per share (in accordance with the 200 times higher nominal value per share) at the Annual General Meeting of shareholders. In addition, the holders of priority shares have the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management; amendments to the Articles of Association are subject to the approval of the Meeting of Holders of Priority Shares.

Priority shares may only be transferred to a transferee designated by a Meeting of Holders of Priority Shares and against payment of the par value of the shares, plus interest at the rate of 6 percent per annum or the statutory interest in the Netherlands, whichever is lower. There are no restrictions on voting rights of holders of common or priority shares. The Articles of Association set out procedures for exercising voting rights. The Annual General Meeting of shareholders has in 2013 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 2013 or 2012. Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year.

Of the shareholders' equity of €5.6 billion, an amount of €4.8 billion (2012: €5.0 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law. Shareholders' equity at year-end 2012 has been restated to reflect

#### Unrestricted reserves at year-end

In € millions	2012	2013
Shareholders' equity at year-end	5,764	5,594
Subscribed share capital	(478)	(485)
Subsidiaries' restrictions to transfer funds	(181)	(182)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(16)	(26)
Cash flow hedge reserve	-	-
<b>Unrestricted reserves</b>	<b>5,028</b>	<b>4,840</b>

the revised IAS19. In this respect, we consider negative reserves for actuarial gains as restricted.

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 €26 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 29, 2014 a 2013 final dividend of €1.12 per share, which would make a total 2013 dividend of €1.45 per share (2012: €1.45). During 2013, we paid the 2012 final dividend of €1.12 and the 2013 interim dividend of €0.33. There will be a stock dividend option with cash dividend as default.

#### F Note F: Long-term borrowings

#### Long-term borrowings

In € millions	2012	2013
Debt issued	1,726	1,718
Debt to subsidiaries	5,619	6,725
Other borrowings	-	90
<b>Total</b>	<b>7,345</b>	<b>8,533</b>

For the fair value of the debenture loans, see Note 23 of the notes of the Consolidated financial statements.

#### Debt issued

In € millions	2012	2013
7 1/4 % 2009/15 (€975 million)	630	626
8 % 2009/16 (€250 million)	305	299
4 % 2011/18 (€800 million)	791	793
<b>Total</b>	<b>1,726</b>	<b>1,718</b>

We have a €1.8 billion multi-currency revolving credit for which in 2013 the maturity has been extended with an additional year to 2018. At year-end 2013 and 2012, this facility had not been drawn. At year-end 2013 and 2012, none of the borrowings was secured by collateral.

#### G Note G: Short-term debt

#### Short-term debt

In € millions	2012	2013
Current portion of long-term borrowings	58	32
Debt to subsidiaries	8	29
FX contracts	10	9
Borrowings from associates and joint ventures	27	28
Short-term bank loans	3	4
Debt related to pensions	8	8
Debt related to other suppliers	68	56
Other liabilities	166	189
<b>Total</b>	<b>348</b>	<b>355</b>

We have US dollar and euro commercial paper programs in place, which can only be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no paper outstanding at year-end 2013 and 2012.

## H Note H: Financial instruments

At year-end 2013, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €0.9 billion (year-end 2012: €0.9 billion), while contracts to sell currencies totaled €1.7 billion (year-end 2012: €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 2013, aggregating €0.6 billion (2012: €0.5 billion), are included in the consolidated balance sheet. Additionally, at year-end 2013, guarantees were issued on behalf of consolidated companies for an amount of €2.4 billion (2012: €2.9 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 (2012: €10 million).

## J Note J: Auditor's fees

### Auditor's fees

	In the Netherlands	Network outside the Netherlands	Total	In the Netherlands	Network outside the Netherlands	Total
In € millions			2012			2013
Audit	2.9	8.2	11.1	3.0	6.8	9.8
Audit-related	0.2	0.1	0.3	0.2	0.3	0.5
Tax	–	0.2	0.2	–	0.1	0.1
Other services	–	–	–	–	–	–
<b>Total</b>	<b>3.1</b>	<b>8.5</b>	<b>11.6</b>	<b>3.2</b>	<b>7.2</b>	<b>10.4</b>

Amsterdam, February 19, 2014

### The Board of Management

Ton Büchner  
Keith Nichols

### The Supervisory Board

Karel Vuursteen  
Sari Baldauf  
Uwe-Ernst Bufe  
Dolf van den Brink  
Peggy Bruzelius  
Antony Burgmans  
Peter Ellwood  
Louis Hughes  
Ben Verwaayen

## Other information

### Independent auditor's report

To the Supervisory Board and the Annual General Meeting of shareholders of Akzo Nobel N.V.

### Report on the financial statements

We have audited the accompanying financial statements 2013 of Akzo Nobel N.V., Amsterdam, as set out on pages 111 to 159. The financial statements include the Consolidated financial statements and the Company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2013, the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of the significant accounting policies and other explanatory information. The Company financial statements comprise the company balance sheet as at December 31, 2013, the company statement of income for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Management in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion with respect to the Consolidated financial statements

In our opinion, the Consolidated financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

### Opinion with respect to the Company financial statements

In our opinion, the Company financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

### Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Board of Management, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the

information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the Board of Management as set out on pages 1 to 110, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, February 19, 2014  
**KPMG Accountants N.V.**

E.H.W. Weusten RA

## Profit allocation and distributions

### Profit allocation and distributions

#### Article 43

##### 43.6

The Board of Management shall be authorized to determine, with the approval of the Supervisory Board, what share of profit remaining after application of the provisions of the foregoing paragraphs shall be carried to reserves. The remaining profit shall be placed at the disposal of the Annual General Meeting of shareholders, with due observance of the provisions of paragraph 7, it being provided that no further dividends shall be paid on the preferred shares.

##### 43.7

From the remaining profit, the following distributions shall, to the extent possible, be made as follows:

(a) to the holders of priority shares: 6 percent per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends

(b) to the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the Annual General Meeting of shareholders may decide to carry to reserves, shall permit.

##### 43.8

Without prejudice to the provisions of paragraph 4 of this article and of paragraph 4 of article 20, the holders of common shares shall, to the exclusion of everyone else, be entitled to distributions made from reserves accrued by virtue of the provision of paragraph 7b of this article.

##### 43.9

Without prejudice to the provisions of article 42 and paragraph 8 of this article, the Annual General Meeting of shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

#### Article 44

##### 44.7

Cash dividends by virtue of paragraph 4 of article 20, article 42, or article 43 that have not been collected within five years of the commencement of the second day on which they became due and payable shall revert to the company.

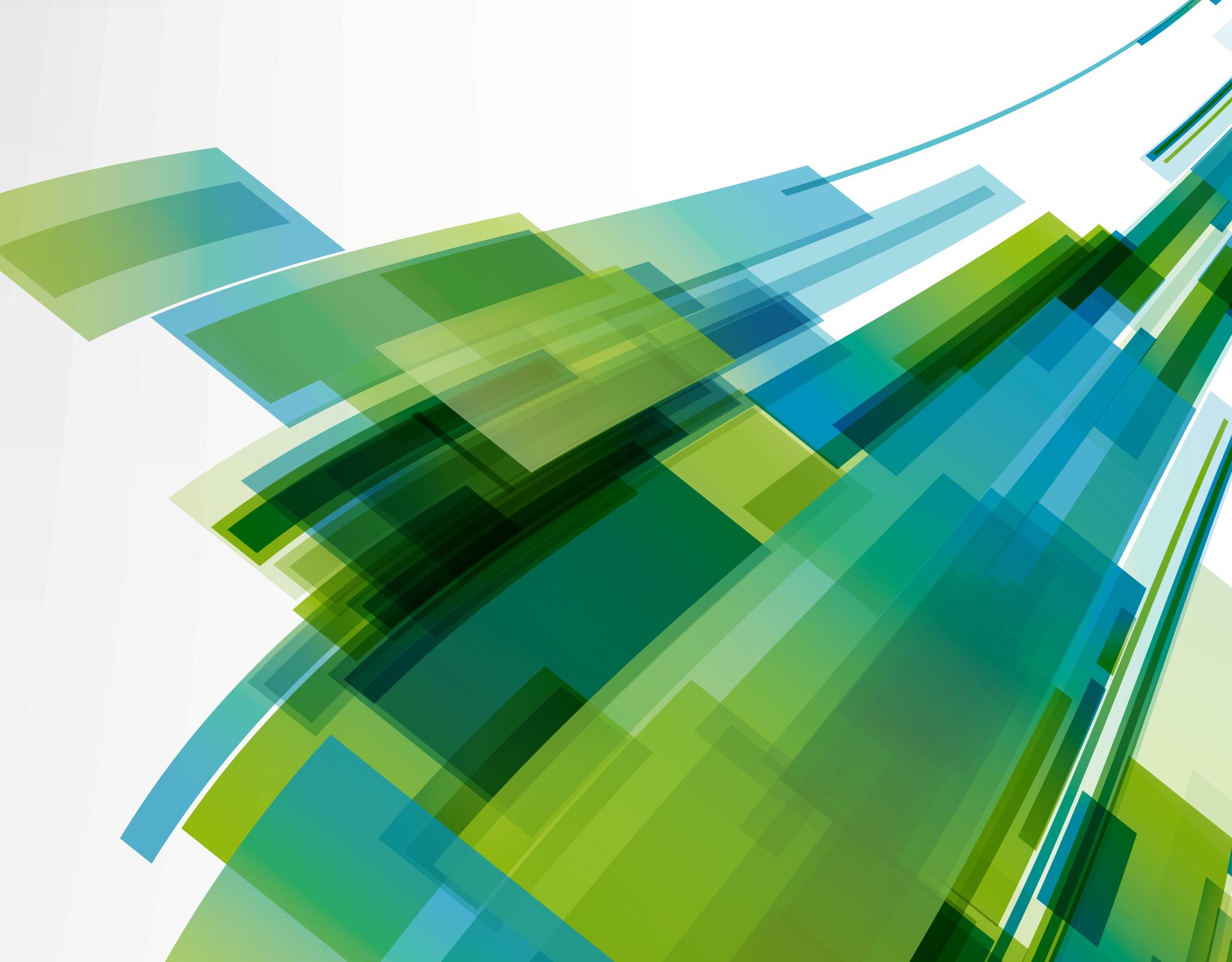
### Proposal for profit allocation

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €724 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 €352 million (to be increased by dividend on shares issued in 2013 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.45 per share of €2, of which €0.33 was paid earlier as an interim dividend. The final dividend of €1.12 per share (which under the conditions to be published by the company and at the shareholders' election will be paid either in cash or in stock) will be made available from May 28, 2014.

### Special rights to holders of priority shares

The priority shares are held by "Stichting Akzo Nobel" (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation.

The Meeting of Holders of Priority Shares has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments to the Articles of Association are subject to the approval of this meeting.



# Sustainability statements

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This Sustainability statements section of the Report 2013 is separate from, and does not in any way form part of, the company's annual financial report ("jaarlijkse financiële verslaggeving") as defined in article 5:25c of the Dutch Financial Markets Supervision Act. This section contains summarized key performance indicators (KPIs) relating to sustainability performance. Further information on AkzoNobel's sustainability strategy, activities and results can be found on our corporate website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

## Consolidated Sustainability statements



Sustainability topics have been integrated into all sections of the AkzoNobel Report 2013. 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	2010	2011	2012	2013	Ambition 2013	Target 2015	Target 2020
<b>Value chain</b>								
Eco-premium solutions with downstream benefits (% of revenue)	4	-	-	17	18	-	-	20
Eco-premium solutions (% of revenue)	4	21	22	22	24	-	30	-
Carbon footprint cradle-to-grave per ton of product (% reduction from 2012)	5	-	-	0	2	-	-	25-30
<b>Safety</b>								
Total reportable injury rate employees/supervised contractors (per million hours)	7	3.6	3.1	2.4	2.3	2.2	<2.0	<1.0
Significant loss of containment (Level D)	8	0	2	0	1	0	0	0
REACH compliance second phase (%)	9	8	44	83	100	100	100	100
<b>Employees</b>								
Employee engagement (ViewPoint score 1-5 scale)	11	3.56	3.74	3.80	3.88	-	>4	-
% of internal promotion into executive level	11	74	80	70	75	-	80	-
% of female executives	11	12	13	15	16	-	20	>20
% of executives from high growth markets	11	12	13	13	14	-	20	>20
<b>Environment</b>								
Operational eco-efficiency footprint measure (% reduction from 2009)	14-18	7	11	13	24	20	30	-
Sustainable fresh water management (% of manufacturing sites)	18	48	74	83	85	80	100	100
Greenhouse gas emissions per ton of production (own operations, in kg)	15	267	256	257	222	-	245	<245

### 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 a strategy 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 strategy 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 shown in the table opposite and are explained in detail throughout this section.

### Value chain

Details of our focus areas across the value chain can be found in Notes 4-6 of this section. These cover aspects of Sustainable business, Resource efficiency and Capable engaged people.

These focus areas are underpinned by strong existing foundations, which have been built up over many years:

**Safety:** Details of our objectives and performance for people, process and product safety can be found in Notes 7-10.

**Employees:** Our objectives and performance in talent management, employee engagement, diversity and inclusion and community involvement are in Notes 11-13.

**Environmental:** Information regarding our environmental objectives and performance for our own operations can be found in Notes 14-19.

**Integrity:** Our sustainability activities are underpinned by integrity management. For details of our compliance objectives and performance, please refer to the 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, both in the strategic focus areas and the core principles underlying our new company values (safety, integrity and sustainability). Sustainability helps us to enhance our existing business, create new business opportunities and minimize risks.

In 2012, we developed a new focus to our sustainability strategy by reviewing our sustainability risks and

opportunities against global trends – population growth and the new middle class, urbanization, long-term constraints of natural resources and climate change – and how these will impact our key market segments by 2050. We express the outcome as a commitment to creating more value from fewer resources across the value chain. We are using Planet Possible as an overall description of our related programs. We are committed to making our products and operations more sustainable. As well as driving our own success, putting sustainability at the heart of everything we do means our customers and employees – not to mention the planet – will also benefit. For details, see the Strategy section of this Report 2013.

Our 2020 targets are based on creating more value from fewer resources (measured by a new Resource Efficiency Index):

- **Sustainable business:** Creating business value through products and solutions which provide both functionality and other sustainability benefits, as well as cost savings from operational efficiencies. Target: 20 percent revenue from eco-premium solutions with a downstream benefit by 2020
- **Resource efficiency:** Accelerating material and energy efficiency across the value chain. Target: reduction in cradle-to-grave carbon footprint per ton of sales of 25–30 percent from 2012 to 2020
- **Capable, engaged people:** Engaging our people and partnering with our suppliers and customers to deliver significant changes. Overall objectives being defined

**By focusing on the full value chain, we will drive business, resource and engagement benefits**

	Raw materials	Own operations	Customer operations	End-user	End-of-life
	Energy/resource benefits in use				
Sustainable business	Cost savings	Cost savings	Improve revenue and margin	Improve revenue and margin	
Resource efficiency	Reduced material and energy use	Reduced energy use	Reduced material and energy use in customer processes, application	Reduced material and energy use in product use	
Capable, engaged people	Engaged suppliers	Engaged employees	Engaged customers	Engaged customers and users	
Foundations: HSE, product stewardship, employee practices, community involvement, Code of Conduct					

These targets are underpinned by strong programs for safety (people, process and product safety/stewardship), employees (employee practices/development and community involvement), environmental management and integrity management.

We have specified key performance indicators with 2020 targets to supplement or replace our 2015 targets. 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 illustrate our performance against these goals.

**Sustainability framework**

Our new sustainability strategy is a natural next step from our sustainability framework, which maps out a progression towards sustainability. 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 process excellence, innovation and talent development, alongside continued integration of sustainability in all aspects of the value chain.

### Management structure

The Executive Committee has overall responsibility for sustainability. They monitor the sustainability performance of each Business Area through the operating and 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, Sourcing, 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 central group and the business teams to ensure effective roll-out of the new strategy.

The Managing Director of each business defines their respective non-financial targets and reports on progress every six months. All businesses have also appointed a sustainability focal point to support the embedding of sustainability throughout their operations. They bring together an appropriate team to develop and implement the sustainability agenda for the business. Focal points from across the company have regular meetings to exchange best practices and identify opportunities for further development.

Meanwhile, each function in the value chain has identified focus areas for sustainability, with targets where appropriate.

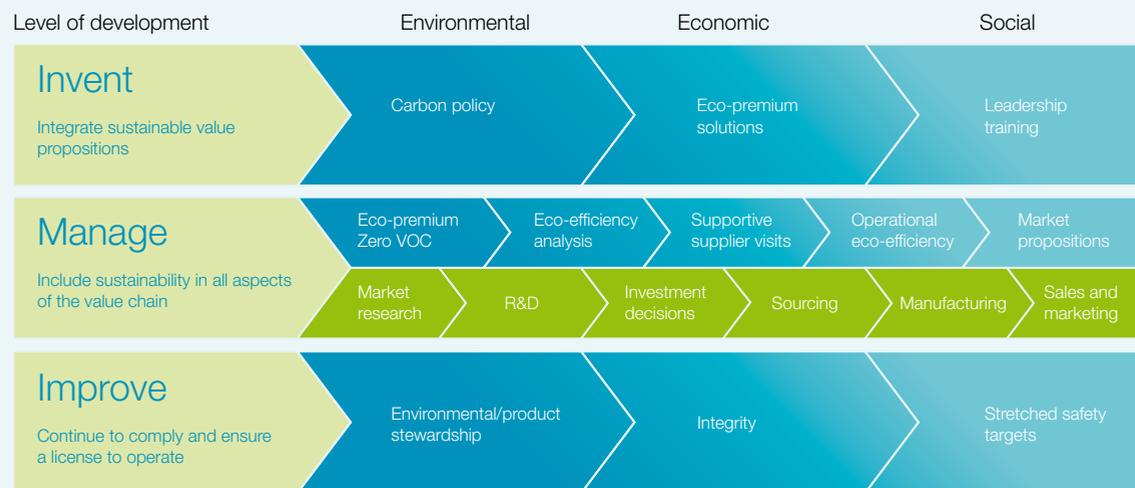
Functional management teams, such as HR, Supply Chain and RD&I (which are made up of both corporate and business representatives), are in place to support the implementation of functional strategy, including the sustainability elements. The compliance framework and the management structure for integrity and compliance aspects is detailed in the Governance and compliance section under Compliance and integrity management.

### Management processes

We include key sustainability issues in our corporate, business and functional processes – strategy and planning, risk management and internal control, compliance, the operational review cycle, as well as in our internal audit and external assurance processes. Each year there are two dedicated sustainability sessions in the Operational Review Meetings.

We set global standards for health and safety, environmental protection, product stewardship and compliance, including social and labor aspects. Corporate compliance and audit processes are supplemented by specialist

## Sustainability framework



■ Examples of sustainability activity  
 ■ Value chain aspects

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 position papers and an improvement plan owned by a subject matter expert.

Overall progress in embedding sustainability is monitored using an annual self-assessment benchmark completed by each business, which reflects the content of the sustainability framework and management processes. In 2013, we added performance requirements to this assessment. Three businesses each year are reviewed by an internal audit team, with all assessment results being reviewed at company level.

The results show that sustainability management process and performance levels are “in place” or “mostly in place” apart from a couple of elements in two businesses which are undergoing significant organizational change. During the year, there were encouraging improvements in the areas involving R&D/eco-premium solutions and in our carbon management activities. Processes around Code of Conduct, people/process and product safety, manufacturing and risk management remain at a high level, though businesses need to maintain focus in order to achieve the performance levels set by our targets.

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).

### Reporting scope

This Report 2013 combines our financial and sustainability reporting and is addressed to readers interested in both areas. In particular, we seek ways of linking sustainability performance to business results in areas such as operational eco-efficiency, carbon emission reduction, eco-premium solutions and people development and engagement.

The information in this Report offers an update on our implementation of the ten principles of the United Nations Global Compact (UNGC). More sustainability information is available on our corporate website, including: an index of the Global Reporting Initiative (GRI) 3.1 indicators; additional development work against the new G4 guidelines; and a summary of our UNGC communication of progress.

The topics in this Report 2013 were selected on the basis of the sustainability aspects of our strategy, the GRI guidelines and input from various external stakeholders. These include our engagement with:

- Shareholders
- Customers
- Employees
- Rating organizations, notably 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

### Reporting policies

#### Materiality

We have used the principle of materiality to assess the topics to include in this Report 2013, which are current and important for the company and key stakeholders. The results are plotted in the matrix graph on the next page.

A summary of the process is available on our website.

### Reporting boundaries

The AkzoNobel Report 2013 integrates sustainability aspects of our processes and business operations in each section, in particular the How we create value infographics, and the Strategy, 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 2013 and comparative data for 2012, 2011 and 2010. 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

Previously, our policy was to report acquisitions within one calendar year. From 2010, we report from the date of purchase, recognizing that reporting improvements may be required at these facilities. Recent significant changes:

- 2013 data includes the results of the divestment of Chemicals Pakistan. 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, both in 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 has been restated on the same basis. For our own operations, environmental impact and improvements are quoted relative to production quantity, i.e. the product volumes

leaving every manufacturing plant. In 2013, we carried out a review of our key value chains, including the downstream applications, used in our cradle-to-grave footprint reporting. We now include the climate impact of VOCs in our overall carbon footprint targets. The 2012 data has been restated to provide a sound baseline for our 2012-2020 targets. We identify issues that affect comparability in the text or footnotes.

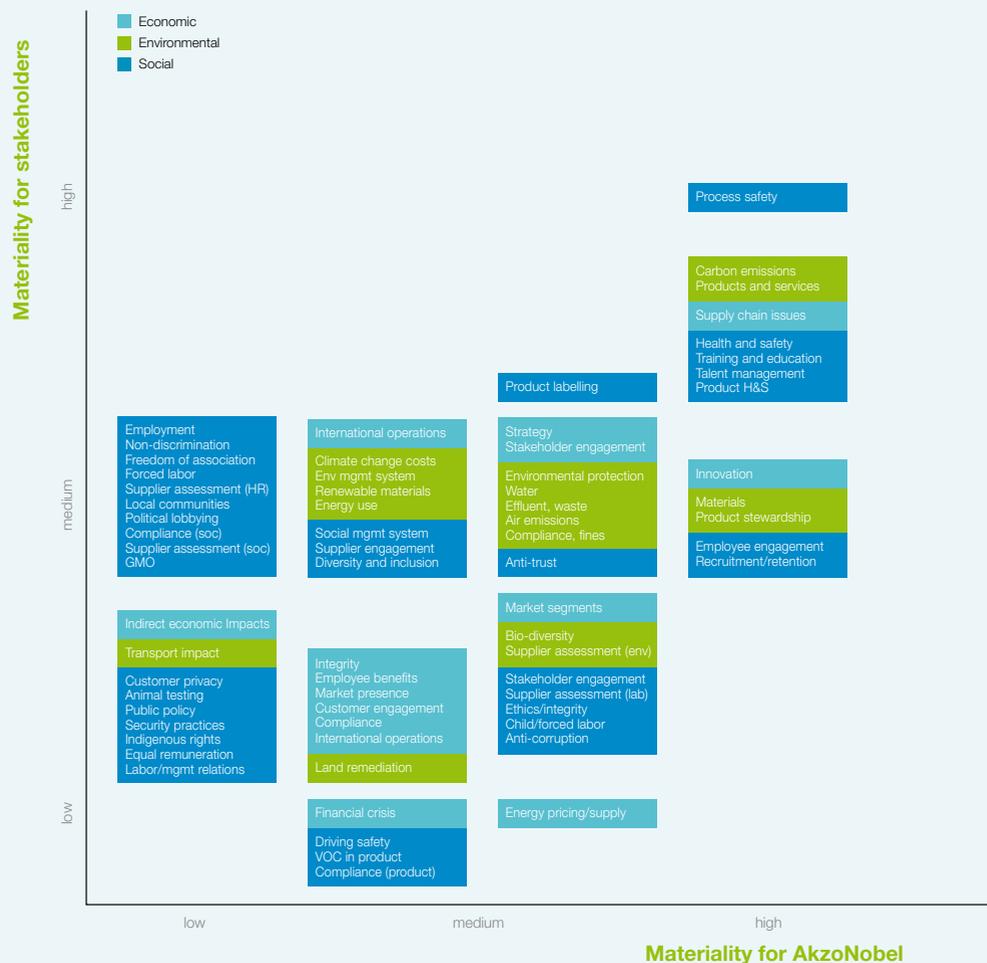
### Reporting process and assurance

The reporting period is 2013. 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.

### Materiality matrix



### Our approach

The aim of our stakeholder engagement is to learn from key financial, social and environmental stakeholder groups and in collaboration to develop leading sustainability solutions relevant to:

- Our stakeholder needs
- Implementation of strategic targets
- Management of risks and opportunities

Our key stakeholders are employees, customers, suppliers, investors, communities, specific sustainability/research organizations and NGOs. This section includes some highlights. More details can be found on our website and in the Strategy section and other chapters of this Report 2013:

- Communities: Note 13 of this section
- Customers: Business performance section
- Employees: Note 11 of this section
- Investors: Governance and compliance section
- Suppliers: Note 6 of this section
- Specific sustainability/research organizations and NGOs: Note 3 of this section

### Stakeholder engagement in 2013

Our stakeholder engagement activities are linked to our sustainability and business strategy, because becoming radically resource efficient is a huge challenge which we can't accomplish alone. Investing in strategic, ongoing dialog and partnering with our key stakeholders is an important driver for realizing our targets.

In 2013, we launched a new concept which captures the essence of the company's strategy to deliver more value from fewer resources. Known as Planet Possible, it's not only designed to help drive innovation and promote radical efficiency, but will also inspire employees, customers and suppliers and build on AkzoNobel's consistently high ranking on the Dow Jones Sustainability Indices.

### Our commitment and primary partners

We support a number of charters and external organizations to demonstrate our commitment to sustainability issues. These include the UN Global Compact – we are an active member of the Global Compact Netherlands Network and a signatory of the Caring for Climate platform – 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, where we are represented on the steering group. 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 including the WBCSD, Forum for the Future, True Price and the Dutch Sustainable Growth Coalition.

### 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 on this. There are many specific examples in the various case studies and the Business performance section of this Report 2013. In addition, we are in the process of improving our methods to monitor customer engagement and customer satisfaction. This activity will be further developed in 2014.

We have some notable NGO partnerships linked to product areas, such as Ferrazone, a bioavailable iron source to fight global anemia. Through the Amsterdam Initiative on Malnutrition (AIM), the Global Alliance for Improved Nutrition (GAIN) and the project Smarter Futures, our Ferrazone iron fortificant is making an important contribution to the Millennium Development Goals of the United Nations. In 2013, approximately 25 million people benefited from programs to fortify staple foods with Ferrazone, for example in Africa, Asia and food aid in refugee camps. Activities during the year included support for the AIM secretariat, as well as a QC/QA laboratory

network. For this, AkzoNobel is participating in a Private Public Partnership with NGOs, the Dutch Ministry of Foreign Affairs and other leading companies. A particular milestone was the fortification of fish and soya sauce with Ferrazone in Cambodia.

AkzoNobel has been a strategic global partner of the Forest Stewardship Council (FSC) in the paint industry since 2010, which we proudly display on packaging for our wood care products. In 2013, in the middle of our five-year cooperation agreement with the FSC, we emphasized the value of our relationship during FSC's In Good Company global conference. This year also saw increased awareness of the AkzoNobel-sponsored Smallholder Support Program with the launch of the Small Community Label Option (SCLO). We continued to raise FSC's awareness inside, as well as outside, AkzoNobel through the widest ever geographic coverage of the FSC Friday event. As well as strengthening the link on a global level, we will also be increasing the ten active local partnerships we currently have in the Netherlands, UK, Germany, Switzerland, Czech Republic, Brazil, Russia, the Nordics, Argentina and Poland, year on year. In 2014, for example, we will look into setting up local partnerships in Belgium, South Africa and the Far East.

In addition, linked to our Pulp and Performance Chemicals business, we co-signed a leadership statement on forest certification which was issued through the WBCSD Forest Solutions Group, committing to addressing the world's need for increased sustainable management of natural forests and plantations.

### Suppliers and sourcing

Working together with suppliers is crucial to our value chain approach to sustainability. Our key supplier contracts include sustainability aspects and we held detailed discussions to identify joint development areas with some of our biggest suppliers. One specific project is a detailed review of titanium dioxide with value chain partners in order to identify joint improvement opportunities. Another project

focuses on the introduction of renewable raw materials in our supply chains in collaboration with selected partners.

In 2013, AkzoNobel joined Together for Sustainability (TfS), a chemical sector initiative which is 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 again supported the organization of the International Supply Management Congress in Amsterdam. This was a joint initiative with IDH (the Dutch Sustainable Trade Initiative), PwC, NEVI (Dutch knowledge network for purchasing and supply management), Rabobank, Shell and Unilever. The event is a meeting point for sharing knowledge, experience and best practices across supply chain professionals, NGOs and thought leaders. The focus for 2013 was on innovation and integration. Our CEO was the keynote speaker, presenting our sustainability approach of creating more value from fewer resources across the value chain.

### **Engaging employees**

During 2013, we continued to engage employees from around the world on the theme of sustainability through the launch of our Planet Possible concept, which we will continue to build on during 2014. In our Decorative Paints business, employees participated in a sustainability challenge, which helped build understanding of the importance of the subject and our performance in the area, as well as stimulating teams and individuals to participate in achieving the targets. Employees are also actively involved with sustainability through local Green Teams and community activities around the world.

### **Energy and climate**

Our renewable energy strategy is focused on making a clear commitment to sustainable energy transition, while maintaining cost competitiveness. For our energy-intensive businesses, we are pursuing opportunities to participate in large energy ventures. An important proof point of this strategy was the announcement of an investment in wind power in the Nordics region via the VindIn consortium in 2013.

In the field of lifecycle management, we co-chair the WBCSD Chemicals Sector Working Group. 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. This is the first time that a group of companies has developed a consensus approach on these topics. It is a global effort which also involved relevant stakeholders in the process of developing a harmonized approach toward the calculation of environmental impacts along the value chain.

### **Developing good practice**

We demonstrate commitment to protecting our planet and embracing the incorporation of natural capital in our company to ensure our business is sustainable as it grows. Therefore, we continue to develop our biodiversity priorities, working with the International Union for Conservation of Nature's (IUCN) business engagement network Leaders for Nature. In 2013, there was continued focus on identifying hot spots in some of our key value chains in order to identify initial areas for action.

To help us in further developing integrated reporting and transparency, AkzoNobel is one of the pilot companies for the International Integrated Reporting Council program to create a forward-looking company reporting framework. We also provide company input to the Technical Task Force. We have included the learnings from this program into this Report 2013.

### **Shareholders, analysts and indices**

We continuously developed our engagement with shareholders on sustainability aspects by taking part in conferences and meetings during the year, as well as answering questions in telephone briefings and questionnaires. Questions during 2013 focused on financial and environmental benefits from sustainability activity and solutions for customers, raw materials supply and carbon policy, as well as safety and development and training of employees. Sustainability aspects of business are also included in many analyst and general shareholder presentations. See also the AkzoNobel on the capital markets chapter in the Governance and compliance section.

During 2013, we achieved the number one position on the Dow Jones Sustainability Index in the Materials industry group. This further builds on our good track record with DJSI, having been included in the top three for the eighth consecutive year. We continued to be included in the FTSE4Good index and took part in the Carbon Disclosure project. We were also ranked number one in the Sustainalytics benchmark for chemical companies. In the Netherlands, we achieved a number two position in the Transparency benchmark, which means we have been ranked in the top three for three consecutive years. In addition, as part of the company's internal launch of Together for Sustainability, our sustainability performance was assessed by EcoVadis, a third party service provider for CSR assessments. We achieved a rating which places AkzoNobel among the best performing suppliers globally in our segment.

## Value chain

The objective of our new strategy is to create more value from fewer resources – right across the value chain.

- Value for our customers by providing products which have excellent functionality and 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

### 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.

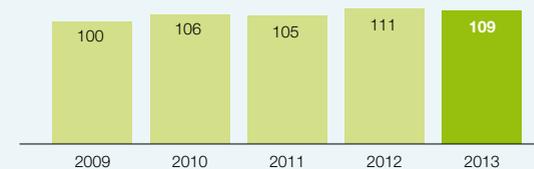
The Resource Efficiency Index is defined as gross profit (or gross margin) divided by cradle-to-grave carbon footprint – reported as an index.

The index development was based on input from a range of financial analysts and environmental specialists and wide internal consultation.

- We selected gross profit 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

### Resource Efficiency Index

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



REI 2009-2013 reflects the performance of AkzoNobel and is based on a constant portfolio – as of the end of 2013. 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

### Key performance indicators – value chain

	2010	2011	2012	2013	Ambition 2013	Target 2015	Target 2020
<b>Carbon footprint</b>							
Carbon footprint cradle-to-grave per ton of product (% reduction from 2012)	–	–	0	2	–	–	25-30
Carbon footprint cradle-to-gate per ton of product (% reduction from 2009) <sup>1</sup>	1	3	1	4	5	10	–
Carbon footprint own operations (Mton CO <sub>2</sub> (e))	5.2	4.8	4.7	3.9	–	<4.6	<4.6
<b>Products</b>							
Eco-premium solutions with downstream benefits (% of revenue)	–	–	17	18	–	–	20
Eco-premium solutions total (% of revenue)	21	22	22	24	–	30	–
VOC in product (% reduction from 2009)	<5	6	10	–	–	–	–
<b>Raw materials and suppliers</b>							
Critical PR <sup>2</sup> spend covered by supplier management framework (% of spend)	–	–	69	80	80	90	–
Product related suppliers signed Vendor Policy (% of spend)	91	95	97	96	96	96	–
NPR <sup>3</sup> suppliers signed Vendor Policy (% of spend)	–	77	80	83	80	80	–
Suppliers on SSV program since 2007	266	304	373	392	–	–	–
<b>Own operations</b>							
Operational eco-efficiency footprint measure (% reduction from 2009)	7	11	13	24	20	30	–

<sup>1</sup> 2010-2012 restated due to KVC review.

<sup>2</sup> Product related (raw materials and packaging).

<sup>3</sup> Non-product related.

The Resource Efficiency Index will be a long-term indicator for AkzoNobel. Although margin variability may affect performance in any given year, the trend must clearly be upwards. A review on our performance over the past five years reveals a gradually increasing trend. Many factors have contributed to this, some of which are:

- 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

To continue to drive further improvements in resource efficiency across the value chain, we will start measuring the REI on an ongoing basis as of this year.

#### Lifecycle assessment

Lifecycle thinking is the basis for all our sustainability work. It is included in many of our processes, including:

#### Product development and eco-premium solution assessment

The eco-premium solutions concept includes 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 (376 in 2013) using a full cradle-to-grave, or screening, lifecycle assessment.

#### Marketing propositions

We are developing environmental product declarations for some products, as part of our marketing activity.

#### Investment decisions

Since 2008, it has been mandatory to include an eco-efficiency assessment for investment proposals exceeding €5 million.

Eco-efficiency analysis (EEA) is our standard assessment method, based on a combination of lifecycle assessments and lifecycle costing. Assessment work is carried out by business and corporate specialists and is based on ISO 14040-44 and a corporate lifecycle assessment database.

#### Value chain impacts

While we focus on carbon footprint as a proxy for raw material and energy efficiency, our lifecycle assessment considers a range of impacts. Examples from 2013 include:

#### Raw materials

We have worked with value chain partners to gain a better understanding of the value chain impact of titanium dioxide (TiO<sub>2</sub>) and the main variables which affect carbon footprint. The main drivers appear to be energy source and TiO<sub>2</sub> co-product/plant configuration rather than the process route.

#### Biodiversity

Working alongside the IUCN Leaders For Nature program, our focus during 2013 was on three pilots to identify hotspots in our value chains and case studies to raise awareness of our reliance on stewardship of eco-systems in our operations. We used the LCA impact assessment tool ReCiPe to review pilot cases from three business units.

According to the Millennium Ecosystem Assessment, the main drivers for biodiversity impact are habitat change (land use change), over-exploitation, invasive alien species, pollution and climate change. For our pilots, the main impacts were up and downstream of our operations, with the main drivers being land use/transformation and climate impact.

This has given some initial focus areas for activity, which align well with our overall sustainability programs, for example:

- Continued focus on climate change (an important element of the new strategy)
- Water use and discharge in water scarce areas (an

extension of our sustainable fresh water risk assessment work)

- Sourcing of renewable raw materials (an area under development with our new strategy)
- Product assessments for our eco-premium solutions (which already include land use)

### Eco-premium solutions

Eco-premium solutions (EPS) are a fundamental driver of our strategy for creating more value from fewer resources and we continue to measure the proportion of revenue that they generate. In future, we will focus on the tangible downstream benefits that our products and services deliver to customers. This includes improving their resource efficiencies, as well as the environmental impact of their manufacturing processes and products or services in use and end-of-life. In due course, these improvements will begin to impact the sustainable development of the market segments in which we operate.

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. This is in addition to our target of increasing revenue share from eco-premium solutions (with benefits at any stage of the value chain) to 30 percent by 2015. Both are challenging goals because the assessments are made against equivalent mainstream or standard commercial products, and as such is an upward moving target, as both we and our competitors introduce new and more sustainable products into the market.

Eco-premium solutions stimulate top line and bottom line growth opportunities because they provide improvements in areas such as raw material use (e.g. lower carbon footprint, reduced volume or environmentally beneficial alternatives); production and application (e.g. less pollution and waste from manufacturing processes, lower energy consumption during application); and product performance (e.g. coatings that enable reduced energy consumption or surface-active chemicals that enable water-based formulations).

Driven by customer, market and societal needs, more than two-thirds of our RD&I output is channeled towards

producing environmental innovations in the form of new and improved products, new and cleaner or lower footprint processes and customer applications with less environmental impact.

In 2013, revenues from eco-premium products and services with downstream benefits totaled €2.7 billion, or 18 percent of total revenue. It may appear that we are already close to realizing our 2020 target of 20 percent of revenue. However, since this eco-premium solution metric compares our products and solutions with the mainstream in the market, our progress will be impacted by improvements in competitor offerings and changes in legislation.

#### Eco-premium solutions with downstream benefits in % of revenue



Eco-premium solutions are measured using a quantitative analysis or a qualitative assessment of performance in seven categories: toxicity, energy efficiency, use of natural resources/raw materials, emissions and waste, land use/footprint, risks (e.g. accidents) and health and well-being (added in 2013). The eco-premium solution must be significantly better than currently available solutions in at least one criterion, and not significantly worse in any. A solution with downstream benefits accrues its sustainability benefit to our customer, the use phase, or in end-of-life.

The reported 2013 KPI figure for eco-premium solutions with downstream benefits represents the combined revenues achieved by Specialty Chemicals (16 percent), Performance Coatings (13 percent) and Decorative Paints (27 percent).

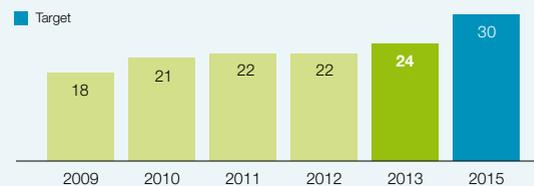
Innovations introduced to the market in 2013 which illustrate the new downstream sustainability benefit target include:

- Dissolvine StimWell: Chelating agent derived from natural resources which enables customers in the oil

and gas industries to formulate more environmentally-friendly stimulation fluids

- Berol ECO/AMC-1: US EPA approved concentrated blends of surfactants that can be formulated into solvent-free industrial degreasing products, enabling us to meet customer and regulatory demands
- Intersleek 1100 SR: Biocide-free fouling control coating which enables ship owners to achieve reduced drag, improved fuel efficiency and lower CO<sub>2</sub> emissions
- Interpon Align: Dual layer powder coating (i.e. primer and topcoat) requiring a single curing step which enables customers to coat substrates using less energy
- LaDox: Nonylphenol ethoxylate-free peroxide initiators that allow manufacturers of emulsion explosives for mining to avoid using a chemical of environmental concern in their production processes

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



Revenue from all eco-premium solutions (with benefits anywhere in the value chain) were €3.6 billion, or 24 percent of total revenue. EPS revenues achieved by Specialty Chemicals, Performance Coatings and Decorative Paints were 26 percent, 13 percent and 35 percent, respectively.

**VOC in products**

We continue to focus on implementing our volatile organic compound (VOC) reduction projects on a regional basis using the comprehensive model we created in 2009 in order to track and quantify the progress of our projects. Our sales forecasts now show that the balance of growth is shifting.

First observed last year, we see increased growth in water-borne wall paint products in all regions globally. We are, however, experiencing a slower transition to a low VOC content portfolio in China, where consumer demand for low VOC content products has historically been lower, with the market more favorable towards a product portfolio that is on average higher in VOC content.

With regards to our Decorative Paints products, we are introducing reformulated products with much reduced and virtually zero VOC content. 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. As mentioned earlier, the Chinese coatings market is not migrating as quickly as other regions towards low or zero VOC products. We have key projects in place to mitigate the absolute output of VOCs, and as our global sales mix will increasingly shift towards China, we will monitor the situation carefully.

Despite the changes in our global sales mix, we continue to see results from our RD&I projects, and will continue to measure and analyze the VOC content of our products on an annual basis. Our evaluation for 2012 shows that compared with our starting position in 2009, we have realized a 10 percent reduction in average VOC content across our coatings and paints product ranges.

Our Carbon Policy and cradle-to-gate carbon footprint intensity targets have been in place since 2009. In our 2020 sustainability strategy, carbon footprint takes an even more important role – not only for its measure of impact on climate change, but also because we are using it as a proxy for how efficiently we are using raw materials and energy in our products (see Value chain page).

**Carbon footprint cradle-to-gate**

Our target is to reduce our cradle-to-gate carbon footprint by 25-30 percent per ton of sales between 2012 and 2020. The cradle-to-gate footprint adds the impact from our customer applications and end-of-life of our products to the cradle-to-gate measure we have used since 2009. We also include the impact from VOC emissions in our improvement ambitions. We will achieve this through innovative products/solutions, technology and energy management and by creating more value from fewer resources.

This year indicates a total footprint of around 27 million tons of CO<sub>2</sub>(e) and a reduction of CO<sub>2</sub>(e) per ton of sold product of two percent since 2012. The cradle-to-gate assessment indicates 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).

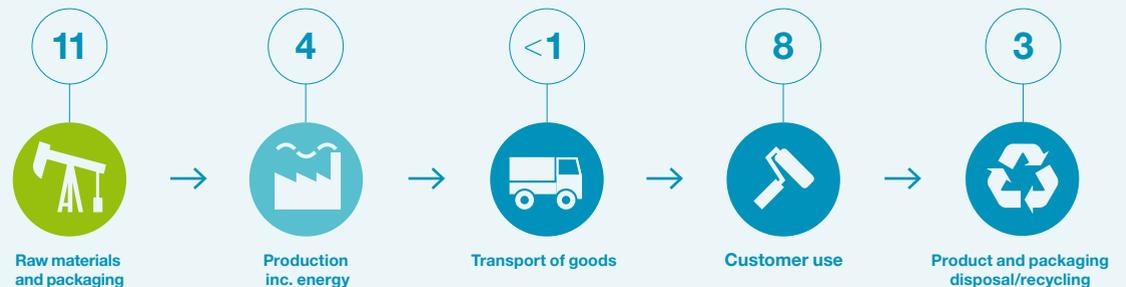
**Cradle-to-grave carbon footprint**

in million tons of CO<sub>2</sub>(e)



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. 2012 data has been restated to reflect changes in value chain models and include the impact from VOC emissions.

**AkzoNobel carbon footprint** in million tons of CO<sub>2</sub>(e)



Product related carbon footprint based on 376 key value chains. Impact from VOC emissions included - about 3 million tons CO<sub>2</sub>(e). Raw materials and packaging category includes other Scope 3 upstream activities, e.g. RM transport, energy related activities. Excludes non-product categories, e.g. employee travel, capital goods, investments.

The reduction derives mainly from reformulations and higher sales of lower impact paints and from power consumption with lower carbon footprint impact in some facilities. Other changes in product mix and higher production volumes in facilities with a less favorable energy mix have limited the impact of these improvements.

#### Cradle-to-grave footprint per Business Area in million tons CO<sub>2</sub>(e)

	2012	2013
Decorative Paints	5.0	4.2
Performance Coatings	13.0	12.9
Specialty Chemicals	9.5	9.4

#### Scope 3 emissions

We have assessed all Scope 3 categories according to the GHG Protocol Scope 3 standard. The results are summarized in the table on this page. Impact from VOC emissions is included: about three million tons CO<sub>2</sub>(e),

#### All Scope 3 categories million tons CO<sub>2</sub>(e)

	2012	2013
Purchase goods and services*	10	10
Capital goods	0.7	0.8
Fuel and energy-related activities*	0.4	0.3
Upstream transportation*	0.1	0.1
Waste generated in operations*	0.2	0.1
Business travel	0.2	0.2
Employee commuting	0.1	0.1
Upstream leased assets	<0.01	<0.01
Downstream transportation*	0.2	0.2
Processing and use of sold products*	8	8
End-of-life treatments of sold products*	3	3
Downstream leased assets	<0.01	<0.01
Franchises	<0.02	<0.02
Investments	0.4	0.4
<b>Total</b>	<b>23</b>	<b>23</b>

\* Included in cradle-to-grave product footprint.

mainly in downstream use and end-of-life treatment of sold products. 2012 data is restated on the same basis.

#### Management

Through the value chain focus in our strategy, company targets and product development, we aim to use raw materials produced in energy and material efficient processes to produce products which are energy and material efficient for our customers. For our own operations, we continue to focus on improving energy efficiency and managing the fuel mix of our energy intensive businesses.

Our businesses have developed quantified carbon management plans which identify specific improvement opportunities and programs. These include:

- Material strategies for key raw material groups (e.g. solvents and resins) (see Supply chain)
- Joint activities with suppliers to reduce the footprint of key raw materials (see Supply chain)
- Renewable raw materials (see Supply chain)
- Energy strategy including renewable energy (see Environment)
- Site programs to improve yields, reduce waste and improve energy efficiency (see Environment)
- Reformulations using lower footprint raw materials (see Products and solutions)
- New curing developments to reduce energy use during product application (see Products and solutions)

These plans are summarized at a company level to manage and follow up carbon reduction targets. We have also developed additional common metrics, for example, percentage of renewable raw materials, percentage of renewable electricity/heat, to monitor progress on important development activities.

#### Energy risk management

Energy pricing is seen as the most significant climate change risk for AkzoNobel. This is not only related to the competitiveness of our energy-intensive businesses, but also to the impact energy pricing has for all our businesses, along

the entire value chain, for our suppliers and for our customers.

Regional differences in energy pricing related to existing and future national and regional regulations and subsidies creates a non-level playing field for energy on a global level. Shale gas is influencing not only the energy market, but also the markets of some major raw materials. The move to renewable energy varies across regions and jurisdictions. We are monitoring this with the new renewable electricity indicator, as it is an important driver for footprint reduction (see Environment: Renewable energy). We are managing these risks by monitoring price developments, forecasting around energy supply and spreading production in different regions.

#### Renewable raw materials

Renewable raw materials are an important component of our sustainability strategy, since a considerable share of AkzoNobel's carbon footprint is embodied in the raw materials we buy. We have successfully progressed the implementation of the renewable chemicals and white biotech strategy by setting up novel supply chain partnerships (see Supply chain: Renewable raw materials).

#### External engagement

In addition to activities to reduce energy use and greenhouse gas emissions in our value chain, we participate in different business initiatives, such as the WBCSD Chemicals Sector project Reaching Full Potential, which sets guidelines for reporting of avoided emissions. Our carbon management and performance is reported through the Carbon Disclosure Project.

More information on our assessment method for carbon footprint can be found in the Reporting principles section.

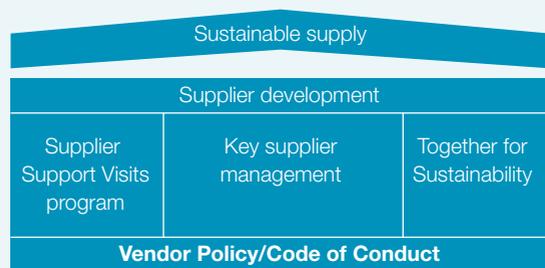
Working with our suppliers in order to create a sustainable supply base and deliver customer benefits, as well as improving resource efficiency, is a fundamental requirement of our strategy. This means that we have to work together effectively. We have supplier management programs in place that support both performance improvement and opportunities for joint developments.

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 and joint innovation

**Supplier management**

In 2013, we reviewed our supplier sustainability initiatives. In order to improve the alignment between our initiatives for critical as well as key suppliers, we have enhanced and formalized our sustainable supply framework, as reflected below:



**Supplier management**

	2010	2011	2012	2013	Ambition 2013	Ambition 2014	Ambition 2015
Critical PR <sup>1</sup> spend covered by supplier management framework (% of spend)	–	–	69	80	80	85	90
Product related suppliers signed Vendor Policy (% of spend)	91	95	97	96	96	96	96
NPR <sup>2</sup> suppliers signed Vendor Policy (% of spend)	–	77	80	83	80	80	80
Suppliers on SSV program since 2007 <sup>3</sup>	266	304	373	392	–	–	–
Third party online sustainability assessments	–	–	–	–	–	200	400
Third party on-site sustainability audits	–	–	–	–	–	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 new Critical PR spend coverage KPI.

Four supplier management processes are now 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.

In 2012, we announced a new KPI we would report from 2013: the critical PR (Product related) spend covered by the supplier management framework. This KPI gives a better view of the spend impact of the capability and capacity building efforts with our suppliers. We have reached our ambition to cover 80 percent of our critical PR spend in 2013.

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 one of the following conditions is met:

1. The supplier is part of our key supplier process.
2. The supplier is part of our Supplier Support Visits program and has been followed up according to the program guidelines.
3. 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).

In 2014 we will also have the assessments and audits from the Together for Sustainability initiative to further secure our critical spend coverage. Each of these processes is further explained below.

**Vendor Policy**

Covers 96 percent of the product related (PR) spend and 83 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.

**Supplier Support Visits**

The SSV program is designed to develop long-term local suppliers by raising their capability and performance. It includes all critical suppliers and represents 24 percent of our PR spend in high growth countries. Introduced in 2007, the visits focus on critical suppliers and are carried out by teams from Procurement and HSE. The SSV program remains highly successful, with 392 supplier sites visited to date. Of all SSV, 47 percent have resulted in a developmental score, which means actions have been formulated and discussed with the supplier. Follow-up visits are arranged to verify implementation and progress.



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### Greening the supply chain

We've been making our manufacturing processes more sustainable for some time now, but there are certain limitations in terms of how far we can improve. Especially when you consider that over 90 percent of the carbon footprint linked to the paint and coatings that we sell doesn't relate to our own operations. It comes from the raw materials that we buy and how the coatings are applied.

This makes our target of achieving a 25-30 percent reduction in the carbon footprint of our products by 2020 a particularly challenging one. Because we can't get there by simply improving our own operations. Which is why we're looking to work with partners such as Solvay.

One of the main raw materials used to produce epoxy resins (used in our epoxy coatings) is epichlorohydrin. It is conventionally produced out of oil via a relatively energy intensive process. But Solvay has developed an alternative method which uses glycerin (a biodiesel production by-product) as a feedstock, and in turn consumes significantly less energy and water.

The fact that we normally buy epoxy resins – and not epichlorohydrin – could have been a stumbling block. But we overcame that by striking an innovative deal whereby AkzoNobel guarantees to buy volumes of glycerine-based epichlorohydrin (or Epicerol®) indirectly via the epoxy resins we purchase from Solvay's customers. Via a "book and claim" approach, an independent third party verifies how much bio-based product is in our supply.

The benefit for AkzoNobel and our customers is a bio-based and lower footprint raw material in our coatings, with exactly the same performance, without incurring extra costs. For Solvay, it's a major commitment to their product and confirms their commercial intuition.

### Key supplier management

Covers 45 percent of our global PR spend. In 2013, as part of our operational effectiveness program, we further developed our key supplier management process. The previous process focused primarily on suppliers of value today. In the updated process, we have defined and identified 51 suppliers that are critical to AkzoNobel both now and in the future and manage them in a differential way. 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 process.

### Together for Sustainability (TfS)

We joined this global initiative in the fourth quarter of 2013. Implementation of the program will impact all supplier segments, including product related and non-product related suppliers. TfS is an industry initiative made up of seven leading European chemical companies, and will expand further. 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, our aim is to implement effective, leading edge practices across the industry. We are implementing standardized global assessments and on-site audits to monitor and improve sustainability practices in our supply chains.

Global implementation of Together for Sustainability will provide the following benefits:

- Supplements our existing SSV program by ensuring continued development of critical suppliers in high growth markets
- Confirms compliance to our Vendor Policy standards and Code of Conduct across a selected global supplier portfolio
- 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 the annual TfS assessment, the quality of our corporate supplier management activities is verified against industry best practice. Our 2013 Supplier Management score puts 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.

### Collaborative initiatives

We are a founding member of the International Supply Chain Management Congress in Amsterdam. In 2013, we were again part of the leadership for the organization, sponsorship and support of the congress, which is recognized as a valuable contributor to the development of sustainability thinking and supply chain processes.

### Strategies going forward

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.

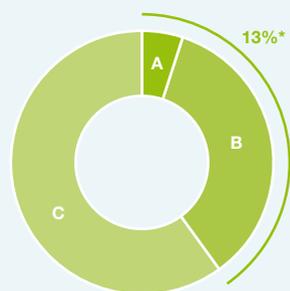
### Renewable raw materials

Renewable raw materials are an important component of our sustainability strategy, as a considerable share of AkzoNobel’s environmental footprint is embodied in the raw materials we buy. Over the next few years, we expect to see the first commercial scale production facilities of new renewable raw materials come online. In order to lead the deployment of these materials in our markets, we are setting up partnerships across the 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 2013, we announced partnerships for several of our key raw materials:

- 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
- Algae-derived fatty acids: Together with biotech company Solazyme, we are investigating options for new sources of tailored fatty acids. We are also considering a supply agreement for “drop-in” matches to conventional oleochemicals as of 2014 in Brazil, for use in surfactants and decorative paint applications
- Bio-based epichlorohydrin: In partnership with Solvay, we plan to increase the use of bio-based epichlorohydrin to 20 percent of AkzoNobel’s global indirect use by 2016 (see case studies)
- Cellulosic-based acetic acid: 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. from forestry waste)

**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)	5
<b>B</b> Fossil-derived materials (petrochemicals)	35
<b>C</b> Inorganic materials (e.g. salt, minerals, clays)	60

In addition to these announced partnerships, we have a number of projects in the pipeline to further improve the sustainability of our supply chain. In order to monitor progress on the increasing use of renewable raw materials, we have also introduced a new KPI. In 2013, 13 percent of all our organic raw materials came from renewable (bio-based) sources (2012: 13 percent). This is 5 percent of total volume of raw materials purchased, i.e. including other raw materials such as salt, minerals and clays.

#### 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 is 130 g/km. In Europe, we reduced from 143 g/km in 2011 to 136 g/km in 2012 and 132 g/km in 2013.

#### Operations management

Excellence in supply chain management and manufacturing operations remains a key focus area for AkzoNobel. The 2013 program delivered a number of operational improvements in the full supply chain. For example, standardized processes and production systems based on Lean Six Sigma methodologies are being implemented globally. We will continue rolling out the program to all the company’s manufacturing facilities.

Highlights of recent improvements include:

- More than 75 manufacturing sites have started to embed continuous improvement processes and have implemented Lean Six Sigma projects
- Sales and operations planning processes have been standardized to deliver the required customer service and working capital improvements

- The AkzoNobel Academy now offers a full Lean Six Sigma curriculum for the supply chain, operations and other functions in the company

Safety, inventory levels and eco-efficiency have improved throughout the company. The sustainability agenda has also been updated, with more focus on material efficiency throughout the full value chain. Continuous reduction of both energy usage and carbon footprint remains an integral part of our strategy going forward, including the implementation of renewable energy. In addition, pilot sites have been selected for a detailed assessment of solar energy.

#### 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.

# Safety

## Key performance indicators – safety

	2010	2011	2012	2013	Ambition 2013	Ambition 2014	Target 2015
<b>People</b>							
Total reportable injury rate employee/supervised contractors (per million hours)	3.6	3.1	2.4	2.3	2.2	2.0	<2.0
Manufacturing sites with behavior-based safety program (% of sites)	72	76	76	96	100	100	100
Life-Saving Rules implemented (% of sites)	–	–	–	100	100	–	–
<b>Process</b>							
Regulatory actions (Level 3)	4	0	3	8	0	0	0
Significant loss of containment (Level D)	0	2	0	1	0	0	0
<b>Product</b>							
Priority substances with management plan (%)	–	23	42	62	60	80	100
REACH compliance second phase (%)	8	44	83	100	100	100	100
<b>Management</b>							
Safety incidents (Level 3)	10	8	3	0	0	0	0
Management and reassurance audits	61	66	61	56	–	–	–

Our company-wide common HSE platform established common improvement programs in people, process and product safety. 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 nearly all manufacturing locations and an annual review of the program's effectiveness will be mandatory from 2014. A common set of Life-Saving Rules (LSR) has been introduced for all employees. Breaches of these rules, resulting in injuries or safety incidents, have led to application of the maximum disciplinary sanction allowed under local legislation.

The global approach to managing the risk of priority substances has resulted in lists of phased out and restricted substances being applied to all product ranges. Key line managers have now received refresher

training in the company's expectations and the required competencies for HSE 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 has now been introduced.

During 2014, AkzoNobel will extend behavior-based safety selectively to non-production work locations and groups, including stores, warehouses, laboratories and technical service teams, using a risk-based approach. 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 according to distances covered. Following pilot programs in 2013, a process safety management framework will be introduced at high hazard sites. A product stewardship maturity framework will be established and training in product stewardship principles

will be provided to business teams. Responsibility for implementing these programs lies with the businesses, with leading units providing experience and best practice which can be shared with others in order to accelerate progress.

During 2013, management focus and employee engagement at every level delivered a reduction of >15 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 focus and support for sites that have consistently fallen short in terms of performance.

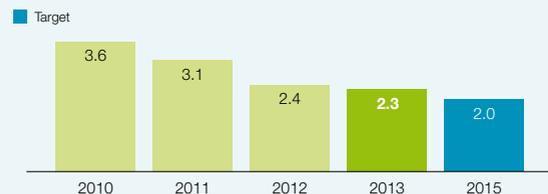
Overall performance indicators for people safety show that we continue to structurally improve towards targets set for 2015. The 2015 TRR target of <2.0 has been derived from a top quartile safety performance peer analysis.

### Employee and contractor safety

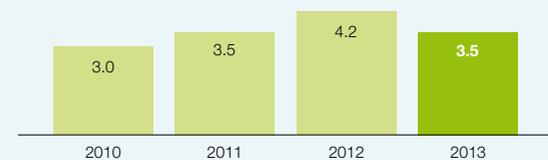
The general downward trend in reportable injuries from 2010 onwards continued in 2013. Most notable was the decrease in the total reportable injury rate of independent contractors, reversing the recent increase.

- The TRR for employees and supervised contractors decreased to 2.3 (2012: 2.4)
- The breakdown per Business Area shows that the TRR for Decorative Paints decreased to 1.9 (2012: 2.7) which is below the TRR 2015 ambition and the TRR for

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



### Independent contractors total reportable injuries injury rate



The total reportable rate (TRR) is the number of injuries, including fatalities, resulting in a lost time case, restricted work or requiring medical treatment by a competent medical practitioner per million hours worked. In line with OSHA guidelines, supervised contractors are reported with employees, since day-to-day management is by AkzoNobel. Independent contractors are managed by their own companies.

Specialty Chemicals is at the 2013 ambition of 2.2 (2012: 1.8). The Performance Coatings TRR slightly increased to 2.8 (2012: 2.6)

- The overall downward trend in reportable injuries coincides with both the implementation of our Life-Saving Rules at all our facilities, and the global roll-out of the people, process and product safety programs that are part of the common HSE platform. Implementation was complemented by a strong focus on compliance and operational discipline, performance monitoring and enforcement if necessary. We will need to continue focusing on continuous improvement through these programs in order to achieve the 2015 target of a TRR of less than 2.0 for employees and supervised contractors
- During 2013, 96 percent of our manufacturing sites implemented behavior-based safety. This program raises safety awareness through peer-to-peer employee interaction. Obstacles for safe behavior are subsequently removed. The behavior-based safety program applies to employees and supervised contractors, as behavior in routine operations within both categories falls under the direct supervision of AkzoNobel line management. Independent contractors hired for non-routine tasks are managed under contract conditions and in standardized company project management processes. The behavior-based safety program will continue to be rolled out in non-manufacturing locations in 2014
- There were no employee or contractor fatalities during the year. However, three reported safety incidents (see HSE management) involved severe injuries to independent contractors
- The downward trend extended to the TRR of independent contractors. Following an increase over the last two years, the rate dropped again to 3.5 in 2013

### 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

	2011	2012	2013
Total illness absence rate	2.0	2.0	2.1
Occupational illness rate	0.3	0.2	0.1
Wellness Checkpoint use	>8,800	>11,300	>13,700

- The total illness absence rate has slightly increased over 2012 (2.0 percent). It now stands at 2.1 percent. We continue to monitor this indicator for the whole company, aiming to stay at or below a level around 1.9 percent
- The occupational illness rate for employees and supervised contractors stands at 0.1 illnesses per million hours worked (2012: 0.2). Through implementing HSE standards and guidance notes, i.e. on laboratory safety and occupational hygiene risk management, we further try to eliminate occupational illnesses from occurring
- Our health risk appraisal tool, the Wellness Checkpoint, is appreciated and is being used by an increasing number of employees and their families. By the end of 2013, almost 14,000 people had joined the program since its launch in 2008

### Distribution and motor vehicle incidents

We have identified distribution and motor vehicle incidents as a risk to employee and contractor safety.

#### Distribution incidents

	2010	2011	2012	2013
Road	82	67	44	44
Sea	5	3	2	2
Rail	4	10	0	2
Air	0	0	0	0
<b>Total</b>	<b>91</b>	<b>80</b>	<b>46</b>	<b>48</b>

- The number of distribution incidents increased from 46 in 2012 to 48 in 2013. Most of these incidents (44 out of 48), occurred on the road

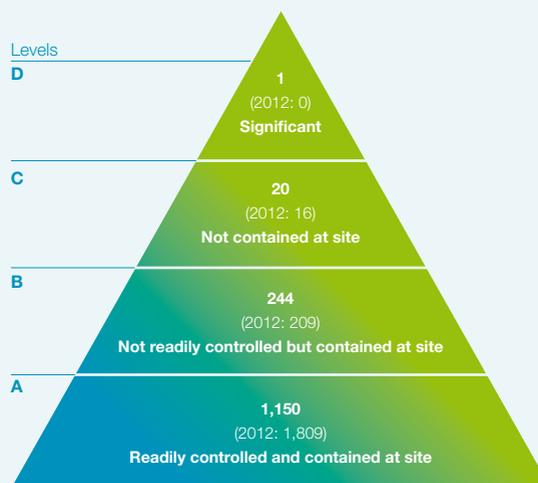
#### Motor vehicle incidents

	2010	2011	2012	2013
Incidents with injury	34	29	28	19
Fatalities – employees	1	0	1	0

- Fewer motor vehicle incidents were reported in 2013 than in the previous two years. The number dropped from 28 in 2012, to 19 in 2013
- The company continues to monitor safe driving performance and strives for improvement. During 2013, current road safety training programs for company drivers were evaluated. A best practice approach with a focus on driver behavior will be implemented from 2014 onwards

AkzoNobel uses “loss of primary containment” as a main indicator of process safety performance at its manufacturing sites.

#### 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 spills (Level A) to a significant escape (Level D).

The results for 2013 present a varied picture.

- Level D incidents went up from zero in 2012 to one in 2013
- At the same time, 2013 marked a general improvement in the management of safety at our high hazard sites. The number of these sites that have reached the targeted maturity level has increased significantly – 93 percent reached the reference level for process safety performance in our self assessment questionnaire (see Note 10). A total of 78 percent achieved reference level on all elements of the AkzoNobel HSE management system, while 82 percent reached reference level for safety leadership elements, which we consider an

indicator for the safety culture on site

- Current performance confirms the need for full implementation of two common HSE platform projects focused on process safety performance improvement, specifically process safety management, and the embedding of our self-assessment questionnaire improvement processes

### Process safety management

- Through a company-wide process safety management (PSM) project, our mandatory company standards have been revised to ensure they are compatible with current and near future major PSM legislation (such as Seveso-3 and OSHA 1910). These standards define the minimum process safety requirements and performance metrics
- In 2013, pilots were conducted at ten AkzoNobel sites with varying hazard classification levels, located in different regions and covering all three of the company's Business Areas. The pilot results will deliver a template for process safety improvement actions, related to the risks assessed
- The findings from the pilots will also be used to facilitate global implementation of the standards, additional guidance documents and company best practices

We aim to be a leading company among our peers by providing customers with safe products that meet their needs. Based on the product stewardship objectives included on our HSE Agenda 2011–2015, our focus during 2013 was on common HSE platform programs.

#### Priority substance management

We are committed to reducing the use of substances in our products and processes that may pose a significant risk to long-term health or the environment. We do this by minimizing exposure to hazardous substances and, where possible, by substituting them with more sustainable materials.

Our priority substance management program takes a systematic approach to the identification and review of hazardous substances. We score each one on the basis of their human and environmental hazards and where public concern exists over their use. Substances with higher scores are designated as priority substances and subject to review by our experts. Where a more sustainable and effective alternative exists, priority substances are removed from our products and processes and substituted with less hazardous and more sustainable materials. If this is not currently possible, a full risk assessment on the substance is carried out using state-of-the-art techniques from the EU REACH regulation. Only when safe use of a priority substance can be demonstrated is it allowed to be used in our products and processes.

We are on target to review and risk manage all our priority substances by 2015. We have now reviewed and risk managed 90 (62 percent) priority substances, meeting our objective for 2013. Of the priority substances reviewed in the program so far, 48 will be phased out, 35 restricted to uses that are proven to be safe and seven have been delisted as priority substances.

One example of a group of compounds to be replaced with more sustainable alternatives is short-chained chlorinated paraffins, as there are concerns over their

impact on the environment. These will be phased out from the end of 2013. A restricted substance example is respirable crystalline silica (RCS). Its use in paints and chemical products should not exceed maximum levels.

Taking this proactive approach to substance management means that we are prepared in advance of new and changing regulations. It also enables us to take a leading position in sustainable product stewardship and supports the development and introduction of eco-premium solutions to the market.

In 2014 we intend to extend the same substance scoring methodology into our procurement process in order to source fewer raw materials that may be harmful to long-term human health and the environment.

#### Product distribution

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. In 2013, we issued a comprehensive guidance note to all company personnel involved with selection of road transport companies to make sure that appropriate procedures are in place.

#### Regulatory affairs

We carefully monitor changes and prepare ourselves for new regulations that will affect our products and processes. In 2013, we developed a new company-wide regulatory information system (RIS) which will ensure that the latest information relating to product safety legislation is available to all AkzoNobel regulatory affairs professionals. This new system will go live in 2014.

During 2013, our primary activities included:

#### REACH compliance

We met our target to complete the submission of 181 substances for registration under scope of the second phase of the EU REACH regulation by June 2013. Our REACH team is now busy with tasks to support these registrations and is working towards successful submission of dossiers for registration under the third REACH deadline in June 2018 for substances manufactured or imported in quantities of between 1 and 100 metric tons per year.

#### Classification and labeling of AkzoNobel products

We are on schedule with implementation of the Global Harmonized System (GHS) for labeling of chemical substances and products. To ensure changes in labels and datasheets resulting from the GHS rules are understood across the company, we have issued an electronic awareness training module (e-learning) for employees through the HSE training academy.

#### Advocacy

We are active in industry associations at a local, regional and global level. Our aim is to support legislation, standards and agreements that promote the use of safer and more sustainable products in our industry.

For example, during 2013, the United Nations Environment Program (UNEP) staged an International Lead Poisoning Awareness Week. Through our involvement in industry associations, we took the opportunity to call on the

coatings industry to follow action we took in 2011 to remove lead compounds from all products and substitute them with safer alternatives.

In the US, working closely with a major customer and the Environmental Protection Agency (EPA), using an innovative approach to testing, we obtained full approval for our biodegradable and bio-based chelate (Dissolvine GL) for use in household products under the EPA Design for the Environment scheme.

Through our membership of the World Business Council for Sustainable Development (WBCSD), we actively participated in the working group on the release of harmful substances, which is part of their Action 2020 program, and will continue to support their initiatives in this area to increase the market share of safer and more sustainable products throughout the world.

**Management systems**

Operational excellence at our sites is supported by risk-based management systems that follow the Responsible Care® and Coatings Care® principles. Our HSE management standards are set up and updated in accordance with international standards such as ISO-14001, RC-14001, OHSAS-18001 and PAS 55 (public standard for process safety). Many sites and businesses have additional external certification for their management systems, which are subject to audit by our internal audit group and external audits from certification authorities.

**External certification**

in % of manufacturing sites	2010	2011	2012	2013
ISO-14001/RC-14001	72	73	75	78
OHSAS-18001/RC-18001	35	37	42	51

**Maturity framework**

We have a common maturity framework for measuring HSE management progress at our sites through 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, while there was a further reduction of 3 percent in the total reportable injury rate (TRR).

**Self-assessment questionnaire (SAQ)**

The SAQ, which covers all elements of the HSE management system, is being repositioned as the company-wide HSE improvement planning tool. Specific focus has been placed on high hazard sites to ensure they achieve reference level in all process safety elements. Sites facing difficulties with achieving the designated performance levels are being given special support.

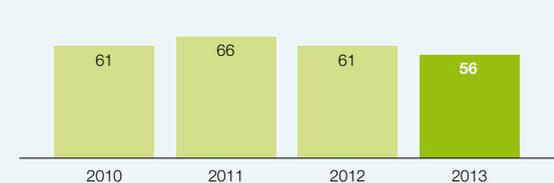
**HSE audit**

The HSE audit process combines a continuous improvement tool for sites with a periodic audit conducted by HSE subject matter experts from the business and managed by the global Internal Audit function. All sites carry out an annual self-assessment against corporate HSE standards

and applicable business requirements by filling in the SAQ. The results are used to prepare site improvement plans, while it also provides input to the corporate HSE audits. Together, the corporate HSE regulations and auditing create the assurance framework.

For most sites, the audit frequency is every five years. For sites with an intrinsic high hazard rating this frequency is every three years. In 2013, the intrinsic hazard rating for all sites was reviewed and updated if necessary. This formal review now takes place every year.

**Management audits number of audits**



During 2013, we carried out 46 corporate HSE audits (2012: 54), four site closure audits (2012: 2) and six reassurance audits (2012: 5), which are required for sites with high risk findings. Learnings from the 2013 audits indicate that in general, sites have improved their performance. Like previous years, the lagging sites need to continue to improve management of asset integrity and process safety, health and safety and, to a lesser extent, security. These sites are struggling to translate the HSE requirements into daily work practices and demonstrate safe operation of assets. The identified sites will receive additional support.

In July 2013, nearly all auditors and new trainees from North America, Latin America, Europe and Asia joined a three-day training session in the Netherlands in which they were trained in all relevant subjects to improve their performance and consistency.

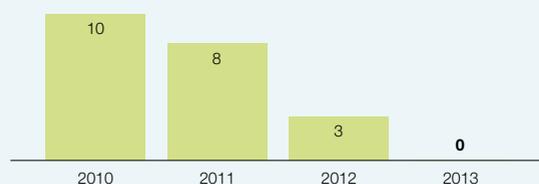
### Safety incidents

Safety incidents are incidents with an impact severity which requires an independent investigation. The lessons learned are shared company-wide.

We continue to strive for zero injuries and zero safety incidents. We classify safety incidents based on severity of outcome, from severe local impact (Level 1), to severe impact on a specific business unit (Level 2) and on several business units or the company as a whole (Level 3). The total number of Level 1, 2 and 3 safety incidents dropped to 14 (2012: 23). Of these 14 safety incidents, three involved severe injuries to independent contractors. All 14 incidents were investigated, improvement actions were addressed and the lessons learned shared, to avoid similar incidents re-occurring. There were no Level 3 incidents in 2013.

More focus has been put on the follow-up of incident investigation findings and recommendations, while both investigation process and follow-up are consistently tracked.

#### Safety incidents (Level 3)



Safety incidents (Level 3) involve any loss of life; more than five severe injuries; environmental, asset or business damage totaling more than €25 million; or extensive reputational damage.

### Regulatory actions

We have defined three categories of regulatory actions, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3).

#### Regulatory actions

	2010	2011	2012	2013
Regulatory actions (Level 3)	4	0	3	8

Regulatory action Level 3: A formal notice of a criminal prosecution or (conditional) penalty greater than €10,000. These are reported to indicate to management the potential for reputation damage and effect on our license to operate.

The most probable explanation for the sharp increase in the number of Regulatory Actions is a stricter definition of the conditional fines recorded as Regulatory Actions.

### HSE capability development

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 training and development programs are delivered and further developed by using a blended learning approach which includes, for example, e-learning, classroom training and webinars. In 2013, the use of virtual classrooms was tested and this technology will be used more often in 2014.

#### HSE capability development

	2012	2013	Ambition 2013	Ambition 2015
% of target group completed HSE Critical Leaders workshop	23%	62%	35%	100%
% of target group completed Level 1 PS&RA program	0%	40%	35%	100%

To support the development of our product stewardship and regulatory affairs (PS&RA) professionals, we have designed a series of learning programs which are included in our AkzoNobel PS&RA professional curriculum. During 2014, we will develop and deliver more specialized learning programs (Levels 2 and 3). The next modules for HSE professionals will also be developed.

## Key performance indicators – employees<sup>1</sup>

	2010	2011	2012	2013	Target 2015
<b>People data</b>					
Employee numbers (FTE)	55,600	57,240	55,272	49,561	–
<b>Employee engagement</b>					
Employee engagement (ViewPoint score (1-5 scale))	3.56	3.74	3.80	3.88	>4
<b>Diversity and inclusion</b>					
% of female executives	12	13	15	16	20
% of executives from high growth markets	12	13	13	14	20
% of female executive potentials	27	26	27	28	30
% of executive potentials from high growth markets	26	31	31	34	30
<b>Talent management</b>					
% of online P&D Dialog participation	76	78	84	85	95
% of cross-BU moves of leadership talents	5	6	5	7	10
% internal promotion into executive level	74	80	70	75	80
% retention of leadership talent	97	96	96	92	95
% retention of leadership talent – under-represented group (women and high growth market employees)	96	94	97	92	95
<b>Learning and development</b>					
ViewPoint score on Learning and growth (Q12) (1-5 scale)	3.61	3.80	3.85	3.93	>4

<sup>1</sup> More details can be found on our website.

In the highly competitive markets in which we operate, it is our people who are the differentiating factor in ensuring our sustainable success. It is therefore our mission to create a work environment in which people feel valued, are engaged with our core principles and values and are given the right conditions in which they can perform at their best. We can only develop a high performance culture that focuses on operational excellence when all our employees are fully engaged to excel.

In 2013, we made significant progress. We embraced new values and behaviors that address habits which have held us back in the past, and support us in driving a culture of excellence in business performance and integrity. See the Strategy section for a detailed description.

In October, an awareness campaign was launched and we have taken initial steps to integrate our new values and behaviors into key HR processes – recruitment, assessment, performance management and talent development.

The new values and behaviors, and new talent management approach, strongly support the implementation of our strategy at all levels of the company, driving an engaged workforce focused on delivering leading performance.

### Employee engagement

We want to be an employer of choice with an engaged workforce. Regularly measuring employee engagement helps us to manage and develop our human capital and stimulate growth through people.

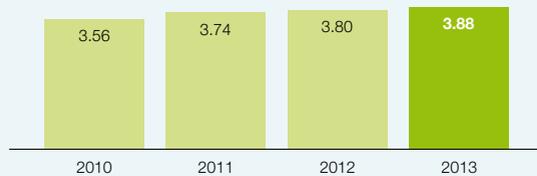
We use our ViewPoint employee engagement survey to give employees the opportunity to have their say and to monitor progress. This is based on the Gallup Q12 survey and provides a comparison against nearly 500 organizations. Some 2013 highlights:

- Almost 44,000 employees took part in the survey – 88 percent of the global workforce (2012: 88 percent)

- Our overall engagement score improved to 3.88 on a scale from 1 to 5 (2012: 3.80), which is a step towards achieving our 2015 target of scoring above 4
- The engagement scores for each Business Area were: Decorative Paints 3.93; Performance Coatings 3.85; Specialty Chemicals 3.87
- Relatively high scores were achieved in the areas of commitment to quality and the feeling that opinions count. Scoring relatively low was clarity on what we expect from our employees
- The biggest improvements came from teams that followed up their actions to improve engagement levels

#### ViewPoint score employee engagement

(1 to 5 scale)



- Plans to remedy the gaps are already in place, including:
- Embracing and living our company strategy through the implementation of new values and behaviors
  - Introduction of a new performance management system which includes our new values and additional functionalities to align and better track objectives, helping to further clarify expectations from our employees
  - Improving the communication from senior managers to employees by providing effective cascading tools
  - Further engaging HR business partners in coaching programs and a Community of Practice to support managers and help improve people management skills
  - Further grow and drive the global Community of Practice of engagement catalysts who influence and support people in their own environment to drive engagement

- Assisting managers, particularly those with low scores, with follow-up action planning with their teams
- Offering global webinars for all people managers to share best practice

In addition to actions that are taken around the ViewPoint survey, other activities are also in place that drive employee engagement:

- Successful engagement of teams worldwide in community programs (see Note 13)
- Onboarding program for new employees
- Further implementation of internal social media channel (Yammer)
- Further professionalizing Your AkzoNobel – an association of young, enthusiastic employees who have been working for the company for less than five years

#### Diversity and inclusion

Diversity and inclusion (D&I) at AkzoNobel is all about creating winning teams. Our D&I initiative is built around four key strategic ambitions:

- Create a sustainable and diverse workforce
- Build a strong and diverse leadership pipeline
- Engage managers to build and lead diverse teams
- Create a highly inclusive work environment

We have come a long way. Launched in 2008, our D&I ambition today is represented in various HR and business processes. We saw many positive D&I decisions in 2013 – both in business moving closer to customers and growing talents from within. Since 2008, female executives have doubled and representation of executives from high growth markets has increased by 40 percent. We achieved this by continuous application of various D&I interventions across business, function and corporate teams.

Other activities reflecting our progress made in D&I include:

- We have extended disability reporting to regions not mandated by local regulations
- D&I and mentoring are well represented in our Talent Management Process

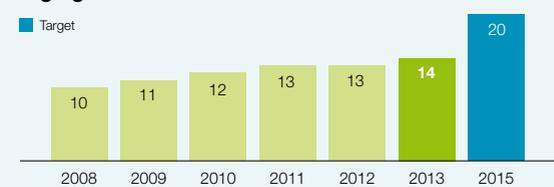
- Our recruitment policy now takes into consideration our D&I ambition
- To build an inclusive work environment, virtual employee networks have been created
- To increase gender diversity across AkzoNobel, we have now connected with an expert organization externally for training and skill building

As we move to the next phase of making D&I happen, our focus is primarily on diverse talent acquisition and diverse talent development. These initiatives will bring us closer to our D&I aspiration for 2015.

#### Female executives in %



#### High growth market executives in %



#### Talent management

In order to deliver diverse and inclusive talent development, we have integrated a new company-wide Talent Management core process (see the Strategy section). From the results of the annual ViewPoint survey, we see that we have continued to increase employee engagement scoring specifically on learning and growth. The ongoing investment in the AkzoNobel Academy, with its focus on functional excellence, has contributed to this improvement.

We continue to make progress on the representation of both females and managers from high growth markets in our executive population. The increase in executive potentials from both groups suggests that the talent pipeline is also improving. Furthermore, we continue to improve the diversity of entry level participants to our Global Graduate Management Trainee Program, which specifically aims to recruit high potential graduates in under-represented groups. After a rigorous selection process, the graduates are given special development support and the opportunity to work in three different AkzoNobel businesses before being offered a permanent position.

We have also seen an improvement in the number of cross-business moves involving leadership talent from 5 percent to 7 percent, which has been helped by the Talent Matching Forums held on a quarterly basis in our key countries.

After a dip in 2012, we saw the percentage of internal promotions to executive level increase to 75 percent, which also reflects a strengthening of our leadership pipeline. Our retention of leadership talent also remains high, with the small decline from the previous year being impacted by divestments.

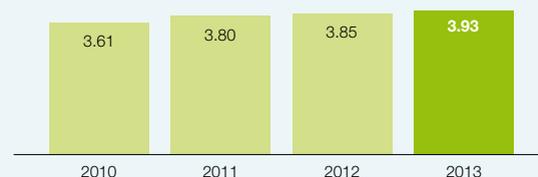
### Learning and development

To ensure that we attract and retain the best global talent, we need to have an excellent learning and development platform in place that is fully aligned with the company strategy and its key focus areas and processes. To that end, we offer all employees, at all levels of the organization, opportunities to develop via on-the-job learning, new challenges and assignments within their current role, as well as online development opportunities. It is also crucial that all our employees are trained in the core principles underlying the new company values – safety, integrity and sustainability.

In addition, our performance and development review process, which is applicable for all employees, ensures an ongoing focus on individual development to improve job performance.

Based on the Gallup Q12 survey our “Learning and growth” score improved to 3.93 on a scale from 1 to 5 (2012: 3.85), which is a step towards achieving our 2015 ambition of scoring above 4.

**ViewPoint score on Learning and growth**  
(Q12) (1 to 5 scale)



In 2012, we launched the AkzoNobel Academy to drive functional and operational excellence. It is now an established learning portal for all employees, enabling company-wide sustainable performance improvement. In 2013, in line with our ambition to drive functional excellence, we integrated functional capability frameworks and a structured training curriculum for key functions, as well as a continuous improvement curriculum. We also offer special training programs to enable HR professionals to better support the business, in addition to tailor-made programs for our top talent at a number of prestigious business schools.

Also in 2013, the Academy introduced a number of new development tools, including:

- Functional frameworks defining a set of competencies – knowledge and/or skills critical for successful performance within our key global functions to deliver on the company strategy

- Generic role profiles and a Career Navigator connected to the functional competency frameworks giving our employees an impression of the deliverables and competencies required by various key roles within AkzoNobel
- A Development Compass which has been designed to help our employees identify any gaps between their current competencies and those required
- The addition of new 24/7 learning resources: GetAbstract and Virtual Ashridge
- The design of 43 new functional training courses reaching initially 10,000 employees supporting targeted capability building
- The embedding of the “lessons learned” from performance improvement program projects in the Academy curriculum

### Recruitment

The quest to attract the best talent while managing costs continued with a major remodeling of the Recruitment function. A new e-recruitment technology platform has been launched in the Netherlands, UK, US, Sweden, France, Brazil, India and China as the first module in a future Talent Management Suite. This will improve the efficiency and effectiveness of the recruiters, lead to process standardization and increase direct sourcing, so reducing costs and improving quality.

We also took a major step in utilizing social media channels by partnering with LinkedIn, which resulted in a 160 percent increase in followers of our LinkedIn profile, as well as imparting training globally to our recruiters. This will help us tap into the passive labor market, provide a platform for communicating our new Employee Value Proposition and help avoid expensive indirect channels of recruitment.

A new global on-boarding program has also been launched whereby standard tools will now be used globally to welcome new employees and enable them to integrate as quickly as possible.

Winning two awards testifies to the progress we made in 2013 in terms of developing as a leading employer. AkzoNobel China was officially certified as one of the top employers in China for exceptional employee offerings by the renowned Top Employers Institute, which annually recognizes leading employers around the world.

The company was also ranked Favorite Employer in the Netherlands among Dutch graduates. The research was conducted by Memory Magazine, the largest national students' magazine in the Netherlands.

#### HR Services

For basic administration, Human Resources is implementing a standardized OneHR Services organizational and working set-up. This is initially being introduced in our nine key countries, based on three linked elements: standardized processes, executed on a standardized IT platform (myHR), by HR staff in an HR Service Center. This will enable us to provide a consistent and quality service, while reducing costs to benchmark levels. In addition, the OneHR Services project will be pivotal to removing the different systems that exist in the function today, therefore providing the foundation on which we can focus on our core challenge – putting in place a healthy talent pipeline and strong succession planning.

During 2013, OneHR Services went live in India and Brazil, while the UK prepared for implementation. Furthermore, the Integrated Talent Management Suite was launched, a new global HR IT support for core HR processes such as performance and development, learning, talent management and succession planning.

In 2013, we continued to restructure our business to execute our company strategy so we can meet the needs of our customers sustainably 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 out-placement.

During 2013 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 Financial statements.

Wherever possible, we announce our restructuring plans between 12 and 26 months in advance (recent examples being restructurings in Gallenby, Sweden, and Nuremberg, Germany). 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, engaging with people and organizations to help bring the AkzoNobel brand to life while supporting deserving and sustainable projects and causes, using our products when appropriate.

Key to our success in this area has been our global “Let’s Colour” program, which is inspiring people, through our products, to revitalize their local communities. The initiative – run by our Decorative Paints business – also includes the participation of many of our employees. In fact, hands-on involvement in local initiatives is something we encourage, which is why we launched the AkzoNobel Community Program in 2005. The development of young people is another area we are passionate about. Since 1994, with the help of the Plan International organization, we have been supporting children around the world through our Education Fund. We also run a global sponsorship program, which focuses on two main areas – developing talent in communities through education initiatives, and supporting heritage, culture and the arts and sciences by sharing our expertise.

#### 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 Stakeholder engagement for more details.

### “Let’s Colour” program

We believe in the regenerative power of color and the positive effect it can have on people’s lives. We express this through our global “Let’s Colour” program (letscolourproject.com), 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 and 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.

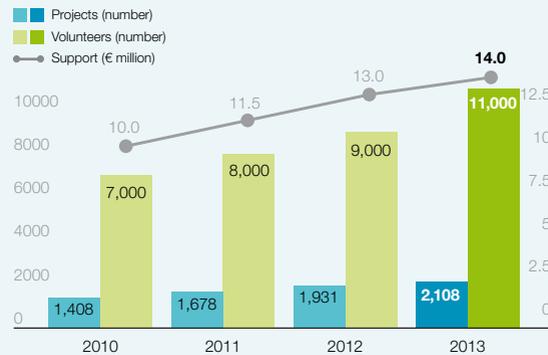
During 2013, we donated around 160,000 liters of paint, worth an estimated €420,000. Approximately 750 AkzoNobel employees were involved, volunteering roughly 4,000 hours of their time to various “Let’s Colour” programs across the globe. We also trained nearly 9,000 people as painters. In 2013, we estimate that we positively impacted the lives of around six 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. In the past eight years, this has led to a variety of projects, from educating underprivileged youngsters to creating more awareness about the importance of a clean environment. It also provides opportunities for employees to develop team-building and leadership skills.

Since the start of the program in 2005, more than 11,000 volunteers from around 55 countries have worked on more than 2,200 projects, representing approximately €14 million of investment. Our sites and offices initiate between 200-250 projects each year. The majority of projects have supported educational/employability and healthcare/well-being activities, with environmental and housing projects also well represented.

### Cumulative Community Program involvement



The economic slowdown has prompted more focus on projects benefiting deprived, socially disadvantaged groups. For example, involvement in the set up and running of soup kitchens, shelters and day care centers for the homeless, and vocational training for unemployed youngsters and women, are taking place on a continuous basis in various parts of the world.

The fund is also available to support post-relief efforts for major disasters in countries where we operate, as long as there is hands-on involvement by our employees. In 2013, our employees in Bitterfeld, Germany, teamed up to help reconstruct a community center which was severely damaged after massive floods. In Morris in the US, disaster supplies were prepared after flooding hit the area. These emergency kits, including buckets, coveralls, gloves, safety glasses and dust masks, were then

distributed to families affected by the tornados that hit the state of Illinois later in the year.

During 2013, 207 new projects were initiated. For example, a cooperation was established with the “Let’s Colour” program from Decorative Paints, as these painting activities often touch on groups within the scope of the Community Program. The employees involved were encouraged to interact with these groups. Around 15 projects serving local communities resulted from this initiative.

### 2013 projects by region

A Europe	128
B North America	23
C Latin America	15
D Asia	35
E Other regions	6



### Education Fund

Focused on young people in developing countries, the Education Fund has supported a wide range of projects since its creation in 1994, from investing in school infrastructure to teacher training and promoting health and hygiene. Tens of thousands of young people have benefited from the projects in countries such as Bolivia, Brazil, China, Ecuador, India, the Philippines and Vietnam. More attention is now being paid to supporting vocational training of deprived youngsters.

Over the years, several thousand children aged three to 16 have directly benefited from the quality pre-school and primary education that it helps to provide.

In addition, a special fundraising campaign staged in 2011 raised around €140,000, providing approximately 500 young people, mainly girls, in Vietnam, India and Brazil

# Environment

with vocational training opportunities. In 2012, our support continued to focus on vocational training to help deprived young people find decent and safe employment which offers them long-term prospects.

During 2013, the Education Fund supported a project in Brazil which involved training deprived young people in Natal to become stewards for the 2014 football World Cup at the Arena das Dunas stadium. A total of 147 underprivileged youngsters graduated from the program in December 2013. Around 70 percent of the group was female.

## Global sponsorship program

Our global sponsorship program focuses on two main areas – developing talent in communities through education initiatives, and supporting heritage, culture and the arts and sciences by sharing our expertise. Among our most recent agreements are partnerships with the Rijksmuseum and the Van Gogh Museum in the Netherlands. Several sponsorships are also ongoing with various other partners, including the Courtauld Institute and the McLaren Group in the UK.

## Key performance indicators – environment

	2010	2011	2012	2013	Ambition 2013	Ambition 2014	Target 2015
Operational eco-efficiency footprint measure (% reduction from 2009)	7	11	13	24	20	25	30
Sustainable fresh water management (% of manufacturing sites)	48	74	83	85	80	90	100
Greenhouse gas emissions per ton of production (own operations, in kg)	267	256	257	222	–	–	245

This section outlines the environmental impact and improvements in our own operations. 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.

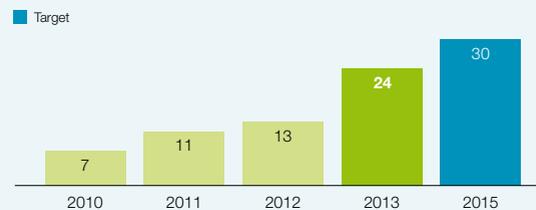
We measure progress on a quarterly basis using the eco-efficiency footprint measure, a company indicator which

combines energy, water, waste and air emissions, as well as cost elements. Weighting factors for each parameter are used to calculate the absolute footprint. This number is used in combination with production volume to calculate the relative footprint improvement. Between 2009 and 2013, we achieved a relative footprint improvement of 24 percent. We are on track to achieve our target of a relative footprint improvement of 30 percent by 2015, and of 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.

## OEE footprint improvement

(% reduction from 2009)

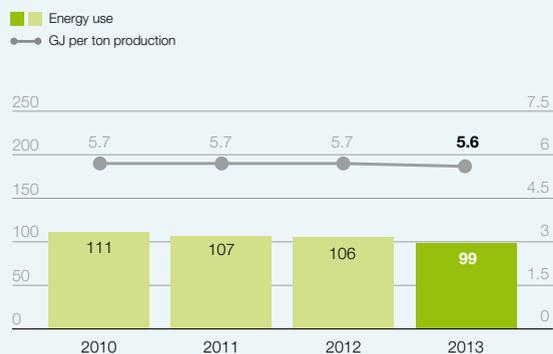


The OEE footprint is calculated from the weighted average of nine footprint parameters and production volume.

### 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 [TJ] is the sum of fuels, electricity, steam, hot water and other utilities (expressed as fuel equivalents).

- Energy use per ton of production reduced slightly to 5.6 GJ/ton. Absolute energy use was down 7 percent to 99,000 TJ in line with lower production volumes
- The total costs of energy used in our production was about €0.6 billion
- The indicative monetary value of the energy savings is €20 million
- Total energy consumption for Specialty Chemicals was 92,000 TJ; Performance Coatings 5,000 TJ and for Decorative Paints 2,000 TJ
- More details about the energy sources can be found on our website

We use energy scans to identify savings opportunities in all our Business Areas. During 2013, a series of scans was carried out, and the outcomes are being, or will be, implemented. For example:

- In Stenungsund, Sweden, energy was saved by optimizing the distillation section, resulting in a significant reduction of energy, over 10,000 tons less CO<sub>2</sub> and more than €3 million in savings
- In Ibbenbüren, Germany, a new burner now allows us to use hydrogen (which was flared) as fuel for the production of steam, instead of natural gas
- In Barcelona, a boiler for hot oil was upgraded with better control and heat recovery, resulting in an energy reduction of 15 percent and a cost reduction of €26,000
- In Arnsberg, an innovative new chiller has reduced energy use for cooling by more than 40 percent, and costs by €80,000

### Renewable energy

Renewable energy is an important aspect of the improvements required to achieve our 2020 strategy carbon footprint reduction. Our businesses have set themselves ambitious targets to increase the share of renewable electricity and heat used in our operations – equivalent to 45 percent renewable energy for AkzoNobel, a substantial increase from the 2012 level of 33 percent. In 2013, 36 percent of the electricity and 12 percent of the heat used on our sites came from renewable sources. This is equivalent to 31 percent renewable energy, a drop from 2012 due to a change in some supply contracts.

#### Total energy in % by source

A Renewable energy	31
B Natural gas	37
C Coal	15
D Nuclear	15
E Other fossil fuels	2

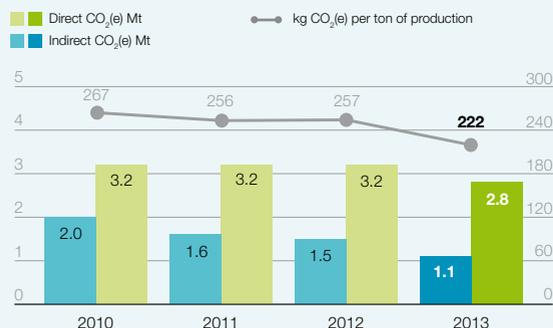


Our Renewable Energy Supply Strategy has three focus areas: protecting our current renewable share, participating in cost effective, large energy ventures, and exploring commercially feasible on-site renewable energy generation. Specific projects in progress include:

- Investment in wind power in the Nordics as part-owner of the VindIn consortium. VindIn already has 35 wind turbines in operation, with many more to come over the next couple of years (1,000 GWh targeted annually)
- A long-term power purchase agreement with the largest and most efficient biomass power plant in the Benelux region
- A custom-built, two-kilometer long pipeline providing steam from a waste-to-energy plant to AkzoNobel's salt site in Hengelo, the Netherlands

Greenhouse gas emissions are primarily related to the fuel and power we use, but also include some CO<sub>2</sub>, CH<sub>4</sub> and HFC process emissions. This section reflects the performance of all our own operations covering the gate-to-gate scope. More details on our Carbon Policy and cradle-to-grave reporting can be found in Note 5 in this section.

**Greenhouse gas emissions** in million tons



Total greenhouse gas emissions made up of direct emissions from processes and combustion at our facilities and indirect emissions from purchased energy.

- Total greenhouse gas emissions per ton of production decreased by 14 percent to 222 kg/ton CO<sub>2</sub>(e). Absolute GHG emissions came down 17 percent to 3.9 million tons of CO<sub>2</sub>(e). The divestment of Chemicals Pakistan had a significant positive effect on direct CO<sub>2</sub>(e). Other positive contributions came from the use of steam from neighboring waste incineration plants in Hengelo and Delfzijl (the Netherlands), with both significantly reducing indirect CO<sub>2</sub>(e). In Sweden, meanwhile, eight sites contributed by purchasing electricity generated with a low carbon footprint
- The combined direct and indirect CO<sub>2</sub>(e) emissions for Specialty Chemicals were 3.5 million tons, Performance Coatings 0.3 million tons and for Decorative Paints 0.1 million tons
- 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 NOx and SOx emissions. We monitor particulates at site level as required.

**Volatile organic compounds (VOC) from operations**

VOC emissions from our manufacturing operations may lead to local low-level ozone creation, smog formation and associated health problems for people in surrounding areas. All our businesses will continue to manage VOC emissions from sites, in line with national or even supranational (EC) legal requirements. The VOC reduction focus for our paints and coatings businesses is increasingly concentrating on low/zero VOC product design, rather than only controlling VOCs in our operations. Reducing VOC emissions from our sites remains part of the scope of our OEE program, while our Research, Development and Innovation groups are working on projects to reduce the solvent content of our products – VOC in product (see Note 4 in this section).

VOC emissions per ton of production reduced by 10 percent to 0.17 kg/ton. Total VOC emissions reduced to 3.1 kilotons. This was achieved through improvements

**Volatile organic compounds** in kilotons



VOC emissions may lead to local low-level ozone creation, smog formation and associated local health issues. We measure halogenated and non-halogenated organic compounds discharged to air.

made at many sites, including Gebze, where vapor return lines were installed, as well as no-spill connections in transfer lines from tanker to bulk storage. Focused efforts in the Surface Chemistry business to reduce their VOCs also proved successful (e.g. in Boxing, Itupeva and Singapore). Continued OEE program activities will keep us on target to achieve our ambitions.

**NOx and SOx**

NOx and SOx emissions may have a significant impact on local air quality because of their contribution to acidification. Therefore, these compounds are monitored.

- SOx emissions (from process emissions and energy) reduced to 0.26 kg/ton of production. Absolute emissions were down 39 percent at 4.6 kilotons. The major reason for the reduction was the divestment of our Chemicals Pakistan activities and projects in LeMoyne in the US. The emissions per ton for our three sulfur derivatives plants in Germany, the US and Argentina were also down
- NOx emissions from our sites were down 26 percent at 0.08 kg/ton of production. Total emissions were down to 1.3 kilotons. The major reason for the reduction was the divestment of our Chemicals Pakistan activities and projects in Morris (US) and Boxing (China). A new incinerator in Mons (NOx reduction over 50 percent) was started in Q4 and will further reduce NOx emissions

**NOx and SOx emissions**

in kilotons	2010	2011	2012	2013
NOx	2.0	2.0	1.9	1.3
NOx kg/ton	0.10	0.11	0.10	0.08
SOx	7.1	7.7	7.6	4.6
SOx kg/ton	0.36	0.41	0.41	0.26

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**

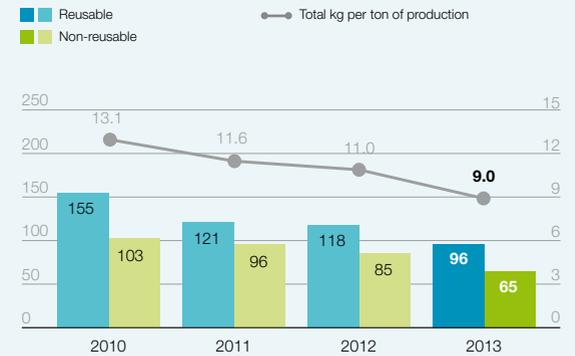
Emissions of ozone depleting substances are at a very low level – 2.9 tons (2012: 1.75 tons). They are mainly due to Freon22 from maintenance in older air conditioning and cooling units, which are replaced when appropriate.

**Waste**

Effective waste management helps to increase raw materials efficiency in our manufacturing operations while reducing both our environmental footprint and costs. Our focus is on reducing total waste and eliminating hazardous waste to landfill. The exception is asbestos waste – mainly from demolishing old equipment and buildings – where the preferred current safe disposal route is properly designed landfill facilities.

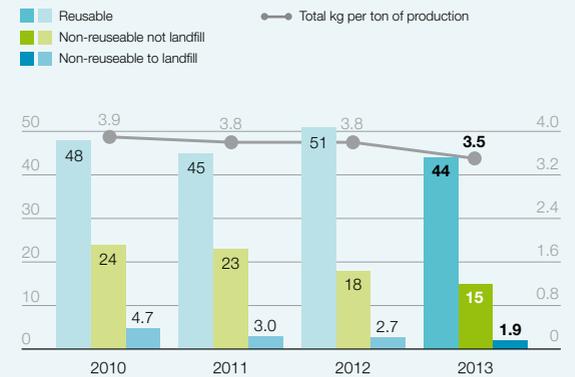
- Total waste per ton of production generated and leaving our sites was down 18 percent to 9.0 kg/ton. The total waste volume fell to 161 kilotons, a decrease of 21 percent. The indicative monetary value of the total waste reduction is €16 million
- The total waste for Specialty Chemicals was 64 kilotons, Performance Coatings 54 kilotons and for Decorative Paints 39 kilotons, while non-Business Area related totaled 4 kilotons
- Non-reusable waste was reduced to 65 kilotons. The amount of non-reusable waste per ton of production generated and leaving our sites was down 21 percent to 3.6 kg/ton. This reduction was achieved by implementing projects in our OEE program, and an increased focus on waste at many of our sites. Examples include collaborating with suppliers to re-use packaging materials at Suzhou in China, and working with a supplier in the US to use our own reconditioned drums
- Our program for waste prevention through alternative outlets for obsolete paint materials is proving successful. Around 11,000 tons of obsolete materials have been sold as by-product, which is being used as raw material for paint. This material would otherwise have been discarded as waste. Sustainable outlets have also been found for other by-product streams, such as alpha cellulose to the paper industry and powder coating fines, which are also being used as raw material for paint
- Hazardous waste per ton of production reduced to 3.5 kg/ton
- The non-reusable hazardous waste to landfill was down 29 percent to 1.9 kilotons

**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.

**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.

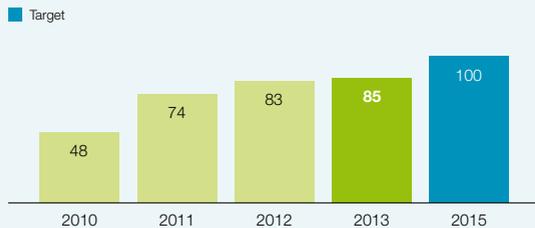
**Fresh water availability**

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 88 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. In addition to the intake of fresh water, the emission of contaminated water from our sites to surface waters may negatively impact fresh water resources and eco-systems. We continue to reduce the chemical oxygen demand (COD) of our effluent to surface water.

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.

**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.

- 85 percent of our sites (2012: 83 percent) have sustainable fresh water management in place, as measured by the AkzoNobel fresh water management risk assessment tool
- Fresh water use per ton of production is down to 14.9 m<sup>3</sup>/ton (2012: 15.3 m<sup>3</sup>/ton)
- Total fresh water use was 265 million m<sup>3</sup>, a decrease of 6 percent (2012: 283 million m<sup>3</sup>)

**Fresh water use in million m<sup>3</sup>**



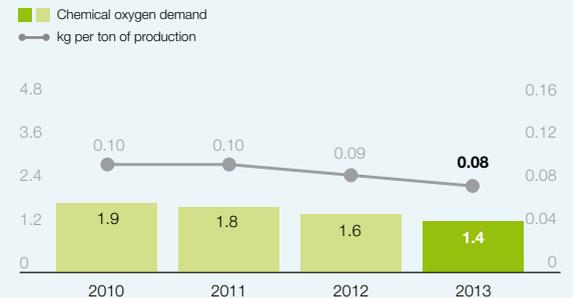
Fresh water use is the sum of the intake of ground water, surface water and potable water.

**Water emissions**

Reductions in COD in effluent are being achieved across the company.

- The COD load to surface water per ton of production reduced to 0.08 kg/ton (2012: 0.09 kg/ton)
- The total COD load to surface water was down 10 percent to 1.4 kilotons (2012: 1.6 kilotons)

**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.

### Soil and groundwater remediation

There are substantial costs associated with the assessment and remediation of historical soil and groundwater contamination. We periodically review contamination at our sites, taking remedial action when required, and have procedures to prevent new contamination.

In line with IFRS accounting rules, we make provisions for environmental remediation costs when it is probable that liability will materialize and the cost can be reasonably estimated. We have set aside €329 million, which we believe is sufficient for the sites where we have ownership or responsibility (see also Note 16 of the Financial statements).

# Independent assurance report

## To the readers of the AkzoNobel Report 2013

We were engaged by the Board of Management of Akzo Nobel N.V. (further AkzoNobel) to provide assurance on the sustainability information in the AkzoNobel Report 2013 (further the Report). The Board of Management of AkzoNobel is responsible for the preparation of The Report, including the identification of material issues. Our responsibility is to issue an assurance report based on the engagement outlined below.

### Scope

Our assurance engagement was designed to provide:

- Limited assurance on whether the information in the Sustainability statements section (further Sustainability statements) and in the Compliance and integrity management chapter (pages 97 to 100) (further Compliance and integrity management chapter) of the Report is presented fairly, in all material respects, in accordance with the reporting criteria
- Reasonable assurance on whether the information in Note 1: Managing our sustainability agenda of the Sustainability statements of the Report (further Managing our sustainability agenda) is presented, in all material respects, in accordance with the reporting criteria as defined by AkzoNobel

We do not provide any assurance on the achievability of the objectives, targets and expectations of AkzoNobel. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

### Reporting criteria and assurance standard

AkzoNobel applies the Sustainability Reporting Guidelines (3.1) of the Global Reporting Initiative supported by internally developed guidelines as described in the Reporting principles section. It is important to view the performance data in the context of these criteria.

We conducted our engagement in accordance with the Dutch Standard 3410N: Assurance engagements relating to sustainability reports, which is a specific part of the International Standard for Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or

Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to provide assurance on sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure their independence.

### Work undertaken

Our procedures for limited assurance included:

- A risk analysis, including a media search, to identify relevant sustainability issues for AkzoNobel in the reporting period
- Reviewing the suitability of the internal reporting criteria 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 limited assurance, 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 statements and Compliance and integrity management chapter
- Evaluating internal and external documentation, based on sampling, to determine whether the information in the Sustainability statements is supported by sufficient evidence
- Joining an audit of HSE (Health, Safety, and Environment) management at the Functional Chemicals site in Cologne, Germany
- Reviewing the relevant work of Internal Audit function

Our additional procedures for reasonable assurance included:

- Testing the relevant work of Internal Audit function in respect of the information in Managing our sustainability agenda
- Joining the sustainability assessment questionnaire review at Decorative Paints in Sassenheim, the Netherlands, together with the Internal Audit team to

evaluate the implementation, and test the operating effectiveness of controls at local level in respect of the information in Managing our sustainability agenda

Additionally we determined, as far as possible, whether the information concerning sustainability in the other sections of the Report is consistent with the information in scope for assurance.

During the assurance process we discussed the necessary changes in the Sustainability statements and in the Compliance and integrity management chapter and reviewed the final version of the Report to ensure that it reflects our findings.

### Conclusion and opinion

Based on our procedures for limited assurance, nothing has come to our attention to indicate that the information in the Sustainability statements and in the Compliance and integrity management chapter is not fairly presented, in all material respects, in accordance with the reporting criteria.

In our opinion, the information in Managing our sustainability agenda is presented, in all material respects, in accordance with the reporting criteria. We also report, to the extent we can assess, that the information on sustainability in the rest of the Report is consistent with the information in the Sustainability statements and in the Compliance and integrity management chapter.

Amsterdam, February 19, 2014

**KPMG Sustainability,  
Part of KPMG Advisory N.V.**

**W.J. Bartels RA, Partner**





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# Financial summary

## Consolidated statement of income

In € millions	2004	2005 <sup>1</sup>	2006	2007	2008 <sup>2</sup>	2009	2010	2011 <sup>5</sup>	2012 <sup>6</sup>	2013
Revenue	12,833	13,000	10,023	10,217	15,415	13,028	14,640	14,604	15,390	14,590
Operating income	1,588	1,492	887	778	(577)	855	1,219	1,145	(1,198)	958
Financing income and expenses	(205)	(162)	(134)	(151)	(232)	(405)	(327)	(336)	(205)	(200)
Income tax	(412)	(338)	(96)	(166)	(260)	(141)	(170)	(233)	(203)	(111)
Results from associates and joint ventures	10	6	87	(20)	25	21	25	24	13	14
<b>Profit for the period from continuing operations</b>	<b>981</b>	<b>998</b>	<b>744</b>	<b>441</b>	<b>(1,044)</b>	<b>330</b>	<b>747</b>	<b>600</b>	<b>(1,593)</b>	<b>661</b>
Minority interests attributable to minority shareholders	(36)	(37)	(29)	(31)	(65)	(77)	(83)	(64)	(63)	(68)
Discontinued operations	–	–	438	9	23	32	90	(59)	(436)	131
<b>Net income, attributable to shareholders</b>	<b>945</b>	<b>961</b>	<b>1,153</b>	<b>419</b>	<b>(1,086)</b>	<b>285</b>	<b>754</b>	<b>477</b>	<b>(2,092)</b>	<b>724</b>
Common shares, in millions at year-end	285.8	285.8	287.0	262.3	231.7	232.3	233.5	234.7	239.0	242.6
Dividend	343	343	344	472	417	325	320	304	214	210
Number of employees at year-end	61,400	61,300	42,700	42,600	60,000	54,700	55,600	52,020	50,610	49,560
Average number of employees	63,600	61,400	61,900	42,600	61,300	56,300	55,100	51,100	52,200	50,200
Employee benefits	3,216	3,221	2,158	2,215	3,022	2,955	2,980	2,765	3,018	2,950
Average revenue per employee (in €1,000)	202	212	162	240	251	231	266	286	295	291
Average operating income per employee (in €1,000)	25	24	14	18	(9)	15	22	22	(23)	19
<b>Ratios</b>										
ROS%	12.4	11.5	8.8	7.6	– <sup>3</sup>	6.6	8.3	7.8	– <sup>3</sup>	6.6
ROI%	20.8	19.4	16.3	14.6	– <sup>3</sup>	7.3	9.6	9.1	– <sup>3</sup>	9.6
Net income in % of shareholders' equity	40.6	32.0	30.5	122.9	– <sup>3</sup>	3.7	8.4	5.2	– <sup>3</sup>	12.9
Employee benefits in % of revenue	25.1	24.8	21.5	21.7	19.6	22.7	20.4	18.9	19.6	20.2
Interest coverage <sup>4</sup>	7.7	9.2	6.6	5.2	– <sup>3</sup>	2.1	6.4	4.7	– <sup>3</sup>	5.1
<b>Per share information (in €)</b>										
Net income	3.31	3.36	4.02	33.82	(4.38)	1.23	3.23	2.04	(8.82)	3.00
Adjusted earnings per share						2.06	3.71	3.10	2.55	2.62
Shareholders' equity	9.12	11.95	14.44	42.06	32.21	33.47	38.48	39.25	24.12	23.06
Highest share price during the year	33.79	40.18	49.41	65.56	57.11	46.52	47.70	53.74	49.98	56.49
Lowest share price during the year	24.87	30.82	38.30	44.41	22.85	26.01	37.18	29.25	34.85	42.47
Year-end share price	31.38	39.15	46.18	54.79	29.44	46.40	46.49	37.36	49.75	56.34

<sup>1</sup> The 2004–2005 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> Not meaningful as operating income and net income were losses.

<sup>4</sup> Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.

<sup>5</sup> Restated to present Decorative Paints North America as a discontinued operation.

<sup>6</sup> Restated for the revised IAS19.

## Consolidated balance sheet

In € millions	2004	2005 <sup>1</sup>	2006	2007	2008 <sup>2</sup>	2009	2010	2011 <sup>3</sup>	2012 <sup>4</sup>	2013
Intangible assets	448	488	682	669	7,172	7,388	7,308	7,392	4,454	3,906
Property, plant and equipment	3,535	3,432	3,346	2,203	3,357	3,474	3,384	3,705	3,739	3,589
Financial non-current assets	1,418	1,800	1,706	1,402	1,848	1,783	1,977	2,664	2,628	2,219
<b>Total non-current assets</b>	<b>5,401</b>	<b>5,720</b>	<b>5,734</b>	<b>4,274</b>	<b>12,377</b>	<b>12,645</b>	<b>12,669</b>	<b>13,761</b>	<b>10,821</b>	<b>9,714</b>
Inventories	1,978	1,987	2,042	1,177	1,781	1,441	1,678	1,924	1,545	1,426
Receivables	2,761	2,910	2,919	2,164	2,977	2,666	2,896	3,035	2,789	2,622
Cash and cash equivalents	1,811	1,486	1,871	11,628	1,595	2,128	2,851	1,635	1,752	2,098
Assets held for sale	–	322	219	–	4	–	–	–	921	203
<b>Total current assets</b>	<b>6,550</b>	<b>6,705</b>	<b>7,051</b>	<b>14,969</b>	<b>6,357</b>	<b>6,235</b>	<b>7,425</b>	<b>6,594</b>	<b>7,007</b>	<b>6,349</b>
Shareholders' equity	2,605	3,415	4,144	11,032	7,463	7,775	8,984	9,031	5,764	5,594
Minority interests	140	161	119	97	450	470	525	529	464	427
<b>Total equity</b>	<b>2,745</b>	<b>3,576</b>	<b>4,263</b>	<b>11,129</b>	<b>7,913</b>	<b>8,245</b>	<b>9,509</b>	<b>9,560</b>	<b>6,228</b>	<b>6,021</b>
Provisions	2,877	2,210	2,132	1,598	2,072	1,919	1,855	2,392	2,677	1,938
Long-term borrowings	2,392	2,702	2,551	1,954	2,341	3,641	2,880	3,035	3,388	2,666
Other non-current liabilities	200	183	181	133	715	674	589	541	434	389
<b>Total non-current liabilities</b>	<b>5,469</b>	<b>5,095</b>	<b>4,864</b>	<b>3,685</b>	<b>5,128</b>	<b>6,234</b>	<b>5,324</b>	<b>5,968</b>	<b>6,499</b>	<b>4,993</b>
Short-term borrowings	560	357	410	1,635	1,338	384	907	494	662	961
Current liabilities	2,677	2,571	2,652	2,276	3,510	3,220	3,761	3,782	3,632	3,438
Current portion of provisions	500	766	571	518	845	797	593	551	455	601
Liabilities held for sale	–	60	25	–	–	–	–	–	352	49
<b>Total current liabilities</b>	<b>3,737</b>	<b>3,754</b>	<b>3,658</b>	<b>4,429</b>	<b>5,693</b>	<b>4,401</b>	<b>5,261</b>	<b>4,827</b>	<b>5,101</b>	<b>5,049</b>
Average invested capital <sup>5</sup>	7,631	7,576	8,034	6,629	9,311	12,578	11,467	11,537	11,817	10,007
Capital expenditures	551	514	371	359	534	513	534	658	826	666
Depreciation	540	528	349	330	453	424	435	419	463	472
OWC					2,359	1,691	2,016	1,891	1,572	1,384
<b>Ratios</b>										
Equity/non-current assets	0.51	0.62	0.74	2.60	0.64	0.65	0.75	0.73	0.58	0.62
Inventories and receivables/current liabilities	1.77	1.90	1.87	1.47	1.36	1.28	1.22	1.31	1.19	1.18
Operating working capital as % of revenue					16.5	13.7	13.9	13.2	10.7	9.9

<sup>1</sup> The 2004–2005 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.

<sup>4</sup> Restated for the revised IAS19.

<sup>5</sup> Restated to current definition from 2011.

## Business Area statistics

In € millions	2008	2009 <sup>1</sup>	2010	2011 <sup>2</sup>	2012	2013
<b>Decorative Paints</b>						
Revenue	5,006	4,573	4,968	4,201	4,297	4,174
Operating income	(669)	133	275	235	(2,012)	398
ROS% (excluding goodwill impairment)	3.5	2.9	5.5	5.6	2.2	9.5
Average invested capital <sup>3</sup>	6,515	6,169	4,908	5,032	4,701	2,896
ROI% (excluding goodwill impairment)	2.7	2.2	5.6	4.7	2.0	13.7
Capital expenditures	120	112	154	155	206	171
Average number of employees	24,600	22,900	21,800	17,100	17,200	16,800
Average revenue per employee (in €1,000)	203	200	228	246	250	248
Average operating income per employee (in €1,000)	(27)	6	13	14	(117)	24
<b>Performance Coatings</b>						
Revenue	4,575	4,112	4,786	5,170	5,702	5,571
Operating income	444	433	487	458	542	525
ROS%	9.7	10.5	10.2	8.9	9.5	9.4
Average invested capital <sup>3</sup>	2,010	1,868	2,063	2,267	2,499	2,463
ROI%	22.1	23.2	23.6	20.2	21.7	21.3
Capital expenditures	89	61	87	116	123	143
Average number of employees	21,000	20,200	20,600	21,300	21,700	21,300
Average revenue per employee (in €1,000)	218	204	232	243	263	262
Average operating income per employee (in €1,000)	21	21	24	22	25	25
<b>Specialty Chemicals</b>						
Revenue	5,687	4,359	4,943	5,335	5,543	4,949
Operating income	130	422	604	622	500	297
ROS%	2.3	9.7	12.2	11.7	9.0	6.0
Average invested capital <sup>3</sup>	3,797	3,435	3,464	3,406	3,678	3,609
ROI%	3.4	12.3	17.4	18.3	13.6	8.2
Capital expenditures	305	319	273	365	484	346
Average number of employees	12,900	11,400	11,100	11,300	11,800	10,600
Average revenue per employee (in €1,000)	441	382	445	472	470	467
Average operating income per employee (in €1,000)	11	37	54	55	42	28

<sup>1</sup> Restated for transferred businesses and 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	2009	2010	2011	2012	2013	2009	2010	2011 <sup>1</sup>	2012	2013	2009	2010	2011	2012	2013
<b>The Netherlands</b>						<b>Other European countries</b>					<b>China</b>				
Revenue by destination	792	803	694	745	765	3,095	3,398	3,702	3,647	3,531	997	1,249	1,376	1,621	1,643
Revenue by origin	1284	1,537	1,646	1,601	1,600	2,211	2,336	2,459	2,400	2,330	929	1,177	1,361	1,699	1,690
Capital expenditures	104	84	144	110	94	69	83	98	85	66	143	147	96	135	104
Average invested capital	1,748	1,390	1,384	1,326	1,175	2,390	2,518	2,641	2,127	1,406	817	862	1,089	1,295	1,330
Number of employees <sup>2</sup>	4,800	5,000	5,200	5,200	5,300	9,400	9,100	8,900	8,500	8,000	6,100	6,700	7,400	7,700	7,400
<b>Germany</b>						<b>US and Canada</b>					<b>India</b>				
Revenue by destination	1,088	1,160	1,284	1,258	1,176	2,600	2,954	2,092	2,294	2,155	249	332	359	371	353
Revenue by origin	1,089	1,096	1,228	1,219	1,143	2,712	3,074	2,222	2,413	2,287	200	251	283	288	270
Capital expenditures	19	22	31	69	87	55	63	67	70	62	6	17	18	16	17
Average invested capital	1,035	949	945	861	736	2,902	2,131	1,722	1,742	1,739	141	140	130	122	119
Number of employees <sup>2</sup>	3,700	3,500	3,800	3,600	3,100	10,100	10,300	5,100	5,100	5,000	1,400	1,600	1,700	1,800	1,900
<b>Sweden</b>						<b>Brazil</b>					<b>Other Asian countries</b>				
Revenue by destination	423	468	515	486	473	732	844	949	987	925	1,336	1,448	1,559	1,716	1,380
Revenue by origin	1,284	1,475	1,481	1,505	1,411	715	815	903	909	851	1,189	1,263	1,344	1,491	1,193
Capital expenditures	37	19	54	70	38	25	23	54	123	70	21	31	46	55	23
Average invested capital	509	502	551	539	471	714	753	704	621	558	680	548	656	605	493
Number of employees <sup>2</sup>	3,500	3,400	3,300	3,200	3,000	2,800	2,700	2,800	2,900	2,900	5,400	5,600	6,100	5,000	5,200
<b>UK</b>						<b>Other Latin American countries</b>					<b>Other regions</b>				
Revenue by destination	768	798	841	901	887	415	550	566	636	628	533	636	667	728	674
Revenue by origin	830	854	879	967	948	244	353	379	435	431	341	409	419	463	436
Capital expenditures	22	28	27	68	74	5	7	12	16	13	7	10	11	9	18
Average invested capital	1,443	1,531	1,512	1,433	1,314	58	67	153	163	155	144	168	218	210	178
Number of employees <sup>2</sup>	3,800	3,900	3,900	3,800	3,700	1,500	1,600	1,700	1,700	1,600	2,200	2,200	2,100	2,100	2,500

<sup>1</sup> Restated to present Decorative Paints North America as a discontinued operation.

<sup>2</sup> At year-end.

# Sustainability performance summary

## Economic/Governance/Social

Area		2009	2010	2011	2012	2013	Target 2015	Target 2020
<b>Product</b>								
Eco-premium solutions with downstream benefits	% of revenue				17	18	–	20
Eco-premium solutions	% of revenue	18	21	22	22	24	30	–
<b>Business integrity</b>								
Code of Conduct alleged complaints handled by the Compliance Committee	number	19	23	24	24	9	–	–
Code of Conduct trained	% employees	95	95	95	96	95	–	–
<b>Health and Safety</b>								
Fatalities employees	number	0	1	2	2	0	0	0
Total reportable injury rate employees/supervised contractors	/million hours	3.7	3.6	3.1	2.4	2.3	<2.0	<1.0
Lost time injury rate employees/supervised contractors	/million hours	1.5	1.6	1.3	1.1	1.3	1.3	–
Occupational illness rate employees	/million hours	0.4	0.3	0.3	0.2	0.1	–	–
Total illness absence rate employees	% of sites	2.0	1.9	2.0	2.0	2.1	1.9	–
Fatalities contractors (supervised plus independent)	number	3	0	1	0	0	0	0
Total reportable injury rate independent contractors	/million hours	2.8	3.0	3.5	4.2	3.5	–	–
Manufacturing sites with behavior-based safety program	%		72	76	76	96	100	–
Distribution incidents	number	52	91	80	46	48	–	–
Motor vehicle incidents with injury	number	31	34	29	28	19	–	–
<b>Employees</b>								
Employee numbers (FTE)	number	54,700	55,600	57,240	55,272	49,561	–	–
Female executives	%	10	12	13	15	16	20	–
Executives from high growth markets	%	11	12	13	13	14	20	–
Online P&D Dialog participation	%	72	76	78	84	85	95	–
Employee engagement index <sup>1</sup>	1-5 scale	80	3.56	3.74	3.8	3.88	>4	–
Community Program investment	in € millions	1.4	1.5	1.5	1.5	1.0	–	–
<b>Reliable operations</b>								
Management audits plus reassurance audits	number	66	61	66	61	56	–	–
Safety incidents (Level 3)	number	9	10	8	3	0	0	0
Safety incidents (Level 1, 2, 3)	number	33	32	36	23	14	–	–
Significant loss of containment (Level D)	number	1	0	2	0	1	0	0
Regulatory actions (Level 3)	number	3	4	0	3	8	0	0
<b>Sourcing</b>								
Critical PR spend covered by supplier management framework	% of spend	–	–	–	69	80	90	–
Product related suppliers signed Vendor Policy	% of spend	85	91	95	97	96	96	–
NPR suppliers signed Vendor Policy	% of spend	–	–	77	80	83	80	–
Suppliers on SSV program since 2007 <sup>2</sup>	number	185	266	304	373	392	–	–
Renewable raw materials	% organic RM	–	–	–	13	13	–	–

## Environmental

Area		2009	2010	2011	2012	2013	Target 2015	Target 2020
<b>Raw material efficiency</b>								
Total waste	kiloton	249	258	217	203	161	–	–
per ton of production	kg/ton	14.7	13.1	11.6	11.0	9.0	10.0	–
Total non-reusable waste	kiloton	89	103	96	85	65	–	–
per ton of production	kg/ton	5.2	5.3	5.1	4.6	3.6	–	–
Hazardous waste total	kiloton	71	77	71	71	62	–	–
per ton of production	kg/ton	4.2	3.9	3.8	3.8	3.5	–	–
Hazardous waste non-reusable	kiloton	30	29	26	20	17	–	–
per ton of production	kg/ton	1.8	1.5	1.4	1.1	1.0	–	–
Hazardous waste to landfill	kiloton	4.9	4.7	3.0	2.7	1.9	–	–
per ton of production	kg/ton	0.29	0.24	0.16	0.15	0.11	–	–
<b>Maintain natural resources/fresh air</b>								
Fresh water use	million m <sup>3</sup>	270	309	291	283	265	–	–
per ton of production	m <sup>3</sup> /ton	15.8	15.7	15.6	15.3	14.9	–	–
COD emissions	kiloton	2.5	1.9	1.8	1.6	1.4	–	–
per ton of production	kg/ton	0.15	0.10	0.10	0.09	0.08	–	–
Manufacturing sites with sustainable fresh water	%	38	48	74	83	85	100	–
VOC emissions	kiloton	4.2	4.3	3.6	3.6	3.1	–	–
per ton of production	kg/ton	0.25	0.22	0.19	0.19	0.17	0.19	–
NOx emissions	kiloton	2.1	2.0	2.0	1.9	1.3	–	–
per ton of production	kg/ton	0.12	0.10	0.11	0.10	0.08	–	–
SOx emissions	kiloton	6.2	7.1	7.7	7.6	4.6	–	–
per ton of production	kg/ton	0.37	0.36	0.41	0.41	0.26	–	–
Direct CO <sub>2</sub> (e) emissions (Scope 1)	million tons	1.9	2.0	1.6	1.5	1.1	–	–
per ton of production	kg/ton	110	102	85	82	64	-10%	–
Indirect CO <sub>2</sub> (e) emissions (Scope 2)	million tons	2.8	3.2	3.2	3.2	2.8	–	–
per ton of production	kg/ton	162	165	171	175	158	-10%	–
Total energy consumption	1000TJ	97	111	107	106	99	–	–
per ton of production	GJ/ton	5.7	5.7	5.7	5.7	5.6	–	–
<b>Value chain</b>								
Total CO <sub>2</sub> (e) emissions (cradle-to-grave) <sup>3</sup>	million tons	–	–	–	27.5	26.5	–	–
per ton of product <sup>3</sup>	ton/ton	–	–	–	1.7	1.6	–	-25–30%
Total CO <sub>2</sub> (e) emissions (cradle-to-gate) <sup>4</sup>	million tons	14.6	15.9	16.1	15.9	–	–	–
per ton of product <sup>4</sup>	kg/ton	980	960	950	950	–	-10%	–

<sup>1</sup> From 2010 employee survey changed from % favorable to Gallup Q12 GrandMean: average of mean scores for each question (out of five).

<sup>2</sup> SVV program targets are included in the new critical PR spend coverage KPI.

<sup>3</sup> Reported from 2012. Includes impact from VOC emissions.

<sup>4</sup> Reported up to 2012.

## Driving improvements for customers

Primers play an essential role in a wide variety of different coating applications, especially when striving for the perfect finish on a multi-layer coating system. This is particularly relevant in the automotive industry, where environmental considerations and cost efficiency are just as important as product quality.

Our Powder Coatings business has long been a major supplier of products used on vehicles produced by many of the world's biggest auto manufacturers, all of whom have strict specifications and are continually looking to make improvements in all parts of the production process. In an effort to help our customers increase productivity and cut energy use, we developed a new low cure technology to supply the global wheel market.

The new Interpon primer is capable of reducing the curing window dramatically. Up until now, the window for standard systems has been between 170°C (20 minutes) and 200°C (10 minutes). The latest Interpon product reduces this to 15 minutes at 150°C or ten minutes at 170°C, allowing our customers to reduce their oven steeling or increase their line speed to boost productivity.

Already approved by the automotive industry in the EU, the new primer system was developed by our coatings experts in Arnsberg, Germany, where the product is now being manufactured to the highest quality standards to supply the global market.

With no VOCs, less waste and reduced energy usage during application, powder coatings have become an attractive proposition in many of our end-user segments, with the transportation industry beginning to show an increasing interest.



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# Glossary

## **Adjusted earnings per share**

Basic earnings per share from continuing operations excluding incidentals in operating income, amortization of intangible assets and tax on these adjustments.

## **BBS**

Behavior-based safety. 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**

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>, NO<sub>x</sub> and SO<sub>x</sub>, 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.

## **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/liabilities 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 unit 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 comprise 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 charges.

**Operational cash flow**

We use operational cash flow to monitor cash generation. It is defined as operating income excluding depreciation and amortization, less 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.

**P&D Dialog**

The Performance & Development Dialog (P&D Dialog) is AkzoNobel's global performance and appraisal system for employees.

**RD&I**

Research, Development and Innovation.

**Regulatory action**

We have defined three categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3).

**REI**

Resource Efficiency Index is gross profit 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 divided by average invested capital. For 2012, we excluded the goodwill impairment from operating income.

**ROS% (return on sales)**

This is a key profitability measure and is calculated as operating income divided by revenue. For 2012, we excluded the goodwill impairment from operating income.

**Safety incident**

We have defined three levels of safety incidents. The highest category – Level 3 – involves any loss of life; more than five severe injuries; environmental, asset or business damage totaling more than €25 million; inability to maintain business; or serious reputation damage to AkzoNobel stakeholders.

**Shareholders' equity per share**

Akzo Nobel N.V. shareholders' equity divided by the number of common shares outstanding at 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.

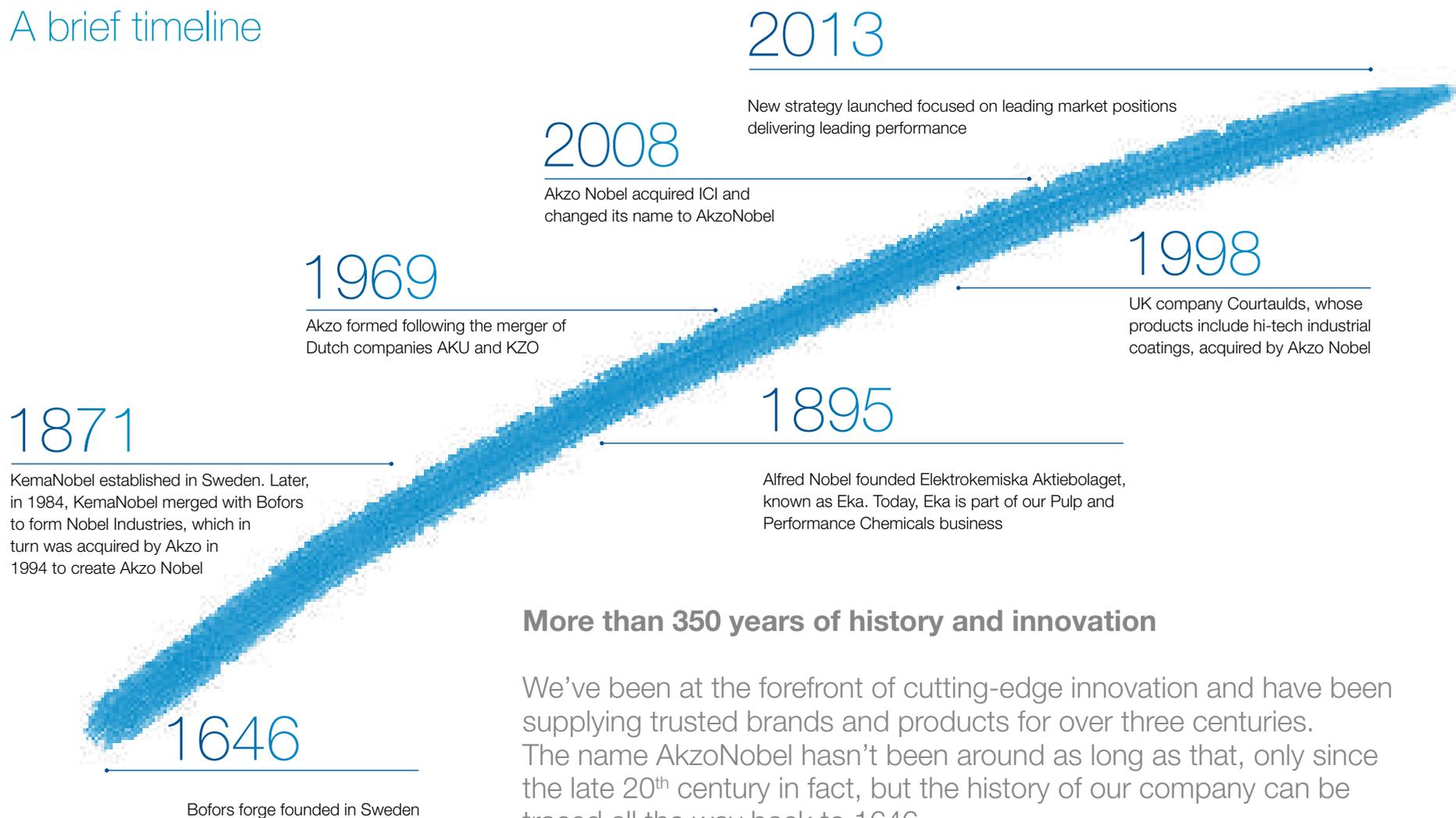
**VOC**

Volatile organic compounds.

# Financial calendar

<p>2014</p>	<p>April 17</p> <p><b>Report for the first quarter</b></p>	<p>April 29</p> <p>Annual General Meeting of shareholders</p>	<p>May 2</p> <p>Ex-dividend date of 2013 final dividend</p>
<p>May 6</p> <p>Record date of 2013 final dividend</p>	<p>May 7 – May 22</p> <p>Election period cash or stock final dividend</p>	<p>May 23</p> <p>Determination of exchange ratio</p>	<p>May 28</p> <p>Payment date cash dividend and delivery of new shares</p>
<p>July 23</p> <p><b>Report for the second quarter</b></p>	<p>October 21</p> <p><b>Report for the third quarter</b></p>	<p>2015</p>	<p>February 12</p> <p><b>Report for the year 2014 and the fourth quarter</b></p>

## A brief timeline

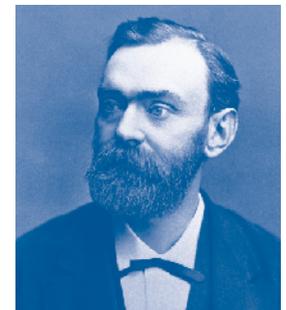


### More than 350 years of history and innovation

We've been at the forefront of cutting-edge innovation and have been supplying trusted brands and products for over three centuries. The name AkzoNobel hasn't been around as long as that, only since the late 20<sup>th</sup> century in fact, but the history of our company can be traced all the way back to 1646.

And it's a heritage we're extremely proud of, not least because one of our founding fathers was Alfred Nobel (pictured), of Nobel Prize fame. His industrial legacy became part of Nobel Industries in Sweden, which merged with Dutch company Akzo in 1994 to create Akzo Nobel. Then, following the acquisition of ICI in 2008, a major rebranding resulted in a subtle change to the AkzoNobel name we use today.

It's been an exciting journey, full of pioneering developments and breakthrough research. And it's a journey which is entering a new age of discovery as we continue to introduce revolutionary and sustainable technologies to meet the growing demands of our fast-changing world.



**Disclaimer**

In this Report 2013, 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 2013 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 2013**

AkzoNobel's annual financial report has been combined with the sustainability report into one Report 2013. The Report 2013 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.

**Brands and trademarks**

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**Design**

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**Printing**

Tesink B.V., Zutphen, the Netherlands

**Paper**

Heaven 42, printed with bio-ink



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