AkzoNobel Report 2010

A year of delivering Tomorrow's Answers Today

AkzoNobel

Key performance indicators

Statement of income

Revenue
in € millions

2009	13,028	+12%
2010	**14,640**	

EBITDA
in € millions

2009	1,690	+16%
2010	**1,964**	

EBITDA margin
% of revenue

2009	13.0	+0.4
2010	**13.4**	

EBIT
in € millions

2009	1,131	+21%
2010	**1,374**	

Dividend and earnings per share

Adjusted earnings per share
in €

2009	2.06	+80%
2010	**3.71**	

Dividend per share
in €

2009	1.35	+4%
2010	**1.40**	

Net income attributable to shareholders in € millions

2009	285
2010	**754**

Earnings per share from continuing operations in €

2009	1.09
2010	**2.85**

Cash flows

Net debt
in € millions

2009	1,744	-46%
2010	**936**	

Operating working capital
% of revenue

2009	13.7	+0.2
2010	**13.9**	

Net cash from operating activities
in € millions

2009	1,220	-57%
2010	**519**	

Capital expenditures
in € millions

2009	513	4%
2010	**534**	

Ratios

Moving average ROI
in %

2009	9.2	+1.6
2010	**10.8**	

Operating ROI
% of revenue

2009	23.2	+4.5
2010	**27.7**	

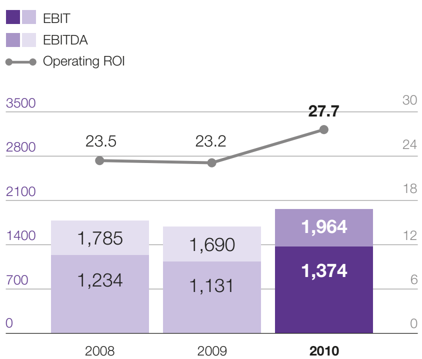
Research and development expenses
in € millions

2009	327	+2%
2010	**334**	

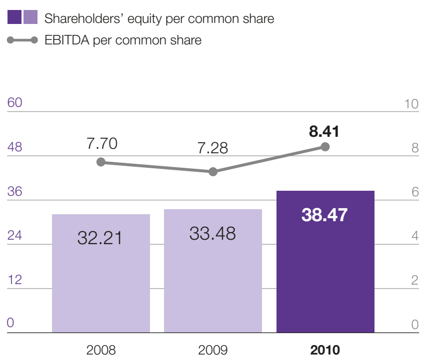
Research and development major projects % of R&D expenses

2009	41	+5
2010	**46**	

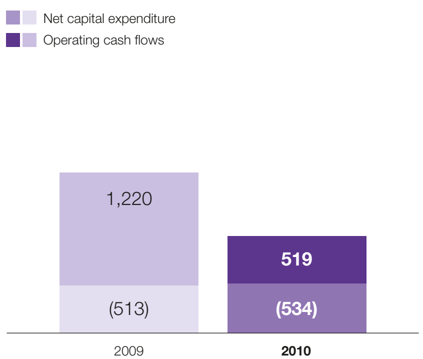
EBIT and EBITDA
in € millions



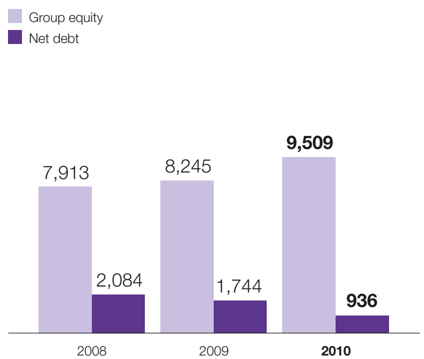
Shareholders' equity and EBITDA per common share in €



Operating cash flows
in € millions



Net debt and group equity
in € millions



Sustainability

Total reportable rate of injuries ▼
per million hours

2009	3.7	-0.1
2010	**3.6**	

Eco-premium solutions ▲
% of revenue

2009	20	+5
2010	**25**	

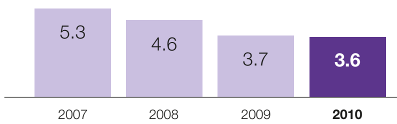
Key value chains carbon footprint assessment ▲

2009	158	+81%
2010	**286**	

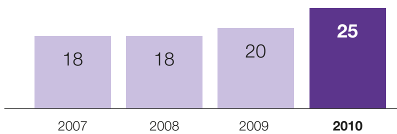
Total waste ▲
in kilotons

2009	249	+4%
2010	**258**	

Total reportable rate of injuries
per million hours



Eco-premium solutions
% of revenue



Specialty Chemicals

Revenue ▲
in € millions

2009	4,359	+13%
2010	**4,943**	

EBITDA ▲
in € millions

2009	738	+27%
2010	**939**	

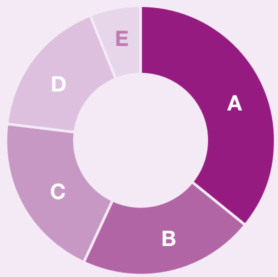
EBITDA margin ▲
% of revenue

2009	16.9	+2.1
2010	**19.0**	

Total reportable rate of injuries ▲
per million hours

2009	2.8	+0.7
2010	**3.5**	

Revenue breakdown in %



A Functional Chemicals	36
B Industrial Chemicals	21
C Pulp and Paper Chemicals	20
D Surface Chemistry	17
E Chemicals Pakistan	6

Total revenue high growth markets vs mature

> 30% 100%

Performance Coatings

Revenue ▲
in € millions

2009	4,112	+16%
2010	**4,786**	

EBITDA ▲
in € millions

2009	594	+9%
2010	**647**	

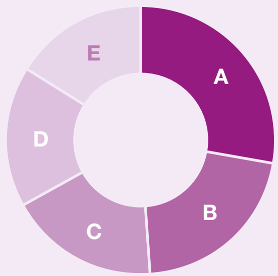
EBITDA margin ▼
% of revenue

2009	14.4	-0.9
2010	**13.5**	

Total reportable rate of injuries =
per million hours

2009	3.3
2010	**3.3**

Revenue breakdown in %



A Marine and Protective Coatings	28
B Car Refinishes	21
C Industrial Coatings	18
D Powder Coatings	17
E Wood Finishes and Adhesives	16

Total revenue high growth markets vs mature

> 45% 100%

Decorative Paints

Revenue ▲
in € millions

2009	4,573	+9%
2010	**4,968**	

EBITDA ▲
in € millions

2009	487	+13%
2010	**548**	

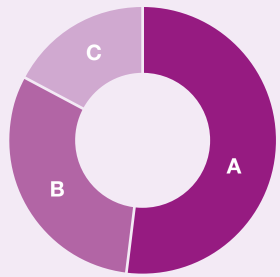
EBITDA margin ▲
% of revenue

2009	10.6	+0.4
2010	**11.0**	

Total reportable rate of injuries ▼
per million hours

2009	4.7	-0.7
2010	**4.0**	

Revenue breakdown in %



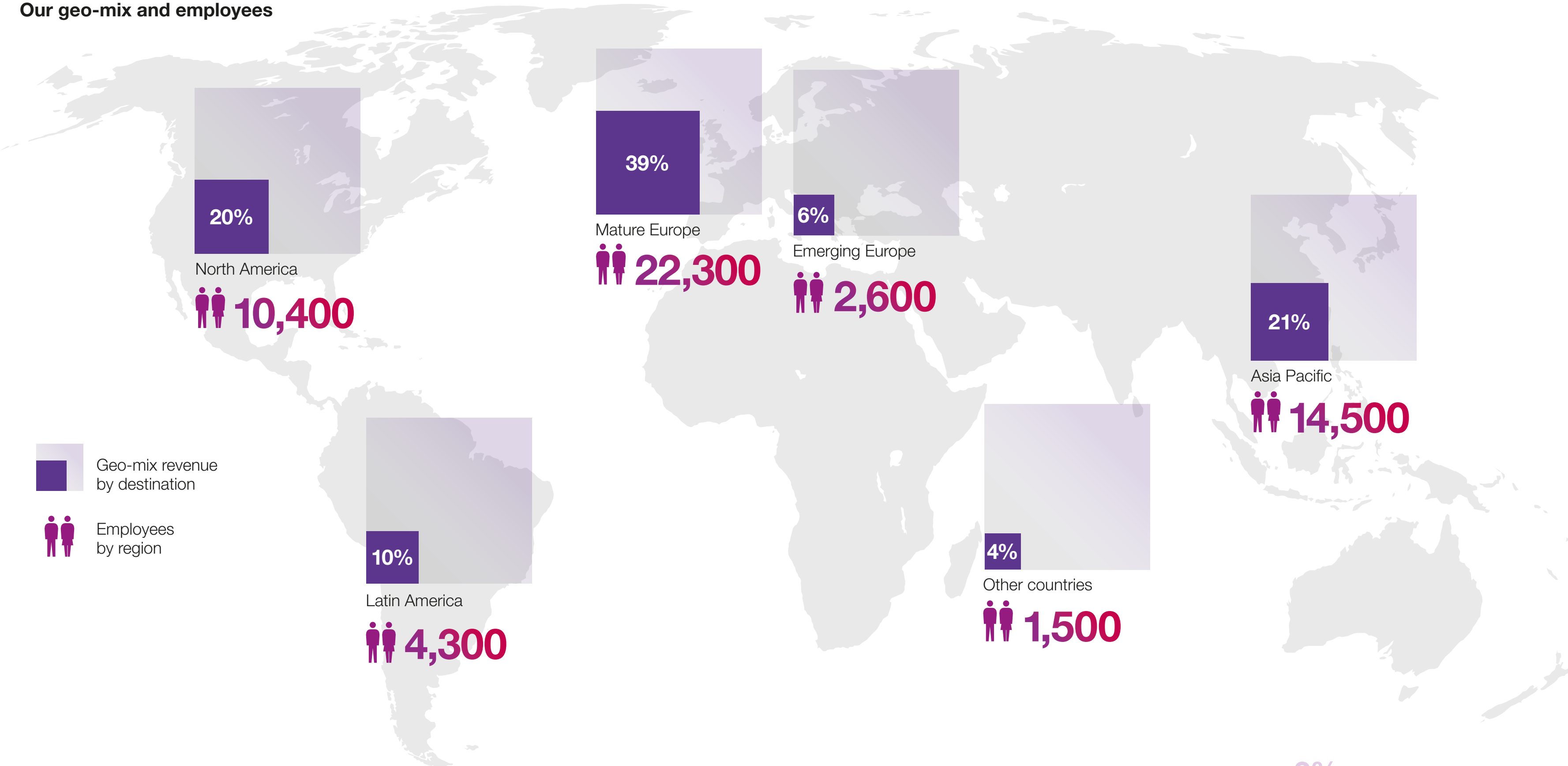
A Europe	52
B Americas	31
C Asia Pacific	17

Total revenue high growth markets vs mature

> 35% 100%

AkzoNobel at a glance in 2010

Our geo-mix and employees

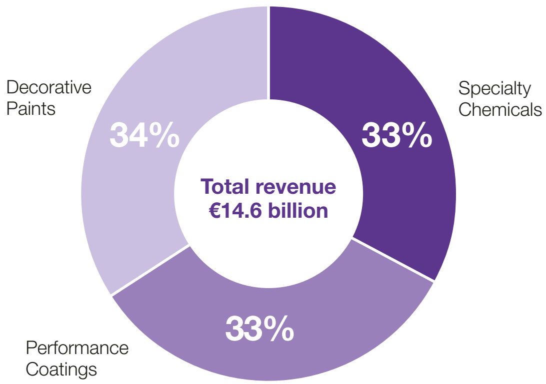


€14.6

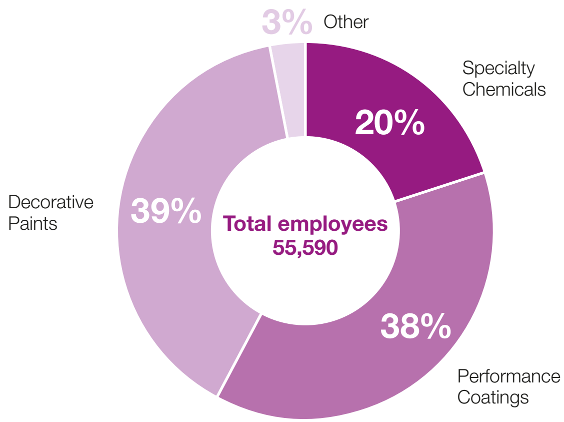
Revenue (in € billions)

55,590

Employees



Revenue by Business Area



Employees by Business Area

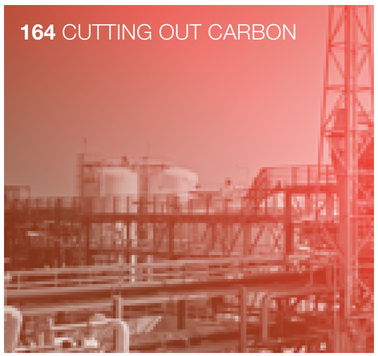
A year of delivering
Tomorrow's Answers Today

2010 was a successful year for AkzoNobel, the world's largest coatings and specialty chemicals company. Our financial performance was strong; we completed a number of significant acquisitions; introduced a wide range of innovative and more sustainable products; and launched a new accelerated growth strategy. More information on all these developments can be found in this 2010 Report, which takes a detailed look at how we are continuing to deliver Tomorrow's Answers Today.

AkzoNobel
Tomorrow's Answers Today

AKZONOBEL AND...

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



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Strategy

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

Delivering Tomorrow's Answers Today

For AkzoNobel, 2010 was something of a landmark year. We still faced many challenges due to the ongoing uncertainty surrounding the economic climate. But our financial vigilance and swift response to the global downturn enabled us to launch a new accelerated growth strategy soon after markets began to recover. Our aim all along had been to emerge from the crisis an even stronger company, and we succeeded.

I'll come to our new growth ambitions in a moment, but the milestone nature of the year – and the essence of our strategic vision – was in many ways typified by November's inauguration of our new multi-site in Ningbo, China. The €275 million facility is AkzoNobel's largest ever investment outside of an acquisition and underlines the increasing importance of the world's high growth markets as we look to establish ourselves as the world's leading coatings and specialty chemicals company. Regions such as Asia and Latin America are fundamental to our future plans and Ningbo is representative of all our ambitions as we strive to push ahead and seize opportunities to accelerate profitable growth.

Value and Values

The announcement of our new Value and Values strategy was certainly one of the year's most important developments. It was significant because it signaled the end of the transformation of our portfolio – a complex period of integration and restructuring – and the dawn of a new era. One of accelerated and sustainable growth. The details are explained elsewhere in this 2010 Report, but essentially our new strategy sets out a number of mid-term financial targets, including increasing revenue to €20 billion, growing EBITDA each year while maintaining a 13 to 15 percent margin and paying a stable to rising dividend. These "Value" ambitions are underpinned by strategic "Values", which ensure that growth will be achieved responsibly and sustainably.

The foundations for our new strategic vision were completed during 2010, when we turned in a solid financial performance, with revenue growing 12 percent. Delivering on our 14 percent EBITDA target ahead of schedule was also a significant achievement and emphasized the success of our employees in focusing on customers, costs and cash. This disciplined approach enabled us to grow revenue across all businesses and paved the way for us to drive forward with fresh impetus and renewed energy. Our markets have not yet fully returned to pre-recessionary levels and raw material prices are still volatile, so discipline remains key. But we are financially robust and are committed to realizing further benefits from both our scale and our pipeline of innovative products.

In order to help us deliver on our new strategic ambitions, we decided that an important change was needed at the very top of the organization. We therefore broadened our leadership team and established a nine-strong Executive Committee (explained in further detail elsewhere), comprising the current Board of Management and four new leaders. I'm confident that this new set-up will help to better drive common agendas, build capabilities across the company and develop a leadership group, culture and structure that will bring AkzoNobel to the next level of substantially higher performance and growth.

During 2010, we continued with our strategy of consolidating our industries with a number of bolt-on acquisitions. Among the most significant was the finalization of the deal in which we took over the powder coatings activities of the former Rohm & Haas from the Dow Chemical Company. This saw us become market leader in the US and helped to significantly improve volumes. Another deal involved the purchase of Changzhou Prime Automotive Paint Co. Ltd. in China. This not only gives us strong representation in one of China's most promising growth segments, but also gives our Car Refinishes business the opportunity to become the clear leader in the attractive vehicle refinish mid-market. Another important acquisition was that of Lindgens Metal Decorating Coatings and Inks by our Industrial Coatings business. It enables us to serve customers with a more complete range of inks and has improved our position in high growth areas of EMEA (such as Turkey and Russia), as well as in the Asia Pacific region, notably Australia. The key divestment during 2010 involved the sale of our National Starch activities to Corn Products International, which completed the final stage of our portfolio transformation. Aside from acquisitions, the year was also notable for a number of strategically important agreements. Perhaps the most significant was the deal signed by our Decorative Paints business to become the primary paint supplier to Walmart, which involves supplying multiple paint brands to the retailer's 3,500-plus stores in the US.

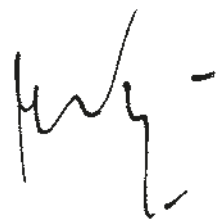
Excellent performance

Sustainability continued to be a high priority during 2010, emphasized by the integral role it has to play in our new growth strategy. We maintained our excellent performance and were again ranked as one of the leaders in our industry, demonstrating our commitment not just to growing, but to growing in the right ways. Our innovative pipeline also continued to produce a wide range of eco-premium solutions that have made an immediate impact, such as Dulux Weathershield SunReflect, a paint which lowers the temperature of external walls and reduces the need for air conditioning.

We also realize that there are areas where we need to improve. For example, we know we can do even better when it comes to safety and are making a concerted effort to achieve a top quartile performance. Similarly, our employee programs are being stepped up to improve engagement and encourage talent development. Creating an engaged workforce is central to our new strategy and we are working hard to stimulate a climate of confidence, cooperation and co-creation.

I must stress that while not as severe as the previous year, 2010 did present its fair share of challenges. The fact that we made such solid progress and have entered a new era of accelerated and sustainable growth says much about our underlying strength and our firm financial footing. In line with our new strategy, we will therefore propose an increased dividend to shareholders at the forthcoming Annual General Meeting. In 2011, we expect to experience volume challenges in many established markets and will continue to face raw material price pressure. Although there is ongoing uncertainty about the overall economic conditions, particularly in the mature markets, for 2011 we are aiming for more than five percent revenue and EBITDA growth.

My colleagues on the Board of Management and Executive Committee are extremely proud to be leading our great company at such an exciting period in its long history and would like to express our gratitude to the many colleagues around the world who are helping to lead AkzoNobel into a future full of so many possibilities.



Hans Wijers
CEO and Chairman of the Board of Management

Our Board of Management

Tex Gunning
Board member responsible for Decorative Paints
(1950, Dutch)

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

In September 2007, he was appointed CEO of Vedior, a global company in HRM services. After a successful merger with Randstad, he joined AkzoNobel in 2008 as Managing Director of Decorative Paints.

Keith Nichols
Chief Financial Officer
(1960, British)

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

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

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

A graduate of the University of Groningen and Assistant Professor of Economics at the Erasmus University of Rotterdam in the Netherlands (where he received his PhD in economics). A former Minister for Economic Affairs in the Dutch government, prior to joining AkzoNobel, he was senior partner and chairman of the Dutch office of The Boston Consulting Group.

He is a non-executive director at Royal Dutch Shell. In addition, Mr. Wijers is a member of the Board of Directors of the Concertgebouw N.V. and a member of the European Round Table of Industrialists.

Rob Frohn
Board member responsible for Specialty Chemicals
(1960, Dutch)

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

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

Leif Darner
Board member responsible for Performance Coatings
(1952, Swedish)

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

In 1993, he was appointed Chief Executive of Coatings Northern Europe. Then in 1997 he served as Worldwide Director of Yacht Paint and Protective Coatings.

In 1998, Courtaulds became part of AkzoNobel and Mr. Darner was appointed Business Unit Manager of AkzoNobel Marine and Protective Coatings, a post he held from 1999 until 2004, when he was appointed to the Board of Management of AkzoNobel as the member responsible for Chemicals, a position he held until April 2008.

Report of the
Board of Management

- 2010 revenue growth at 12 percent in line with medium-term ambitions
- 2010 EBITDA before incidentals 16 percent higher
- Operating return on invested capital: 27.7 percent (2009: 23.2 percent)
- Net income: €754 million (2009: €285 million)
- Total dividend for 2010: €1.40 (2009: €1.35) proposed
- Outlook: aiming for more than 5 percent revenue and EBITDA growth in 2011, in line with medium-term ambitions

Financial highlights

Continuing operations before incidentals

In € millions	2009	**2010**	Δ%
Revenue	13,028	14,640	12
EBITDA	1,690	1,964	16
EBITDA margin (in %)	13.0	13.4	
EBIT	1,131	1,374	21
EBIT margin (in %)	8.7	9.4	
Moving average ROI (in %)	9.2	10.8	
Operating ROI (in %)	23.2	27.7	

After incidentals

In € millions	2009	**2010**	Δ%
Operating income	855	1,219	43
Net income from continuing operations	253	664	
Net income from discontinued operations	32	90	
Net income total operations	285	754	
Earnings per share from continuing operations (in €)	1.09	2.85	
Earnings per share from total operations (in €)	1.23	3.23	
Capital expenditures	513	534	
Net cash from operating activities	1,220	519	
Interest coverage	2.1	3.7	
Invested capital	11,732	12,718	
Net debt	1,744	936	
Number of employees	54,740	55,590	

Revenue

Revenue was up 12 percent for the year. During 2010, demand recovered and volumes increased, notably in the high growth markets.

Decorative Paints

Decorative Paints full-year revenue growth was 9 percent. Demand in the high growth markets showed a robust recovery in 2010 after a challenging 2009. Our growth strategy of investing in brands, distribution and people, and expanding into mid-tier markets in high growth regions, is progressing well. Growth rates achieved in China and South East Asia have significantly outpaced markets, while demand in most of the mature markets declined during the year. As a result, our revenue in mature markets declined, apart from the UK, where we continued to strengthen the Dulux market position and gained share in the trade segment.

Performance Coatings

Performance Coatings had a good year, with revenue up 16 percent. Volume increases were seen in all businesses and all geographic regions, especially in Eastern Europe, Latin America and Asia. Powder Coatings showed the largest increase due to an acquisition, followed by Industrial Coatings, driven by good performances in Coil and Packaging Coatings. Wood Finishes and Adhesives and Marine and Protective Coatings had slower volume growth due to continued weak demand in the US housing market and lower investment levels in the European and US markets.

Specialty Chemicals

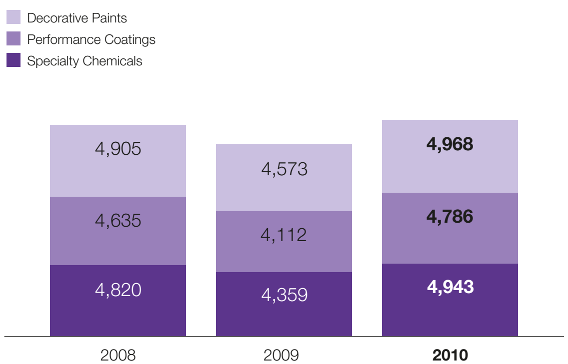
A broad recovery in demand, combined with the success of our strategic growth platforms, led to a volume increase across nearly all business lines in our Specialty Chemicals portfolio. In particular, volumes in the Americas and Asia returned to pre-crisis levels. Revenue increased 13 percent for the year, driven by the volume improvement, stable pricing and favorable currency effects.

Acquisitions and divestments

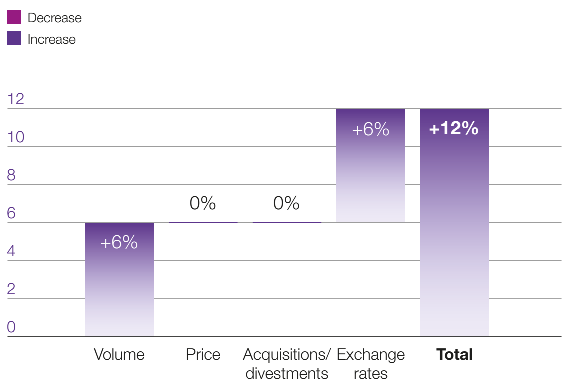
The acquisition and divestment effect on individual Business Area revenue during the year was due to the following:

- In Performance Coatings, we consolidated the acquired former Dow Chemical powder coatings activities as of June. We acquired the Lindgens Metal Decorating and Inks business in Q3 and on October 1, we acquired Changzhou Prime Automotive Paint Co., Ltd to grow our Car Refinishes business in China.
- In Specialty Chemicals, we divested PTA Pakistan in September 2009. This impacted 2010 revenue in Specialty Chemicals by 4 percent. During 2010, National Starch was classified as a discontinued operation and was sold on October 1, 2010, at a gain of €53 million.

Revenue in € millions



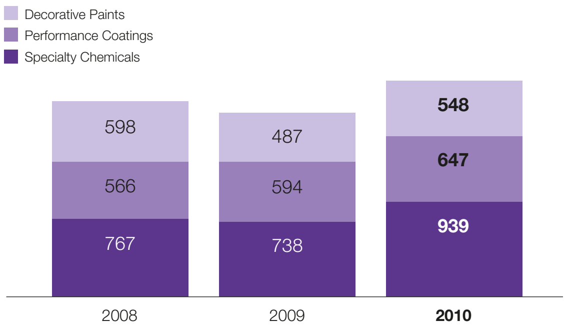
Revenue development in % versus 2009



Revenue development in % versus 2009

	Volume	Price	Acquisitions/ divestments	Exchange rates	Total
Decorative Paints	2	1	–	6	9
Performance Coatings	7	(1)	3	7	16
Specialty Chemicals	11	–	(4)	6	13
Total	**6**	**–**	**–**	**6**	**12**

EBITDA AkzoNobel 2008 – 2010 in € millions



EBITDA

EBITDA was up 16 percent. During the second half of the year we were impacted by higher raw material costs, which we partly offset by pricing.

Decorative Paints

In Decorative Paints, we continued to invest in the future of the business, with absolute A&P spending increasing by 30 percent and A&P spending as percentage of revenue increasing to 6 percent (2009: 5 percent). During the year, we maintained our focus on costs, margin improvement and operating working capital efficiency. We continued the restructuring programs in our European business to counter soft market demand, while our margin management programs enabled us to maintain overall margins, despite higher raw material prices. EBITDA increased 13 percent and the EBITDA margin improved from 10.6 percent in 2009 to 11.0 percent in 2010.

Performance Coatings

Full-year EBITDA increased 9 percent, where the positive currency impact was 7 percent, and ended at €647 million. The EBITDA margin was 13.5 percent (2009: 14.4 percent). Costs were kept under control, however, margins were impacted by higher raw material prices.

Specialty Chemicals

Improved volume, firm margins and limited cost growth in Specialty Chemicals resulted in an EBITDA growth of 27 percent to €939 million for 2010, surpassing all previous performance levels for the portfolio. With the National Starch divestment having been completed and our Ningbo site in China operational, the business area was even better positioned at the close of the year.

Raw materials

Raw material prices increased in 2010, particularly in the second half of the year. We expect 2011 prices to increase further. Pricing and cost reduction actions are ongoing and AkzoNobel is confident that it will be able to compensate for these increases during 2011.

Incidental items included in operating income

During 2010, we continued to restructure:

- In Decorative Paints, mainly in Continental Europe and the US
- In Performance Coatings, we closed several sites in connection with the acquired powder coatings activities
- In Specialty Chemicals, we closed an incinerator in Rotterdam.

Apart from restructuring costs, we took a €32 million provision for environmental clean-up costs at a site in Sweden. In addition, we reported gains in connection with the acquisition of the acquired powder coatings activities and the divestment of a capitve insurance company.

Incidentals included in operating income

In € millions	2009	**2010**
Restructuring costs	(349)	(120)
Results related to major legal, antitrust and environmental cases	(38)	(49)
Results on acquisitions and divestments	48	33
Other incidental results	63	(19)
Incidentals included in operating income	**(276)**	**(155)**

EBIT in “other”

Corporate costs ended below the previous year. The pension cost impact compared with the previous year is completely due to IAS 19 corridor accounting. We saw fewer insurance claims in 2010, leading to a better result this year in insurance. Other costs are higher than the previous year, mainly due to increased project activity in line with our strategy to drive functional excellence.

EBIT in “other”

In € millions	2009	**2010**
Corporate costs	(99)	(96)
Pensions	29	(7)
Insurances	(9)	2
Other	(70)	(87)
EBIT in “other”	**(149)**	**(188)**

Tax

The year-to-date tax rate is 19 percent (2009: 30 percent). The tax rate is low because of several adjustments to previous years, partly related to settlements with tax authorities. Furthermore, there were tax-exempt gains related to acquisitions and divestments. Excluding these and other incidental items, the year-to-date tax rate would have been 28 percent (2009: 30 percent).

Net financing expenses

Net financing charges for the year decreased by €78 million from €405 million to €327 million, due to decreased financing expenses on pensions (€71 million mainly due to higher returns on plan assets). In addition:

- Interest on provisions decreased by €15 million due to lower discount rates
- Interest on net debt increased by €11 million due to higher cost of refinanced bonds in 2009 and lower rates on our cash position during 2010.

Net financing expenses

In € millions	2009	2010
Financing income	58	51
Financing expenses	(236)	(240)
Net interest on net debt	**(178)**	**(189)**
Financing expenses related to pensions	(171)	(100)
Interest on provisions	(54)	(39)
Other items	(2)	1
Net other financing expenses	**(227)**	**(138)**
Net financing expenses	**(405)**	**(327)**

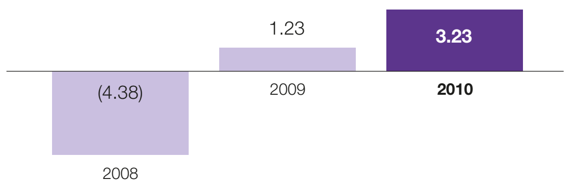
Discontinued operations

On October 1, we completed the divestment of National Starch with a gain of €53 million. The operating results for 2010 were €74 million. In 2010, we also incurred €37 million related to further settlements and tax-related costs from the divestments of the businesses sold to Henkel in 2008. In total, we reported a gain from discontinued operations of €90 million for 2010.

Earnings per share

Net income from total operations amounted to €754 million (2009: €285 million), including €90 million attributable to discontinued operations. Earnings per share from total operations increased from €1.23 to €3.23. Earnings per share from continuing operations also more than doubled from €1.09 to €2.85.

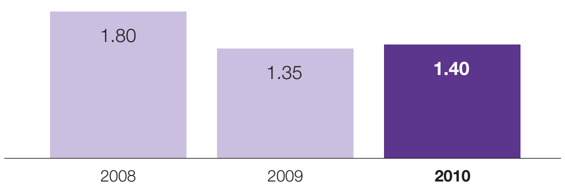
Earnings per share total operations (in €)



Dividend proposal

We have announced a simplified dividend policy and intend to pay a stable to rising dividend, whereby a cash interim and final dividend will be paid. We will propose a 2010 final dividend of €1.08 per share, which would make a total 2010 dividend of €1.40 (2009: €1.35).

Dividend (in €)



Economic Value Added (EVA)

EVA is calculated by deducting from net operating profit after tax (NOPAT) a capital charge representing the cost of capital calculated on the basis of an average return investors expect. EVA for 2010 totaled a negative amount of €142 million (2009: €390 million negative, restated to exclude National Starch).

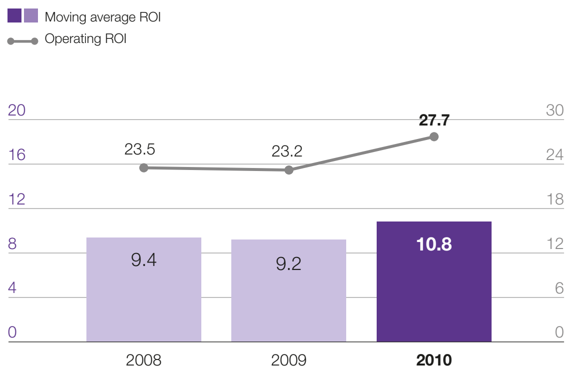
Returns on invested capital

We monitor our return on investments (ROI) by two measures:

- By (moving average) ROI, being EBIT divided by average invested capital
- By (moving average) operating ROI, being EBIT before amortization of intangibles divided by average invested capital excluding intangibles.

Both measures developed positively during 2010.

Returns on invested capital in %



Invested capital

Invested capital at year-end 2010 totaled €12.7 billion, €1 billion higher than at year-end 2009. Invested capital was impacted by the following items:

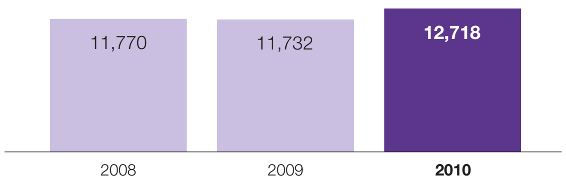
- Foreign currency effects on intangibles and property, plant and equipment, due to the weakening euro. In total, equity increased by €0.8 billion due to the currency translation impact
- An increase of €269 million of long-term receivables related to pension funds in an asset position
- Acquisitions, primarily the acquired powder coatings activities
- An increase of operating working capital due to currencies and increased business activities. Expressed as a percentage of revenue, operating working capital was 13.9 percent (year-end 2009: 13.7 percent)
- Payments of accrued interest of €159 million in January 2010, being the first payment under bonds refinanced in late 2008 and the first half of 2009. The normalized cash outflow for these bonds is €148 million.

We intend to accelerate growth and expand our investments in high growth regions. In 2011, we aim to invest 4 percent of revenue in capital expenditures.

Condensed consolidated balance sheet

In € millions	2009	**2010**
Intangible assets	7,388	7,308
Property, plant and equipment	3,474	3,384
Other financial non-current assets	1,783	1,977
Total non-current assets	**12,645**	**12,669**
Inventories	1,441	1,678
Trade and other receivables	2,564	2,788
Cash and cash equivalents	2,128	2,851
Other current assets	102	108
Total current assets	**6,235**	**7,425**
Total assets	**18,880**	**20,094**
Total equity	**8,245**	**9,509**
Provisions and deferred tax liabilities	2,593	2,444
Long-term borrowings	3,488	2,880
Total non-current liabilities	**6,081**	**5,324**
Short-term borrowings	384	907
Trade and other payables	2,866	3,305
Other short-term liabilities	1,304	1,049
Total current liabilities	**4,554**	**5,261**
Total equity and liabilities	**18,880**	**20,094**

Invested capital in € millions



Net debt

Net debt decreased from €1,744 million at year-end 2009 to €936 million at year-end 2010, mainly due to:

- The divestment of National Starch, generating €1 billion of cash
- Operating cash inflows of €519 million
- Dividend payments of €403 million (including to non-controlling interests)
- Capital expenditures of €534 million.

A bond totaling €539 million will mature in June 2011 and is recorded under short-term borrowings. In August, our credit ratings were confirmed at BBB+/Baa1 with outlook improved to stable.

The proceeds from the disposal of National Starch will fund growth and will potentially partly be used to realize our growth plans, strengthen the company's capital structure by, for example, repaying the 2011 €539 million debt maturity or de-risking pensions where possible.

Shareholders' equity

Shareholders' equity as at December 31, 2010, increased to €9.0 billion, due to the net effect of:

- Net income of €754 million
- Increased cumulative translation reserves by €734 million due to the weakening euro
- Payment of the final 2009 dividend of €245 million and the 2010 interim dividend of €75 million.

Pensions

The funded status of the pension plans at year-end 2010 was estimated to be a deficit of €1.0 billion (year-end 2009: €1.9 billion). The movement is due to lower discount rates increasing the pension obligation, compensated by:

- Increased asset values
- Lower inflation expectations
- Top-up payments of €375 million into certain defined benefit pension plans.

Cash flows

Operating activities in 2010 resulted in a cash inflow of €519 million (2009: €1,220 million). The change compared with 2009 is due to €0.4 billion higher operating results offset by the following changes in working capital and changes in provisions:

- During 2009, we released €0.5 billion cash from operating working capital, whereas during 2010 we invested €0.1 billion in operating working capital to facilitate growth
- During 2009, we incurred high costs for restructuring, resulting in higher restructuring payments during 2010
- In 2009, we received €75 million from tax authorities on a contingent basis for ongoing tax litigation, and, in 2010 we paid an additional amount to tax authorities. In addition, in early 2010 we made the first payment of accrued interest of bonds refinanced in 2009.

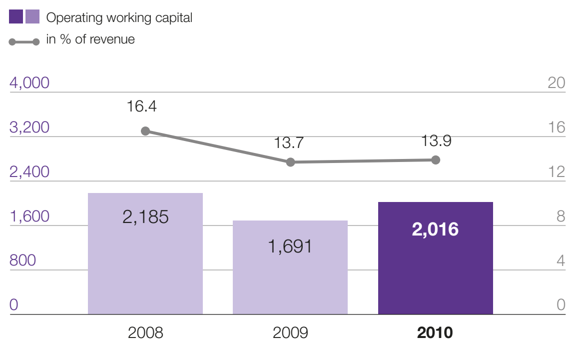
Workforce

At year-end 2010, we employed 55,590 staff for ongoing activities (year-end 2009: 54,740 employees). The net increase was due to:

- A net increase of 870 due to acquisitions and divestments, mainly from the acquired powder coatings activities (670 employees)
- A decrease of 1,770 employees due to ongoing restructuring
- An increase of 1,750 employees due to new hires and other changes.

Our growth ambitions will entail hiring new employees, in particular in high growth regions.

Operating working capital in € millions



Condensed consolidated cash flow statement

In € millions	2009 [1]	2010
Cash and cash equivalents opening balance	**1,449**	**1,919**
Profit for the period from continuing operations	330	747
Amortization, depreciation and impairments	622	640
Changes in working capital	650	(95)
Changes in provisions	(493)	(651)
Other changes	111	(122)
Net cash from operating activities	**1,220**	**519**
Capital expenditures	(513)	(534)
Acquisitions and divestments [2]	(55)	2
Other changes	39	53
Net cash from investing activities	**(529)**	**(479)**
Changes from borrowings	175	(33)
Dividends	(454)	(403)
Other changes	4	(45)
Net cash from financing activities	**(275)**	**(481)**
Net cash used from continuing operations	**416**	**(441)**
Cash flows from discontinued operations	19	1,095
Net change in cash and cash equivalents of total operations	**435**	**654**
Effect of exchange rate changes on cash and cash equivalents	35	110
Cash and cash equivalents at December 31	**1,919**	**2,683**

[1] Restated to present National Starch as a discontinued operation.
[2] Net of cash.

Statement of the
Board of Management

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

We have prepared the 2010 Report of AkzoNobel 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:

1. The financial statements in this 2010 Report give a true and fair view of our assets and liabilities, our financial position at December 31, 2010, and of the result of our consolidated operations for the financial year 2010.
2. The management report in this 2010 Report 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, 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 business principles, a compliance committee has been established. Internal Audit provides assurance to the Board of Management whether our internal risk management and control systems, as designed and represented by management, are adequate and effective.

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

- Provide a reasonable level of assurance that the financial reporting in this 2010 Report does not contain any errors of material importance
- Have worked properly in the year 2010.

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 section. We have discussed the above opinions and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

Medium-term ambitions

We have the aspiration to be the world's leading Coatings and Specialty Chemicals company. On September 28, we announced our medium-term ambitions to grow to €20 billion revenue, increase EBITDA each year while maintaining a 13 to 15 percent margin, reduce OWC percent of revenue year-on-year by 0.5 percent towards a 12 percent level, and pay a stable to rising dividend.

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

Outlook

We are aiming for more than 5 percent revenue and EBITDA growth in 2011, in line with medium-term ambitions.

Amsterdam, February 16, 2011
The Board of Management

Hans Wijers
Leif Darner
Rob Frohn
Tex Gunning
Keith Nichols

AKZONOBEL AND HIGH GROWTH REGIONS

Asia has a fundamental role to play in our accelerated growth strategy. China in particular is integral to our strategic focus on the world's high growth regions, highlighted by our intention to achieve a $3 billion revenue target in China by 2015 – doubling the previous target.

The Ningbo multi-site, which we inaugurated in November 2010, perfectly illustrates the scale of our ambitions. The €275 million facility represents our biggest ever investment outside of an acquisition and emphasizes the extent of our commitment to fuelling accelerated growth in China and beyond.

AkzoNobel's Functional Chemicals business is already producing chelates, ethylene amines and ethylene oxide at the Ningbo site and is adding an organic peroxides plant, which is expected to come on stream in late 2011. The 50-hectare plot also offers room for expansion and further investment in organic growth as we look to significantly boost our presence and capabilities.

We currently employ around 6,500 people in China and have close to 30 production sites located there. These facilities enable us to optimize our global supply chain and respond to growing demand for our products. Being located close to our growing customer base in China also gives us a competitive advantage.

Achieving our **medium-term ambitions**

Strategic ambitions

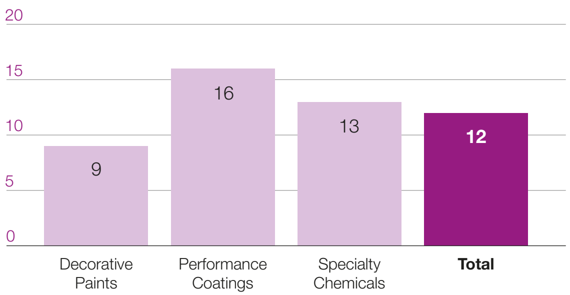
Value

Outgrow our markets: Delivered
- Improved market share in many key mature and high growth markets
- Opened our new €275 million Specialty Chemicals site in Ningbo, China
- In Performance Coatings, acquired the powder coatings activities of the Dow Chemical Company, and Changzhou Prime Automotive Paint Co., Ltd (to support our mid-market car refinishes business in China)
- In Decorative Paints, signed an agreement to become the primary paint supplier to Walmart in the US.

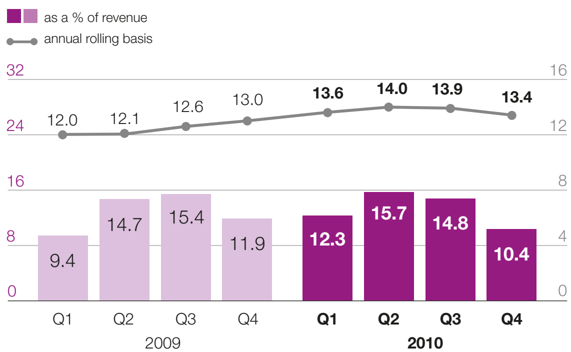
EBITDA margin > 14 percent: Delivered early
- Continued to manage gross margin percentage through pricing and procurement actions, despite challenging raw materials environment
- Completed delivery of €340 million of ICI synergies and almost all initiatives in our broader €200 million restructuring plan
- Achieved our 14 percent EBITDA margin target on an annual rolling basis in the second quarter of 2010.

OWC improvement of 0.5 p.a: Delivering
- Delivered strong credit control, despite the financial crisis
- Continued to consolidate suppliers and harmonize terms and conditions to ensure sustainable improvement in days of payables
- Continued roll-out of SAP in Decorative Paints, which will enable further substantial improvements in inventory management
- Implemented a best practices reference guide to enable future reductions in OWC levels.

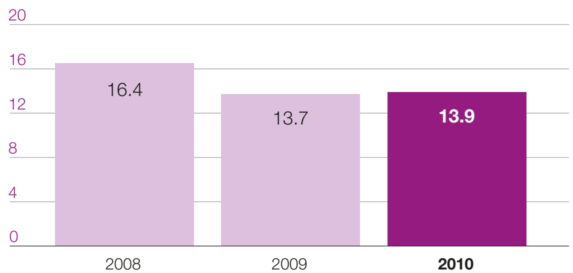
Revenue growth in %



EBITDA margin



Operating working capital as a % of revenue



The next chapter in leadership

In 2008, following the acquisition of ICI, we outlined a strategic vision to become the world's leading Coatings and Specialty Chemicals company. We also defined *both* value and values ambitions to support this overall vision, which are shown across this spead. These defined what we meant by leadership in value and values during a time when internally we were integrating ICI, and externally the market environment was uncertain at best.

Now that the market environment is improving, and we have completed the ICI integration, we have defined a new set of medium-term strategic ambitions, appropriate for the next chapter of our leadership story. These ambitions were announced in September 2010 and will form the basis for our reporting going forward. They are strongly oriented towards profitable growth and are outlined to the right.

Value Accelerated growth
- Grow to €20 billion in revenue
- Increase EBITDA each year, maintaining a 13 to 15 percent margin
- Reduce OWC percent of revenue by 0.5 per annum towards a 12 percent level
- Pay a stable to rising dividend

Values Sustainable growth
- Top quartile safety performance
- Top three position in sustainability
- Top quartile performance in diversity, employee engagement and talent development
- Top quartile eco-efficiency improvement rate

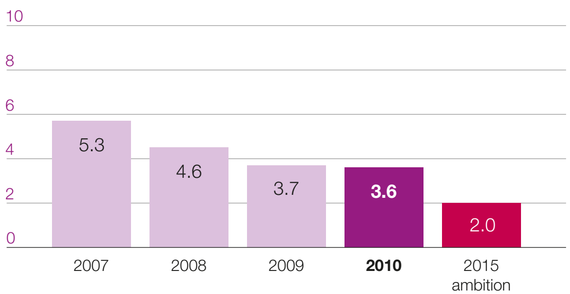
Values

Top quartile safety: Continued improvement required
- Demonstrated improvement, but not enough to reach our target
- Continued to roll-out behavior-based safety (BBS) program in a disciplined manner
- Implemented a full roll-out of safety leadership training.

Top three Dow Jones Sustainability Index: Delivered
- Ranked in the top three in the Chemicals index for the fifth year
- Demonstrated continued strong performance in risk and crisis management, Code of Conduct and environmental policy and management systems
- Improved in innovation management
- Future improvement required in operational eco-efficiency (i.e., carbon, water, waste) and people development aspects.

Step change in people development: Continued
- Implemented a full and reinvigorated training schedule
- Set stretching targets for executive diversity; will roll-out diversity and inclusion training for all employees from 2011
- Launched an externally benchmarked employee engagement survey to assess baseline performance
- Began to implement HR country organizations to harmonize procedures and facilitate intra-company capability transfer.

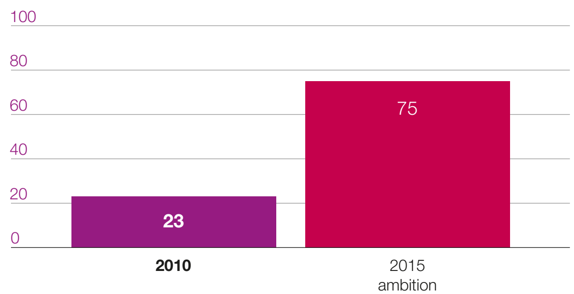
Total reportable injuries per million hours



DJSI position Chemicals sector

2006	2nd
2007	1st
2008	2nd
2009	2nd
2010	**2nd**

Employee engagement performance as percentile



Improving our performance levels

Context

Over the last few years, there have been two major phases in AkzoNobel's corporate strategy. The first, from 2003 to 2007, was strongly focused on portfolio transformation. This phase included a series of divestments designed to transform our position in Specialty Chemicals, as well as the sale of our human and animal healthcare businesses, the acquisition of ICI and the on-sale of the ICI Adhesives and Electronic Materials business to Henkel. We completed the final step in this process in 2010 with the sale of National Starch to Corn Products International.

The second phase, which ran from 2008 to 2010, was focused on integration and restructuring. During this period, we were primarily occupied with improving efficiency in the business for two main reasons – to capture the synergy potential from the ICI acquisition and to respond to the global economic downturn. Both of these agenda items were essentially completed in 2010. Specifically:

- With regard to the ICI integration, we have now completed almost all actions. We delivered €340 million in synergy savings by the end of 2010. This exceeds, and was achieved faster, than our initial ambition of €270 million by 2011. Beyond the top line numbers, within Decorative Paints, we have reduced:
  - Brands from 100 to 75 and will reduce to less than 50 by the end of 2012
  - Stock keeping units (SKUs) from more than 90,000 to 75,000 and will reduce to less than 60,000 by the end of 2012
  - Factories from 80 to 58 and will reduce to less than 50 by the end of 2012.
- With regard to restructuring, from 2008 to 2009, we promised €200 million in savings in partial response to the financial crisis. We over-achieved on this target, delivering €350 million by the end of 2009. During 2010, we continued our restructuring efforts in mature markets.

We have now started the next chapter of our strategy development, one of accelerated and sustainable growth. As has been the case throughout the two previous phases, the focus is on true leadership in Coatings and Specialty Chemicals. We continue to strongly believe that, to be the true leader, we must be the leader in terms of both value and values.

The strategic agenda today

Our new strategic agenda is firmly focused on delivering growth. This will be supported by a renewed emphasis on functional excellence and will continue to be balanced by a disciplined approach to cash management. These agenda items will be supported by continued focus on building and leveraging our Talent Factory, living the AkzoNobel values and embedding safety and sustainability in everything we do.

A description of 2010 activities and plans for 2011 for each strategic agenda item follows.

Strategic agenda

Innovate more to respond to global mega-trends and deliver on solution promises

Accelerate profitable growth through market share gain, margin management and industry consolidation, particularly in high growth countries

Deliver business models that **serve the needs of the mid-markets**

Drive functional and operational excellence, with focus on RD&I, supply chain, finance and HR

Manage capital and cash in a disciplined manner

Build and leverage our industry-leading Talent Factory

Live the AkzoNobel values by **creating a culture of confidence, cooperation and co-creation**

Embed safety and sustainability in everything we do

Innovate more

To achieve our growth ambitions, we need to focus our effors more on projects that yield bigger and better innovations – delivered faster. In 2010, we spent time developing a more focused portfolio of innovation projects and are already redirecting our investment to support these bigger innovations.

Increasingly, our innovation portfolio will be aimed at delivering solution promises that address global mega-trends. These concepts are explained below.

Global mega-trends

We are now completely aligned on the key underlying changes in the world that will drive our business, and indeed all businesses:

- **Population growth:** from 6.8 billion people today to more than 9 billion in 2050 is a strong driver for global demand.
- **Quality of life:** will improve for a new middle class of around 3 billion people emerging over the next 20 years
- **Climate change:** will increase the need for energy efficiency and for low carbon and renewable energy resources
- **Scarcity of natural resources:** will drive innovation; today we use the replenishment capacity of 1.4 planets.

Solution promises

These are conceptual responses to the challenges posed by the global mega-trends. They provide a framework which guides and energizes our innovation portfolio. For example, the combination of population growth and improved quality of life will mean that the world's population grows and wealth increases, with significant mid-market development in high growth economies. The solution promise that addresses this is "Serving the needs of the mid-market." To do this, we will need to deliver innovations that will provide customers with affordable, high quality products – at much lower cost.

Throughout this 2010 Report, you will find a series of case studies highlighting some of the innovations that we have already commercialized that make good on these solution promises. We are confident that we will continue to deliver exciting innovations that deliver increased market share and/or improved margins as we continue to redirect investment in R&D towards bigger innovation projects.

We're pleased with the progress we're making, but we also recognize that no one company or individual has a monopoly on the best ideas. That's why we're also open to the best ideas to grow our business – whether they're our own or someone else's. To find and access those ideas, we've developed a structured approach to open innovation which encourages outside parties to help us with solutions where we don't have the in-house knowledge, capabilities, or technology. We have already started to establish strategic partnerships in specific areas of mutual interest with key suppliers.

Solution promises

Serving the needs of the mid-market

Developing products for well-being and identity

Achiieving zero footprint

Saving you time and effort

Creating new horizons in functionality

Accelerate profitable growth
It is safe to say that we face a wealth of growth opportunities in all parts of our business using our existing value propositions and business models. This is true in both mature markets and high growth markets.

- In mature markets, there is still considerable room for organic growth and even market share gain. A perfect example of this is our deal with Walmart in the US to become their primary paint supplier (see separate case study).

  A portfolio of interior and exterior paints has been developed which will be available in more than 3,500 Walmart stores nationwide. The agreement builds on our existing relationship with Walmart for paints in Puerto Rico and Canada, and for Liquid Nails adhesives in the United States.

  There is also room for industry consolidation. A good example of this was our acquisition of the former Rohm & Haas powder coatings activities from the Dow Chemical Company, which has significantly strengthened our global leadership in this market. Building this strong leadership position is important because powder coatings have an excellent sustainability profile, with lower water use and no VOC emissions.

- The growth picture is even brighter in the high growth markets of Asia, Latin America and Eastern Europe. We experienced strong top line growth in these markets in 2010, but even more encouragingly, also strong growth in market share and absolute EBITDA (earnings before interest, tax, depreciation and amortization).

  This growth is based largely on strong domestic growth in these markets. Capitalizing on the strong domestic growth potential in China was the main reason behind our major investment (€275 million) in our multi-site facility in Ningbo (see separate case study).

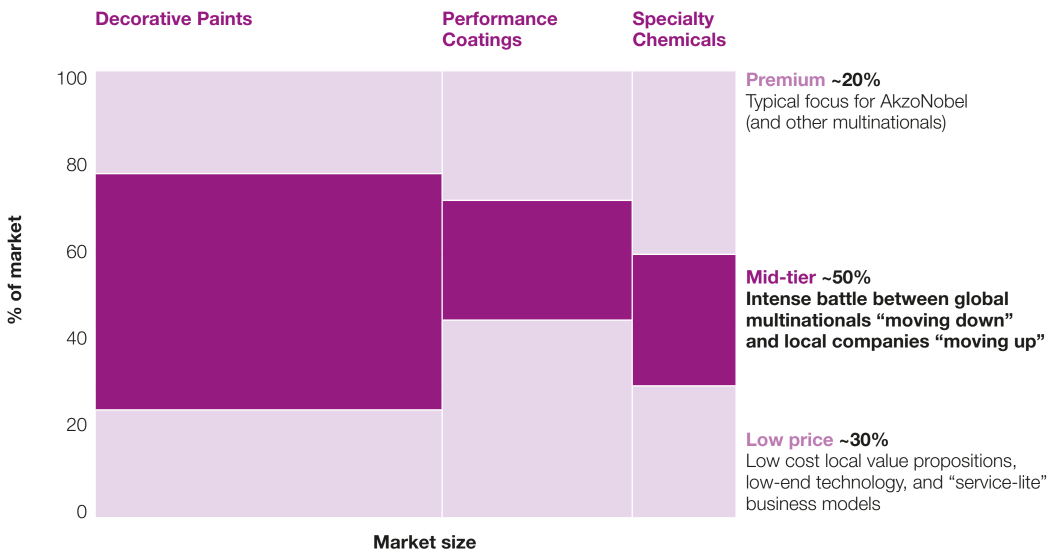
In 2011, our plan is to continue to grow through a combination of organic growth and bolt-on acquisitions in all parts of our business. In essence, our major challenge is to prioritize and ensure we constantly modulate our growth program to respond to somewhat uncertain market conditions. Doing this should allow us to move forward on our accelerated growth ambition, while still delivering appropriate levels of cash in the business.

Serve the needs of the mid-markets
Beyond growth opportunities that draw on our traditional strengths and value propositions, we see a significant additional opportunity in the mid-market. Traditionally, we have entered high growth markets with a premium positioning (as we did, for example, with our Dulux brand in India) and/or on the basis of existing mature market relationships (our Wood Finishes and Adhesives business in China, for instance).

Given the fact that the large and growing markets in these high growth economies still have a different profile in terms of absolute level of income, we recognize that we need to think differently with regard to mid-market value propositions. In particular, we need to ensure that we are able to provide product/service combinations that provide appropriate price and quality levels for our customers and reasonable margins for AkzoNobel. This goes beyond the specific product – in many cases it also means that we need to think differently about distribution and technical service levels.

This mid-market is hotly contested, with multinational competitors moving "down" and local competition moving "up" into this space. However, we recognize that in many of the high growth markets the mid-market is *the* market and ignoring it is not an option.

India market relevant for AkzoNobel, 2009



We will be pursuing the mid-market opportunity through both organic growth and small to medium bolt-on acquisitions. For example, we are currently aggressively pursuing the mid-market in Decorative Paints in China. We are doing this by extending our Dulux brand and building our controlled stores network by approximately 700 stores per year in tier two and tier three cities to support this growth. Our position in the Chinese mid-market will be further strengthened through small to medium acquisitions, such as the Changzhou Prime Automotive Paint Co., Ltd deal which we completed in 2010 (see separate case study).

Drive functional and operational excellence

Throughout our integration and restructuring period, we pursued a series of projects to incrementally increase efficiency in our support functions. This has undoubtedly improved our cost position and will stand us in good stead as volumes recover, but we recognize that further improvements in effectiveness and efficiency will require a different approach.

Historically, we have focused on a business unit structure and run both our front office and support functions in a fragmented manner. This has led to considerable market focus and success, but it has also led to sub-optimization of support activities. To reach the next level of performance, we now see the need and potential for more integration of these support functions. We will therefore be taking an approach which allows us to fully benefit from our scale.

We have decided to focus on four key areas for building functional excellence – Supply Chain (including Sourcing), Finance and Information Management (IM), Research Development and Innovation (RD&I) and Human Resources (HR) and Organizational Development (OD). The RD&I approach was covered in the Innovation initiative described earlier, while the HR/OD approach is outlined in the following Talent Factory initiative. Below is a summary of achievements and plans in the two remaining areas of Supply Chain/Sourcing and Finance/IM.

Supply Chain (including Sourcing)

We have successfully built the basics of an AkzoNobel-wide Sourcing program over the last few years, with strong results in terms of both cost control and security of supply. We are now stepping up to take a company-wide approach to the supply chain. This does not mean that we will be centralizing all of our sourcing, manufacturing and distribution activities. Instead, it means that we will be leveraging our expertise and scale to achieve both our value and values ambitions.

Specific areas of focus in 2010 and going forward in terms of supply chain have been around delivering on our safety ambitions and improving our eco-efficiency levels.

- While we know we must do better with regard to improving our safety performance, we are proud of what we have achieved so far. The implementation of a company-wide behavioral-based safety program is nearing completion and our safety leadership training program has now been completed for all managers. The latter is focusing on understanding risks, leadership, individual responsibility and the need for visibility or "walking the talk" for all our managers.

  In addition, local employee safety programs and training have been supplemented by a global e-learning module for all employees and new starters. Furthermore, a global AkzoNobel Safety Day was held in October, which included encouraging our employees to submit a pledge in which they promised to implement a simple solution to improve the safety of themselves or those around them. More than 14,000 responded.

  Despite these efforts, the total recordable injury rate remained around 3.6 in 2010, compared with 3.7 in 2009. We are still not at industry-leading levels and did not reach our target of 2.0 in 2010. This will continue to be an area of special focus in 2011.

- An additional area of focus will continue to be operational eco-efficiency, or using less resources to make and distribute our products. An example of the type of improvement we have made, and will continue to make, is the innovative use of energy at one of our Pulp and Paper Chemicals facilities in Sweden. Heated cooling water generated by the chlorate electrolysis process is now being used for district heating in the nearby municipality of Ånge. This displaces oil and biomass combustion in our business and reduces the CO2 emissions at the municipal burners by 1.8 tons of CO2 per capita in Ånge. It also reduces the heat load on the local river where the cooling water is discharged.

  Another example is that of our Surface Chemistry plant at Forth Worth in the US. We have reduced calcium sulfate waste from filter cake by 2,000 tons by improving the control of the neutralization process – which creates the calcium sulfate – and optimizing the filtration process.

  The improvements we have made are not limited to our Specialty Chemicals businesses. For example, an online energy management system at Decorative Paints' Wapenveld site in Germany has helped to identify improvements in heating, lighting and compressed air use which have resulted in a 30 percent reduction in gas consumption in eight years, and a 12 to 15 percent reduction in electricity consumption in four years.

Beyond safety and operational eco-efficiency, additional areas of focus for 2011 in the Supply Chain function will be on process safety, product stewardship, raw material strategies and development of repeatable models to drive continuous improvement aimed at further optimization of the company's overall manufacturing footprint.

Finance and Information Management (IM)

Over the last few years, we have invested significantly in both improving the control environment and increasing efficiency through restructuring and the integration of ICI. While this has led to a strong performance on governance and compliance in the Dow Jones Sustainability Index, as well as some incremental performance improvement, we still have significant opportunities for increased efficiency and effectiveness.

With this in mind, we launched a OneFinance initiative, which is designed to simplify our processes and systems, as well as focusing strongly on people and organization. We have already made some progress. In 2010, we successfully implemented a new SAP ERP system across many parts of the Decorative Paints organization and have completed the scoping for a similar single ERP approach in Car Refinishes. We are also working on several standardized enabling processes as we increasingly reduce multi-local complexity.

Manage capital and cash
We are keenly aware that while pursuing a growth agenda we must continue to carefully manage our balance sheet and cash position. This means we must ensure that we:

- Carefully prioritize and control investment, both in terms of fixed assets and acquisitions
- Control our absolute operating working capital growth, so that as we grow, the ratio of operating working capital to revenue continues to drop
- Provide a stable to growing dividend
- Examine all opportunities for improvement in "other" items, such as pensions and legacies.

In 2010, we had a good year in terms of cash management. Specifically, we completed our €275 million Ningbo investment on time and on budget, while still generating significant operating cash flow in our Specialty Chemicals business. We continued to improve our operating working capital management by developing a best practices toolkit. In addition, we sold our National Starch business for $1.3 billion, providing us with significant financial headroom going forward. Finally, we clarified our position with regard to dividends.

Build and leverage our industry-leading Talent Factory
We continue to believe it is just as important for us to attract, develop and retain great people as it is for us to develop, produce and distribute great products and services. We therefore continue to believe in the concept of a Talent Factory, which is every bit as important to us as our more traditional production factories. Our Talent Factory agenda includes a set of initiatives aimed at better people development and – to enable this – a series of activities designed to deliver improved human resources (HR) capabilities. In 2010, we made significant progress in both these areas.

In terms of people development, a particular area of improvement was in career development and training programs. With regard to our leadership pipeline, major developmental progress was achieved which involved several senior managers making cross-BU and/or cross-functional moves in both Performance Coatings and Specialty Chemicals. We also announced a number of changes in Specialty Chemicals that will take effect in 2011. These changes will grow our leaders as we grow our business.

With regards to HR capabilities, 2010 was an important year for us in terms of implementation of country organizations. Historically, our HR organization has been fragmented, with all business units and even many sub-business units having their own HR organization, which handled all activities from recruitment to development to compensation and benefits. We are now in the process of consolidating all activities within key countries to one shared AkzoNobel organization, beginning in the Netherlands and Sweden.

Once all activities have been brought together in each of the key countries, we will create a tri-partite organization, with centers of expertise, HR services centers, and HR "business partners". The centers of expertise will provide best practice knowledge to support HR "business partners", who apply this as required to support implementation of business-based strategies. HR services centers provide additional support as they carry out HR transactional activities in an efficient and effective manner.

These efficient and effective HR country organizations are required to support all key countries. However, they are arguably most important in the high growth markets. In 2010, we developed AkzoNobel country strategies for the key growth markets of Brazil, India and China. In early 2011, we will be developing a strategy for Russia. In each case, having an industry-leading Talent Factory in place is one of the most fundamental enablers to strategic success.

Creating a culture of confidence, cooperation and co-creation
As indicated earlier, AkzoNobel has historically been successful on the basis of having a strong entrepreneurial, customer-centric approach. However, this has had a downside in terms of creating an independent, fragmented culture which has been exacerbated by the large number of acquisitions over time. As we move beyond our restructuring and integration agenda into our accelerated and sustainable growth agenda, we recognize that this culture will not allow us to achieve our aspirations.

To facilitate the creation of a culture of confidence, cooperation and co-creation, we announced in 2010 that we will change our managerial approach and run the business through an Executive Committee. By having representatives of four of the key functional areas, the Executive Committee will drive common agendas and build capabilities while allowing the businesses to capture growth. Below the level of the Executive Committee, in each Business Area, we will take a much more operational management team approach to ensure that we are able to make good decisions with regard to prioritization of different activities.

The Executive Committee is not the only initiative in terms of culture change. In 2010, we also took a substantial step forward in terms of employee engagement. We fully rolled out our first ViewPoint Employee Engagement survey (in conjunction with Gallup), which allows us to benchmark our performance against a large number of other major business organizations. The results of our first survey indicated that we have significant room for improvement to get to a top quartile performance level. We are fully committed to improving and are in the process of carrying out meetings at all levels in the organization to determine what our next steps will be.

An additional important step in terms of cultural development is our Diversity and Inclusion initiative. We recognize that

AKZONOBEL AND THE MID-MARKET

The growing mid-market in China offers major investment opportunities in a key geographic region. Which is why our Car Refinishes business made a strategic move during 2010 to acquire Changzhou Prime Automotive Paint Co., Ltd.

Prime was one of China's largest vehicle refinish suppliers and a leader in the fast-growing mid-market segment. This sector is estimated to double in size within the next five years, during which time AkzoNobel plans to double its revenue in China to $3 billion.

Acquiring Prime not only gives us strong representation in one of China's most promising growth segments, but also gives Car Refinishes the opportunity to become the clear market leader in the attractive vehicle refinish mid-market.

The acquisition gives us access to superior products and new technologies – supported by strong brands and a loyal distributor base – enabling us to gain a competitive advantage in a market with sizeable potential where we previously had limited presence. Most of all, the addition of the new team in China underscores our commitment to serving our customers with the best people available.

Prior to the Prime acquisition, AkzoNobel was mainly active in China's premium and commercial vehicle refinish sector, represented by our Sikkens, Lesonal and Miluz brands.

with our growth aspirations, we must have more executives who are female, and who come from the high growth economies. This will be important to us going forward. We have set improvement targets in this area and have held our first series of workshops to develop action plans to achieve these targets. We also recognize that in order to deliver the best of AkzoNobel all day every day, we must create an environment which is inclusive. We have therefore developed an online training program which will be rolled out to everyone in the organization in 2011. This course makes it clear that we have set targets in terms of executive representation, but it will not deliver the required cultural change. To do that, we have to ensure that the environment brings out different points of view and ideas, and that we work collaboratively to deliver on these.

Embedding sustainability and safety

For many years, we have recognized that becoming the true leader in Coatings and Specialty Chemicals requires us to achieve leadership both in terms of value and values. Increasingly, we are recognizing that these things are not separate, nor are they separable. Achieving our growth aspirations means that we must produce and market products that use less of the Earth's resources throughout the full value chain. To achieve these growth aspirations, we must have a strong Talent Factory and diversity and inclusion levels that enable us to have the leadership we need in the high growth markets. Furthermore, top quartile operational effectiveness is based on top quartile performance in terms of cost, quality, service and safety levels, and in most cases, performance on these four metrics is inter-related.

Our current view on how safety and sustainability are embedded in all parts of the strategic agenda is explained on the right.

Embedding sustainability and safety

Innovate more: Value propositions for a resource constrained world

Accelerate profitable growth: Eco-premium solutions that deliver eco-footprint reduction across the value chain

Serve the needs of the mid-market: Solutions for people demanding both higher living standards and affordability

Drive functional and operational excellence: Safety, operational eco-efficiency, product stewardship, supplier visits

Manage capital and cash: Process safety and sustainable investment evaluation

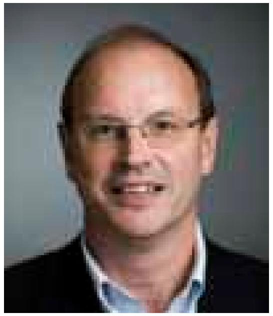
Build and leverage our industry-leading Talent Factory: Employee engagement, development and training

Create a culture of confidence, cooperation and co-creation: Diversity and inclusion, partnerships, Community Program

How we embed sustainability and safety in the strategic agenda

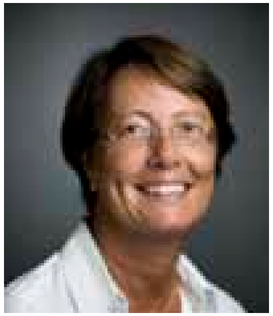
Executive Committee

We have broadened our leadership team in order to accelerate sustainable growth. A nine-strong Executive Committee has been established (see page 24), which comprises the five Board of Management members and these four leaders with functional expertise.



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

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



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

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

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

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

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

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

Business performance

The following chapter gives a detailed summary of how each of our Business Areas performed during 2010. Information on market characteristics, key brands and revenue comparisons is also provided.

AKZONOBEL AND PAPER TECHNOLOGY

Paper manufacturers are always looking for products and innovations with a better environmental profile which also make their processes more cost efficient. One of the latest breakthroughs – in an area known as surface sizing – has been achieved by our Pulp and Paper Chemicals business, Eka Chemicals.

Paper sizing is a process designed to reduce paper's ability, when dry, to absorb water both as moisture and liquid. So in other words, it improves the water resistance of paper. Two methods are commonly used (surface and internal sizing).

The main difference is that internal sizing – added to fibers at the wet end of the process – gives paper with evenly distributed chemicals an "effect". Whereas surface sizing chemicals are added to dry paper to give an effect directly related to improving the surface of the paper. Internal sizing is widely used in a large variety of papers, while surface sizing is added during the production of higher grade papers. One effect of surface sizing chemicals is to ensure that printing ink stays on the surface and dries there, rather than being absorbed into the paper itself.

Eka Chemicals' success means it has seen what was once a side business grow into a core discipline in a reasonably short space of time. Much of this expansion is down to the successful product Eka SP 50, a polymeric surface sizing product which has helped to gain many new customers. The major benefits for the paper makers include greater cost efficiency, partly because Eka SP 50 can be used at lower dosages.

AkzoNobel Specialty Chemicals

"Our success during the year was a combination of cost control, favorable market conditions and our own hard work."

Rob Frohn
Board member responsible for Specialty Chemicals

There can be no doubt that 2010 was a good year for Specialty Chemicals. Emerging strongly from the recession, we not only reaped the benefits of our restructuring efforts, but were also boosted by robust demand during the first half of the year due to restocking. In addition, various outages within the industry enabled us to supply customers when others couldn't. We therefore increased market share because of our reputation and reliability in supply in a market that quickly recovered. So our success during the year was a combination of cost control, favorable market conditions and our own hard work. It was a busy year, and our employees should be commended for their efforts.

Our performance in high growth markets was particularly good, but we also did well in the Americas, and while Europe proved more challenging, we were still able to improve on 2009. Europe remains a low growth area, however, and the formal closure of our Skoghall plant in Sweden was another step towards us rebalancing our production footprint to the high growth areas, where demand is developing much more strongly. This was further reflected by two key events in China, namely the official opening of our Ningbo multi-site and the expansion of Industrial Chemicals' Taixing plant. The Ningbo inauguration in particular was a major milestone, bringing new chelates, ethylene amines and ethylene oxide capacity to the market.

Another important development was the National Starch transaction. Like the rest of the Specialty Chemicals portfolio, the business suffered as a result of the recession, but we were able to take effective measures to recover much of the lost ground before transferring ownership to Corn Products International. 2010 was also the first full year of operation following the merger of Polymer Chemicals into Functional Chemicals. The timing was just right, as it was implemented before the market picked up again and we were able to fully benefit from the recovery. This resulted in our polymer activities having an excellent year, particularly the High Purity Metalorganics (HPMO) business, which supplies the booming LED market.

Sustainability, of course, remained high on the agenda and several products continued to make good progress, notably our Dissolvine GLDA chelate and our next generation anti-caking agent for salt (mTA) for chemical transformation. We also conducted an eco-efficiency study early in the year which involved carrying out a quick scan of 75 sites where most of our footprint is in terms of waste, energy and CO_2. This forms part of a program we have embarked on to reduce our footprint by 10 percent by 2015 and we have identified a great number of opportunities to make savings. The progress on our safety performance, on the other hand, was slightly disappointing and we will continue to increase awareness throughout the organization.

The focus continues to be on growth, with each of our businesses well positioned to make a contribution to both the top and bottom line. We see great possibilities and opportunities to contribute to the accelerated growth agenda of the company, while maintaining a healthy cash flow. To facilitate this, and to keep our leadership suitably challenged, the Managing Directors of four of our business activities are being rotated. As well as bringing a fresh perspective, we feel that this will benefit the company and enable each of the senior leaders to continue to learn and develop themselves while bringing their experience to new markets and businesses.

Specialty chemicals market overview

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

Market and business characteristics

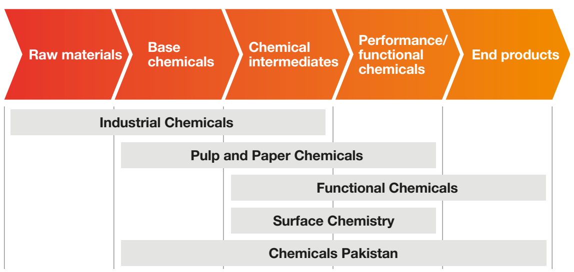
The chemicals industry can be described as a value chain. Our businesses serve customers throughout the value chain with different products.

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

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

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

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



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

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

Customers

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

Global market drivers and developments

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

High growth markets

Projected industry growth is strong, particularly in Asia Pacific and Brazil. More than 30 percent of revenue is in high growth markets.

Innovations

- Biodegradable, aqueous cleaning formulations reducing use of organic solvents
- Polymer based on renewable feedstock, improving the efficiency of fabric softeners
- Green alternative to EDTA, NTA, phosphonates and phosphates
- Sustainable breakthrough in corrosion protection and chrome replacement in automotive industry
- One Grain technology – full salt replacement which brings pure NaCl and salt replacers into a single salt grain
- More sustainable anti-caking agent for salt
- Nanoparticle retention systems for high speed paper machines
- CID technology to help increase PVC reactor capacity
- Water treatment technology replacing traditional biocides.

Some key raw materials

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

Price drivers

- Energy, oil and raw materials

Market leadership positions

Functional Chemicals

1st	Chelates
	Cross-linking peroxides, thermoset chemicals and polymer additives
	Sulfur derivatives
	Ethylene amines
	High polymers
2nd	Redispersible polymer powders, additives for mortar application
	Salt specialties (North West Europe)
3rd	Cellulosic specialties

Industrial Chemicals

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

Pulp and Paper Chemicals

1st	Bleaching chemicals

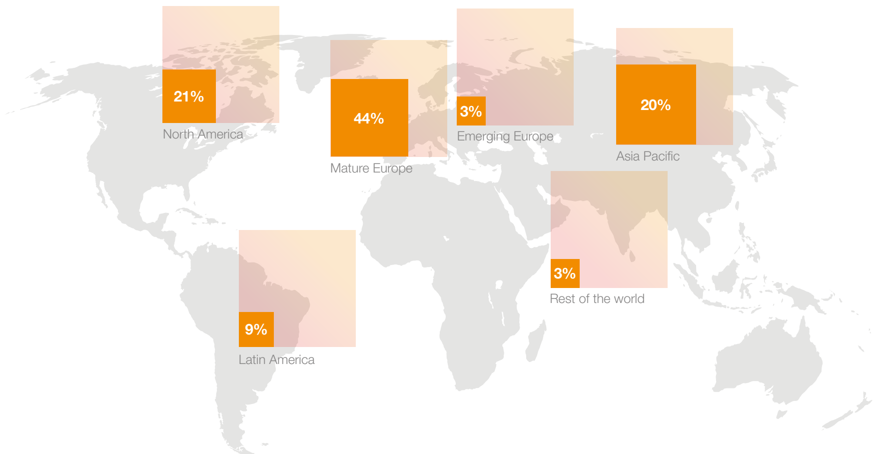
Surface Chemistry

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

Key developments 2010

- Official inauguration of Ningbo multi-site in China
- National Starch divested to Corn Products International
- Expansion of MCA facility in Taixing
- Salt capacity boosted at Delfzijl in the Netherlands, making it the largest vacuum salt plant in the world
- Compozil Fx concept now being used by seven of the eight largest fine paper machines in Asia
- Merger of Polymer Chemicals activities into Functional Chemicals completed

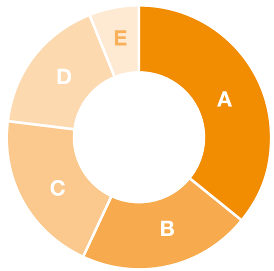
Geo-mix revenue by destination



Key figures in € millions

	2009	**2010**
Revenue	4,359	4,943
EBITDA	738	939
EBITDA margin (in %)	16.9	19.0
EBIT	490	679
EBIT margin (in %)	11.2	13.7
Operating income	422	604
Moving average ROI (in %)	15.6	19.9

Revenue breakdown by business unit
in %

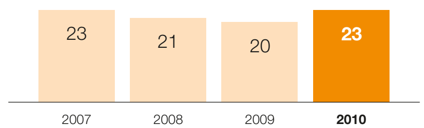


A Functional Chemicals	36
B Industrial Chemicals	21
C Pulp and Paper Chemicals	20
D Surface Chemistry	17
E Chemicals Pakistan	6
	100

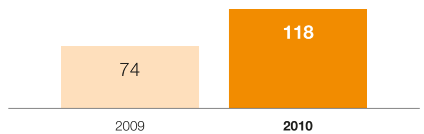
Employees by region at year-end

	2009	**2010**
US and Canada	1,700	1,700
Latin America	800	900
China	1,000	1,000
Other Asian countries	1,900	1,900
The Netherlands	1,900	1,900
Germany	1,000	1,000
Sweden	2,000	1,900
Other European countries	800	800
Total	**11,100**	**11,100**

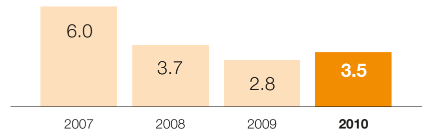
Product: Eco-premium solutions
% of revenue



Key value chains with carbon footprint assessment



Total reportable rate of injuries
per million hours



AKZONOBEL AND BRIGHT IDEAS

As the world continues to rapidly embrace energy efficiency and the need to source alternative resources, a quiet revolution has been taking place in the electronics industry.

It's been happening all around us for many years, but some people may not have noticed. Our lighting is changing. Traditional bulbs and filaments are dying out and light emitting diodes (LEDs) are taking over. They can offer energy savings of up to 90 percent compared with conventional bulbs. The LED market is growing at more than 25 percent a year and the technology behind it relies heavily on several products supplied by AkzoNobel Functional Chemicals.

The products in question are produced by our High Purity Metalorganics (HPMO) business and are needed to manufacture the LEDs themselves (our products are used to coat a very thin layer of semiconductor material on a wafer and this is the active layer which emits the light). As well as being used for general lighting, LEDs are used in many other applications, such as car lights, traffic lights, TV backlighting and computer monitors.

Our manufacturing strengths mean we can help customers ramp up their production to meet the continuously growing demand for LEDs, while our unique packaging helps customers to maximize their output and improve the consistency of their production. With LEDs rapidly finding new applications, the future is bright.

AkzoNobel Functional Chemicals

"All eight of our businesses performed better than 2009 volume-wise, with six also picking up market share."

Bob Margevich
Managing Director

Overview

We experienced a notable drop in our volumes in 2009 but we recovered most of that back in 2010. During most of the year, sales exceeded pre-crisis levels – partly due to the volume effect and partly because of improved margins and currency exchange rates. When combined with cost savings generated through restructuring in mature markets, we were able to achieve record results for a fourth consecutive year.

Analysis

All eight of our businesses performed better than 2009 volume-wise, and most of them improved cost-wise, with six of the eight also picking up market share. Some of this increased market share was achieved through planned actions, but we also benefited from outages or delayed start-ups suffered by our competitors. As a result, most of our product lines were sold out during the year, with the strongest performers being the two businesses we took over as part of the integration of Polymer Chemicals at the start of the year (High Polymers and Crosslinking, Thermoset Chemicals and Polymer Additives), along with Ethylene Amines and Chelates. Our Sulfur Derivatives business also did well, while the slow construction market meant that our Elotex, Cellulosic Specialties and Polysulfides activities in that market were only able to recover about half the volumes they lost in 2009. However, Cellulosic Specialties was still able to achieve much improved year-on-year results.

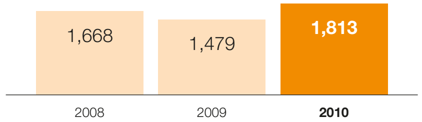
Highlights

The performance of our High Purity Metalorganics business – which supplies the LED lighting industry – was particularly notable. It really took off during 2010 to the extent that we are now expanding on the go with several new projects planned and each expansion will be fully utilized from virtually the first day. A number of additional expansions in other product lines are also planned. Along with the continued excellent performance of our Dissolvine GLDA readily biodegradable chelating agent, another significant highlight was the official opening of our Ningbo multi-site in China, which was attended by more than 600 guests. The facility began producing dry powdered chelates in late 2009 and in May 2010 the liquid chelates section started production. Towards the end of the year, the ethylene amines and ethylene oxide plants in Ningbo came on stream. It was also pleasing to see how smooth and effective the merger of Polymer Chemicals into Functional Chemicals has been. The process was extremely successful and both the business and AkzoNobel as a whole have benefited.

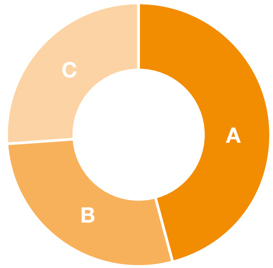
Developments

We began to test market our One Grain lower sodium salt replacement in the Benelux, which has been going very well so far. We received the green light for our BU strategic plan and we created an organizational model which is helping us to support our sustainability drive. Good progress was also made in our safety performance and in the switch to more sustainable technologies in our main product lines. This enables us to look at things like raw materials and energy supply across the whole value chain and identify areas where we can improve.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	46
B Americas	28
C Asia Pacific	26

Main products

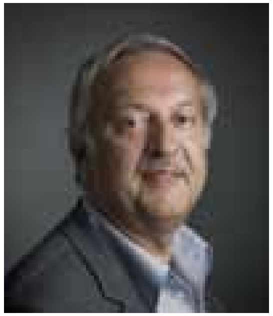
- Cellulosic additives
- Chelates
- Additives for the mortar industry
- Ethylene amines
- Salt specialties
- Sulfur derivatives
- Polymer chemicals

Key markets

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

Key brands

AkzoNobel Industrial Chemicals



"We utilized the full capacity of all our plants for virtually the entire year, with both our Salt and MCA businesses sold out."

Werner Fuhrmann
Managing Director
(Member of AkzoNobel's Executive Committee as of January 1, 2011)

Overview

Our businesses recovered more sharply than anticipated following last year's economic downturn, which resulted in 2010 exceeding expectations. Volumes bounced back very close to pre-crisis levels and this helped to lift sales to record levels.

Analysis

It was a strong recovery, based on high volumes, improved margins, more focus on sustainability and acquiring additional business. We utilized the full capacity of all our plants for virtually the entire year, with both our Salt and MCA businesses sold out. Chlor-alkali was sold out from the summer onwards and our Energy business had a successful year. Also crucial was the fact that although we remained focused on customers, costs and cash, we stuck to our growth strategy and continued to maintain and invest in our plants during the crisis. Our competitors often didn't, which meant we were able to take advantage of the overall economic tailwind and benefit from the demand which accompanied the recovery. The Salt business really set the tone by getting off to a head start due to the severe wintry conditions, especially in Europe. We were also able to attract income from the secondary use of salt caverns for the storage of oil and gases.

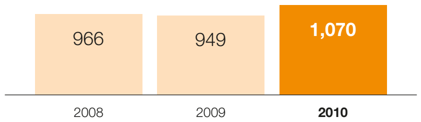
Highlights

We stepped up our manufacturing footprint for MCA in China by bringing total capacity at our Taixing plant up to 60kt. We are also working on substantially increasing this capacity further in order to satisfy growing demand. In the Netherlands, we boosted salt capacity at our Delfzijl facility by 350kt, increasing it to 2,700kt. It is now the largest vacuum salt plant in the world. We also added capacity at our Delamine higher ethylene amines joint venture in Delfzijl to meet customer demand. All of this extra capacity was fully utilized as of day one. Another highlight was the formal launch of our mTA (meso-Tartrate) next generation anti-caking agent for salt. It's our intention to develop this product into a new value chain for salt and we see substantial growth opportunities in Europe, the Americas and Asia. Its potential was underlined when it was recognized as one of the top three innovations by the Association of the Dutch Chemical Industry (VNCI). It also received a commendation from the European Chemical Industry Council (CEFIC).

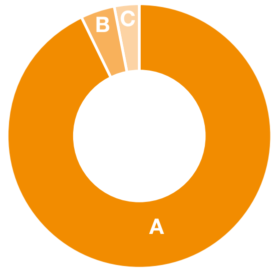
Developments

We launched a comprehensive, business-wide Lean SixSigma program in order to make a step-change in operational excellence. This will not only help us to run improvement projects in a much more focused manner across the value chain, but will also add a new dimension to our efforts in developing our people up to their potential. As part of a program to build up strategic national energy reserves, we signed a binding agreement to store gas oil at our salt caverns in Hengelo. This will be in addition to the natural gas and nitrogen which is stored in our Delfzijl caverns. We continued our efforts to develop new bio-based products based on renewables and were delighted to win the company's internal BU Sustainability Award for our carbon footprint work.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	93
B Americas	4
C Asia Pacific	3

Main products

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

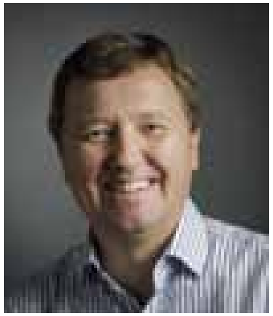
Key markets

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

Key brand

AkzoNobel

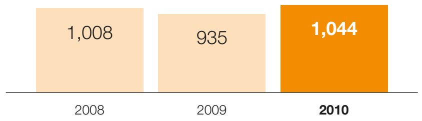
AkzoNobel Pulp and Paper Chemicals



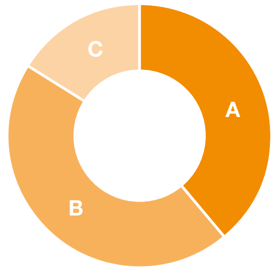
"We achieved strong growth and gained market share in both Asia and Latin America."

Jan Svärd
Managing Director

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	39
B Americas	45
C Asia Pacific	16

Main products

- Pulp and paper chemicals

Key markets

- Pulp and paper

Key brand

eka

Overview

It was a good year, especially given the fact that 2009 was our best year ever. The business environment was very competitive and we lost some margin, but we gained substantial volume and as a result our bottom line improved. So although we faced different dynamics, our results held up well.

Analysis

We achieved strong growth and gained market share in both Asia and Latin America. In North America – which is still the biggest individual market for pulp and paper – our position remained stable and even grew slightly. Our focus has been more on restructuring in Europe, but we rebounded from the demand drop in 2009 and took market share as the demand returned. Many customers also began to start up projects they originally launched in 2008, but were then forced to put on hold due to the recession. This was particularly notable during the second half of 2010, when many of these projects were restarted. All these developments have helped to ensure that we are emerging from the economic crisis in a much stronger position than when we came into it.

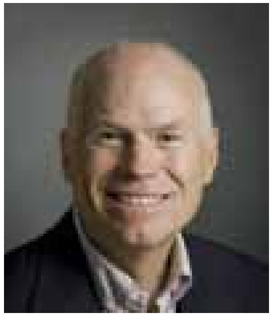
Highlights

Many business activities made excellent progress during 2010. The packaging board industry is growing – which has obvious benefits for us as we can provide attractive chemistries in this area – and our Compozil Fx concept is now being used by seven of the eight largest fine paper machines in Asia. This concept helps our customers achieve extremely high speeds and reduces fiber and energy consumption and is firmly established as the start-up technology of choice for large paper manufacturing machines. In addition, our Eka NP 2180 silica sol – which helps improve efficiency and machine speed – has really started to take off, while we have also developed a unique line of surface sizing products which has helped us to gain many new customers. So we are now in a position where we can really start talking about growth. High growth regions such as China and Latin America obviously remain important, but we have also been achieving good success in mature markets such as Germany and Japan. Expancel in particular had a very good year, while the product is being widely used in Asia and Latin America, where growth has really speeded up. Our Purate product for water treatment achieved solid growth, especially in Europe.

Developments

We strengthened our internal sizing business by investing in a new chemicals plant in Germany. This has enabled us to introduce a new process which provides higher quality products. The paper coatings business we took over from the former ICI also grew substantially in North America and Europe. Our focus in terms of sustainability, innovation and business growth remains very much on fiber, energy and water. We're working hard to help customers cut down on the amount of fiber they use, while energy consumption is also something we are reducing at our own sites and those of our customers. In addition, we are continuing to put a lot of effort and resources into water management, which has particular significance for us in the southern hemisphere, where it is very important for our customers. Safety continues to be the number one priority, and in addition to having BBS implemented at all our facilities, we introduced a zero incident mindset program which has been going well. Our diversity agenda also progressed. In Europe, for example (where 25 percent of our workforce is female), 35 percent of our managers are now women.

AkzoNobel Surface Chemistry



"Sales volumes were up significantly, revenue rose 20 percent and progress was also made in implementing our growth strategy."

Frank Sherman
Managing Director

Overview

The demand recovery which began in mid-2009 continued throughout 2010, particularly in the personal care, mining and oilfield market segments. Sales volumes were up significantly over the previous year, although not back to the 2008 peak. Revenue rose 20 percent, driven by increased volume, better product/market mix, escalating raw material prices and currency impact. Significant progress was also made in implementing our growth strategy based on new product introductions, expansion in developing regions, exploring adjacent growth opportunities and disciplined cost control.

Analysis

The consumer market segments (fabric, home and personal care) were not significantly impacted by the recession and continued to grow in 2010, including some share gains. Our sales to the mining market experienced significant recovery, notably in potash and iron ore. Despite the moratorium on deep well drilling in the Gulf of Mexico, oilfield chemical demand was also strong, driven by growing chemical additive demand for land-based natural gas drilling and well fracturing. The asphalt road paving market was affected by raw material shortages, weak construction markets and the disappointing impact from government stimulus spending. Additive demand grew considerably in the organoclay market. The agrochemical value chain worked through an inventory overhang from 2009, although favorable weather conditions resulted in good growth in both North and Latin America. Fabric care sales also experienced strong growth in Latin America. Asia continued to achieve double digit growth supported by new products for the asphalt, oilfield and animal feed additives markets. We are developing products for the local mid-tier market by introducing eco-premium, cost-effective products that are unique to Asia. In Europe, the recovery generally trailed behind the other regions. Demand slowed down in most regions during the fourth quarter as customers drew down inventories and consumers became more conservative. Raw material prices remain volatile and in some cases have escalated back to 2008 peaks. Our production was curtailed during the first half year due to some supplier force majeure declarations.

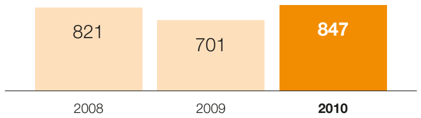
Highlights

We are starting to demonstrate the synergies across our three technology platforms – surfactants, synthetic polymers and biopolymers. Sustainability remains the key driver. In fact, 45 percent of our current sales and 80 percent of our innovation pipeline are based on products that provide eco-premium solutions to our customers. We continue to reduce VOC emissions and solid wastes from our operations and are implementing several energy efficiency projects. Finally, a sales excellence program has been introduced to improve our ability to determine customers' unmet needs and capture value from innovation.

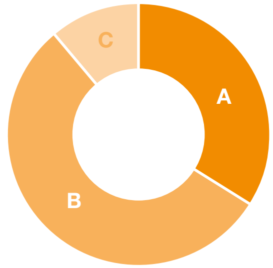
Developments

New product introductions picked up throughout the year in tandem with customer interest to reformulate or increase their process efficiency. New launches included Adsee 766, a nonylphenol ethoxylate-free agrochemical adjuvant; DynamX H20, a biopolymer ingredient for styling hair products; Armocare G113 and G114, hair conditioning based on renewable guar; and a number of new Agrilan agrochemical dispersants based on renewable feedstocks. We are also introducing hybrid polymers based on renewable monomers to several market segments, providing better eco properties and high performance.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	34
B Americas	55
C Asia Pacific	11

Main products

- Surfactants
- Synthetic and natural specialty polymers

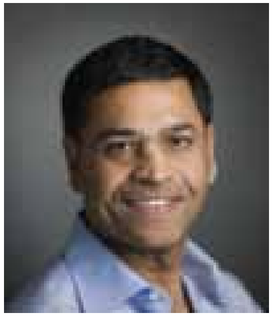
Key markets

- Agriculture
- Asphalt
- Personal care
- Oilfield chemicals
- Coating additives
- Fabric softeners
- Household cleaning
- Mining

Key brands

Armeen
Arquad
Berol
Morwet
Amphomer
Naviance
Alcogum
Alcosperse

Chemicals Pakistan



"Pakistan faced a major setback due to the devastating floods, but our continued focus on customers, costs and cash helped our business regain momentum."

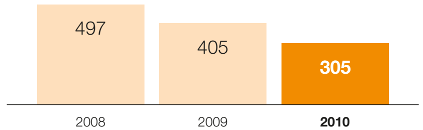
Waqar A Malik
Chief Executive ICI Pakistan

Overview
Despite a difficult business environment, our 2010 results (adjusted for the PTA divestment) showed double digit growth in the top and bottom line in local currencies. This was underpinned by aggressive margin management and volume growth in all major segments of our portfolio.

Analysis
A serious cause for concern during the year was the continued energy crisis. The increasing gap in supply and demand resulted in more frequent shortages of gas for the industrial sector. Pakistan also faced a major setback due to the devastating floods which left 20 million people homeless and destroyed crops and livestock, as well as damaging infrastructure, which resulted in a general slowdown of economic activity. Continued focus on customers, costs and cash helped the business regain momentum.

Developments
We continued to integrate our product portfolio with the AkzoNobel portfolio. Our Refinish business launched Dynacoat for the trade market in Pakistan, along with a strong focus on the services portfolio targeted towards industry development. We also established a new line of marine and protective coatings, with the first commercial orders being received this year. Our Decorative business expanded its mid-tier portfolio and launched three new Paintex products to offer a wider range of solutions for customers. Soda Ash was able to expand its export base in international markets, where we are now established as a reliable supplier of quality products. We also introduced Dissolvine, a chelate which can help improve farm productivity by making sure that essential nutrients are fully absorbed by plants, benefiting farmers.

Revenue in € millions



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

Key brands

Helping provide your customers with improved performance and a competitive edge is valuable in any industry, but in the world of motorsport, it can literally make the difference between winning and losing.

Our Car Refinishes business, through its Sikkens brand, is the official supplier of paint solutions to the Vodafone McLaren Mercedes Formula 1 team. The 2011 season will be the third year of the partnership. During that time, we have been working closely with their technical experts to develop superior lightweight coatings with unique functionality and striking color attributes.

A key element of the coatings system on the cars driven by former world champions Jenson Button and Lewis Hamilton is the spectacular chrome effect. But equally important is the fact that ongoing improvements to the unique high gloss system mean that one less coat is now required during application. This results in potentially vital weight savings, while the paint process time has been further reduced.

The shared knowledge we have gained from the partnership has already enabled us to translate 80 percent of the tailor-made solution supplied to McLaren into a commercial value proposition for AkzoNobel customers within the car industry.

AkzoNobel Performance Coatings

"As most of our end markets continue to recover, the focus is now very much on growth, which includes capturing market share in high growth regions."

Leif Darner
Board member responsible for Performance Coatings

In 2010 we were able to take advantage of a sharp increase in activity in high growth markets – notably in Asia and particularly in China – in all our market segments. So there has been healthy top line growth across the board, while maintaining profit margins in the target range and further improving the return on investment.

The recovery was particularly good in our more industrial and OEM-related businesses, such as Coil and Powder Coatings, which were hit hard during the recession. Our automotive-related businesses also bounced back, while Marine and Protective Coatings experienced flatter market conditions.

During the first half of 2010, our businesses were aided by relatively stable raw material prices. But as the year progressed, prices went up and shortages became an issue. However, we were able to maintain supplies to our customers and gradually compensated for the increases through careful margin management.

As most of our end markets continue to recover – and with a portfolio strategically aligned to create a better balance in terms of technologies and markets, size and complexity – the focus is now very much on growth, which includes capturing market share in high growth regions. We have identified clear opportunities and are looking to accelerate in the world's high growth regions. Notable highlights during 2010 which signaled our clear intention to continue growing our business were the opening of a new Powder Coatings plant in Wuhan, China, and important acquisitions within both Powder and Industrial Coatings and Car Refinishes. Acquiring Changzhou Prime Automotive Paint Co. Ltd in China has opened up the Chinese mid-market for refinish products, while the deal to secure the former Rohm & Haas powder activities from the Dow Chemical Company has given us access to some exciting technology for wood and plastic applications and boosted our product offer to the automotive industry. Meanwhile, the acquisition of Lindgens Metal Decorating Coatings and Inks improved our position in a number of high growth markets, including the Asia Pacific region.

Innovation also remained high on the agenda throughout the year and we made excellent progress in this area. A new worldwide marine testing lab was opened in Singapore, while in the UK we broke ground on a new global fire protection center of excellence. Elsewhere, Wood Finishes and Adhesives started building a new plant in Vietnam and Powder Coatings is establishing a resin polymer lab which is due to open in April 2011. A number of new technologies were also introduced into the marketplace, such as our Vitalure 740 can liner, stickerfix auto repair system and Intershield 803+ cargo hold coating.

There is still underlying uncertainty in the marketplace, but we will continue to invest, adding people, setting up technical service centers, establishing warehousing and distribution and making bolt-on acquisitions where appropriate, in order to support our strategy of capturing accelerated, sustainable growth. This will be combined with a continued focus on operational excellence and rationalization in the mature markets to ensure that we strike the right balance as we move forward.

Performance coatings market overview

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

Market and business characteristics

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

General industrial coatings

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

Protective coatings

Corrosion and fire protection across a range of industries including upstream and downstream oil and gas facilities, chemical and petrochemical installations, high value infrastructure such as airports and stadia and power generation stations.

Automotive
Vehicle refinishes

Refinishing or recoating of automobile bodies when vehicles are repaired.

OEM

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

Aerospace coatings

Coatings for small and large aircraft. Primers for structural components and coatings for high performance exterior finishes.

Powder coatings

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

Wood coatings and adhesives

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

Marine coatings, including yacht

Coatings for deep sea and inland marine vessels, super yachts and leisure craft, which provide corrosion protection and resistance to organic fouling.

Coil and extrusion coatings

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

Packaging coatings

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

Customers

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

Global market drivers

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

High growth markets

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

Innovations

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

Market leadership positions

Marine and Protective Coatings

1st	Marine
	Protective
	Yacht

Car Refinishes

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

Industrial Coatings

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

Powder Coatings

1st	Powder

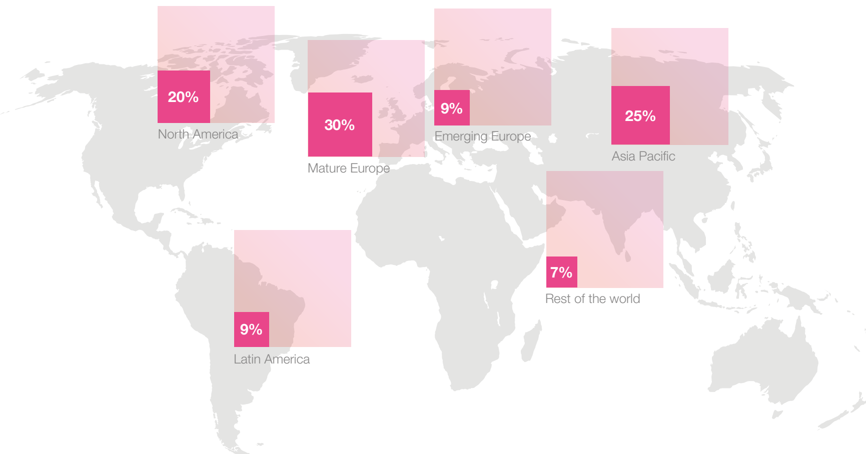
Wood Finishes and Adhesives

1st	Finishes
3rd	Adhesives

Key developments 2010

- Acquisitions of Changzhou Prime Automotive Paint Co., Ltd. and Lindgens Metal Decorative Coatings and Inks
- Completion of acquisition of the former Rohm & Haas powder activities from the Dow Chemical Company
- Powder Coatings inauguration of a new plant in Wuhan, China, and a lab in Ningbo, China
- Official opening of new, worldwide marine testing lab in Singapore
- Investment in expansion of capacity for Coil Coatings and Specialty Plastics in Bangalore, India
- Work underway on the new Wood Finishes and Adhesives plant in Vietnam
- Merger of Aerospace Coatings activities into Car Refinishes
- Marine and Protective Coatings investment in UK-based global fire protection center of excellence

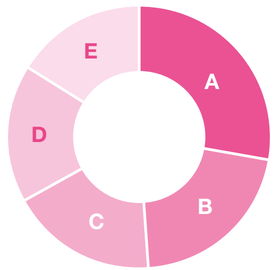
Geo-mix revenue by destination



Key figures in € millions

	2009	**2010**
Revenue	4,112	4,786
EBITDA	594	647
EBITDA margin (in %)	14.4	13.5
EBIT	492	540
EBIT margin (in %)	12.0	11.3
Operating income	433	487
Moving average ROI (in %)	25.3	26.5

Revenue breakdown by business unit
in %

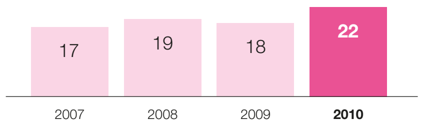


A Marine and Protective Coatings	28
B Car Refinishes	21
C Industrial Coatings	18
D Powder Coatings	17
E Wood Finishes and Adhesives	16
	100

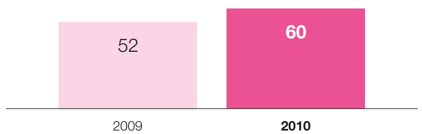
Employees by region at year-end

	2009	**2010**
US and Canada	3,100	3,300
Latin America	1,700	1,700
China	3,800	4,100
Other Asian countries	3,000	3,000
The Netherlands	1,000	1,000
Germany	1,000	1,200
Sweden	900	900
UK	1,400	1,500
Other European countries	2,900	3,200
Other regions	1,100	1,100
Total	**19,900**	**21,000**

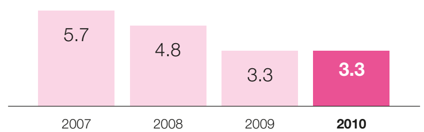
Product: Eco-premium solutions
% of revenue



Key value chains with carbon footprint assessment



Total reportable rate of injuries
per million hours



AKZONOBEL AND MEETING CUSTOMER NEEDS

The modern shipbuilding industry is fiercely competitive, demanding high quality, high productivity and fast turn-around times. When it comes to using shop primers, most shipyards still rely on solvent-based zinc silicate products.

However, with legislation tightening and customers demanding more sustainable products and services, manufacturers of marine coatings face an increasingly pressing environmental challenge. Our Marine and Protective Coatings business has already taken up the gauntlet, having supplied an award-winning, highly innovative, water-based zinc silicate shop primer (Interplate Zero) to the industry for several years. Containing no VOCs or soluble salts, it can be over-coated with a range of approved topcoat schemes, even in critical vessel areas such as water ballast tanks and the underwater hull, while reducing shipyard solvent emissions by more than 20 percent.

Now, an improved version of the product has been introduced which is just as effective as the solvent-based products, but has the added advantage of being far more environmentally and user-friendly. The improved Interplate Zero offers enhanced resistance to white rust, has a longer pot life and can be applied using standard airless spray equipment, as used by most shop primer application facilities worldwide.

While retaining all of the original Interplate Zero benefits, these improvements make the new product even more attractive when compared with solvent-based products on the market.

AkzoNobel Marine and Protective Coatings

"Our product launches during 2010 are an indication of the strong focus we have on innovation and our robust pipeline."

Bob Taylor
Managing Director

Overview

The year proved to be more challenging than anticipated as the impact of the global economic downturn was felt in our traditionally late-cycle businesses. Volume and revenue was up overall, but our portfolio shifted as market dynamics changed, and pressure was felt on prices in most sectors. In this context, the business has continued to perform well, delivering another strong set of results.

Analysis

Uncertain trading conditions have been prevalent in the marine market, with volatile freight rates impacting earnings for owners. This has resulted in a tight maintenance and repair market as owners look to delay and minimize their outlays. However, given the large world fleet size and increasing number of vessels entering the market, we anticipate increasing levels of demand over the coming years. In marine new construction, output has continued to grow, driven primarily by China, where additional new building capacity has come on line together with good demand from Korea. While volumes in this area are up, margins have been impacted by raw material cost increases. In protective coatings, the earlier part of the year saw a number of major projects put on hold as finance proved difficult to secure, which resulted in a slower start to 2010 than expected in many parts of the world. However, as the year progressed, there were some signs of encouragement with projects starting to be released. Our Yacht business put in a solid performance in what was essentially a flat market.

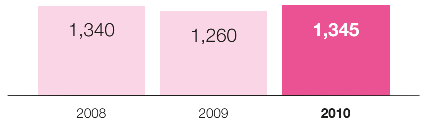
Highlights

Investment in technology remains high and we broke ground on our new UK-based global fire protection center of excellence, which is expected to be fully operational by mid-2011. This will help reinforce our leading position in the fire protection market and allow us to more quickly bring to market products such as the waterborne Interchar 1120, which we launched during the year. We also officially opened our new worldwide marine testing laboratory in Singapore, which is focused on developing the next generation of marine antifouling paints. Product introductions in marine included a revitalized biocidal antifouling range, along with our Intershield 803+ cargo hold coating, specifically designed to meet the increasing demands of fast loading of cargos. An improved Interplate Zero (a zero VOC, water-based shop primer) was also launched during the year, responding to the increasing demand for environmentally aware products within the marine industry. In yacht we launched Awlcraft SE, a high performance metallic finish system, developed using both yacht and car refinish technologies. These launches are an indication of the strong focus we have on innovation and our robust pipeline.

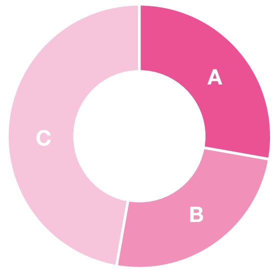
Developments

We are continuing to invest in geographic growth in our Protective Coatings business, particularly within China and India, as well as the Middle East, Russia and Brazil. In North America, we successfully integrated the Devoe product line into our portfolio, which continues to add value, as does its extensive stores network. We demonstrated step change improvement in safety performance throughout the year, achieving record low TRR rates, and took extensive steps to launch sustainability as our core management philosophy, developing carbon mitigation plans and increasing the proportion of eco-premium products within our portfolio.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	28
B Americas	25
C Asia Pacific	47

Main products

- Marine coatings
- Yacht paints
- Protective coatings

Key markets

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

Key brands

International
Awlgrip
Devoe High Performance Coatings
Chartek Fireproofing

AkzoNobel Car Refinishes

"We continued to focus on the key elements of our strategy and once again we achieved a very high customer retention rate."

Jim Rees
Managing Director

Overview

Growth in most of our market segments and regions began to turn positive towards the end of 2009 and that continued during 2010. This led to a robust recovery and strong revenue performance across our business, with volumes almost returning to pre-recessionary levels.

Analysis

The work that we did during the recession to retain customers really paid off. We continued to focus on the key elements of our strategy – improving our distribution footprint, advancing the use of color technology, strengthening our brands, building our pipeline of innovative products and solutions – and once again we achieved a very high customer retention rate, which we think is the best in class. So we were well positioned in the market both from a geographic and segment perspective. Consequently, we came out of the recession even stronger than we went into it. Turkey, Brazil and Russia bounced back, our Asian activities are growing at twice the rate of the rest of the business, we steadily outperformed the market in North America and our position in the premium segment in Eastern Europe is growing. Western Europe was essentially steady, with volume up on a flat market. Our Automotive Plastics business benefited from a combination of restructuring and robust volume increase on the strength of our new business model.

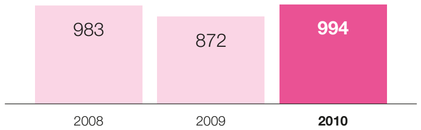
Highlights

Our Process Centered Environment solution, which we believe is the most sustainable way to run a bodyshop, continued its success and has really caught on in China, India and Asia, having proved its value in North America. It helps us to attract new customers and ensures we don't lose any customers. We also entered the trade segment in North America with our Wanda brand (which was previously only available in Latin America) and further sharpened our focus on the mid-market by acquiring Changzhou Prime Automotive Paint Co., Ltd in China. In Aerospace – which we took over from Marine and Protective Coatings at the beginning of the year – we won a number of contracts with Airbus and have several technology approvals pushing the business ahead, primarily basecoat/clearcoat systems for aircraft refinishing.

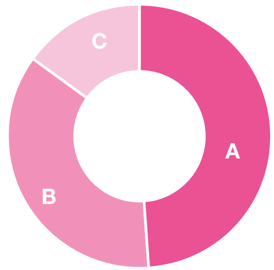
Developments

We secured a number of exciting new contracts during 2010, including an exclusive deal with General Motors in Brazil and a partnership with Sterling, one of the largest collision repairers in the US. We are also supplying Volkswagen and GM in Shanghai. Our stickerfix easy repair system clinched its first two approvals from key auto makers, and we began the introduction of our Wanda waterborne basecoat into the trade segment in North America – our first entrance into this particular market with this type of product. Elsewhere, our focus on eco-efficiency and our drive to reduce VOCs continued to receive a lot of attention. We rolled out our sustainability strategy for the business (based on the three pillars of marketing, operations and people), and towards the end of the year we changed the name of our business to Automotive and Aerospace Coatings to better reflect the composition of our global activities.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	49
B Americas	36
C Asia Pacific	15

Main products

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

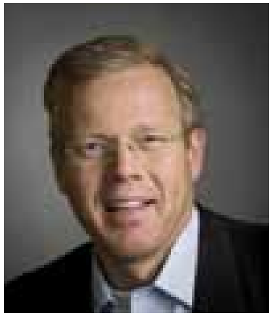
Key markets

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

Key brands

Sikkens, Dyna, Wanda, Soliant, Lesonal

AkzoNobel Industrial Coatings



"It was a year of strong recovery and business growth in all regions, with volume, turnover and EBITDA all significantly above 2009."

Conrad Keijzer
Managing Director

Overview

It was a year of strong recovery and business growth in all regions, with volume, turnover and EBITDA all significantly above 2009. However, our margin improvements were countered by increasing raw material prices in all regions and we experienced issues with the supply of certain raw materials.

Analysis

Our Packaging Coatings business returned to above pre-recessionary levels after outgrowing its markets, mainly in Eastern Europe, Latin America, the Middle East and South East Asia. Our Specialty Plastics and Coil Coatings activities didn't quite reach pre-crisis status, but the underlying trend has been a significant bounce-back in many of our mature markets – coil coatings in Europe and North America – where there has been restocking and a restart of construction activity. We saw patches of very strong growth in the BRIC countries and upcoming markets in EMEA, such as Turkey and Russia, where our coil coatings sales increased significantly.

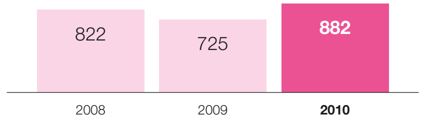
Highlights

As a new business unit formed at the beginning of 2010, we were very pleased to announce the acquisition of Lindgens Metal Decorating Coatings and Inks. The deal brings us an experienced team and the ability to serve customers with a more complete range of inks. It also gives us an improved position in high growth areas of EMEA (Turkey, Russia and Tunisia) and in the Asia Pacific region, notably Australia. In keeping with the company's growth ambitions, we continued to invest during 2010, consolidating our position in coil coatings gained through our Petrokom acquisition in Lipetsk, Russia; investing in extended production capacity at our Bangalore site in India for coil coatings and specialty plastics; and further improving our capabilities at our research center in Songjiang, China. Sales of our "soft touch" technology continued to increase on the back of strong growth in high-end smart phones. These coatings give both the tactile and aesthetic feel that consumers are looking for in such devices. We also launched Vitalure 740 in Brazil, a product line which consists of an interior coating and side seam stripe for paint cans. The can liner protects the steel can from corrosion by the paint and extends the "best by" date by 50 percent. In the US, our Cool Chemistry line of coil coatings continued to see strong sales, mainly due to the federal tax credit, favoring energy efficient building projects.

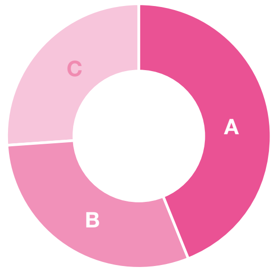
Developments

We took over the EvCote technology from the company's Specialty Chemicals operation. It's a resin system based on recycled PET and materials from renewable bio-sources and is now part of our Packaging Coatings activities. The technology can provide moisture resistance and oil and grease barriers to paper goods used in food contact, such as fast food restaurant packing for sausages, sandwiches and French fries. We have also set out to develop a much simpler alternative process and eco-premium solution for applying an attractive metal finish to computers and laptops. The current manufacturing process is facing some environmental pressure and is relatively burdensome. We can create the same "anodizing" effect using a special thin film developed in our laboratories, which is cleaner and more efficient. We've also been able to call on several techniques that we have learned from supplying similar products to the automotive industry. Our customers are very pleased with this process simplification and we believe that we can now provide a number of new variants to help our customers develop this even further.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	44
B Americas	30
C Asia Pacific	26

Main products

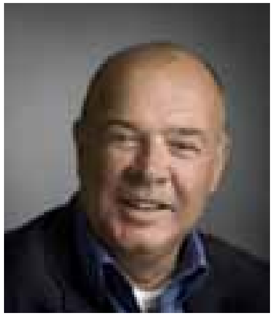
- Beer, beverage and food can coatings
- Coatings for caps, closures and general line cans
- Coil and extrusion coatings
- Specialty plastics coatings

Key markets

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

Key brand

AkzoNobel Powder Coatings



"As well as helping to strengthen our operations in the US, integrating the former Rohm & Haas activities has also given us access to key technologies."

Rob Molenaar
Managing Director

Overview

Finalizing the acquisition of the former Rohm & Haas powder coatings activities from Dow Chemical Company – which saw us become market leader in the US – had a major bearing on our 2010 performance. For example, volumes improved significantly and our revenue was boosted to record levels. We also strengthened our existing leadership positions in Asia, Europe and Africa during the year.

Analysis

The market continued to pick up, and while the mature economies did not rebound as quickly as some of the high growth regions, we grew significantly, notably in the US. We continued to expand in Asia – highlighted by the opening of a new plant in Wuhan in October – while major growth was also achieved in Russia. We are the only international powder coatings manufacturer in Russia and demand was very strong during the year. As well as helping to strengthen our operations in the US, integrating the former Rohm & Haas activities has also given us access to key technologies which have enabled us to better penetrate certain markets. For example, we secured major approvals in the agricultural construction equipment sector and are now better placed to accelerate into the wood, plastics and automotive segments, which are the next platforms for future growth.

Highlights

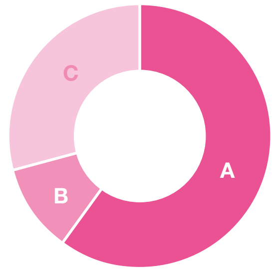
Major construction activity is continuing in Felling in the UK, where we are establishing a resin polymer lab. This is due to open in April 2011 and will play a crucial role in helping us to innovate and further develop sustainable technologies. We reached agreements to take over our joint venture partners in Dubai, Mexico and Vietnam, which will help us to become further established in those regions. In Mexico, we are also building a new factory in Monterrey which will start up in July 2011. One excellent example of our intention to accelerate into new markets came in Asia, where as part of a joint development project, we produced the first vehicle in China with a powder-coated exterior body. We are also working with other manufacturers around the world to gain further experience of applying powder to vehicle exteriors. Another exciting segment where we made good progress was in providing coating solutions for laptops, including a soft-touch effect.

Developments

Integrating the former Rohm & Haas activities dominated much of the year. The acquisition has truly delivered on the strategic objectives we had for the deal – to help us consolidate our position as the number one powder coatings manufacturer in the world; to significantly strengthen our operations in the US; and to maintain innovation and technology leadership in the industry. Exchanging best practices also brought in excellent HSE programs, which are being introduced throughout the business, while it was pleasing to receive an internal award for a major safety initiative which we have implemented.

Revenue in € millions

Geo-mix revenue by destination in %



A	EMEA	60
B	Americas	11
C	Asia Pacific	29

Main products

- Powder coatings

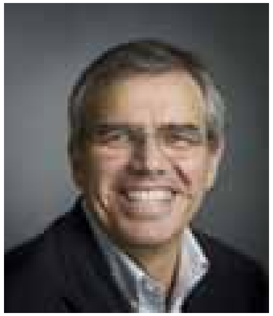
Key markets

- Appliances
- Architectural
- Automotive
- Furniture
- General industrial

Key brands

Interpon
cromadex
RESICOAT

AkzoNobel Wood Finishes and Adhesives



"We maintained a strong focus on cost control and strengthened our number one position as the world's leading supplier of wood finishes and wood adhesives."

John Wolff
Managing Director

Overview

It was our first year operating as a stand-alone business unit, focused on the industrial wood industry. We achieved strong double digit revenue growth in 2010 as we emerged from the economic crisis. Although we are not yet back to pre-crisis levels, we maintained a strong focus on cost control and strengthened our number one position as the world's leading supplier of wood finishes and wood adhesives.

Analysis

We maintained strong positions in the mature economies, but these markets remained sluggish during 2010, primarily due to the slow recovery of the construction and housing markets. Our growth has come in the high growth regions such as China and Turkey, where the local economies recovered quickly and export volumes in wood finishes increased. Our wood adhesives business also benefitted from increased export activity as a result of the weaker euro. Our strategy of selective bolt-on acquisitions and expansion in high growth regions is delivering results. The strategic acquisitions we finalized in 2009 to support our expansion in Eastern Europe have now been fully integrated and contributed to our overall performance during 2010. However, the price and availability of raw materials continued to challenge our efforts.

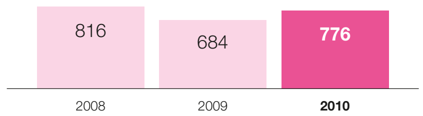
Highlights

It was a year of change for our employees, who adapted quickly to the new focus of our business and worked together to bring about improvements in our results. One of our accomplishments was our improved sales volume in Asia, where we continued our drive into the domestic markets and expanded our customer base. We broke ground on a new plant in Vietnam – our fourth major plant in the region – to support our growth strategy in the Asian export and domestic markets. The new facility will be completed in 2011.

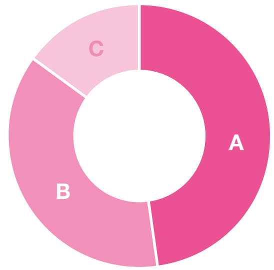
Developments

We are excited to be part of the wood industry, which is inherently sustainable. Not only is wood a renewable resource, but trees actually reduce CO_2 in the atmosphere, since one cubic meter of wood absorbs about one ton of CO_2. Our strategy is to positively contribute to the sustainability of this industry by developing products and technologies that reduce our impact on the environment, while delivering positive performance attributes for our customers. To achieve this we are moving beyond product development to a broader systems approach, including integrated line application and monitoring, waste reduction and yield improvement concepts. Our new automated putty system, for example (see separate case study), transforms poor quality wood into viable wood substrates for flooring, cabinets and furniture. And for our wood adhesives customers, we are working on systems that significantly reduce the volume of glue applied while optimizing performance.

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	48
B Americas	37
C Asia Pacific	15

Main products

- Wood coatings
- Wood adhesives and board resins

Key markets

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

Key brands

AKZONOBEL AND HEALTHY LIVING

Improving the functionality of the coatings we make is one of the key focus areas of our research, development and innovation. Because it's not enough for paint to simply look good or add color. It can do so much more. It can also offer protection, reflect heat, add texture, or help to completely transform the surface it's being applied to.

One of the latest products to be launched by our Decorative Coatings business, under its Sikkens brand, is a perfect example of how a coating can offer enhanced functionality. Known as Alpha SanoProtex, the new product is a waterborne wall paint developed especially for the healthcare sector. It has been specifically designed to prevent bacteria from multiplying and is ideal for use in hospitals, clinics, social service buildings or other locations where hygiene is crucial and the risk of infection needs to be controlled at all times.

Based on silver ions, when combined with appropriate cleaning practices, the interior emulsion can contribute to lower infection rates for the MRSA bacteria, as well as contributing to effective infection prevention programs. The new product not only highlights the potential for where coatings functionality can go, but also emphasizes the success of our innovation strategy and RD&I pipeline.

AkzoNobel
Decorative Paints

“We will use our scale, competencies and strong brands to accelerate growth, particularly in the high growth markets.”

Tex Gunning
Board member responsible for Decorative Paints

In 2010 we were able to put more effort into developing the business. This included further strengthening our US activities, accelerating growth in high growth markets, developing a strategy which is sustainable for the planet and building the people, brands and competencies that we need in order to win globally. It proved to be a particularly good year for us in South East Asia, especially Indonesia and Vietnam, as well as in China, where we achieved substantial growth, assisted by our network of close to 4,000 stores. We increased our market share and have significantly strengthened our brand health and brand presence in that part of the world. We also enjoyed major success in the US, where the impactful relaunch of our Glidden brand helped us to secure the contract as the primary paint supplier to Walmart, putting us ahead in the retail channel. We are establishing a strong number two position in the US and are striving to win new business there.

We also continued to build a leadership position in South America, where we saw steady growth. Our presence in Brazil in particular has been significantly enhanced due to the effectiveness of our global Let’s Color campaign, which is adding color to people’s lives by transforming grey spaces and revitalizing local neighborhoods and communities. It is also a key step in establishing Dulux as a truly global brand and has helped us to gain considerable market share in Brazil. In Europe, 2010 started off very well, but the slow housing market and lack of newbuilding gradually had an impact, which resulted in most of our markets in Continental Europe declining. However, our performance in Eastern Europe – mainly Poland and Russia – was good, and our UK and Turkish businesses also had a strong year. Other highlights included a landmark agreement with the Forest Stewardship Council and our continued global efforts to train thousands of people as Dulux professional painters.

Despite the challenging trading conditions in some geographies, the decorative paints sector remains an attractive market, and as the world’s largest decorative paints company, we will use our scale, competencies and strong brands to accelerate growth, particularly in the high growth markets. Asia, South America and Eastern Europe, for example, will continue along their strong growth curve and I am optimistic about our opportunities and our ability to build our global organization.

As well as investing in the development of our people, we are continuing to invest in innovation. We have set up a separate innovation organization – with its own global director – which is rooted in business and customer needs. It is dedicated to driving our agenda to develop more sustainable products, such as Ecosure, Dulux Weathershield and Sikkens Alpha SanoProtex antibacterial paint for hospitals and clinics, which have been very successful. This focus on strong organizational development, combined with our global approach to building people, brands and competencies, will play a crucial role as we move forward.

Decorative paints market overview

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

Market and business characteristics

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

Architectural coatings

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

Woodcare and specialty products

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

Pre-deco products

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

Building adhesives

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

Customers

Our end-users can broadly be segmented into homeowners (either DIY or BIY – buy it yourself), professional painters serving homeowners and commercial contractors. They are served through a variety of outlets ranging from big box chains such as The Home Depot, Walmart, B&Q and Leroy Merlin (serving mainly homeowners) to independent dealers (serving both homeowners and professionals) and company-owned stores focused on serving professionals.

Global market drivers and developments

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

Drivers for buying decision

Retailers

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

Trade customers

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

Innovations

Consumer market

- Dulux Weathershield Keep Cool – heat-reflective exterior paint with energy-saving properties
- Dulux All Round Guard – absorbs harmful elements from the air to create a safer home environment
- New Glidden paint – reformulated and now includes less VOCs and better hide, durability and washability.

Support professional painters with tailor-made products and services

- Sikkens object analysis, design support and marketing programs for painters
- The Dulux Trade Environmental Wash System and DDC (Dulux Decorator Centers) Paint Can Recycling – professional paint waste management systems
- Herbol Façade Certification Program
- Glidden SpeedWall – highly efficient interior wall paint with superior properties for the professional painter.

Eco-premium portfolio

Recent initiatives:

- Dulux Trade Ecosure – water-based, high performance professional paint
- Sikkens Rubbol XD – VOC-reduced, ultra durable professional trimpaint
- The Freshaire Choice – zero-VOC consumer wall paint
- Dulux Light & Space – highly light reflective, energy-saving wall paint.

Key raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

Price drivers

- Energy, oil and raw material prices
- Steel prices

Market leadership positions

Europe

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

Americas

1st	Canada
2nd	United States
	Latin America

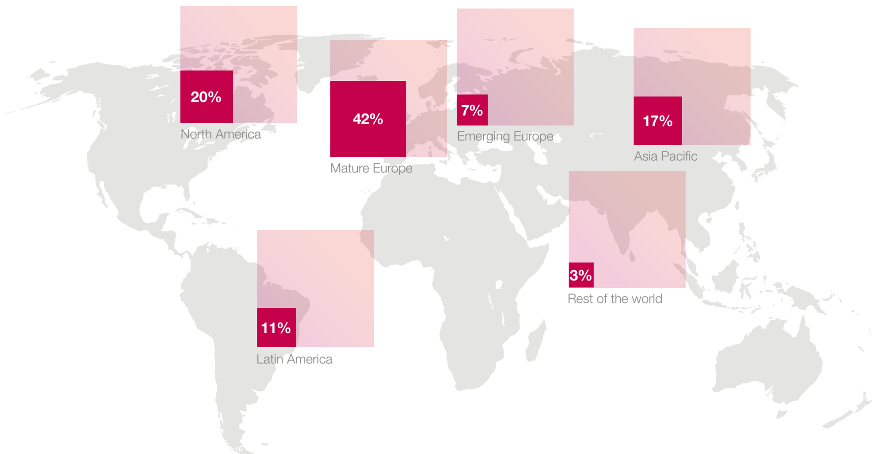
Asia

1st	South East Asia and Pacific
2nd	India and South Asia
	China and North Asia

Key developments 2010

- Signed a deal with Walmart to become the retailer's primary paint supplier in the US
- Dulux Trade won contract to paint the London 2012 Olympic Games site
- Leading coatings supplier for the Commonwealth Games in India
- Signed a landmark agreement with the Forest Stewardship Council
- Let's Color campaign continued to gather momentum
- Presence in China increased to more than 600 cities

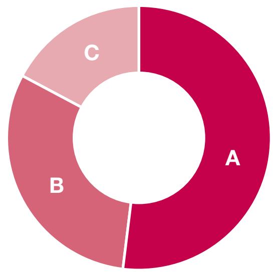
Geo-mix revenue by destination



Key figures in € millions

	2009	**2010**
Revenue	4,573	4,968
EBITDA	487	548
EBITDA margin (in %)	10.6	11.0
EBIT	298	343
EBIT margin (in %)	6.5	6.9
Operating income	133	275
Moving average ROI (in %)	4.7	5.2

Revenue breakdown by business unit in %

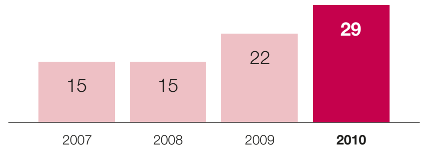


A Decorative Paints Europe	52
B Decorative Paints Americas	31
C Decorative Paints Asia	17

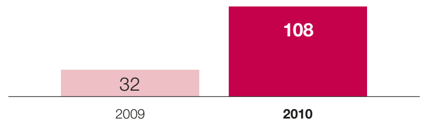
Employees by region at year-end

	2009	**2010**
US and Canada	5,100	5,100
Latin America	1,700	1,800
China	1,200	1,500
Other Asian countries	2,000	2,200
The Netherlands	1,000	1,100
Germany	1,600	1,300
Sweden	600	600
UK	2,200	2,200
Other European countries	5,400	5,100
Other regions	1,100	1,100
Total	**21,900**	**22,000**

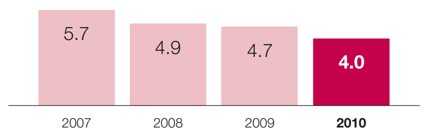
Product: Eco-premium solutions
% of revenue



Key value chains with carbon footprint assessment



Total reportable rate of injuries
per million hours



AKZONOBEL AND NATURAL RESOURCES

We understand the importance of wood stewardship and the risk of not looking after our natural resources. Which is why we have signed a landmark agreement with the Forest Stewardship Council.

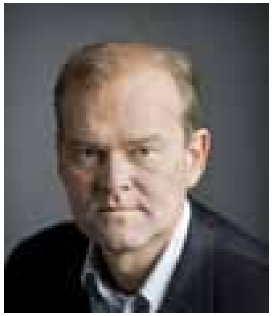
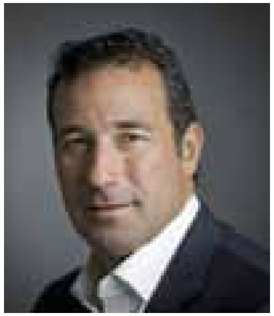
The agreement makes AkzoNobel the FSC's first global partner outside of products that are FSC certified. Both parties are cooperating to increase understanding of the organization's work in promoting responsible forest management, and to boost awareness of FSC certification being a label for wood and paper from well-managed forests.

Many of our businesses – particularly our woodcare brands – are already committed to the responsible sourcing of forest products. But under the terms of the agreement, AkzoNobel's woodcare brands, Cuprinol, Pinotex, Xyladecor, CetaBever, Sparlack, Flood and Sadolin, will now work more closely with the FSC to further promote forest stewardship and drive demand for responsible products.

The agreement includes setting up a global partnership fund with the FSC to support agreed social policy projects; educating customers about the FSC and its objectives; and helping to drive demand for FSC certified products. A new partnership logo has also been developed which will be used extensively on all branded material, including packaging.

Developing partnerships such as the one we have agreed with the FSC is a clear illustration of our willingness to achieve transformational change, take positive action and help to protect the source of wood for future generations.

AkzoNobel Decorative Paints Europe


From left to right:
Ruud Joosten
Managing Director
Northern and Eastern Europe

Richard Stuckes
Managing Director UK,
Ireland and South Africa,
Building Adhesives

Antoine Fady
Managing Director Continental
Europe (until December 1, 2010)

Overview

It was generally a challenging year for our European activities, which experienced low levels of activity in housing and construction markets. A tight supply situation for several key raw materials also had an impact. However, while trading conditions were mostly unfavorable, growth was achieved in some regions, along with increases in market share.

Analysis

Revenue and volumes were up slightly in the UK, where the trade market performed better than expected. We also increased our share of the UK trade market, despite aggressive competition. Conditions proved to be more challenging in Ireland and South Africa, while in Building Adhesives, we increased share in the key markets of Germany, Austria, Switzerland and the Benelux. Performance was also strong in the Nordics and France. In Northern and Eastern Europe, we were able to increase sales and significantly improve the profitability of the business compared with the previous year. The Turkish market in particular showed healthy growth, while we consolidated our leadership positions in both Russia and Greece. The launch of Dulux in Egypt delivered strong sales, together with good growth from sub-Saharan Africa. Conditions stabilized in Continental Europe, where simplification of our brand portfolio and a number of successful product launches put us in a strong position to compete in the existing economic climate. Although the paint market slowed down in Belgium, the Netherlands and France – mainly on the professional side – a number of valuable acquisitions in the trade area in France have enhanced our position significantly.

Highlights

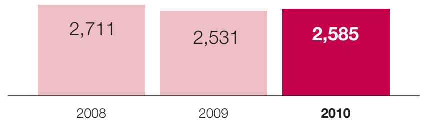
We continued to simplify and streamline our business in order to make it more efficient and reduce costs. We also made significant progress with building a global marketing organization, and in aligning brands with different names and local heritage to one common positioning platform. Our innovative capabilities led to the launch of strong concepts in line with customer needs, such as Dulux Architect and Sikkens Healthcare. In the UK, Dulux Trade won a contract to paint the £7.3 billion London 2012 Olympic Games site. We also established a team in the Middle East to help drive growth in the region.

Developments

Dulux Ecosense (which has a 50 percent lower carbon footprint) was launched in the UK, where sales of Dulux Trade Ecosure and our waste paint solidifier also continued to grow. Towards the end of the year, the UK launched a consumer waste recycling trial. The Let's Color campaign proved to be a big success across the region, notably in Turkey, Russia and the Nordics, significantly boosting brand awareness. In Continental Europe, we introduced a high quality Sikkens water-based wall paint regarded as a benchmark product in sustainability. Our business-wide commitment to sustainability also continued, which includes focusing on eco-efficiency and reductions in waste and energy.

Towards the end of the year, we announced the merger of our three Decorative Paints businesses in Europe into one Decorative Paints EMEA business. This will strengthen our leadership positions in this key region.

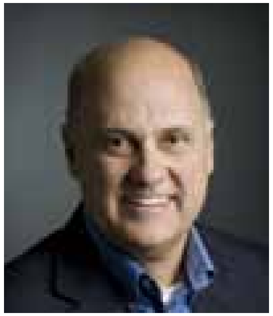
Revenue in € millions

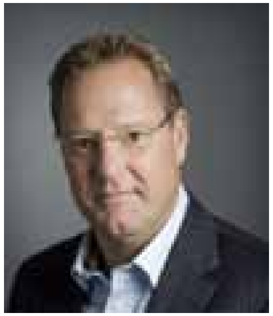


Key brands

Dulux
Flexa
Sikkens
Herbol

AkzoNobel Decorative Paints Americas





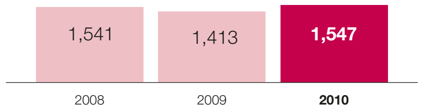
From left to right:

Pierre Dufresne
Managing Director Canada

Erik Bouts
Managing Director
United States

Jaap Kuiper
Managing Director
Latin America

Revenue in € millions



Key brands

Coral
Glidden
Flood
SICO

Overview

AkzoNobel's Decorative Paints activities in the Americas experienced mixed fortunes as the industry attempted to pull clear of the lingering impact of the economic downturn. The US business continued to face depressed conditions as any sign of recovery failed to materialize, while in Canada, stimulus initiatives such as the government infrastructure program helped generate more demand, notably during the first quarter. Conditions were more buoyant in Latin America, where the Coral brand in Brazil outgrew the market and the businesses in Argentina and Uruguay both achieved double digit growth.

Analysis

US paint market volume continued to decline throughout the year. Home sales, unemployment, sluggish GDP figures and lack of consumer confidence all contributed to the economic slide. Raw material supplies were also disrupted, which impacted financial performance. This shortage of raw materials also affected the Canadian business, which saw demand levels fall in the second half of the year as economic growth slowed. As a result, volumes were flat in a market which showed slight overall improvement. The slow US recovery is also impacting Canada's economy, which relies heavily on exports to the US. In Latin America, however, the recession failed to dent the business' continued growth, which was significantly boosted in Brazil by the Coral brand's Tudo de Cor Para Você (All the Colors For You) program. The initiative – which involves painting deprived neighborhoods in order to add color to people's lives – is gaining major momentum and has helped propel Coral to unequalled heights.

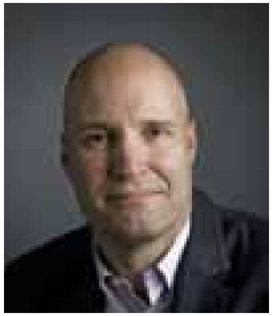
Highlights

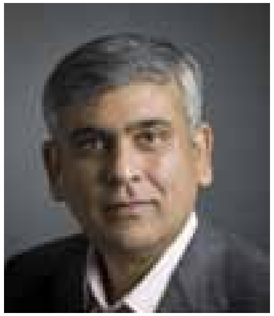
September's announcement that AkzoNobel has become the primary paint supplier to Walmart was one of 2010's major highlights in the Americas. We are supplying multiple brands to Walmart's 3,500-plus stores in the US. The Glidden Professional brand was also formally launched nationwide in the US in Q2. In Canada, our Montreal Distribution Center obtained Silver LEED (Leadership in Energy and Environmental Design) certification from the Canadian Green Building Council. A number of new VOC compliant products were also introduced, ahead of new Canadian VOC regulations which came into effect in September. The most significant highlight in Latin America centered on the continued success of the Tudo de Cor Para Você program, which has now been rolled out to trade partners. By year-end, a total of more than 600 local painting events had been staged, benefiting 300,000 families. The initiative, which includes the participation of employees, also involves training local people to become painters, further boosting engagement with the company and the Coral brand.

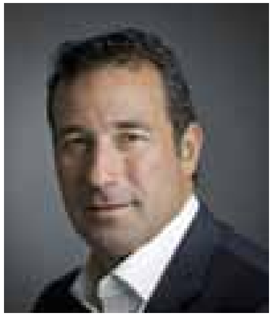
Developments

After being relaunched in 2009, the Glidden brand has seen year-on-year market share growth, while household penetration and repeat purchases jumped by double digits. Sales of the Ralph Lauren Paint brand in the US Independent Paint Dealer channel increased, while the Flood woodcare brand boosted its presence in large-scale outlets. In Canada, eight new paint stores were opened during the year, Liquid Nails was introduced in the fourth quarter and supply agreements with two major customers were renewed. The spotlight in Latin America is now falling on Brazil and the forthcoming soccer World Cup (2014) and Olympic Games (2016), which will offer significant opportunities.

AkzoNobel Decorative Paints Asia







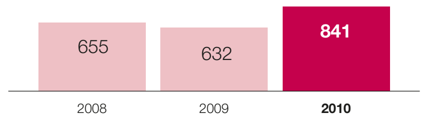
From left to right:

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

Amit Jain
Managing Director India and South Asia (ISA)

Richard Stuckes
Responsible for China & North Asia (as of March 1, 2010)

Revenue in € millions



Key brand

Dulux

Overview

The Decorative Paints business achieved significant growth throughout Asia during 2010, capturing market share in many regions while maintaining strong profitability. It was the best year on record for the company's South East Asia & Pacific activities – which strengthened its number one position – and it was a similar story in the increasingly important markets of India and South Asia, where growth was robust and most regions booked record sales. Growth also soared in China, where we considerably outpaced the market, even though the Chinese market decelerated in the second half of the year due to unprecedented measures introduced by the central government to curb rising property prices.

Analysis

We benefited from an aggressive growth strategy for Asia, which included improving distribution channels and making significant investments to build the Dulux brand. In India and South Asia, a revival in the real estate sector on the back of GDP growth and a record performance by the Dulux Pro institutional business helped drive double digit volume growth. In China – where we increased brand awareness and now have a presence in more than 600 cities – we successfully penetrated more tier two and tier three cities, with the mid-tier product range enjoying the highest growth rate among all product segments. A healthy economy in South East Asia & Pacific kept the paint market buoyant and we took full advantage.

Highlights

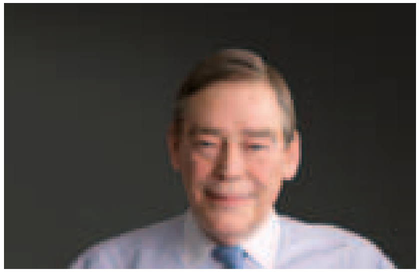
The global Let's Color campaign was launched in selected cities in China, which helped to further extend our color leadership. We also opened and upgraded close to 1,000 stores this year to accelerate the expansion of our controlled Chinese distribution footprint. We continued to launch a series of eco-premium products throughout 2010, notably our Dulux Weathershield Keep Cool heat reflective exterior paint with energy-saving and greenhouse-lessening properties, which was introduced throughout South East Asia & Pacific. A similar product, Dulux Weathershield SunReflect, was named Green Innovation of the Year in India. Along with the continued roll-out of the Singapore Green Label standard throughout our Dulux portfolio in South East Asia, this contributed to a very high percentage of eco-premium products in the business. Another highlight was the teaming up of Decorative Paints and Marine and Protective Coatings as the leading coatings suppliers to the Commonwealth Games in Delhi.

Developments

In India, AkzoNobel took the lead in driving sustainability by partnering with government, industry bodies, media and the artisan community. This was done by conducting workshops and heading panel discussions and forums. We also teamed up with Women on Wings, an organization dedicated to creating employment for a million low income women in rural areas of India before 2017. AkzoNobel will look for ways that paint can be used to help create some of these much-needed jobs. In China, we have continued to build the capability of our new Dulux Easy Paint service, a total service solution designed to unlock the potential of repainting millions of old homes in China. The Chinese business has also been focusing on building organizational and system capabilities to facilitate future growth. A relaunched mid-tier offering was successfully introduced in Indonesia under the Dulux brand, while consumers continued to be actively engaged through initiatives such as the I Love My City campaign in Vietnam and the Dulux Paint Bank safe paint disposal system in Malaysia.

Governance and compliance

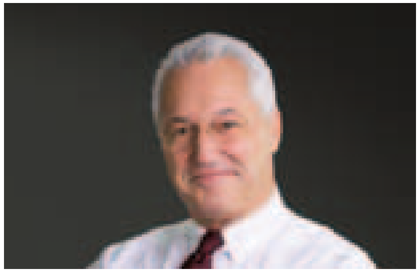
In this section we introduce our Supervisory Board and present their Report for 2010, as well as describing our remuneration and risk management policies. Details of our corporate governance structure can also be found, along with information about AkzoNobel on the capital market.



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; Chairman of the Supervisory Board of TOMTOM N.V.; member of the Supervisory Board of Henkel AG.

- Chairman of the Nomination Committee as of March 5, 2009
- Member of the Remuneration Committee



Uwe-Ernst Bufe
(1944, German) Deputy Chairman
Initial appointment 2003
Current term of office 2007 – 2011

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

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

Former Secretary of State for Health and member of the British Cabinet; former Secretary of State for National Heritage; member of the House of Lords; Chancellor of the University of Hull; Governor of the London School of Economics; Governor of the Ditchley Foundation; non-executive director of BUPA; executive director of Odgers Berndtson; Trustee of the Economist newspaper.

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

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

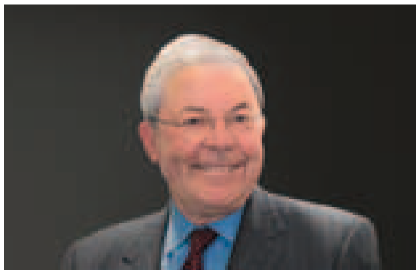
Former member of the Managing Board of ABN AMRO Bank; Professor Financial Institutions University of Amsterdam; Chairman of the Supervisory Board of Nyenrode University.

- Chairman of the Audit Committee as of January 1, 2006

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

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

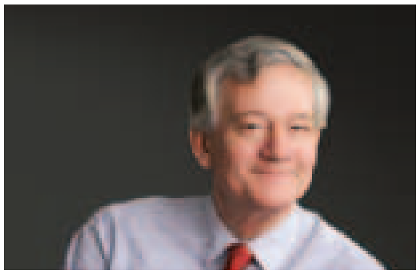
- Member of the Audit Committee



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

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

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



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

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

- Member of the Nomination Committee
- Chairman of the Remuneration Committee as of March 5, 2009

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

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

- Member of the Audit Committee

Report of the Supervisory Board

The Supervisory Board hereby submits to shareholders the financial statements and the report of the Board of Management of Akzo Nobel N.V. for the financial year 2010, as prepared by the Board of Management and approved by the Supervisory Board in its meeting of February 2011.

Main 2010 activities

- Strategic discussions at company, Business Area, business unit and country level
- The Research, Development and Innovation strategy
- The introduction of an Executive Committee
- Human resources and succession planning
- Board visit to the UK

The 2010 financial statements were audited by KPMG Accountants N.V. and the Auditor's report appears on page 134. The financial statements were discussed extensively with the auditors by the Audit Committee, and in the presence of the Chairman of the Board of Management (CEO) and the Chief Financial Officer (CFO). In addition, the 2010 financial statements were discussed by the full Supervisory Board with the full Board of Management, in the presence of the auditors. Based on these discussions, the Supervisory Board is of the opinion that the 2010 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. We recommend that the Annual General Meeting of shareholders adopts the 2010 financial statements as presented in this 2010 Report. We recommend the Annual General Meeting of shareholders to resolve that the total dividend for 2010 on each of the common shares outstanding will be €1.40, and that this amount, less the interim dividend of €0.32 – which was paid in November 2010 – will be payable on May 10, 2011. In addition, we request that shareholders discharge the members of the Board of Management of their responsibility for the conduct of business in 2010 and the members of the Supervisory Board for their supervision of management.

Supervisory Board activities

The Supervisory Board met six times during 2010, including a one-day meeting fully dedicated to the company's strategy. All meetings were plenary sessions with the full Board of Management present. With the exception of two meetings, all Supervisory Board members attended all the Supervisory Board meetings. In addition, a separate meeting was held – attended in part by the CEO – during which the Supervisory Board conducted a self-assessment and appraised its committees, working methods, procedures and performance, as well as evaluating the functioning of the Board of Management and its members. The Supervisory Board also assessed its relationship with the Board of Management and discussed the composition of the Supervisory Board and its committees. For this purpose, questionnaires were sent to the Supervisory Board. The answers were used as a framework for the evaluation discussion. This discussion was minuted and the conclusions and actions were discussed and confirmed at the next meeting of the Supervisory Board. The Chairman of the Supervisory Board prepared the meetings with the assistance of the CEO.

During 2010, the Supervisory Board again devoted considerable time to discussing the company's strategy and reviewing strategic options with the Board of Management. This included detailed discussions on objectives, associated risks and the mechanisms for controlling financial risks. Furthermore, the Supervisory Board discussed sustainability on a number of occasions, in the broader sense, but also specifically in relation to the Values part of the company's medium-term strategy (for example safety) and the significant effort being put into talent development.

Other topics included:
- The new medium-term strategy for the company
- Additional cost savings at the company
- Governance of the company
- The introduction of an Executive Committee
- Risk management
- A detailed review of certain business unit strategies
- The company's strategy in certain high growth economies
- Information Management strategy
- Research, Development and Innovation strategy
- Operating working capital management
- Human resources and succession planning
- Diversity and inclusion
- Sustainability (including HSE)
- Remuneration policy
- Approval of major investments, acquisitions and divestments.

Regular agenda items included financial and operational performance, share price development, operational planning, course of business and the annual financing and investment plan. Business unit Managing Directors and Staff Directors are regularly invited to give presentations to the Supervisory Board.

In September 2010, the full Supervisory Board and Board of Management met in the UK. The visit included meetings with local management, customers and other stakeholders, as well as a tour of AkzoNobel's Slough site.

The Board of Management keeps the Supervisory Board regularly informed of intended organizational changes and appointments of senior managers. One of the main topics for the Supervisory Board meeting in November 2010 was human resources, including succession planning.

Composition and profile of the Supervisory Board

The Supervisory Board – which currently consists of eight members – aims for an appropriate level of experience among its members in marketing, manufacturing, finance, economics, sustainability, human resources and other aspects of international business. Consequently, the current members have a diverse and appropriate mix of knowledge and experience of the markets in which AkzoNobel operates, as well as insights from different markets and non-operational areas. A further aim of the Supervisory Board – which its members believe is currently being met – is that at least one-third of the membership should meet the diversity criteria of gender (female) and/or nationality (outside of the European Union). This is in compliance with provision III.3.1 of the Dutch Corporate Governance Code, which ensures that its composition better reflects both society at large and the markets in which the company operates. In the Supervisory Board's view, the Code's provision III.2.1 (regarding independence) has been fulfilled.

The terms of office of Mr. Bufe and Mrs. Bruzelius expire on May 1, 2011. Mr. Bufe and Mrs. Bruzelius are available for reappointment. It will be proposed at the 2011 Annual General Meeting of shareholders that Mr. Bufe and Mrs. Bruzelius be reappointed for a third and second term of four years respectively.

Audit Committee

The Audit Committee consists of three members and is chaired by Mr. Van den Brink. Six meetings were held during 2010. As a rule, the CEO, the CFO, the Corporate Director Control, the internal auditor and the lead partner of the external auditor, KPMG, attend all regular meetings. After every Audit Committee meeting, the three members hold a separate meeting with only the internal auditor present, and one meeting with only the external auditor present. In addition, the Audit Committee met once without members of the Board of Management being present to conduct a self-evaluation and appraise performance. Discussions regularly focus on financial statements, internal and external control procedures, risk management, internal auditing reports, planning, tax, pensions and the external auditor's performance and independence. Before each announcement of the company's quarterly results, the Audit Committee was informed of the figures and consulted on the reports and press releases to be published. The Audit Committee also discussed topics including:

- The quality of internal audit
- Internal audit strategy
- KPMG's approach to auditing the company, engagement letter, fees and audit plan
- Operating working capital management
- Compliance at the company
- Environmental liabilities
- Pensions strategy
- Treasury department transformation.

Issues discussed in Audit Committee meetings are reported back to the full Supervisory Board in subsequent meetings of this Board.

Remuneration Committee

The Remuneration Committee consists of four members and is chaired by Mr. Burgmans. Four meetings were held in 2010. Recommendations were made on the remuneration and remuneration policy for members of the Board of Management and Executive Committee, including personal targets. Information on the remuneration of the Board of Management and the Supervisory Board can be found in the Remuneration report and in note 23 of the Financial statements.

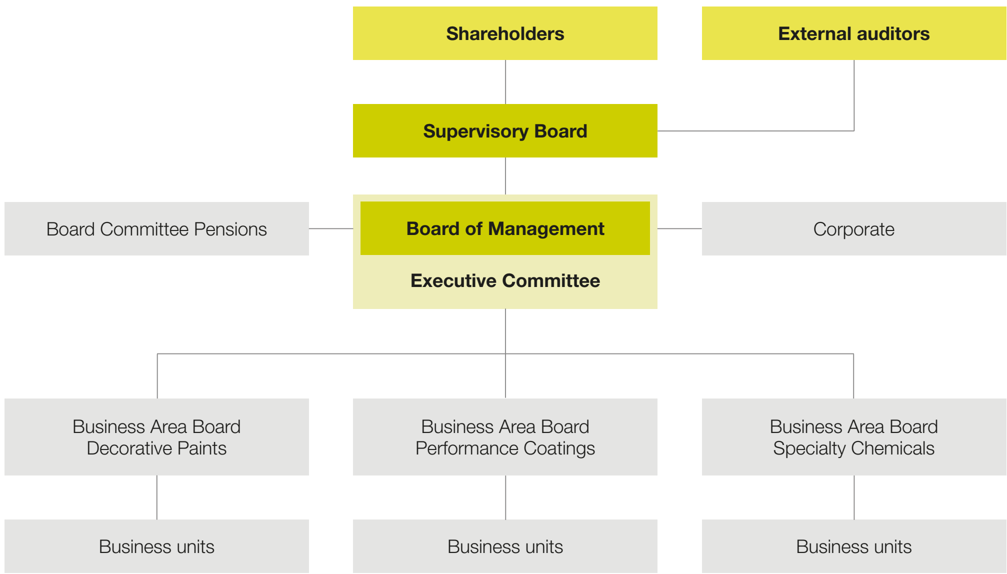
Nomination Committee

The Nomination Committee consists of four members and is chaired by Mr. Vuursteen. Three meetings were held in 2010. During the year, proposals were made for the reappointment of Mr. Bufe and Mrs. Bruzelius to the Supervisory Board.

The Supervisory Board wishes to thank the Board of Management, as well as all employees, for their dedication and hard work for the company in 2010.

Amsterdam, February 16, 2011
The Supervisory Board

Corporate governance statement



Major external regulations

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

Major internal regulations

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

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

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

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

The Code contains principles and best practices for Dutch companies with listed shares. We agree with both the general approach and the vast majority of its principles and best practice provisions. Corporate governance at AkzoNobel was placed on the agenda at our Annual General Meeting of shareholders in 2004 and 2005 as a separate item for discussion. This specifically included a number of aspects where our corporate governance deviates from the Code, as explained in our 2004 Annual Report. The Board of Management and the Supervisory Board have taken these discussions into account in formulating a position on AkzoNobel's corporate governance. One of the outcomes was an amendment to the Articles of Association, which was approved by the Annual General Meeting of shareholders in 2005. The company agrees with all amendments introduced in the revised Code of 2008. To the extent necessary, all changes to the Code have been implemented through an amendment to the Rules of Procedure of the Board of Management and Supervisory Board respectively, as well as through additions to the text of the Annual Report, and the introduction of a claw back provision in the remuneration policy in 2010. This chapter describes AkzoNobel's corporate governance. Any deviations from the Code are explained, in accordance with the Code's "apply or explain" principle.

The Board of Management and the Supervisory Board are of the opinion that the company's corporate governance structure, as described in this chapter and which includes the introduction of an Executive Committee as of January 1, 2011, is the most appropriate for AkzoNobel at this point in time. With the exception of those aspects of our governance structure which can only be amended with the approval of the Annual General Meeting of shareholders, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied as described below, if this is considered to be in the interest of the company. If adjustments are made, they will be published and reported in the annual report for the relevant year.

Board of Management

General

The Board of Management is entrusted with the management of the company. As of January 1, 2011, the Board of Management operates in the context of an Executive Committee. The members of the Executive Committee are the five members of the Board of Management, together with four senior executives who are delegated responsibilities for Human Resources and Organizational Development; Legal; Purchasing and Supply Chain; and Research, Development and Innovation respectively. 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 the consent of a majority of the members of the Board of Management. The Board of Management can decide to reserve decisions for the Board of Management.

All major investments, all acquisitions and all major functional initiatives are discussed and decided, if applicable, subject to Supervisory Board approval. In performing its duties, the Executive Committee is guided by the interests of the company and its affiliated enterprise, taking into consideration the relevant interests of the company's stakeholders. Executive Committee meetings are held once a fortnight.

The Chief Executive Officer (CEO) leads the Executive Committee in its overall management of the company to achieve its performance goals and ambitions. He is the main point of liaison with the Supervisory Board. The Chief Financial Officer (CFO) is specifically responsible for the company's financial affairs. Members also have specific responsibilities for the company's main Business Areas: Decorative Paints, Performance Coatings and Specialty Chemicals.

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

To effectively steer the strategy of our businesses and their operations, the Executive Committee has established Business Area Boards for each of our Business Areas: Decorative Paints, Performance Coatings and Specialty Chemicals. In addition, a Board Committee Pensions oversees the general pension policies (to be) implemented in the various pension plans of the company.

Business Area Boards are chaired by the member of the Executive Committee responsible for that Business Area. The CFO chairs the Board Committee Pensions. The authority of the Business Area Boards and the Board Committee Pensions is laid down in an internal authority schedule. Business Area Board meetings are held once a fortnight. The Business Area Boards provide a forum for a more in-depth discussion on all possible subjects relevant to that Business Area.

Representative authority, including the signing of documents, is vested in at least two members of the Executive Committee jointly. Corporate agents may be appointed, whose powers of attorney will be determined by 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 of Procedure have been approved by the Supervisory Board and are available on our corporate website.

Appointment, conflicts of interest

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

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

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.
According to the Code's recommendation (provision IV.1.1), the Annual General Meeting of shareholders should be able

to pass a resolution to cancel the binding nature of a nomination for the appointment of the Supervisory Board or the Board of Management. Under the Articles of Association, the binding nature of the nominations by the holders of priority shares cannot be canceled by the Annual General Meeting of shareholders.

The company subscribes to the Code's principle in general. Therefore (as described in the 2004 Annual Report and discussed at the Annual General Meeting of shareholders in 2005) it has been decided that in normal circumstances, Supervisory Board and Board of Management members will be 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 the case of exceptional circumstances, such as in the event of a (threatened) hostile takeover. (Reference is made to the description of anti-takeover provisions and control, see page 68). 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. Shareholders meeting the requirements laid down in the Articles of Association are also entitled to nominate Supervisory Board or Board of Management members. According to the Articles of Association, such appointments will require a two-thirds majority, representing at least 50 percent of the outstanding share capital.

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

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

The handling of (potential) conflicts of interest between the company and members of the Board of Management or Executive Committee is governed by the Rules of Procedure for the Board of Management and Executive Committee. Decisions to enter into transactions under which Board of Management members have conflicts of interest that are of material significance to the company, and/or to the relevant Board of Management member, require the approval of the Supervisory Board. Mention will also be made in the annual report for the relevant year. In 2010, no transactions were reported under which a member of the Board of Management has had a conflict of interest that is of material significance to the company.

Remuneration

In line with the remuneration policy adopted by the Annual General Meeting of shareholders, the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. The Supervisory Board will also decide on the remuneration of the remaining members of the Executive Committee on the proposal of the CEO. The composition of the remuneration of Board of Management members, and the remuneration policy itself, are described in the Remuneration report and the Financial statements (see note 23).

The main elements of the employment contracts of Board of Management members are available on our corporate website. For appointments starting from 2004, the maximum remuneration in the event of dismissal is in principle one year's base salary. In the event of the dismissal of the Board member appointed before 2004, the Supervisory Board will determine a severance payment upon the advice of the Remuneration Committee. Since it is not believed to be in the interest of the company to renegotiate the existing contracts of the members of the Board of Management, the company decided in 2004 not to follow Code provision II.2.8 for appointments made before 2004. However, the Supervisory Board intends to take the provisions of the Code as guidance for establishing severance payments. The contracts of the members of the Board of Management do not contain change of control provisions.

Risk management and (financial) reporting

Internal risk management and control systems are in place. Our risk management system is explained in more detail in the Risk management chapter, (see page 75).

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

A separate internal control function is operational to secure compliance with the company's internal control requirements. The further enhancement of the internal controls was one of the 2010 spearheads. The company-wide internal control self-assessment was strengthened and aligned with a number of other internal representation and compliance processes. An extensive training and communication program was part of this endeavor.

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

Supervisory Board

General

The Supervisory Board's overall responsibility is to exercise supervision over the policies adopted by the Board of Management and the Executive Committee and over the general conduct of the business of the company. This specifically includes supervision of the achievement of the company's operational and financial objectives, the corporate strategy designed to achieve the objectives and the main financial parameters and risk factors. The Supervisory Board also provides the Board of Management and Executive Committee with advice. In fulfilling their duties, members are guided by the interests of AkzoNobel and its affiliated enterprise, taking into consideration the relevant interests of the company's stakeholders.

Appointment, independence, conflicts of interest and composition

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures which are the same as those previously outlined for the members of the Board of Management (see page 64). As a general rule, based on the rotation schedule, a Supervisory Board member's tenure is four years. In principle, members are eligible for re-election twice. However, in deviation from the Code (provision III.3.5), a member can be nominated for re-election more often if, in a specific case, this is considered to be in the company's interest.

The composition of the Supervisory Board is such that members are able to act with due objectivity and independently of one another and of the Board of Management and Executive Committee. All members meet the independence requirements as stated in Code provisions III.2.1 and III.2.2, as confirmed in the Supervisory Board's report in accordance with provision III.2.3. No member of the Supervisory Board holds more than five supervisory board memberships in Dutch listed companies.

The Supervisory Board is governed by its Rules of Procedure, which include detailed provisions on how to deal with conflicts of interest and potential conflicts of interest between members of the Supervisory Board and the company. In 2010, no transactions were reported under which a member had a conflict of interest which was of material significance to the company. The Supervisory Board Rules of Procedure, encompassing the Profile and the Charters of the Committees, reflect the tasks and responsibilities of the Supervisory Board and are available on our corporate website.

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

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

Remuneration

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

Board appointments 2010:

- Mr. Vuursteen (Chairman) was reappointed as a member of the Supervisory Board
- Mr. Hughes was reappointed as a member of the Supervisory Board
- Mr. Burgmans was reappointed as a member of the Supervisory Board

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 our corporate website. The committees report on their deliberations and findings to the full Supervisory Board.

The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of the accounting, auditing, reporting and risk management practices of the company, as well as on a number of other subjects, as included in its charter. The Chairman of the Audit Committee is Mr. Van den Brink.

One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and monitoring of the auditors and the services they provide to the company. The auditors are prohibited from providing the company with certain non-audit services. In order to anchor this in our procedures, the Supervisory Board adopted the "AkzoNobel Auditors Independence Policy" and the related "AkzoNobel Audit Committee Pre-approval Procedure on Audit, Audit-Related and Non-Audit Services". All these documents and policies are available on our corporate website.

The Nomination Committee, chaired by Mr. Vuursteen, 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. When selecting candidates for appointment to the Supervisory Board, account is taken of the need for a balanced representation of knowledge of the markets in which the company operates, as well as the need for insight from different markets and non-operational areas. The Remuneration Committee is responsible for drafting proposals to the Supervisory Board on the remuneration policy for the Board of Management, for overseeing the remuneration of its individual members, the remaining members of the Executive Committee and for the remuneration schemes for AkzoNobel executives involving the company's shares. The committee also prepares Supervisory Board proposals to the Annual General Meeting of shareholders concerning the remuneration of the members of the Supervisory Board. The Remuneration Committee is chaired by Mr. Burgmans. Baroness Bottomley and Messrs. Vuursteen, Burgmans and Ellwood are all members of both the Nomination Committee and the Remuneration Committee.

Auditors

The external auditor is appointed by the Annual General Meeting of shareholders on the proposal of the Supervisory Board. The appointment is for an indefinite period of time and is reviewed every four years by the Audit Committee. The same committee advises the Supervisory Board, which communicates the results of this assessment to the Annual General Meeting of shareholders. The Audit Committee and the Board of Management annually report their dealings with the external auditor to the Supervisory Board and discuss the auditor's independence. The lead auditor in charge of the AkzoNobel account is changed every seven years. KPMG's current lead partner, Mr. Weusten, has held this position since July 2007. The lead auditor is present at the Annual General Meeting of shareholders and may be questioned with regard to his statement on the fairness of the financial statements. The external auditor attends all meetings of the Audit Committee, as well as the meeting of the Supervisory Board at which the financial statements are approved. He receives the financial information underlying reports of the quarterly figures and is given the opportunity to respond to this information.

Inside information and insider trading, Code of Conduct, Code of Financial Ethics and complaints procedure

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

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

A comprehensive Code of Conduct, followed by officers and employees committed to individual and corporate integrity, is one of the critical foundations of good corporate governance. AkzoNobel's Code of Conduct, which incorporates our business principles, sets out the company's position. It guides all our employees in their daily work. We have established several procedures to arrange for company-wide dissemination of the Code of Conduct and training. We have also established procedures and a Compliance Committee to monitor compliance with the code in general, and certain of its provisions in particular, and to provide for its enforcement. A complaints procedure enables employees to file complaints concerning practices that violate any internal or external rules or regulations. This so-called Speak Up! procedure ensures that employees have the opportunity to report alleged irregularities without jeopardizing their legal position.

Relations with shareholders and other investors

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. On December 31, 2010, a total of 233,530,454 common shares and 48 priority shares had been issued, amounting to 99.996 percent and 0.004 percent respectively of the total issued and outstanding capital. By December 31, 2010, AkzoNobel had been notified by Massachussetts Financial Services Company and Paulson & Co that their participation in the company's share capital was more than 5 percent. The priority shares are held by the Foundation Akzo Nobel. The Foundation's Board consists of members of AkzoNobel's Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the nomination rights for the appointments of members of the Board of Management and of the Supervisory Board (see page 60) and the right to approve amendments to the Articles of Association of the company. No cumulative preferred shares have been issued to date. It has been communicated that the cumulative preferred shares merely have a financing function, which means that if necessary, they will be issued at or near to the prevailing quoted price for common shares. The Annual General Meeting of shareholders held on April 27, 2010, 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, to restrict or exclude the pre-emption rights for existing shareholders for those shares, and to purchase shares of the company. 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.

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

The Annual General Meeting of shareholders reviews the annual report and decides on adoption of the financial statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Board of Management. Holders of common shares in aggregate representing at least 1 percent of the total issued capital may submit proposals for the Annual General Meeting agenda. These proposals must be sent in writing, or electronically, to the company's head office in Amsterdam at least 60 calendar days in advance. Such requests shall be granted and shareholders will be provided with all relevant information, unless the Supervisory Board and the Board of Management are of the opinion that the request is not reasonable in the given circumstances. The minutes of the Annual General Meeting of shareholders (in Dutch) are made available on our corporate website within three months of the meeting date.

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

- The annual accounts
- Dividends (not interim dividends)
- The election of Board members
- Material changes to the remuneration policy of the Board of Management
- Other important matters such as major acquisitions or the sale of a substantial part of the company
- The issue of new shares.

The company attaches great value to shareholder relations. We use the Shareholders' Communication Channel to distribute the agenda of the Annual General Meeting, and to allow shareholders who hold their shares through an associated bank participation in the proxy voting at the said meeting. In line with relevant laws and regulations, we provide all shareholders and other parties in the financial markets with equal and simultaneous information about matters that could have a significant influence on the price of our listed securities, thereby taking into account possible exceptions permitted by those laws and regulations. This information can be found on our corporate website, to the extent required by law. We actively communicate our strategy and the developments of our businesses to the financial markets. Members of the Board of Management and business managers regularly attend analyst meetings in Europe and the US. The quarterly results, press conferences and the analysts' conference calls – as well as the presentations at analyst meetings organized by the company – are all announced in advance and are available as webcasts and accessible online. Presentations to (institutional) investors are held at regular intervals and, in principle, are announced on our corporate website or via press releases. Other meetings with analysts or investors are not normally announced in advance, nor can they be followed by webcast or any other means. Discussions at such meetings are always limited to information which is already in the public domain. This is in line with the requirement to ensure that all shareholders and other parties in the financial market have equal and simultaneous access to information that may influence the share price. In this respect, the company complies with applicable laws and regulations. In principle, analyst meetings, presentations to (institutional) investors and direct meetings with investors are not held shortly before the publication of our quarterly or annual results. AkzoNobel's outline policy on general and bilateral contacts with shareholders can be found on our corporate website.

Anti-takeover provisions and control

According to provision IV.3.11 of the Code, the company is required to provide a survey 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 (see page 60), 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. In order to allow for sufficient time to conduct such an evaluation, the Board of the Foundation Akzo Nobel reserves 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, in general the Supervisory Board and the Board of Management reserve the right to use all powers available to them in the interests of the company and its affiliated enterprise, taking into consideration the relevant interests of the company's stakeholders.

Remuneration report

This report describes our remuneration policy and remuneration paid to individual members of the Board of Management in 2010, including amendments proposed for 2011.

The remuneration policy and the individual service contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy, as adopted by the Annual General Meeting of shareholders in 2005 and most recently amended in 2010.

Our remuneration policy, including all structures and policies related to the remuneration and employment contracts of the Board of Management, is in line with the Dutch Corporate Governance Code. In valuing our incentive plans, we are assisted by independent external advisors.

Remuneration policy

Our remuneration policy has a clear objective, namely to provide remuneration in a form which will attract, retain and motivate the members of the Board of Management as top managers of a major international company, while protecting and promoting its objectives. Both the policy itself, and the checks and balances that are applied in its execution, are designed to avoid incidents where members of the Board of Management – and senior executives for whom similar incentive plans apply – act in their own interest, take risks that are not in line with our strategy and risk appetite, or where remuneration levels cannot be justified in any given circumstance.

To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on the short and long-term performance of the individual Board member and the company.

It is our policy to maintain overall remuneration levels that are at the median level of the external benchmark of a peer group of companies which, as of January 1, 2009, consists of:

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

The Remuneration Committee of the Supervisory Board consults professional independent remuneration experts to ensure an appropriate comparison.

Remuneration elements

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

- Base salary
- Performance-related short-term incentive
- Performance-related shares
- Pension provisions.

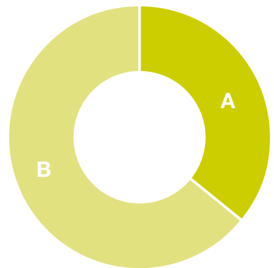
Furthermore, all members of the Board of Management are entitled to other benefits – such as a company car and representation allowance – which are needed for carrying out their duties and which are in line with market norms.

For communication purposes, the table on page 70 presents a summarizing overview of the remuneration of the current members of the Board of Management. Reference is made to note 23 of the Financial statements for more details.

In 2010, the value of fixed and variable cash components at target levels breaks down as follows:

CEO in %

A Base salary	36
B Variable compensation	64



Board members in %

A Base salary	43
B Variable compensation	57

Base salary

The objective of the base salary is to enable recruitment and retention of top managers of a major international company.

The base salaries of members of the Board of Management increased by 0.75 percent in 2010.

Compensation overview members of the Board of Management 2008 – 2010

In €	Hans Wijers Chief Executive Officer			Leif Darner Board member Performance Coatings			Rob Frohn Board member Specialty Chemicals			Tex Gunning[3] Board member Decorative Paints			Keith Nichols[4] Chief Financial Officer		
Year	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
Base salary	760,000	760,000	**765,700**	570,000	570,000	**574,300**	570,000	570,000	**574,300**	–	380,000	**574,300**	380,000	570,000	**574,300**
Short-term incentive[1]	700,000	464,000	**1,284,200**	340,000	339,300	**513,000**	340,000	339,300	**513,000**	–	226,200	**513,000**	226,700	339,300	**513,000**
Share awards[2]	485,900	678,400	**981,900**	325,500	481,500	**724,500**	325,500	481,500	**724,500**	–	277,600	**628,700**	131,300	382,500	**704,200**
Option awards[2]	161,500	99,200	**25,100**	105,900	65,100	**16,500**	105,900	65,100	**16,500**	–	–	**–**	25,000	18,200	**4,800**
Pension premium paid	565,600	458,400	**722,500**	291,400	208,600	**272,200**	156,200	146,000	**206,900**	–	88,900	**277,200**	57,600	124,700	**204,400**
Other emoluments	4,500	4,100	**4,400**	4,600	4,100	**4,400**	7,200	6,900	**7,100**	–	2,700	**4,400**	45,200	112,700	**162,200**
Other compensation	–	–	**–**	169,300	147,800	**147,400**	–	47,500	**–**	–	–	**–**	36,900	58,700	**51,100**
Total remuneration	2,677,500	2,464,100	**3,783,800**	1,806,700	1,816,400	**2,252,300**	1,504,800	1,656,300	**2,042,300**	–	975,400	**1,997,600**	902,700	1,606,100	**2,214,000**

[1] Actual short-term incentive disclosed relates to the performance in the financial year and the deferred payments over 2009 (50 percent for the CEO and 25 percent for the other members).
[2] Costs are non-cash and relate to the expenses following IFRS 2.
[3] As from May 1, 2009.
[4] Other emoluments relate to employer's contribution in the UK.

The table summarizes the remuneration package of the members of the Board of Management of AkzoNobel. The elements of the remuneration package are addressed in more detail in the paragraphs on the following pages.

Total remuneration package

	Fixed	**Variable**	
Element	Base salary	Short-term incentive	Long-term incentive
Vehicle	Cash	Cash	Performance-related restricted shares
Performance measure	Not applicable	EVA: 35% EBITDA: 35% Personal: 30%	Relative total shareholder return: 50% DJSI ranking: 50%
Pay-out at minimum performance	100%	0%	0%
Target pay-out as % of base salary	100%	CEO: 100% Member: 65%	CEO: 75% Member: 69%
Maximum pay-out as % of base salary	100%	CEO: 150% Member: 100%	CEO: 113% Member: 104%

Short-term incentive (annual bonus)

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

As of 2009, the performance-related short-term incentive is linked to the EBITDA of the company, in addition to EVA and the individual and qualitative personal targets of the members of the Board of Management. More specifically, 35 percent of the short-term incentive opportunity is linked to EBITDA, 35 percent is linked to EVA and 30 percent remains linked to individual and qualitative personal targets, including non-financial targets. EVA and EBITDA are based on the financials of the company in constant currencies. EVA is seen as a measure for creating long-term value. The variable remuneration components of the remuneration policy (including the long-term incentives) will therefore continue to be predominantly of a long-term nature.

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

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

Please refer to the Report of the Board of Management chapter in the Strategy section for the actual 2010 EVA and EBITDA performance used in the short-term incentive. The EVA of the sum of the business units is used as the basis for calculating the EVA element of the short-term incentive for the Board of Management.

The EVA and EBITDA elements of the short-term incentive have a performance threshold level of 80 percent and a maximum performance level of 120 percent of the targeted EVA and EBITDA respectively. The target EVA and EBITDA are determined annually by the Supervisory Board. The pay-out of the short-term incentive will never exceed 100 percent of base salary for members of the Board of Management and 150 percent of base salary for the CEO (see page 70). Qualitative individual and collective targets are set in the context of the medium-term objectives of the company and qualify as commercially sensitive information. AkzoNobel will not disclose all the targets. However, the targets for 2010 included goals set with respect to operational and functional excellence, delivering on the strategic plans, talent development and delivering on the ICI synergies.

The Supervisory Board assesses the progress made in achieving long-term strategic objectives and the actual ambition level of the performance targets in light of the assumptions made at the beginning of the year. The Supervisory Board ensures that targets are realistic and sufficiently stretching. In accordance with the requirements of the Dutch Corporate Governance Code, the Remuneration Committee, before setting the targets to be proposed for approval by the Supervisory Board, carried out a scenario analysis of the possible financial outcome of meeting target levels, as well as maximum performance levels.

In late 2009, the Board of Management and the Supervisory Board considered the company's 2009 results in light of the economic climate and the need to find the right balance between short and long-term incentives. As a result, they decided to strengthen the link between the remuneration of the Board of Management and the medium and long-term targets of the company by deferring receipt of 50 percent of the short-term incentive for 2009 in the case of Mr. Wijers, CEO, and 25 percent of the short-term incentive for 2009 in the case of the other members of the Board of Management. Receipt of this deferred payment was made subject to the company achieving its medium-term target of an EBITDA margin of 14 percent. The company achieved this EBITDA margin target ahead of planning in mid-2010. This was shared with the financial markets and a new growth strategy was announced which focuses more on an absolute EBITDA increase than an EBITDA margin percentage. As a result, the Supervisory Board decided that this justifies the pay-out of the deferred short-term incentive for 2009 in February 2011.

Long-term incentives

The objectives of our long-term incentive plan are to encourage long-term sustainable economic and shareholder value creation – both absolute and relative to our competitors – to align the interests of the Board of Management with those of shareholders and to ensure retention of the members of the Board of Management.

The long-term incentive plan consists of performance-related shares. The stock option plan was discontinued as of January 1, 2008. Performance-related shares are considered to provide a stronger alignment with shareholders' interests.

Stock option plan

Stock options were conditionally granted for the last time in 2007 and vested for the last time in 2010. The actual number of options which the Board of Management received depended on the company's performance during a three-year vesting period. The total option term is seven years.

The performance measure used to determine the number of options that vest was the average of the results of the comparison between planned and realized EVA on Invested Capital (EOI), or economic value created in relation to invested capital during the period of three consecutive years. This measure was used to encourage EVA performance over a longer period of time.

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.

Based on the EOI performance over the period 2007 to 2009, 100 percent of the stock options (conditionally) granted to the members of the Board of Management in 2007 became unconditional: (19,800 to the CEO and 13,000 to the other Board members, except for Mr. Nichols, who was appointed to the Board of Management on May 1, 2008, and received 3,750 stock options in respect of the conditional grant in 2007). Mr. Gunning did not receive stock options as he became an employee of the company after January 1, 2008.

Performance share plan

Under the performance share plan, shares are conditionally granted to the members of the Board of Management.

Vesting of these shares is conditional on the achievement of certain performance targets during a three-year period and a continuation of the contract of employment. Achievement of the performance targets is determined by the Supervisory Board in the first quarter of the year following the three-year period. The number of vested shares is increased by the dividend paid over the three-year performance period.

Because sustainability is considered key to our long-term future, 50 percent of the conditional grant of shares is linked to the average ranking of the company in the relevant Dow Jones Sustainability Index (DJSI) during the three-year performance period. In respect of the conditional grant in 2009, the vesting schedule has been determined by the Supervisory Board as follows:

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

It is noted that a takeover would not influence the ranking of the company on the DJSI and therefore dilutes any share-based remuneration to be received by the Board members as a result of a takeover. AkzoNobel ranked second in the relevant DJSI in 2010.

The remaining 50 percent of the conditional grant of shares is linked to AkzoNobel's Total Shareholder Return (TSR) compared with the performance of the companies in our peer group. Independent external specialists will conduct an analysis to calculate the number of shares that will vest according to the TSR ranking. The determination of the final ranking (and thus the vesting of shares) will be reviewed by the company's auditors at the end of the performance period. In order to adjust for changes in exchange rates, all local currencies are converted into euros. The retention period for the shares expires five years after the conditional grant.

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

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

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

As from 2007		**2009 onwards**	
Rank	Vesting (as % of conditional grant)	Rank	Vesting (as % of half of conditional grant)
1	150%	1	150%
2	135%	2	135%
3	120%	3	120%
4	100%	4	100%
5	85%	5	75%
6	70%	6	50%
7	55%	7	25%
8	40%	8 – 11	0%
9	25%		
10 – 13	0%		

AkzoNobel's TSR performance over the period 2008 through 2010 resulted in an 11th position within the ranking of the peer group companies. Consequently, the final vesting percentage of the 2008 grant equaled zero percent, resulting in no definitive grant of shares.

The number of performance-related shares conditionally granted in 2010 amounted to 24,400 for the CEO and 18,300 for the other members of the Board of Management.

In accordance with provision II.2.13d) of the Dutch Corporate Governance Code, the schedule on page 74 sets out for 2005 onwards (i) the number of at target shares conditionally granted; (ii) the number of shares which have vested; (iii) the number of shares held by members of the Board of Management at the end of the lock up period; (iv) the face value at the conditional share grant, at vesting and at the end of the lock up period respectively.

In accordance with the company's Articles of Association, the Dutch Corporate Governance Code and the rules of the performance share plan, the number of shares to be conditionally granted to members of the Board of Management is determined by the Supervisory Board using the face value method. The number of shares is set within the limits of the remuneration policy as adopted by the shareholders. The face value method means that the number of conditionally granted shares is set by dividing the policy level of shares by the share price at the beginning of the year of the conditional grant.

The Supervisory Board has decided that where, in the event of a takeover, the pay-out under the performance share plan is between 100 percent and 150 percent, the Supervisory Board will, taking into account the performance of the company prior to the takeover bid, at its discretion decide whether the projected outcome is fair and may decide to adjust the pay upwards or downwards within the bandwidth mentioned. This undertaking does not affect the discretion the Supervisory Board has to correct the variable remuneration of the Board of Management upwards or downwards as provided in provision II.2.10 of the Dutch Corporate Governance Code.

The 2010 Annual General Meeting of shareholders approved a claw back provision in the remuneration policy for the Board of Management. This provision provides the Supervisory Board with the option to claw back variable pay components paid to members of the Board of Management in the event that such variable pay components were based on financial information which is shown within a certain period of time to be materially incorrect.

During the course of 2010, the Remuneration Committee reflected further on current policy and the balance between short and long-term compensation and the company's targets. As a result, the Supervisory Board will propose to the Annual General Meeting of shareholders for 2011 to amend the remuneration policy.

As of 2011, the CEO of the company will be required to build up, over a five-year period from the date of appointment, and then hold, at least three times his or her gross base salary in AkzoNobel shares for the duration of his or her tenure as CEO. The other members of the Board of Management will be required to build up, over a five-year period from the date of appointment, and then hold, at least one time their gross base salary in AkzoNobel shares for the duration of their tenure.

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

The proposed amendment to the remuneration policy entails introducing a requirement that Board members who have not yet achieved this minimum holding requirement invest one third of the short-term incentive they receive (net after tax and other deductions) in AkzoNobel shares. As further encouragement to build up the minimum holding requirement, Board members who invest a second third of their short-term incentive in shares will have such shares matched by the company, one on one, after three years from the date of purchase of the shares (up to a maximum of one third of the short-term incentive), on condition that the Board member showed a sustained performance during the three-year period. The Supervisory Board will use its discretion to decide whether this condition has been met.

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

The Supervisory Board will propose a further amendment to the remuneration policy at the Annual General Meeting of shareholders for 2011. As a further improvement to the way in which the sustainability performance of the company is measured for the purposes of the performance share plan, the proposal is to use the percentile score of the company in the SAM ranking instead of the ranking in the Dow Jones Sustainability Index. This change will increase the transparency and robustness of the system applied.

Pensions

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

Employment agreements

Employment agreements for members of the Board of Management appointed in 2004 and subsequent years are concluded for a period of four years in accordance with the Dutch Corporate Governance Code. After this initial term, reappointments may take place for consecutive periods of four years each or, if applicable, up until their date of retirement if less than four years from their reappointment.

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.

If reappointment does not take place and the employment agreement between the Board member concerned and Akzo Nobel N.V. is not continued, the Board member will be entitled to a severance payment, established in accordance with the Dutch Corporate Governance Code. The employment agreement for Mr. Wijers, who was appointed before 2004, has not been adjusted in this respect (see page 65). However, the Supervisory Board has the intention to take the provisions of the Code as guidance for establishing severance payment if that were to occur.

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

Loans

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

Valuation[1] shares Board of Management

Unconditional shares, vested

Series 2005 – 2007 / **Series 2006 – 2008**

	Series 2005 – 2007 Conditional share grant		Number of vested shares		End of lock up period (2010)		Series 2006 – 2008 Conditional share grant		Number of vested shares		End of lock up period (2011)	
Number of shares	Number	Value at grant	Number	Value at vesting	Number	Value	Number	Value at grant	Number	Value at vesting	Number	Value
Hans Wijers	33,000	1,035,540	35,898	1,966,851	26,548	1,231,827	23,000	900,450	17,536	516,260	8,656	402,417
Leif Darner	22,000	690,360	23,932	1,311,234	20,342	943,869	15,100	591,165	11,531	339,473	7,470	347,280
Rob Frohn	22,000	690,360	23,932	1,311,234	11,794	547,242	15,100	591,165	11,531	339,473	11,531	536,076
Keith Nichols	–	–	–	–	–	–	4,198	164,352	3,055	89,939	1,943	90,330

	Series 2007 – 2009 Conditional share grant		Number of vested shares		End of lock up period (2012)		Series 2008 – 2010 Conditional share grant		Number of vested shares
Number of shares	Number	Value at grant	Number	Value at vesting	Number	Value	Number	Value at grant	Number
Hans Wijers	23,000	1,062,140	34,680	1,609,152	17,090	NA	16,800	920,472	–
Leif Darner	15,100	697,318	22,768	1,056,435	14,689	NA	11,600	635,564	–
Rob Frohn	15,100	697,318	22,768	1,056,435	11,220	NA	11,600	635,564	–
Keith Nichols	4,250	196,265	6,408	297,331	3,626	NA	8,733	478,481	–
Tex Gunning	–	–	–	–	–	–	3,867	211,873	–

Conditional shares, not vested

Series 2009 – 2011

	Conditional share grant at target	
Number of shares	Number	Value at grant
Hans Wijers	36,600	1,077,504
Leif Darner	27,400	806,656
Rob Frohn	27,400	806,656
Keith Nichols	27,400	806,656
Tex Gunning	27,400	806,656

Series 2010 – 2012

	Conditional share grant at target	
Number of shares	Number	Value at grant
Hans Wijers	24,400	1,132,160
Leif Darner	18,300	849,120
Rob Frohn	18,300	849,120
Keith Nichols	18,300	849,120
Tex Gunning	18,300	849,120

Overview performance-related stock options Board of Management

Number of shares	2006 – 2013 Conditional stock option grant	Fair value at grant	Number of vested stock options	Intrinsic value at vesting[2]	2007 – 2014 Conditional stock option grant	Fair value at grant	Number of vested stock options	Intrinsic value at vesting[2]
Hans Wijers	19,800	195,200	19,800	–	19,800	235,224	19,800	–
Leif Darner	13,000	128,200	13,000	–	13,000	154,440	13,000	–
Rob Frohn	13,000	128,200	13,000	–	13,000	154,440	13,000	–
Keith Nichols	3,000	29,600	3,000	–	3,750	44,550	3,750	–

[1] Values based on the share price on January 1 of the relevant financial year (face value).
[2] Share price at moment of vesting minus exercise price.

Risk management

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

We foster a high awareness of business risks and internal control, geared to safeguarding our risk appetite and providing transparency in our operations. The Board of Management (as of January 1, 2011, supported by the other members of the Executive Committee, see Stategy section) is responsible for managing the risks associated with our activities and, hence, for the establishment and adequate functioning of appropriate risk management and control systems (see Statement of the Board of Management in the Stategy section).

AkzoNobel risk management framework

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

Risk appetite

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

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

- **Operational:** With respect to operational risks, we continuously strive to minimize these risks. Our risk appetite is very limited, governed by our ambition to strive for top quartile safety performance, top quartile performance in diversity, employee engagement and talent development, top quartile eco-efficiency rates and a top three position in the relevant Dow Jones Sustainability Index.

- **Financial:** With respect to financial risks we have a prudent financing strategy and a strict cash management policy and are committed to maintaining strong investment grade credit ratings. Our financial risk management and risk appetite for several financial risks are explained in more detail in note 24 in the Financial statements.

- **Compliance:** AkzoNobel has a "zero tolerance" policy in relation to breaches of our Code of Conduct.

Risk management in 2010

The Enterprise Risk Management process provides top-down coverage of the organization and ensures that we focus on what we consider to be the areas of major risk exposure. Therefore, scoping of our 2010 risk management activities was performed by the Board of Management, 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 2010, process improvements were made with respect to use of risk knowledge for trend detection and reporting.

During 2010, we held more than 120 facilitated Enterprise Risk Management workshops. More than 5,000 risk scenarios were identified and prioritized by the responsible managers, their management teams and functional experts. In addition, in selected areas with low risk tolerance, dedicated risk assessments were performed to safeguard our risk appetite. All major risks were responded to by the unit that identified them. The outcome of all risk assessments was reported to the next higher management level as part of our Business Planning & Review cycle. Risk profiles and trends were shared by managers across the company. In the bottom-up consolidation process, approximately 20 percent of the risks were taken to the next management level, where they were re-assessed, either because of the materiality of the risk exposure and/or because of the accumulated effect.

The major risk factors for our company, identified through risk consolidation and the subsequent risk assessment by the Board of Management, are presented in the following paragraph. As a result of market conditions, the risk related to sourcing of raw materials increased in 2010. Furthermore, in view of our accelerated growth ambitions and competitive conditions in the relevant labor markets, attraction and retention of talent has become a top five risk.

Major risk factors

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

An overview of our major risk factors is provided below, where the five risks that we do currently assess as the most significant for the forthcoming five years are indicated.

Major risk factors assessed by AkzoNobel (top five risks indicated)

	Strategic	Operational	Financial	Compliance
Internal	• Implementation of strategic agenda • Identification of major transforming technologies	• Attraction and retention of talent • Management of change • Production process risks		
External	• Adapting to economic conditions • International operations • Ensuring stakeholder support	• Sourcing of raw materials • Energy pricing and emission trading rights • Product liability • Environmental liabilities	• Access to funding • Contribution to pension funds • Decline of asset values • Fluctuations in exchange rates	• Complying with laws and regulations

All of the risks listed above are explained in more detail in the following pages.

Internal risks

Strategic

Implementation of strategic agenda

A failure to properly and fully implement our strategic agenda could adversely affect our company and its businesses.

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

Strategic

Identification of major transforming technologies

We may not be able to identify major transforming technologies in a timely manner, which could lead to loss of our leadership positions.

Risk corrective actions
The risk of missing relevant technology developments is mitigated in three ways. Firstly, we adequately support research and development with a spend level at 2.3 percent of revenue, with more than 45 percent spent on major projects and technology developments. Secondly, our key projects have detailed technology roadmaps which assess the most appropriate routes. Thirdly, we are actively developing our open (external) innovation capability to identify and utilize the most promising external technologies.

Operational **Top five risk**

Attraction and retention of talent

Our ambitious growth plans may not be achieved if we fail to attract and retain the right people.

Risk corrective actions
Growing our business calls for the need to grow our people. Therefore, AkzoNobel – in the context of the company's Talent Factory initiative – puts emphasis on attracting, retaining, motivating and educating staff. These efforts are supported by a strong Human Resources function and HR instruments such as performance appraisals, the employee survey and leadership identification and review, as well as leadership development, to optimize support to our business. We provide clarity in the working environment through information and communication programs. Special focus is dedicated to high growth markets. Remuneration packages may include long and short-term incentives. However, the Excecutive Committee ensures that employees are not incited to act in their own interest and take risks that are not in keeping with the company's strategy and risk appetite.

Operational

Management of change

If our management of change is not adequate, this could have a negative impact on productivity and customer focus.

Risk corrective actions
We undertake various restructuring and investment projects that require significant change management and project management expertise. Risk management is an integral part of project management excellence. Senior management is involved in the management of critical projects that are prioritized and supervised by the Executive Committee to ensure an aligned and integrated vision and thrust from the top for the company's change agenda. To drive human resources/organizational development and supply chain/sourcing operational excellence, two dedicated members were appointed on the newly established Executive Committee.

Operational

Production process risks

Risks in production processes can adversely affect our results of operations.

Risk corrective actions
We mitigate production risks by spreading out production and operating an adequate inventory policy. This is combined with business continuity planning and appropriate risk transfer arrangements (for example insurances). To achieve our sustainability ambitions, during 2010 we carried out a comprehensive global operational eco-efficiency review at 75 sites. This represented more than 80 percent of the AkzoNobel ecological footprint and focused on four crucial areas: waste management, water consumption, volatile organic compounds (VOCs) and energy. We also raised our safety ambitions in 2010 and want to achieve top quartile safety performance. To achieve this target, we have increased management attention on safety, implemented enhanced process safety, asset integrity and occupational health standards and improved the Health, Safety, Environment & Security audit process.

External risks

Strategic **Top five risk**

Adapting to economic conditions

Failure to adapt adequately and in time to economic conditions can have a harmful impact on our business and results of operations.

Risk corrective actions
One of the principal uncertainties facing our company is the development of the global economy. Economic recovery remains fragile and it continues to be difficult to predict customer demand. Construction and housing markets might remain soft in mature markets, while in high growth markets there is potential for bubble formation. On the positive side, we have seen evidence of sustained industrial demand beyond re-stocking in 2010. For planning and budgeting we apply various scenarios to be best prepared for further changes in economic conditions. We have a strong balance sheet to fund growth. To help drive our growth agenda, we are focusing on EVA and cash, delivering further operating working capital improvement, disciplined capital allocation for organic growth, selective acquisitions, building capabilities and processes to support our "leading" ambition and a prudent financing policy in still challenging capital markets.

Strategic **Top five risk**

International operations

Because AkzoNobel conducts international operations, we are exposed to a variety of risks, many of them beyond our control, which could adversely affect our business.

Risk corrective actions
We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Our aspirations to fuel growth in high growth markets – double revenue in China, create a significant footprint in India, outgrow competition in Brazil and expand in the Middle East and sub-Saharan Africa – will further expose us to this risk. Unfavorable political, social or economic developments and developments in laws, regulations and standards could adversely affect our businesses and results of operations. Political, economic and legislative conditions are carefully monitored. The Executive Committee decides on all significant investments and the countries and industry segments in which AkzoNobel conducts its business.

Strategic

Ensuring stakeholder support

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

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

Operational **Top five risk**

Sourcing of raw materials

Inability to access sufficient raw materials, growth in cost and expenses for raw materials, energy and changes in product mix may adversely influence the future results and growth of our company.

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

Operational

Energy pricing and emission trading rights

Differences in energy prices pose a risk to the competitiveness of several of our chemical businesses.

Risk corrective actions
We operate some energy intensive businesses. A non-level playing field for energy and emission trading rights can affect the competitive position of these businesses. We are pro-actively managing energy usage and costs. We operate several cogeneration units which enable us to make efficient use of combined heat and power. We are implementing our carbon policy, working on energy efficiency programs and investing in energy from waste and biomass. Carbon management plans are closely monitored and strategically managed. We have policies for energy contracts and have long-term purchase contracts in place (see note 24 in the Financial statements).

Operational

Product liability

Product liability claims could adversely affect our company's business and results of operations.

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

External risks

Operational

Environmental liabilities

We continue to be exposed to the risk of environmental liabilities from past and current businesses.

Risk corrective actions
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 and possible personal injury and damage claims resulting therefrom. Regulations and standards are becoming increasingly stringent. We are committed to conducting all our activities in the safest and most responsible manner. 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 also note 21 in the Financial statements).

Financial **Top five risk**

Access to funding

Inability to have access, control and visibility of liquidity by AkzoNobel and/or its partners in the value chain may limit our growth rate and have an adverse affect on our business and results.

Risk corrective actions
Our balance sheet and debt profile are strong. We are monitoring financial markets, critical suppliers and customers closely. We have a prudent financing strategy and a strict cash management policy, which are managed by our centralized treasury function (see note 24 in the Financial statements). We are committed to maintaining strong investment grade credit ratings. Ratings at year-end were Standard & Poor's BBB+ (stable outlook) and Moody's Baa1 (stable outlook).

Financial

Contributions to pension funds

Various external developments may affect assets and liabilities of pension funds, causing higher post-retirement charges and pension premiums payable.

Risk corrective actions
We practice pro-active pension risk management. Our pension policy is to offer defined contribution schemes to new employees and, where appropriate, to existing employees. Our biggest defined benefit schemes have been closed to new entrants since 2001 for ICI, and 2004 for AkzoNobel. We measure and monitor our pension risks frequently and adopt investment strategies designed to reduce financial risks. In 2010, cash pension top-ups were around €375 million and a similar amount is expected for 2011. We are committed to further de-risking over time. Pension activities are overseen by the Board Committee Pensions (see note 17 in the Financial statements).

Financial

Decline of asset values

Impairments and book losses could adversely affect our financial results.

Risk corrective actions
In view of the current financial market conditions, asset value decline offers both opportunities and threats to our company. We are actively participating in industry consolidation. As such we may perform selective acquisitions and may hold assets for sale. Acquisition and divestment opportunities and the management of assets held for sale are continuously monitored by the Executive Committee. We do impairment tests for intangibles with indefinite lives (goodwill, some brands) every year and whenever an impairment trigger exists. For tangibles and other fixed assets, we do impairment tests whenever an impairment trigger exists (see note 1 in the Financial statements).

Financial

Fluctuations in exchange rates

Exchange rate fluctuations can have a harmful impact on our financial results.

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

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 and customs and practices in the countries in which we operate. These affect a wide range of areas. For instance, with respect to antitrust laws, we are defending civil damage claims in relation to alleged antitrust violations in the European Union and the US (see note 21 in the Financial statements). We are dedicated to minimizing such risks with special emphasis on the application of our Code of Conduct. We operate under a comprehensive competition law compliance program including training, monitoring and assessment. We advertise the use of our company-wide corporate complaints procedure called Speak Up!, which enables all our employees to report irregularities in relation to our Code of Conduct.

AkzoNobel on the **capital market**

- Proposed dividend of €1.40 per share, a 4 percent increase
- Net income per share €3.23, up 163 percent
- Two Capital Market Days were held during 2010

Close dialog with the capital markets

We attach great value to maintaining an open dialog with the financial community in order to promote transparency.

Management gave presentations at a number of industry conferences, as well as during meetings with investors and analysts. In 2010, we organized two Capital Market Days. In September we presented the Value and Values medium-term growth ambitions for AkzoNobel, followed by the Performance Coatings Teach-in in November.

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

Dividend policy

AkzoNobel's dividend policy changed in 2010. Subject to shareholder approval, we want to pay a stable to rising dividend each year, following our expected growth in cash generation.

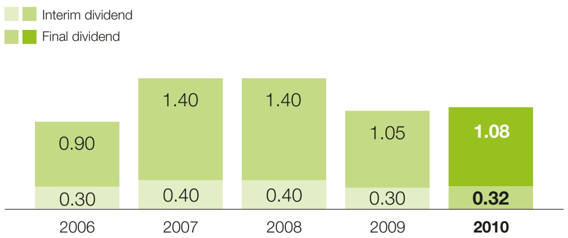
Proposed dividend of €1.40 per share

The Board of Management proposes a dividend of €1.40 per common share. AkzoNobel's shares will be trading ex-dividend as of April 29, 2011. In compliance with the listing requirements of Euronext Amsterdam, the record date will be May 3, 2011.

The dividend as proposed to the 2011 Annual General Meeting of shareholders will be payable as of May 10, 2011.

The dividend paid over the last five years is shown in the graph below.

Dividend paid in € per share



Share price performance

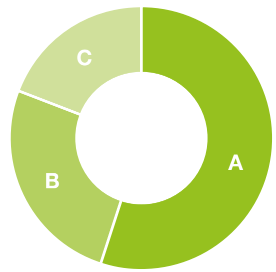
Our share price increased 0.2 percent in 2010, underperforming both the DJ Stoxx Chemicals and AEX indices. The share price performance relative to these indices for a one-year and a five-year period is shown in the graphs on the opposite page.

Analyst recommendations

At year-end 2010, AkzoNobel was covered by 31 equity brokers and the following analyst recommendations were applicable:

Analyst recommendations in %

A Buy	55
B Hold	26
C Sell	19



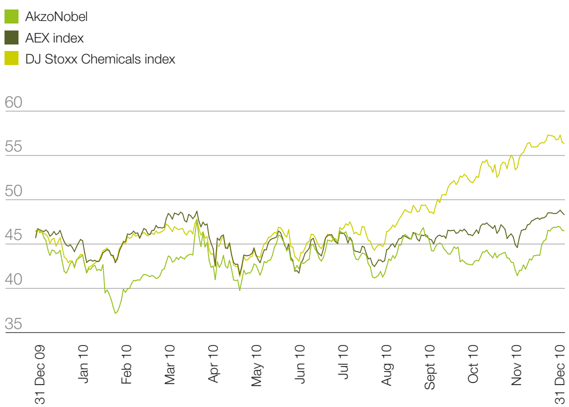
Listings

AkzoNobel's common shares are listed on the stock exchange of Euronext Amsterdam. AkzoNobel is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 3.7 percent at year-end 2010. In 2010, 311 million AkzoNobel shares were traded on Euronext Amsterdam (2009: 312 million). In 2007, the company decided to delist from the NASDAQ stock exchange and deregister from the SEC. AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US.

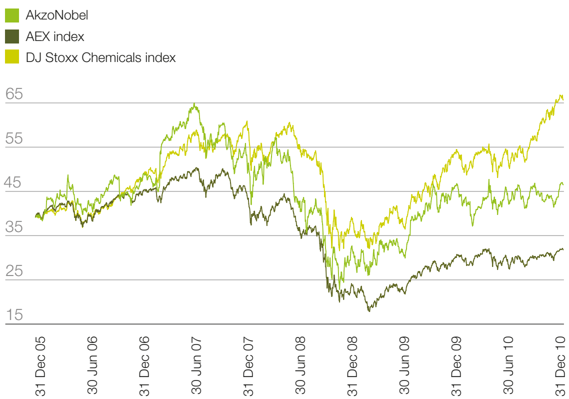
See the table below for stock codes and ticker symbols:

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

Share price performance 2010 AkzoNobel share price in €



Share price performance 2006 – 2010
AkzoNobel share price in €



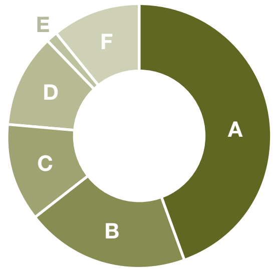
Key share data

	2008	2009	**2010**
Year-end (share price in €)	29.44	46.40	46.49
Year-high (share price in €)	57.11	46.52	47.70
Year-low (share price in €)	22.85	26.01	37.18
Year-average (share price in €)	42.57	35.92	43.39
Average daily trade (in € millions)	94.0	43.4	52.1
Average daily trade (in millions of shares)	2.2	1.2	1.2
Number of shares outstanding at year-end (in millions)	231.7	232.2	233.5
Market capitalization at year-end (in € billions)	6.8	10.8	10.9
Net income per share (in €)	(4.38)[1]	1.23	3.23
Dividend per share (in €)	1.80	1.35	1.40
Dividend yield (in %)	4.2	3.8	3.2
Price-earnings ratio (P/E ratio)	(6.7)[1]	37.7	14.4

[1] The 2008 net income per share includes the non-cash impairment of ICI intangibles of €1.2 billion after tax and incidental charges of €0.6 billion.

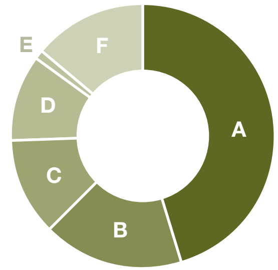
Distribution of shares 2009 at year-end in %

A North America	44.6
B UK/Ireland	19.9
C The Netherlands	12.1
D Rest of Europe	11.4
E Rest of world	1.4
F Undisclosed	10.6



Distribution of shares 2010 at year-end in %

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



Broad base of international shareholders

AkzoNobel, which has a 100 percent free float, has a broad base of international shareholders. An analysis of the shareholder structure carried out in August 2010 showed that at 45 percent, the US and Canada make up the largest regional group of institutional investors, followed by investors from the UK and Ireland, with 17 percent. Shareholders from the Netherlands hold 12 percent of AkzoNobel shares, while a further 11 percent are held by institutional investors from the rest of Europe.

Around 7 percent of the company's share capital is held by private investors, most of whom are resident in the Netherlands.

Major shareholders

Both Paulson & Co. and MFS Investment Management notified the Netherlands Authority for the Financial Markets (AFM) that they held more than 5 percent of the issued shares in Akzo Nobel N.V. by December 31, 2010.

This information was provided in line with the Netherlands Financial Markets Supervision Act ("Wet op het financieel toezicht"). The most recent information can be found on the website of the AFM under notifications substantial holdings. The Financial Markets Supervision Act imposes a duty to disclose percentage holdings in the capital and/or voting rights in the company when such holding reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent. Such disclosure must be made to the AFM without delay, which then notifies the company.

Credit rating and outlook

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

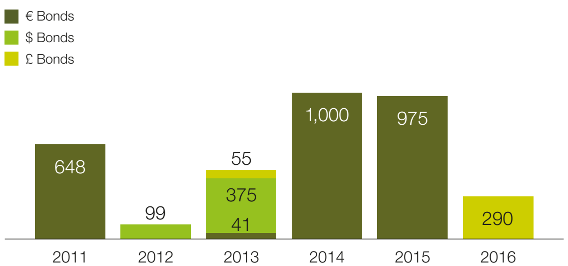
Rating agency	Long-term rating	Outlook
Moody's [1]	Baaa1	stable
Standard & Poor's [2]	BBB+	stable

[1] Rating affirmed September 3, 2010; outlook changed from negative to stable.
[2] Rating affirmed August 27, 2010, outlook changed from negative to stable.

Bonds

During 2010, no new bonds were issued. We redeemed $40 million in floating rate loan notes that matured during the year. For a full overview of our bonds, please visit the Bond & Credit information section of our corporate website: www.akzonobel.com/investor_relations

Debt maturity in millions



Investor relations policy

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

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

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

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

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

Contact information

Our corporate website www.akzonobel.com provides all information which is required to be published. If you have questions or comments about investor relations matters, please contact us:

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

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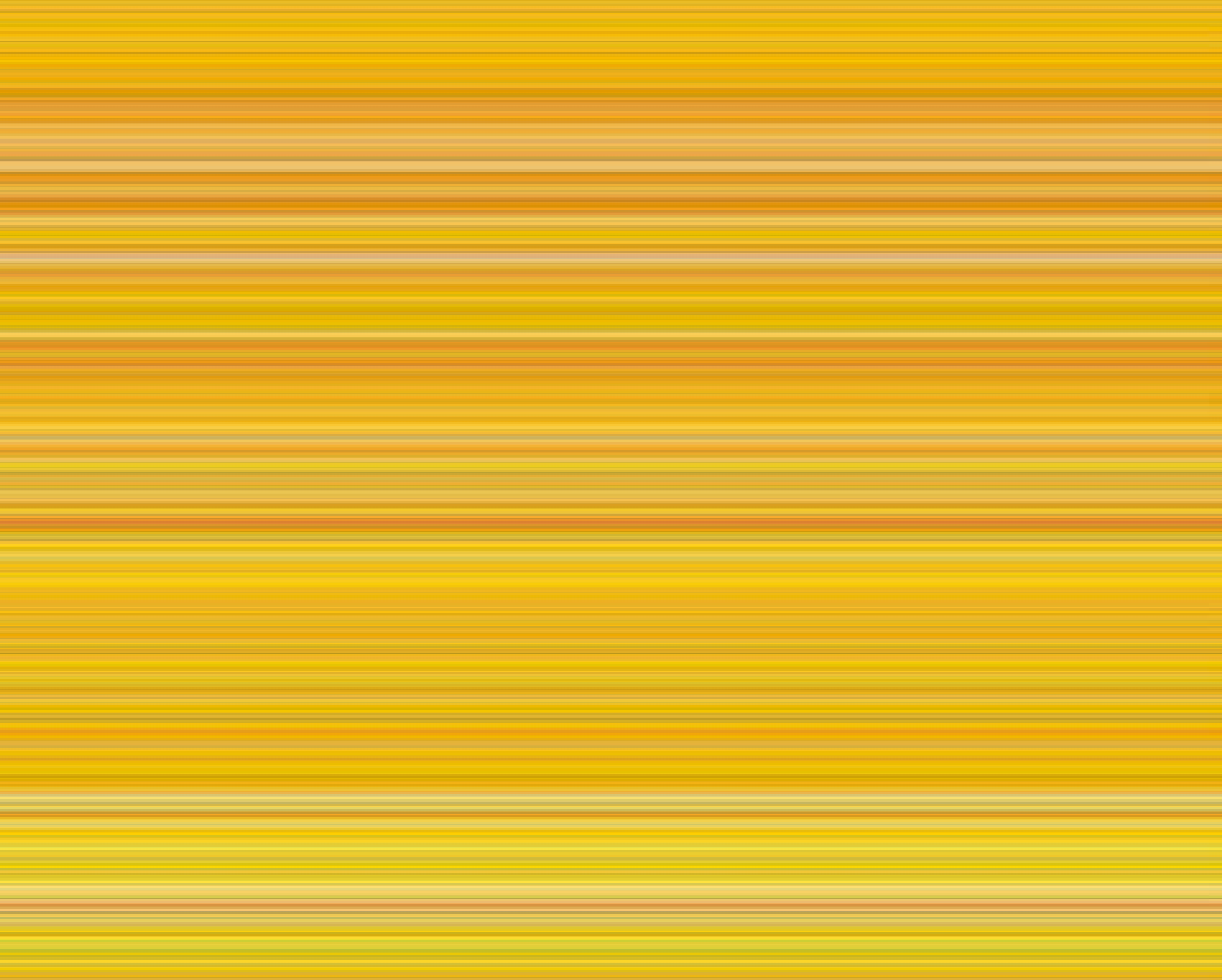


Financial statements

Consolidated statement of income

for the year ended December 31

In € millions	Note	2009[1]		2010	
Continuing operations					
Revenue			13,028		14,640
Cost of sales			(7,788)		(8,672)
Gross profit			**5,240**		**5,968**
Selling expenses		(3,086)		(3,341)	
General and administrative expenses		(1,024)		(1,103)	
Research and development expenses		(327)		(334)	
Other operating income/(expenses)	4	52		29	
			(4,385)		**(4,749)**
Operating income			**855**		**1,219**
Financing income	5		58		51
Financing expenses related to pensions	5		(171)		(100)
Other financing expenses	5		(292)		(278)
Results from associates and joint ventures	11		21		25
Profit before tax			**471**		**917**
Income tax	6		(141)		(170)
Profit for the period from continuing operations			**330**		**747**
Discontinued operations					
Profit for the period from discontinued operations	7		32		90
Profit for the period			**362**		**837**
Attributable to					
Shareholders of the company			285		754
Non-controlling interests			77		83
Profit for the period			**362**		**837**
Earnings per share, in €					
Continuing operations:					
– Basic	16		1.09		2.85
– Diluted	16		1.08		2.83
Discontinued operations:					
– Basic	16		0.14		0.38
– Diluted	16		0.13		0.38
Total operations:					
– Basic	16		1.23		3.23
– Diluted	16		1.21		3.21

[1] Restated to present National Starch as a discontinued operation.

Consolidated statement of comprehensive income

for the year ended December 31

In € millions	2009	2010
Profit for the period	**362**	**837**
Other comprehensive income		
Exchange differences arising on translation of foreign operations	383	827
Cash flow hedge reserve	48	50
Revaluation reserve related to step acquisitions	7	–
Tax relating to components of other comprehensive income	(38)	(35)
Other comprehensive income for the period (net of tax)	**400**	**842**
Comprehensive income for the period	**762**	**1,679**
Comprehensive income attributable to		
Shareholders of the company	688	1,523
Non-controlling interests	74	156
Comprehensive income for the period	**762**	**1,679**

Consolidated balance sheet

at end of year, before allocation of profit

In € millions	Note	2009		2010	
Assets					
Non-current assets					
Intangible assets	9	7,388		7,308	
Property, plant and equipment	10	3,474		3,384	
Deferred tax assets	6	793		794	
Investment in associates and joint ventures	11	175		175	
Other financial non-current assets	12	815		1,008	
Total non-current assets			**12,645**		**12,669**
Current assets					
Inventories	13	1,441		1,678	
Current tax assets	6	102		108	
Trade and other receivables	14	2,564		2,788	
Cash and cash equivalents	15	2,128		2,851	
Total current assets			**6,235**		**7,425**
Total assets			**18,880**		**20,094**
Equity and liabilities					
Equity					
Shareholders' equity		7,775		8,984	
Non-controlling interests		470		525	
Total equity	**16**		**8,245**		**9,509**
Non-current liabilities					
Provisions	17	1,919		1,855	
Deferred tax liabilities	6	674		589	
Long-term borrowings	18	3,488		2,880	
Total non-current liabilities			**6,081**		**5,324**
Current liabilities					
Short-term borrowings	19	384		907	
Current tax liabilities	6	507		456	
Trade and other payables	20	2,866		3,305	
Current portion of provisions	17	797		593	
Total current liabilities			**4,554**		**5,261**
Total equity and liabilities			**18,880**		**20,094**

Consolidated statement of cash flows

for the year ended December 31

In € millions	2009[1]		2010	
Profit for the period	362		837	
Income from discontinued operations	(32)		(90)	
Adjustments to reconcile earnings to cash generated from operating activities				
Amortization/depreciation	559		590	
Impairment losses	63		50	
Financing income and expenses	405		327	
Results from associates and joint ventures	(21)		(25)	
Pre-tax result on divestments	(48)		(52)	
Income tax	141		170	
Changes in working capital[2]	650		(95)	
Changes in provisions	(493)		(651)	
Interest paid	(170)		(265)	
Income tax paid	(196)		(277)	
Net cash from operating activities		**1,220**		**519**
Capital expenditures	(513)		(534)	
Interest received	52		81	
Dividends from associates and joint ventures	17		19	
Acquisition of consolidated companies[3]	(78)		(143)	
Proceeds from sale of interests[3]	23		145	
Other changes	(30)		(47)	
Net cash from investing activities		**(529)**		**(479)**
Proceeds from borrowings	1,391		179	
Borrowings repaid	(1,216)		(212)	
Acquisition of non-controlling interests	–		(54)	
Issue of shares for stock option plan	4		9	
Dividends	(454)		(403)	
Net cash from financing activities		**(275)**		**(481)**
Net cash used for continuing operations		**416**		**(441)**
Cash flows from discontinued operations		19		1,095
Net change in cash and cash equivalents of continued and discontinued operations		**435**		**654**
Cash and cash equivalents at January 1		1,449		1,919
Effect of exchange rate changes on cash and cash equivalents		35		110
Cash and cash equivalents year-end[4]		**1,919**		**2,683**

[1] Restated to present National Starch as a discontinued operation.
[2] Comprises an increase of €216 million in trade and other receivables (2009: decrease of €355 million), an increase of €256 million in inventories (2009: decrease €356 million) and an increase of €377 million in trade and other payables (2009: decrease of €61 million).
[3] Net of cash and cash equivalents acquired or disposed of.
[4] Consists of €2,851 million cash and cash equivalents (2009: €2,128 million) and €168 million debt to credit institutions (2009: €209 million).

	Attributable to shareholders of the company								
In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Revaluation reserve	Cumulative translation reserve	Other (statutory) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2009	**463**	**–**	**(49)**	**–**	**(1,130)**	**8,179**	**7,463**	**450**	**7,913**
Profit for the period	–	–	–	–	–	285	285	77	362
Other comprehensive income	–	–	8	7	388	–	403	(3)	400
Reclassification into the statement of income	–	–	40	–	(2)	–	38	–	38
Tax on other comprehensive income	–	–	(5)	–	(33)	–	(38)	–	(38)
Comprehensive income	**–**	**–**	**43**	**7**	**353**	**285**	**688**	**74**	**762**
Dividend paid	–	–	–	–	–	(395)	(395)	(59)	(454)
Equity-settled transactions	–	–	–	–	–	15	15	–	15
Issue of common shares	2	2	–	–	–	–	4	–	4
Acquisitions and divestments	–	–	–	–	–	–	–	5	5
Balance at December 31, 2009	**465**	**2**	**(6)**	**7**	**(777)**	**8,084**	**7,775**	**470**	**8,245**
Profit for the period	–	–	–	–	–	754	754	83	837
Other comprehensive income	–	–	47	–	774	–	821	73	894
Reclassification into the statement of income	–	–	3	–	(20)	–	(17)	–	(17)
Tax on other comprehensive income	–	–	(15)	–	(20)	–	(35)	–	(35)
Comprehensive income	**–**	**–**	**35**	**–**	**734**	**754**	**1,523**	**156**	**1,679**
Dividend paid	–	–	–	–	–	(320)	(320)	(83)	(403)
Equity-settled transactions	–	–	–	–	–	27	27	–	27
Issue of common shares	2	7	–	–	–	–	9	–	9
Acquisitions and divestments	–	–	–	–	–	(30)	(30)	(18)	(48)
Balance at December 31, 2010	**467**	**9**	**29**	**7**	**(43)**	**8,515**	**8,984**	**525**	**9,509**

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, bodyshops and can makers. Our Specialty Chemicals products are used in a wide variety of everyday products such as ice cream, soups, disinfectants, plastics, soaps, detergents, cosmetics, paper and asphalt.

Information per Business Area

In € millions	Revenue from third parties		Group revenue		EBITDA[1]		Amortization and depreciation		Incidentals		Operating income	
	2009[2]	2010	2009[2]	2010	2009[2]	2010	2009[2]	2010	2009[2]	2010	2009[2]	2010
Decorative Paints	4,546	4,931	4,573	4,968	487	548	(189)	(205)	(165)	(68)	133	275
Performance Coatings	4,082	4,752	4,112	4,786	594	647	(102)	(107)	(59)	(53)	433	487
Specialty Chemicals	4,336	4,915	4,359	4,943	738	939	(248)	(260)	(68)	(75)	422	604
Corporate and other	64	42	(16)	(57)	(129)	(170)	(20)	(18)	16	41	(133)	(147)
Total	**13,028**	**14,640**	**13,028**	**14,640**	**1,690**	**1,964**	**(559)**	**(590)**	**(276)**	**(155)**	**855**	**1,219**

In € millions	Invested capital		Total assets		Total liabilities		Capital expenditures		Impairment	
	2009[2]	2010	2009[2]	2010	2009[2]	2010	2009[2]	2010	2009[2]	2010
Decorative Paints	6,206	6,404	7,630	8,167	2,042	2,222	112	154	13	19
Performance Coatings	1,817	2,122	2,969	3,550	993	1,242	61	87	4	5
Specialty Chemicals	3,106	3,457	4,100	4,618	953	1,110	319	273	37	16
Corporate and other	603	735	4,181	3,759	6,647	6,011	21	20	9	10
Total	**11,732**	**12,718**	**18,880**	**20,094**	**10,635**	**10,585**	**513**	**534**	**63**	**50**

Regional information

In € millions	Revenue by region of destination		Intangible assets and property, plant and equipment		Capital expenditures	
	2009[2]	2010	2009	2010	2009[2]	2010
The Netherlands	792	803	1,079	1,035	104	84
Germany	1,088	1,160	885	710	19	22
Sweden	423	468	422	461	37	19
UK	768	798	1,242	1,250	22	28
Other European countries	3,095	3,398	2,174	2,290	69	83
US and Canada	2,600	2,954	2,265	1,993	55	63
Latin America	1,147	1,394	765	778	30	30
China	997	1,249	1,013	1,238	143	147
Other Asian countries	1,585	1,780	905	821	27	48
Other regions	533	636	112	116	7	10
Total	**13,028**	**14,640**	**10,862**	**10,692**	**513**	**534**

[1] EBITDA is operating income before incidentals and amortization/depreciation.
[2] Restated to present National Starch as a discontinued operation.

Note 1 Summary of significant accounting policies

General information

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

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

On February 16, 2011, 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 and reclassification

We adopted the IFRS 3 (revised) “Business Combinations” and the consequential amendment to IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates” and IAS 31 “Interests in Joint Ventures” prospectively for business combinations for which the acquisition date is on or after January 1, 2010. These standards introduced changes in the accounting for business combinations that will impact the amount of goodwill recognized and the results reported in the period of acquisition and thereafter:

- Acquisition related costs are expensed as incidental item on the line other operating income/(expenses) in the statement of income and no longer form part of the acquisition cost
- For each business combination, the non-controlling interest is now measured either at fair value or at the proportionate share in the identifiable assets of the acquired company. Under the old IFRS 3, the non-controlling interest (formerly known as minority interest) was measured at the proportionate share in the identifiable assets of the acquired company
- If a business combination is achieved in stages, the acquisition date fair value of the previously held equity interest in the acquired company (still an associate or joint venture before this acquisition date) is remeasured to fair value at the acquisition date through the statement of income. Previously, business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect earlier recognized goodwill
- Any contingent consideration to be transferred will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the consideration, which is deemed to be an asset or a liability, will be recognized in accordance with IAS 39, generally in the statement of income. Under the old IFRS 3, contingent consideration was recognized, if and only if, the company had a present obligation and the economic outflow was probable and a reliable estimate was determinable. Subsequent adjustments were recognized as part of goodwill
- The effects of all transactions with non-controlling interests are recorded in equity if there is no change in control; these transactions will no longer result in goodwill.

We made reclassifications in the 2009 figures to align to our 2010 structure and presentation. This resulted in limited reclassifications between the Business Areas which did not impact profit for the period. We divested National Starch and reclassified its results into discontinued operations. As a consequence, the statements of income and cash flows have been restated.

Discontinued operations (note 7)

A discontinued operation is a component of our business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of income and the statement of cash flows are reclassified as if the operation had been discontinued from the start of the comparative period.

Assets and liabilities are classified as held for sale if it is highly probable that the carrying value will be recovered through a sale transaction within one year rather than through continuing use. When reclassifying assets and liabilities as held for sale, we recognize the assets and liabilities at the lower of their carrying value or fair value less selling costs. Assets held for sale are not depreciated but tested for impairment. Impairment losses on assets and liabilities held for sale are recognized in the statement of income.

Use of estimates

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the revision period and future periods, if the changed estimates affect both current and future periods.

The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation are described below. Changes in the assumptions and estimates as described could result in significantly different results than those recorded in the financial statements.

Business combinations (note 2)

In business combinations, identifiable assets and liabilities, and contingent liabilities are recognized at their fair values at the acquisition date. Determining the fair value requires significant judgments on future cash flows to be generated. The fair value of brands, patents and customer lists acquired in a business combination is estimated on generally accepted valuation methods. These include the relief-from-royalty method, the incremental cash flow method and the multi-period excess earnings method. The fair value of property, plant and equipment acquired in a business combination is based on estimated market values. The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin, based on the effort required to complete and sell the inventories.

Impairment of intangible assets and property, plant and equipment (notes 9, 10)

We assess whether the carrying values of intangible assets and property, plant and equipment are recoverable. In this assessment, we make significant judgments and estimates to determine if the future cash flows expected to be generated by those assets are less than their carrying value (value in use). The data necessary for the impairment tests are based on our strategic plans and our estimates of future cash flows, which require estimating revenue growth rates and profit margins. The estimated cash flows are discounted using a net present value technique with business-specific discount rates.

Accounting for income tax (note 6)

As part of the process of preparing consolidated financial statements, we estimate income tax in each of the jurisdictions in which we operate. This process involves estimating actual current tax expense and temporary differences between carrying amounts of assets and liabilities for tax and financial reporting purposes. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. We assess the likelihood that deferred tax assets will be recovered from future taxable income.

Provisions (note 17)

By their nature, provisions and contingent liabilities are dependent upon estimates and assessments as to whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean-up. The provisions for antitrust cases are based on an estimate of the costs, fines, and civil damages, taking into account legal advice and the current facts and circumstances. Provisions for other litigation are also based on an estimate of the costs, taking into account legal advice and information currently available. Provisions for termination benefits and exit costs also involve management's judgment in estimating the expected cash outflows for severance payments and site closures or other exit costs.

Accounting for pensions and other post-retirement benefits (note 17)

Post-retirement benefits represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets. The accounting requires us to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates and future healthcare costs. Periodically, we consult with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred.

Statement of cash flows

We have used the indirect method to prepare the statement of cash flows. Cash flows in foreign currencies have been translated at transaction rates. Exchange rate differences affecting cash items are presented separately in the statement of cash flows. Receipts and payments with respect to income tax are included in cash from operating activities. Interest payments are included in cash from operating activities while interest receipts are included in cash from investing activities. The costs of acquisition of subsidiaries, associates and joint ventures, and other investments, as long as paid in cash, are included in cash from investing activities. Acquisitions or divestments of subsidiaries are presented net of cash and cash equivalents acquired or disposed of, respectively. Acquisition of non-controlling interests are reported in cash from financing activities. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged items.

Earnings per share

We present basic and diluted earnings per share (EPS) for our common shares. Basic EPS is calculated by dividing the profit or loss attributable to holders of our common shares by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to shareholders of common shares by the weighted average number of common shares outstanding, including the effects for potentially dilutive common shares, which comprise of stock options and performance-related shares granted to employees.

Operating segments

We determine and present operating segments ("Business Areas") on the information that internally is provided to the Board of Management, the body that was our chief operating decision maker during 2010. A Business Area is a component that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with other Business Areas within the company. Operating results of a Business Area have been reviewed regularly by the Board of Management 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 Board of Management 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	
	2009	**2010**	2009	**2010**
US dollar	1.440	1.333	1.394	1.328
Pound sterling	0.893	0.861	0.890	0.858
Swedish krona	10.268	8.972	10.608	9.537
CNY	9.832	8.785	9.526	8.982

Revenue recognition

Revenue is defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts and similar allowances, and net of sales tax. Revenue is recognized when the significant risks and rewards have been transferred to a third party, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. For revenue from sales of goods these conditions are generally met at the time the product is shipped and delivered to the customer, depending on the delivery conditions. Service revenue is generally recognized as services are rendered.

Pensions and other post-retirement benefits (note 17)

Contributions to defined contribution plans are recognized in the statement of income as incurred. Most of our defined benefit pension plans are funded with plan assets that have been segregated in a trust or foundation. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected pension benefits based on employee service during the year and the interest on this obligation with respect to employee service in previous years, net of the expected return on plan assets. The discount rate used in determining the present value of the obligations is the yield at reporting date of AA corporate bonds that have maturity dates approximating the terms of our obligations.

When the calculation results in a benefit to AkzoNobel, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan. An economic benefit is available if it is realizable during the life of the plan, or on the settlement of the plan liabilities.

In certain countries we also provide post-retirement benefits other than pensions to our employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs related to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation with reference to employee service in previous years.

Actuarial gains and losses that arise in calculating our obligation with reference to a plan, are recognized to the extent that any cumulative unrecognized actuarial gain or loss exceed 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets. That portion of the actuarial gains and losses is recognized in the statement of income over the expected average remaining working lives of the employees participating in the plan. When the benefits of a plan improve, the portion of the increased benefits related to past service by employees is recognized as an expense in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the statement of income.

We recognize gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognized.

Other long-term employee benefits (note 17)

Other long-term employee benefits include long-service or sabbatical leave, jubilee or other long-service benefits, and other employee benefits payable more than 12 months after the related service is rendered. These provisions are measured at present value, using actuarial assumptions. The discount rate is the yield at reporting date of AA corporate bonds that have maturity dates approximating the terms of our obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

An accrual is recognized for the amounts expected to be paid under short-term bonus or profit sharing plans if a present legal or constructive obligation as a result of past services provided exists and the obligation can be estimated reliably.

Share-based compensation (note 8)
We have a performance-related share plan, under which shares are conditionally granted to certain employees. These performance-related shares vest in three years. The number of shares which the employees will receive depends on our relative Total Shareholder Return (TSR) performance over a three-year period compared with the peer group. As from 2009, the conditional grant of shares is linked 50 percent to the ranking of the company in the Dow Jones Sustainability Indexes (DJSI) and 50 percent to the relative TSR performance of the company.

The fair value of the performance-related shares granted is recognized as an expense with a corresponding increase in shareholders' equity. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the performance-related shares. The fair value for the TSR-linked vesting condition is measured using the Monte Carlo simulation model. The fair value of the performance-related shares for which vesting is based on the company's ranking in the DJSI, is the value of the Akzo Nobel N.V. common share on the date of the grant. This Monte Carlo model takes into account expected dividends, as well as the market conditions expected to impact our TSR performance in relation to selected peers. The amount recognized as an expense is adjusted to reflect the actual number of performance-related shares that vest, except when forfeiture or extra vesting of performance-related shares is due to a TSR performance that differs from the performance anticipated at the grant of the performance-related shares, because this is a market performance condition.

Income tax (note 6)
Income tax expense comprises both current and deferred tax, including effects of changes in tax rates. Income tax is recognized in the statement of income, unless it relates to items recognized in other comprehensive income.
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.

Current tax assets and liabilities have been offset in cases where there is a legally enforceable right to set off current tax assets against current tax liabilities and when the intention exists to settle on a net basis or to realize the assets and liabilities simultaneously.

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. A deferred tax asset is 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. We recognize deferred tax assets, including assets arising from losses carried forward, to the extent that future probable taxable profit will be available against which the deferred tax asset can be utilized. 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. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized. Deferred tax assets are offset only when there is a legally enforceable right to offset tax assets against tax liabilities and when the deferred tax assets and liabilities relate to the same tax authority.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed. Non-refundable dividend tax is taken into account in the determination of deferred tax liabilities to the extent of earnings expected to be distributed by subsidiaries in the foreseeable future. If separate tax rates exist for distributed and undistributed profit, the current and deferred taxes are measured at the tax rate applicable to undistributed profit. Deferred tax is not discounted.

Research cost and preparation and start-up expenses
Research cost and preparation and start-up expenses are charged to the statement of income as incurred.

Government grants
Government grants related to costs are deducted from the relevant cost to be compensated in the same period. Emission rights granted by the government are recorded at cost. A provision is recorded if the actual emission is higher than the emission rights granted. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Intangible assets (note 9)
Intangible assets are valued at cost less accumulated amortization and impairment charges. All intangibles assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. In addition, intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually. In cases where the carrying value of the intangibles exceeds the recoverable amount, an impairment charge is recognized in the statement of income.

Goodwill in a business combination represents the excess of the consideration paid over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. For acquisitions before January 1, 2010, the cost of an acquisition also included expenses directly attributable to the acquisition. Contingent consideration was recognized only if the company had a present obligation and the economic outflow was probable and a reliable estimate was determinable. For acquisitions made on or after January 1, 2010, acquisition related costs are expensed as incidental items on the line other operating income/(expenses) in the statement of income. Any contingent consideration to be transferred will be recognized at fair value at the acquisition date. In addition, the effects of all transactions with non-controlling interests are recorded in equity if there is no change in control; these transactions will no longer result in goodwill.

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. Goodwill related to an investment in associates and joint ventures is included in the carrying value of that investment.

Intangible assets with a finite useful life, such as certain licenses, know-how and brands, customer relationships and intellectual property rights, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets, which generally ranges from 10 to 40 years. Development 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, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalized development costs are amortized on a straight-line basis over the estimated useful life of related assets, which generally is up to five years. Amortization methods, useful lives and residual values are reassessed annually.

Property, plant and equipment (note 10)

Property, plant and equipment are valued at cost less accumulated depreciation and impairment charges. Costs include expenditures that are directly attributable to the acquisition of the asset, including financing expenses of capital investment projects under construction. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Depreciation is calculated using the straight-line method, based on the estimated useful life. In the majority of cases the useful life of plant equipment and machinery is ten years, and for buildings ranges from 20 to 30 years. Land is not depreciated. In the majority of cases residual value is assumed to be insignificant. Depreciation methods, useful lives and residual values are reassessed annually.

Parts of property, plant and equipment that have different useful lives are accounted for as separate items of property, plant and equipment. Cost of major maintenance activities is capitalized as a separate component of property, plant and equipment, and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant and equipment are expensed in the period in which they occur. Gains and losses on the sale of property, plant and equipment are included in the statement of income.

We have identified conditional asset retirement obligations at a number of our facilities that are mainly related to plant decommissioning. We recognize these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

Impairments of intangible assets and property, plant and equipment (notes 9, 10)

We assess the carrying value of intangible assets and property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, for goodwill and other intangible assets with an indefinite useful life, we review the carrying value annually in the fourth quarter.

The recoverable amount of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs to sell, whereby estimated future cash flows are discounted to their present value. The discount rate used reflects current market assessments of the time value of money and, if appropriate, the risks specific to the assets. If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The assessment for impairment is performed at the lowest level of assets generating largely independent cash inflows. For goodwill and other intangible assets with an indefinite life, we have determined this to be at business unit level (one level below segment). We allocate impairment losses in respect of cash-generating units first to goodwill and then to the carrying amount of the other assets on a pro rata basis.

Except for goodwill, we reverse impairment losses if and to the extent we have identified a change in estimates used to determine the recoverable amount. We only reverse to the extent that the carrying value of the asset does not exceed the carrying value that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of income.

Leases (notes 10, 21)

Lease contracts in which we have substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between the financing expenses and the reduction of the outstanding liability. The financing expenses are recognized as interest over the lease term.

Payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized over the term of the lease.

Inventories (note 13)

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, and take into account the stage of completion. The costs of inventories are determined using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Equity (note 16)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable cost, is net of any tax effects, and is recognized as a deduction from equity. Dividends are recognized as a liability in the period in which they are declared.

Provisions (note 17)

We recognize provisions when a present legal or constructive obligation as a result of a past event exists, and it is probable that an outflow of economic benefits is required to settle the obligation. Provisions are measured at net present value and take into account legal fees. The expected future cash outflows are discounted at appropriate pre-tax interest rates, reflecting current market assessments of the time value of money and, if applicable, the risks specific to the liability. The increase of provisions as a result of the passage of time is recognized in the statement of income under financing expenses.

Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. We do not provide for future operating costs. Termination benefits for voluntary redundancy are recognized if we have made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

In accordance with our environmental policy and applicable legal requirements, we recognize a provision for environmental clean-up cost when it is probable that a liability has materialized and the amount of cash outflow can be reasonably estimated.

Financial instruments

Regular purchases and sales of financial assets and liabilities are recognized on trade date, which is the date we commit to purchase or sell the asset. The initial measurement of all financial instruments is fair value. Except for derivatives, the initial measurement of financial instruments is adjusted for directly attributable transaction costs. Below, the accounting policies for financial instruments are explained, relating to the following categories:

- Derivative financial instruments
- Associates and joint ventures
- Other financial non-current assets
- Trade and other receivables
- Cash and cash equivalents
- Long-term and short-term borrowings
- Trade and other payables.

Derivative financial instruments (note 24)

Derivative financial instruments include forward exchange contracts, interest rate derivatives and commodity contracts, as well as embedded derivatives included in normal business contracts. All derivative financial instruments are recognized at fair value on the balance sheet.

Fair values are derived from market prices and quotes from dealers and brokers, or are estimated using observable market inputs. Forward exchange and commodity contracts are reported under trade and other receivables, or under trade and other payables.

Changes in the fair value of forward exchange and commodity contracts are recognized in the statement of income, unless cash flow hedge accounting or net investment hedge accounting is applied. In that case, the effective part of the fair value changes is deferred in other comprehensive income and released to the related specific lines in the statement of income or balance sheet at the same time as the hedged item.

Interest rate derivatives are reported under other financial non-current assets or long-term borrowings. The changes in fair value of interest derivatives are recognized in financing income and expenses, where the effective part is offset by the fair value changes of the underlying fixed rate bond, in the event fair value hedge accounting is applied.

Both at the hedge inception and at each reporting date, we assess whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. When a derivative is not highly effective, we discontinue hedge accounting prospectively. In the event a fair value hedge relationship is terminated, amortization of fair value hedge adjustments is included in financing income and expense. When a cash flow hedge relationship is terminated, the fair value changes deferred in other comprehensive income (in equity) are released to the statement of income only when the hedged transaction is no longer expected to occur. Otherwise these will be released to the statement of income at the same time as the hedged item.

Associates and joint ventures (note 11)

Associates are those entities in which we have significant influence, but no control, over the financial and operational policies. Joint ventures are those entities over whose activities we have joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

Associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The consolidated financial statements include our share of the income and expenses of the associates and joint ventures for the period that we have significant influence or joint control, whereby the result is determined using our accounting principles. When the share of losses exceeds the interest in the investee, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless we have incurred legal or constructive obligations on behalf of the investee. Loans to associates and joint ventures are carried at amortized cost less impairment losses.

The results from associates and joint ventures consist of our share in the results of these companies, interest on loans granted to them and the transaction results on divestments of associates and joint ventures. Unrealized gains and losses arising from transactions with associates and joint ventures are eliminated to the extent of our interest in the investee.

Other financial non-current assets (note 12)

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Long-term receivables are discounted to their net present value. Interest receivable is included in financing income.

Trade and other receivables (note 14)

Trade and other receivables are measured at amortized cost, using the effective interest method, less any impairment loss. An allowance for impairment of trade and other receivables is established if the collection of a receivable becomes doubtful. Such receivable becomes doubtful when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. An impairment loss is recognized in the statement of income, as are subsequent recoveries of previous impairments.

Cash and cash equivalents (note 15)

Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into cash. Cash and cash equivalents are measured at fair value.

Long-term and short-term borrowings (notes 18, 19, 24)

Long-term borrowings are measured at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case the carrying amount is adjusted for the fair value changes caused by the hedged risk. Short-term borrowings are measured at amortized cost, using the effective interest method. The interest payable on borrowings is included in other financing expenses.

The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables (note 20)

Trade and other payables are measured at amortized cost, using the effective interest method.

New IFRS accounting standards

Several new accounting pronouncements were issued. We assessed whether our consolidated financial statements for 2010 and beyond may be affected.

- An amendment to IFRS 2, "Share-based Payment" which clarifies how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements became effective in 2010. This amendment is not applicable to our consolidated financial statements
- IFRS 3, "Business Combinations" and IAS 27, "Consolidated and Separate Financial Statements" were revised and are effective as from 2010. For information on the effect of this adoption, reference is made to the section Change in accounting policies and reclassifications in this note
- IFRS 9, "Financial Instruments" (replacement of IAS 39) will become effective as from 2013, with earlier adoption permitted. IFRS 9 introduced new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and will eventually replace IAS 39 – the current standard on financial instruments. As its scope will be further expanded during 2011, we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate
- IASB's annual improvements project 2009 resulted in many smaller amendments to several IFRSs effective as from 2010. They did not materially impact our consolidated financial statements
- IASB's annual improvements project 2010 will result in many smaller amendments to several IFRSs, mostly effective as from 2011. They are not expected to materially impact our consolidated financial statements.
- An amendment to IAS 24, "Related Party Disclosures" clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The revised standard also clarifies that disclosure is required for any commitments of a related party to do something if a particular event occurs or does not occur in the future. The revised standard is effective as from 2011, with earlier application permitted. We do not expect that our financial statements will be materially affected by this amendment
- An amendment to IAS 32, "Financial Instruments: Presentation" addressing the accounting for rights issues such as options and warrants, denominated in a currency other than the functional currency of the issuer became effective in 2010. Our financial statements are not affected by the amendment as we have not issued such financial instruments.An amendment to IAS 39, "Financial Instruments: Recognition and Measurement" addresses two separate hedge accounting issues. It clarifies the requirements when options are used for hedging and it regulates inflation-linked hedge relationships. The amendment to IAS 39 is effective as from 2010. As we commonly use forward contracts for hedges and do not have inflation-linked hedge relationships, there is no material impact from adopting this amendment
- An amendment to IFRIC 14 on minimum funding requirements corrects an unintended consequence of the originally issued interpretation. The amendment is effective as from 2011, with earlier application permitted. As we currently have no pension asset on our balance sheet that falls in the scope of this amendment, we do not expect that our financial statements will be materially affected
- IFRIC 17 "Distribution of Non-cash Assets to Owners" will apply prospectively as from 2010. There is no impact on our financial statements as no proposal to distribute non-cash assets to shareholders has been made
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" applies when a debtor extinguishes a liability fully or partly by issuing equity instruments to the creditor. The interpretation will be effective as from 2011. As there currently do not exist such agreements within our businesses, we do not expect that our financial statements will be affected.

In 2010, we completed several acquisitions, mainly in Performance Coatings. The largest acquisition was related to the powder coatings activities of the Dow Chemical Company. We also acquired the Lindgens Metal Decorating Coatings and Inks business and Changzhou Prime Automotive Paint Co., Ltd to grow our Car Refinishes business in China.

During 2010, National Starch was classified as a discontinued operation and was sold on October 1, 2010, at a gain of €53 million. For more information, see note 7.

The acquisitions in 2010, both individually and in total, were deemed immaterial in respect of the IFRS 3 disclosure requirements. Pre-acquisition carrying amounts were not gathered. The acquisitions in 2010 contributed €155 million to revenue.

Recognized values at acquisition

In € millions	Powder coatings activities	Other acquisitions	Total
Goodwill	–	7	7
Other intangible assets	9	50	59
Property, plant and equipment	38	1	39
Other non-current assets	2	–	2
Inventories	32	5	37
Trade and other receivables	43	8	51
Cash and cash equivalents	2	1	3
Provisions	(3)	–	(3)
Deferred tax liabilities	(3)	(6)	(9)
Long-term borrowings	–	(1)	(1)
Trade and other payables	(6)	(9)	(15)
Net identifiable assets and liabilities	**114**	**56**	**170**
Recognized in the statement of income	(16)	–	(16)
Consideration paid	**98**	**56**	**154**
Cash and cash equivalents acquired	(2)	(1)	(3)
To be paid in 2011 and later years	–	(8)	(8)
Net cash outflow	**96**	**47**	**143**

Note 3 Incidentals

Incidental gains and losses included in operating income

In € millions	2009	2010
Restructuring costs	(349)	(120)
Results on acquisitions and divestments	48	33
Results related to major legal, antitrust and environmental cases	(38)	(49)
Other incidental results	63	(19)
Total	**(276)**	**(155)**

During 2010, we continued to restructure:

- In Decorative Paints, mainly in Continental Europe and the US
- In Performance Coatings, we closed several sites in connection with the acquired powder coatings activities
- In Specialty Chemicals, we closed an incinerator in Rotterdam.

Apart from restructuring costs, we incurred €32 million environmental costs for a site in Sweden. We reported gains in connection with the acquired powder coatings activities and the divestment of a captive insurance company.

Restructuring costs

In € millions	2009	2010
Decorative Paints	(158)	(65)
Performance Coatings	(55)	(37)
Specialty Chemicals	(99)	(24)
Other	(37)	6
Total	**(349)**	**(120)**

Incidentals per cost category

In € millions	2009	2010
Cost of sales	(144)	(126)
Selling expenses	(94)	(43)
Research and development expenses	(8)	(1)
General and administrative expenses	(63)	(13)
Other operating income/(expenses)	33	28
Total	**(276)**	**(155)**

Note 4 Other operating income/(expenses)

In € millions	2009	2010
Incidental gains and losses	42	19
Results on sale of redundant assets	2	3
Currency exchange differences:		
– Derivatives	37	55
– Loans and receivables	(43)	(82)
– Other financial liabilities	6	(4)
Other items	8	38
Total	**52**	**29**

In 2010, the incidental gains and losses relate to the acquired powder coatings activities, the divestment of a captive insurance company and environmental costs for a site in Sweden.

In 2009, the incidental gains reported in other operating income/(expenses) related mainly to results from acquisitions and divestments (PTA Pakistan, LII Europe).

Note 5 Financing income and expenses

In € millions	2009	2010
Interest income:		
Loans and receivables	58	51
Interest expenses:		
– Net financing expenses on pensions and other post-retirement benefits	(171)	(100)
– Interest rate derivatives	10	14
– Other financial liabilities	(245)	(253)
– Interest on provisions	(54)	(39)
Fair value changes:		
– Interest rate derivatives	(14)	16
– Other financial liabilities	12	(15)
– Other	(1)	(1)
Total	**(405)**	**(327)**

The net financing charges for the year decreased by €78 million from €405 million to €327 million, due to decreased financing expenses on pensions (€71 million mainly due to higher returns on plan assets). In addition:

- Interest on provisions decreased by €15 million due to lower discount rates
- Interest on other financial liabilities increased by €8 million due to higher cost of bonds refinanced in 2009.

A reduction of €10 million (2009: €6 million) was included in the interest expenses due to the capitalization of financing expenses of capital investment projects under construction. The average interest rate, used for capitalization of borrowing cost was 6.4 percent.

Pre-tax income (including the share in profit of associates and joint ventures) amounted to a profit of €917 million (2009: profit €471 million). Tax benefits/(charges) are included in the statement of income as follows:

The 2010 net tax charge of €170 million (2009: €141 million) related to continuing operations only. The total tax charge, including discontinued operations was €193 million (2009: €140 million).

Classification of current and deferred tax result

In € millions	2009	**2010**
Current tax expense for:		
– The year	(188)	(245)
– Adjustments for prior years	23	59
	(165)	**(186)**
Deferred tax expense for:		
– Origination and reversal of temporary differences	16	(12)
– Changes in tax rates	14	6
– Tax losses recognized or unrecognized	(6)	22
	24	**16**
Total	**(141)**	**(170)**

Effective consolidated tax rate

in %	2009	**2010**
Corporate tax rate in the Netherlands	25.5	25.5
Effect of lower tax rates in certain countries	(0.2)	(1.0)
Tax exempt income/non-deductible expenses	9.3	2.7
Non-taxable income from investment in associates and joint ventures	(1.1)	(0.7)
Changes in enacted tax rates (reductions in tax rate)	(3.1)	(0.7)
Recognition of previously unrecognized tax losses	–	(1.0)
Current year losses for which no deferred tax asset was recognized	1.7	0.5
Current year profits compensated with losses for which no deferred tax asset was recognized	(0.3)	(2.0)
Under/(over)-provided in prior years	(5.0)	(6.4)
Non-refundable withholding taxes	3.7	2.0
Other	(0.6)	(0.4)
Effective consolidated tax rate	**29.9**	**18.5**

In 2010 the effective tax rate was 18.5 percent (2009: 29.9 percent). The tax rate is low because of several adjustments to previous years, partly related to settlements with tax authorities. Furthermore, there were tax-exempt gains related to acquisitions and divestments and part of a not recognized capital loss was used.

In 2009, the tax rate was impacted by several adjustments on previous years, tax exempt income items and non-deductible expenses.

The worldwide trend of decreasing tax rates has a diminishing impact on the long-term tax burden. Decreases in tax rates, however, also have a direct impact on the tax burden, because of a change in the measurement of the deferred tax positions. The relevant changes in this respect included the decrease of the tax rate in several countries as of 2011 and/or later. In addition, changes in the geographical mix of taxable income affected the tax burden.

The impact of the non-refundable withholding tax is dependent on the relative share of our profit from countries that levy withholding tax on dividends. This relative share is expected to increase in the coming years. Based on the Dutch tax system there is only a limited credit for such taxes.

Income tax recognized directly in equity

In € millions	2009	**2010**
Current tax for:		
– Currency exchange differences on intercompany loans of a permanent nature	(33)	(16)
	(33)	**(16)**
Deferred tax for:		
– Share-based compensation	(8)	(3)
– Hedge accounting	(5)	(15)
– Other	(1)	(4)
	(14)	**(22)**
Total	**(47)**	**(38)**

Tax in the balance sheet

Current tax assets of €108 million (2009: €102 million) represent the amount of income taxes recoverable in respect of current and prior periods. Current tax liabilities of €456 million (2009: €507 million) relate to the amount of taxes payable for current and prior periods.

In the deferred tax asset for other provisions (€360 million), an amount of €210 million (2009: €194 million) is related to interest expense carried forward.

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which unused tax losses can be carried forward, unused tax credits can be used and temporary differences become deductible. The nature of the evidence supporting the recognition of the deferred tax assets is the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

From the total amount of recognized deferred tax assets, €515 million (2009: €652 million) is related to entities that have suffered a loss in either 2010 or 2009 in the tax jurisdiction to which a deferred tax asset relates, and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences.

Breakdown of deferred tax assets and liabilities

In € millions	Assets	Liabilities	Assets	Liabilities
		2009		2010
Intangible assets	51	755	68	781
Property, plant and equipment	72	261	64	160
Inventories	33	8	33	5
Trade and other receivables	29	21	22	20
Share-based compensation	15	–	11	–
Provisions:				
– Pensions and other post-retirement benefits	346	103	292	158
– Restructuring	30	2	17	3
– Other provisions	457	175	360	29
Other items	156	54	143	50
Net loss carryforwards	685	–	809	–
Deferred tax assets not recognized	(376)	–	(408)	–
Tax assets/liabilities	**1,498**	**1,379**	**1,411**	**1,206**
Set-off of tax	(705)	(705)	(617)	(617)
Net deferred taxes	**793**	**674**	**794**	**589**

The deferred tax assets not recognized in the balance sheet are related to the following items:

Unrecognized deferred tax assets

In € millions	2009	**2010**
Capital losses	220	257
Tax losses	43	29
Deductible temporary differences	113	122
Total	**376**	**408**

At December 31, 2010, the loss carryforwards expire as follows:

Loss carryforwards recognized in the balance sheet

In € millions	2011	2012	2013	2014	2015	Later	Unlimited	Total
Total loss carryforwards	16	15	787	36	29	461	1,330	2,674
Loss carryforwards not recognized in deferred tax assets	(7)	(8)	(746)	(16)	(18)	(14)	(27)	(836)
Total	**9**	**7**	**41**	**20**	**11**	**447**	**1,303**	**1,838**

Deferred tax assets not recognized on the balance sheet are partly related to capital losses which cannot be offset against operational taxable profits.

Movement in deferred tax in 2009

In € millions	Net balance January 1, 2009	Changes in exchange rates	Acquisitions/ divestments	Recognized in income	Recognized in equity	Net balance December 31, 2009
Intangible assets	(810)	(33)	5	134	–	(704)
Property, plant and equipment	(184)	(10)	6	(1)	–	(189)
Inventories	29	–	(2)	(2)	–	25
Trade and other receivables	16	(2)	–	(1)	(5)	8
Share-based payments	15	–	–	8	(8)	15
Provisions:						
– Pension liabilities and other post-retirement benefits	448	12	–	(217)	–	243
– Restructuring	31	1	–	(4)	–	28
– Other provisions	388	10	1	(117)	–	282
Other items	102	(1)	(1)	3	(1)	102
Net operating loss carryforwards	517	(7)	1	174	–	685
Deferred tax assets not recognized	(377)	9	1	(9)	–	(376)
Tax assets/liabilities	**175**	**(21)**	**11**	**(32)**	**(14)**	**119**

Movement in deferred tax in 2010

In € millions	Net balance January 1, 2010	Changes in exchange rates	Acquisitions/ divestments	Recognized in income	Recognized in equity	Net balance December 31, 2010
Intangible assets	(704)	(64)	85	(30)	–	(713)
Property, plant and equipment	(189)	(15)	9	99	–	(96)
Inventories	25	1	2	–	–	28
Trade and other receivables	8	–	–	(2)	(4)	2
Share-based payments	15	–	–	(1)	(3)	11
Provisions:						
– Pension liabilities and other post-retirement benefits	243	16	(1)	(124)	–	134
– Restructuring	28	1	–	(15)	–	14
– Other provisions	282	23	23	3	–	331
Other items	102	7	–	(1)	(15)	93
Net operating loss carryforwards	685	36	–	88	–	809
Deferred tax assets not recognized	(376)	(31)	–	(1)	–	(408)
Tax assets/liabilities	**119**	**(26)**	**118**	**16**	**(22)**	**205**

Note 7 Discontinued operations

On October 1, 2010, we completed the divestment of National Starch at a gain of €53 million. The operating results for 2010 were €74 million. For 2010, we also incurred €37 million related to further settlements and tax-related costs from the divestments of the businesses sold to Henkel in 2009. In total, we reported a gain from discontinued operations of €90 million.

Profit from discontinued operations

In € millions	2009	**2010**
Revenue	878	777
Expenses	(866)	(667)
Results from operating activities	**12**	**110**
Income tax	13	(36)
Results from operating activities after tax	**25**	**74**
Gain on the sale of National Starch	–	56
Income tax on the sale	–	(3)
Results related to discontinued operations in previous years	41	(53)
Tax on results related to discontinued operations in previous years	(34)	16
Profit for the period[1]	**32**	**90**

	2009	**2010**
Net cash form operating activities	19	40
Net cash from investing activities[2]	–	1,051
Net cash from financing activities	–	4
Net cash from discontinued operations	**19**	**1,095**

[1] All attributable to the shareholders of the company.
[2] Proceeds divestment National Starch included for €1,076 million.

Balance National Starch at divestment date

In € millions	2010
Intangible assets	563
Property, plant and equipment	401
Financial non-current assets	8
Inventories	157
Receivables	198
Non-current liabilities and provisions	(189)
Current liabilities	(169)
Net assets and liabilities	**969**
Cash received	1,133
Cash disposed of	(57)
Net cash inflow	**1,076**

Deal result National Starch

In € millions	2010
Net cash inflow	1,076
Net assets and liabilities	(969)
Liabilities assumed and costs allocated to the deal	(73)
Realization cumulative translation reserves	19
Deal result	**53**

Salaries, wages and other employee benefits

In € millions	2009	2010
Salaries and wages	(2,176)	(2,204)
Pension and other post-retirement cost	(320)	(316)
Other social charges	(459)	(460)
Total	**(2,955)**	**(2,980)**

Employees

Average number during the year	2009	2010
Decorative Paints	22,900	21,800
Performance Coatings	20,200	20,600
Specialty Chemicals	11,400	11,100
Corporate and other	1,800	1,600
Total	**56,300**	**55,100**

At year-end 2010, we employed 55,590 staff for ongoing activities (year-end 2009: 54,740 employees). The net increase was due to:

- A net increase of 870 due to acquisitions and divestments, mainly from the acquired powder coatings activities (670 employees)
- A decrease of 1,770 employees due to ongoing restructuring
- An increase of 1,750 employees due to new hires and other changes

The average number of employees working outside the Netherlands was 50,100 (2009: 51,200).

Salaries, wages and other employee benefits per cost category

In € millions	2009	2010
Cost of sales	(850)	(978)
Selling expenses	(1,035)	(1,109)
Research and development expenses	(201)	(206)
General and administrative expenses	(698)	(587)
Net financing expenses related to pensions and other post-retirement benefits	(171)	(100)
Total	**(2,955)**	**(2,980)**

Share-based compensation

Share-based compensation relates to the performance-related share plan as well as the performance-related stock option plan. Charges recognized in the 2010 statement of income for share-based compensation amounted to €30 million and are included in salaries and wages (2009: €23 million).

Performance-related share plan

Under the performance-related share plan, a number of conditional shares are granted to the members of the Board of Management and executives each year. The number of participants of the performance-related share plan at year-end 2010 was 589 (2009: 579). The actual number of shares that will vest depends on our Total Shareholder Return (TSR) performance over a three-year period, compared with the TSR performance of a specified peer group. Our TSR performance over the period January 1, 2008, until December 31, 2010, resulted in an 11th position within the ranking of

Performance-related shares

Series	Balance at January 1, 2010	Granted in 2010	Vested in 2010	Forfeited in 2010	Dividend in 2010[1]	Balance at December 31, 2010	Vested on January 1, 2011
2007 – 2009	943,654	–	(943,654)	–	–	–	–
2008 – 2010	554,640	–	–	(554,640)	–	–	–
2009 – 2011	1,172,691	–	–	(30,728)	33,270	1,175,233	–
2010 – 2012	–	742,274	–	(9,441)	22,351	755,184	–
Total	**2,670,985**	**742,274**	**(943,654)**	**(594,809)**	**55,621**	**1,930,417**	**–**

[1] Equivalent in shares related to accumulated dividend, which is included in the balances on balance sheet date.

the peer group companies. The vesting percentage of the 2008 grant amounted to zero percent (series 2007-2009: 150,78 percent including dividend shares).

As from 2009 the conditional grant of shares is linked for 50 percent to the ranking of the company in the Dow Jones Sustainability Indexes and the remaining 50 percent to the relative TSR performance of the company compared with the peer group.

The fair value of the performance-related share plan at grant date is amortized as a charge against income over the three-year vesting period. The average fair value was calculated by external specialists and amounted to €46.24 per performance-related shares conditionally granted in 2010 (2009: €26.39). The 2010 charge recognized for performance-related shares aggregated €29 million (2009: €21 million).

The shares of the series 2007 – 2009 have vested and were delivered to the participants in 2010. The share price of a common AkzoNobel share at December 31, 2010, amounted to €46.49 (2009: €46.40).

For further details on our performance-related share plan, see page 71.

Outstanding unconditional stock options[1]

Year of issue	Exercise price in €	Outstanding per January 1, 2010	Exercised in 2010	Forfeited in 2010	Outstanding at December 31, 2010	Expiry date
2001	46.75	51,322	–	–	51,322	April 30, 2011
2002	46.53	107,250	–	–	107,250	April 25, 2012
2003	19.51	91,751	(91,751)	–	–	April 22, 2010
2004	31.45	279,900	(77,700)	–	202,200	April 25, 2011
2005	31.98	406,487	(109,531)	(375)	296,581	April 24, 2012
2006	46.46	458,771	(450)	(6,862)	451,459	April 26, 2013
2007	58.89	502,369	–	–	502,369	April 26, 2014
Total		**1,897,850**	**(279,432)**	**(7,237)**	**1,611,181**	

[1] Including the Board of Management.

Stock option plans

Prior to 2008, performance-related stock options were granted to members of the Board of Management and executives. 2007 was the last year in which stock options were granted. We currently do not purchase own shares in connection with the stock option plan. No financing facilities exist for option rights or tax payable thereon. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share with the nominal value of €2. The exercise price is the Euronext Amsterdam opening price on the first day that the AkzoNobel share was quoted ex-dividend in the year of conditional grant. For American Depositary Receipts (ADR's) a total of 23,000 option rights, to exchange for Akzo Nobel N.V. shares, remain outstanding at year-end (2009: 51,540). The stock options are equity-settled and all exercisable. The employee buys the shares upon exercise of the options. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options. The total cost in 2010 for the stock options was € 1 million (2009: €2 million).

For stock options exercised during 2010, the weighted average of the actual share price at date of exercise amounted to €44.00 (2009: €38.59). A number of 1.1 million outstanding stock options are antidilutive and could potentially dilute basic earnings per share in the future.

Number and weighted average exercise price stock options

	Number of options	Weighted average exercise price in €
Balance at January 1, 2009	**2,259,618**	**42.37**
Forfeited during the period	(29,155)	43.93
Expired	(196,040)	46.53
Exercised during the period	(136,573)	25.37
Balance at December 31, 2009	**1,897,850**	**43.14**
Forfeited during the period	(7,237)	45.71
Exercised during the period	(279,432)	27.76
Balance at December 31, 2010	**1,611,181**	**45.80**

Note 9 Intangible assets

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
Balance at January 1, 2009					
Acquisition cost	4,822	2,247	1,253	345	8,667
Cost of internally developed intangibles	–	–	–	32	32
Accumulated amortization/impairment	(1,258)	(100)	(139)	(30)	(1,527)
Carrying value	**3,564**	**2,147**	**1,114**	**347**	**7,172**
Movements in 2009					
Acquisitions through business combinations	33	4	47	10	94
Other investments – including internally developed intangibles	–	–	1	41	42
Amortization [1]	–	(16)	(106)	(37)	(159)
Impairments [1]	–	–	–	(9)	(9)
Changes in exchange rates	106	91	28	23	248
Total changes	**139**	**79**	**(30)**	**28**	**216**
Balance at December 31, 2009					
Acquisition cost	5,063	2,338	1,334	473	9,208
Cost of internally developed intangibles	–	–	–	39	39
Accumulated amortization/impairment	(1,360)	(112)	(250)	(137)	(1,859)
Carrying value at year-end 2009	**3,703**	**2,226**	**1,084**	**375**	**7,388**
Movements in 2010					
Acquisitions through business combinations	7	3	40	16	66
Other investments – including internally developed intangibles	–	1	1	64	66
Divestments [2]	(84)	(60)	(313)	(107)	(564)
Amortization [1]	–	(20)	(102)	(39)	(161)
Changes in exchange rates	193	173	109	38	513
Total changes	**116**	**97**	**(265)**	**(28)**	**(80)**
Balance at December 31, 2010					
Acquisition cost	4,834	2,465	1,168	452	8,919
Cost of internally developed intangibles	–	–	–	46	46
Accumulated amortization/impairment	(1,015)	(142)	(349)	(151)	(1,657)
Carrying value at year-end 2010	**3,819**	**2,323**	**819**	**347**	**7,308**

[1] Including amortization of National Starch.
[2] Mainly National Starch.

Other intangibles include licenses, know-how, intellectual property rights and development cost. Both at year-end 2010 and 2009, 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. In 2010, no impairment was recorded for any business unit (2009: no impairment).

The impairment test is based on cash flow projections of the five-year plan. The key assumptions used in the projections are:

- Revenue growth: based on actual experience, an analysis of market growth and the expected development of market share
- Margin development: based on actual experience and management's long-term projections.

Revenue growth and margin development projections are extrapolated beyond this five-year explicit forecast period for another five years with reduced growth rates.

For virtually all business units, a terminal value was calculated using a long-term average market growth rate that did not exceed 2 percent. The estimated pre-tax cash flows are discounted to their present value using a pre-tax weighted average cost of capital. The discount rates are determined for each business unit and range from 8.5 percent to 20.4 percent, with an average of 10.5 percent.

The outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a different outcome of the impairment test for the vast majority of our businesses.

Amortization and impairment charges per cost category

In € millions	Amortization		Impairment		Total	
	2009	2010	2009	2010	2009	2010
Cost of sales	(6)	(7)	–	–	(6)	(7)
Selling expenses	(99)	(106)	–	–	(99)	(106)
General and administrative expenses	(24)	(36)	–	–	(24)	(36)
Research and development expenses	(6)	(6)	–	–	(6)	(6)
Other operating income/(expenses)	–	–	(8)	–	(8)	–
Discontinued operations	(24)	(6)	(1)	–	(25)	(6)
Total	**(159)**	**(161)**	**(9)**	**–**	**(168)**	**(161)**

Goodwill and other intangibles per segment

In € millions	Goodwill		Brands with indefinite useful lives [1]		Other intangibles with finite useful lives	
	2009	2010	2009	2010	2009	2010
Decorative Paints	2,515	2,556	1,760	1,874	798	783
Performance Coatings	529	621	–	–	213	295
Specialty Chemicals	581	642	–	26	464	511
Discontinued operations	78	–	56	–	394	–
Total	**3,703**	**3,819**	**1,816**	**1,900**	**1,869**	**1,589**

[1] Mainly Dulux. Due to its global presence, high recognition and strategic nature, we have determined that the useful life of the Dulux brand is indefinite.

Average revenue growth rates per forecast period per Business Area

In %/year	2011 – 2015	2016 – 2020
Decorative Paints	7.7	5.1
Performance Coatings	5.8	3.6
Specialty Chemicals	3.6	2.7

Note 10 Property, plant and equipment

In € millions	Buildings and land	Plant, equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process	Total
Balance at January 1, 2009						
Cost of acquisition	2,146	4,875	627	250	22	7,920
Accumulated depreciation/impairment	(909)	(3,181)	(458)	–	(15)	(4,563)
Carrying value	**1,237**	**1,694**	**169**	**250**	**7**	**3,357**
Movements in 2009						
Acquisitions through business combinations	15	35	3	–	–	53
Divestments	(6)	(19)	(3)	(2)	(1)	(31)
Capital expenditures[1]	65	400	46	22	1	534
Transfer between categories	13	9	(26)	–	4	–
Depreciation[1]	(82)	(327)	(48)	–	(1)	(458)
Impairment[1]	(18)	(36)	–	–	–	(54)
Changes in exchange rates	24	40	5	4	–	73
Total changes	**11**	**102**	**(23)**	**24**	**3**	**117**
Balance at December 31, 2009						
Cost of acquisition	2,243	5,303	623	274	32	8,475
Accumulated depreciation/impairment	(995)	(3,507)	(477)	–	(22)	(5,001)
Carrying value at year-end 2009	**1,248**	**1,796**	**146**	**274**	**10**	**3,474**
Movements in 2010						
Acquisitions through business combinations	19	19	–	–	–	38
Divestments[2]	(184)	(252)	(3)	(10)	(1)	(450)
Capital expenditures[1]	114	381	54	7	–	556
Transfer between categories	(11)	11	3	(2)	(1)	–
Depreciation[1]	(81)	(311)	(50)	–	–	(442)
Impairment[1]	(2)	(26)	(1)	–	–	(29)
Changes in exchange rates	92	128	7	10	–	237
Total changes	**(53)**	**(50)**	**10**	**5**	**(2)**	**(90)**
Balance at December 31, 2010						
Cost of acquisition	2,254	5,654	664	279	33	8,884
Accumulated depreciation/impairment	(1,059)	(3,908)	(508)	–	(25)	(5,500)
Carrying value at year-end 2010	**1,195**	**1,746**	**156**	**279**	**8**	**3,384**

[1] Including National Starch.
[2] Mainly National Starch.

In 2010, impairment charges have been recognized for an amount of €29 million (2009: €54 million). The impairment charges have been recognized in the cost of sales. The impairment charges related to restructuring activities in, among others, the US, the Netherlands, Germany, France and Sweden. The carrying value of the property, plant and equipment financed by hire purchase and leasing and not legally owned by the company was €13 million (2009: €17 million), €9 million of which related to buildings and land, €1 million to plant and equipment and machinery and €3 million to other equipment. Purchase commitments for property, plant and equipment totaled €47 million (2009: € 60 million).

Depreciation per cost category

In € millions	2009	**2010**
Cost of sales	(290)	(306)
Selling expenses	(67)	(68)
General and administrative expenses	(53)	(48)
Research and development expenses	(14)	(13)
Discontinued operations	(34)	(7)
Total	**(458)**	**(442)**

At year-end 2010, the carrying value of investments in associates amounted to €74 million (2009: €79 million) and in joint ventures €98 million (2009: €96 million).

In 2010, the results from associates and joint ventures amounted to a profit of €25 million (2009: €21 million).

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	
	2009	**2010**	2009	**2010**
Information on the statement of income:				
Revenue	95	121	600	594
Income before tax	17	17	43	47
Net income	6	11	32	34
Condensed balance sheet:				
Current assets	185	113	60	182
Non-current assets	25	124	205	218
Total assets	**210**	**237**	**265**	**400**
Current liabilities	71	44	–	115
Non-current liabilities	29	29	74	88
Shareholders' equity	110	164	191	197
Total liabilities and equity	**210**	**237**	**265**	**400**

Note 12 Other financial non-current assets

In € millions	2009	2010
Loans and receivables	374	368
Interest rate derivatives	27	–
Other than financial instruments	414	640
Total	**815**	**1,008**

The loans and receivables include the subordinated loan of €83 million granted to the AkzoNobel Pension Fund (APF) in the Netherlands and the non-current part of an escrow account of the AkzoNobel (CPS) pension scheme in the UK amounting to €158 million, invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund is £25 million (€28 million).

Other financial non-current assets include an amount of €448 million related to pension plans in an asset position (2009: €218 million).

Note 13 Inventories

In € millions	2009	2010
Raw materials and supplies	407	481
Work in progress	73	80
Finished products and goods for resale	957	1,113
Inventory prepayments	4	4
Total	**1,441**	**1,678**

Of the total carrying value of inventories at year-end 2010, €53 million is measured at net realizable value (2009: €83 million). In 2010, €22 million was recognized in the statement of income for the write-down of inventories (2009: €32 million), while €8 million of write-downs was reversed (2009: €10 million). There are no inventories subject to retention of title clauses. During 2010, an amount of €8.4 billion including direct employee benefits, depreciation and amortization was recognized as costs of goods sold, out of finished goods (2009: €7.6 billion).

Note 14 Trade and other receivables

In € millions	2009	2010
Trade receivables	1,890	2,105
Prepaid expenses	130	122
Tax receivables other than income tax	116	135
Receivables from associates and joint ventures	36	43
Forward exchange and commodity contracts	28	34
Other receivables	382	349
	2,582	**2,788**
Discounted portion	(18)	–
Total	**2,564**	**2,788**

Trade receivables are presented net of an allowance for impairment of €114 million (2009: €133 million). In 2010, €33 million of impairment losses were recognized in the statement of income (2009: €46 million).

Ageing of trade receivables

In € millions	2009	2010
Performing accounts receivable	1,592	1,843
Past due accounts receivable and not impaired:		
< 3 months	262	226
3 – 6 months	19	14
6 – 9 months	6	4
9 – 12 months	2	2
> 12 months	6	2
Impaired accounts receivables	136	128
Allowance for impairment	(133)	(114)
Total trade receivables	**1,890**	**2,105**

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	2009	2010
Opening balance	137	133
Additions charged to income	46	33
Release of unused amounts	(17)	(22)
Utilization	(39)	(40)
Acquisitions/divestments	1	–
Currency exchange differences	5	10
Closing balance	**133**	**114**

The additions to and release of the allowance for impairment have been included in the statement of income under selling expenses.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. We do not hold any collateral for impaired trade receivables. We do not have a significant customer concentration.

Note 15 Cash and cash equivalents

In € millions	2009	2010
Short-term investments	1,171	1,302
Cash on hand and in banks	957	1,549
Included under cash and cash equivalents in the balance sheet	**2,128**	**2,851**
Debt to credit institutions	(209)	(168)
Total per cash flow statement	**1,919**	**2,683**

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 24.

At December 31, 2010, an amount of €143 million in cash and cash equivalents was restricted. Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions and mainly related to insurance.

Note 16 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 2010 resolved to authorize the Board of Management for a period of 18 months (i) to issue shares (or grant rights to shares) in the capital of the company up to a maximum of 10 percent, which in case of mergers or acquisitions can be increased by up to a maximum of 10 percent, of the total number of shares outstanding (and to restrict or exclude the pre-emptive rights to those shares) and (ii) to acquire shares in the capital of the company, provided that the shares that will at any time be held will not exceed 10 percent of the issued share capital. The issue or repurchase of shares requires the approval of the Supervisory Board.

Composition of share capital at year-end

In €	Authorized share capital	Subscribed share capital
Priority shares (48 with nominal value of €400)	19,200	19,200
Cumulative preferred shares (200 million with nominal value of €2)	400,000,000	–
Common shares (600 million with nominal value of €2)	1,200,000,000	467,060,908
Total	**1,600,019,200**	**467,080,108**

Outstanding common shares

Number of shares	2009	**2010**
Outstanding at January 1	231,664,187	232,253,633
Issued in connection to stock options exercised and performance-related shares granted	589,446	1,276,821
Balance at year-end	**232,253,633**	**233,530,454**

We held no common shares at year-end 2010 or 2009.

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year.

Weighted average number of shares

Number of shares	2009	**2010**
Issued common shares at January 1	231,664,187	232,253,633
Effect of:		
Issued common shares during the year	405,258	974,699
Shares for basic earnings per share for the year	232,069,445	233,228,332
Effect of dilutive shares:		
For stock options	264,013	191,601
For performance-related shares	2,484,787	1,189,146
Shares for diluted earnings per share	**234,818,245**	**234,609,079**

Of the shareholders' equity of €9.0 billion, an amount of €8.2 billion (2009: €7.1 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law.

Unrestricted reserves at year-end

In € millions	2009	**2010**
Shareholders' equity at year-end	7,775	8,984
Subscribed share capital	(465)	(467)
Subsidiaries' restrictions to transfer funds	(152)	(149)
Statutory reserve due to capital reduction	(77)	(77)
Revaluation reserve for step acquisitions	(7)	(7)
Reserve for development costs	(8)	(16)
Cash flow hedge reserve	–	(29)
Unrestricted reserves	**7,066**	**8,239**

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 somewhat lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, we recognized a statutory reserve of €77 million for this reduction in subscribed share capital. Statutory reserves also include €16 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates, and joint ventures after 1983. In 2009, we acquired 70 percent equity interest in a company which we already owned for 30 percent. The revaluation of the initital interest of 30 percent was recorded on a revaluation reserve. Statutory and revaluation reserves are non-distributable.

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 €15 million negative (2009: €5 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 €20 million negative (2009: €33 million negative).

Equity-settled transactions include the stock option program and the performance-related share plan whereby options or shares are granted to the Board of Management and other executives. For details of the performance-related stock option plan and the performance-related share plan for the Board of Management and other executives, see note 8.

Dividend

We have announced a simplified dividend policy and intend to pay a stable to rising dividend, whereby a cash interim and final dividend will be paid. We will propose to the Annual General Meeting on April 27, 2011, a 2010 final dividend of €1.08 per share, which would make a total 2010 dividend of €1.40 per share (2009:€1.35). During 2010, we paid the 2009 final dividend of €1.05 and the 2010 interim dividend of €0.32.

Movements in provisions

In € millions	Pensions and other post-retirement benefits	Restructuring of activities	Environmental costs	Other	Total
Balance at January 1, 2010	**1,439**	**226**	**352**	**699**	**2,716**
Additions made during the year	187	94	59	70	410
Utilization	(555)	(178)	(35)	(155)	(923)
Amounts reversed during the year	–	(15)	(4)	(42)	(61)
Unwind of discount	–	2	21	19	42
Acquisitions/divestments	(59)	(1)	(1)	(6)	(67)
Pension plans changing to net asset position	229	–	–	–	229
Changes in exchange rates	40	9	27	26	102
Balance at December 31, 2010	**1,281**	**137**	**419**	**611**	**2,448**
Non-current portion of provisions	1,066	23	374	392	1,855
Current portion of provisions	215	114	45	219	593
Balance at December 31, 2010	**1,281**	**137**	**419**	**611**	**2,448**

Provisions for pensions and other post-retirement benefits

We have a number of defined benefit pension plans. The largest pension plans are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK which together account for 78 percent of our pension plan obligations. The benefits of these and other plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment. Obligations under the defined benefit plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. Valuations of the obligations under the pension and other post-retirement plans are carried out regularly by independent qualified actuaries.

We also provide certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees.

The main change in 2010 related to our pension and other post-retirement obligations was the divestment of National Starch, which is included within the acquisition/divestment/transfers line of the table on the next page. The figures included in relation to National Starch divestment were a €179 million reduction in the pension defined benefit obligation, a €90 million reduction in pension plan assets and an €11 million reduction in the other post-retirement benefit defined benefit obligation. Together with €40 million of unrecognized actuarial losses that were recognized as part of the divestment, the net balance sheet liability reduction for pensions and other post-retirement benefits was therefore €60 million.

Movements in defined benefit obligation and plan assets of pensions and other post-retirement benefits

In € millions	Pensions		Other post- retirement benefits	
	2009	2010	2009	2010
Defined benefit obligation				
Balance at beginning of year	**(11,468)**	**(13,688)**	**(441)**	**(393)**
Acquisitions/divestments/transfers	(32)	192	–	16
Curtailments	25	6	–	–
Settlements	197	15	–	–
Past service costs	(28)	(8)	48	3
Current service costs	(50)	(52)	(7)	(7)
Contribution by employees	(5)	(3)	(3)	(3)
Interest costs	(746)	(773)	(24)	(20)
Benefits paid	943	936	40	34
Actuarial gains/(losses)	(1,703)	(250)	(7)	4
Changes in exchange rates	(821)	(546)	1	(28)
Defined benefit obligation at year-end	**(13,688)**	**(14,171)**	**(393)**	**(394)**
Plan assets				
Balance at beginning of year	**10,480**	**11,821**	**–**	**–**
Acquisitions/divestments/transfers	31	(105)	–	–
Settlements	(217)	(14)	–	–
Contribution by employer	414	524	37	31
Contribution by employees	5	3	3	3
Benefits paid	(943)	(936)	(40)	(34)
Expected return on plan assets	596	691	–	–
Actuarial gains/(losses)	614	652	–	–
Changes in exchange rates	841	486	–	–
Plan assets at year-end	**11,821**	**13,122**	–	–
Funded status	**(1,867)**	**(1,049)**	**(393)**	**(394)**
Unrecognized net loss/(gain)	1,065	637	(4)	(6)
Unrecognized past service costs	4	4	(20)	(19)
Restriction on asset recognition	–	–	–	–
Medicare receivable	–	–	(5)	(6)
Net balance sheet provision	**(798)**	**(408)**	**(422)**	**(425)**
Recorded under:				
Provisions for pensions and other post-retirement benefits	(1,017)	(856)	(422)	(425)
Other financial non-current assets	219	448	–	–
Total	**(798)**	**(408)**	**(422)**	**(425)**

Funded and unfunded pension plans

In € millions	2009	2010
Wholly or partly funded plans	13,347	13,792
Unfunded plans	341	379
Total	**13,688**	**14,171**

Funded status in earlier years at December 31

In € millions	Pensions			Other post-retirement benefits		
	2006	2007	2008	2006	2007	2008
Defined benefit obligation	(5,760)	(4,628)	(11,468)	(292)	(286)	(441)
Plan assets	3,942	3,502	10,480	–	–	–
Funded status	**(1,818)**	**(1,126)**	**(988)**	**(292)**	**(286)**	**(441)**

The actuarial gains and losses on the defined benefit obligation and plan assets over the period 2006 – 2010 break down as follows:

Actuarial gains and losses

In € millions	Pensions					Other post-retirement benefits				
	2006	2007	2008	2009	**2010**	2006	2007	2008	2009	**2010**
Defined benefit obligations:										
Due to experience	2	90	(147)	331	(92)	74	(3)	(5)	5	23
Due to change in assumptions	(199)	166	1,624	(2,034)	(158)	19	6	5	(12)	(19)
Plan assets:										
Due to experience	214	(29)	(1,445)	614	652	–	–	–	–	–
Total	**17**	**227**	**32**	**(1,089)**	**402**	**93**	**3**	–	**(7)**	**4**

Net periodic cost

In € millions	Pensions		Other post-retirement benefits	
	2009	**2010**	2009	**2010**
Service costs for benefits earned during the period	(50)	(52)	(7)	(7)
Interest costs on defined benefit obligations	(746)	(773)	(24)	(20)
Expected return on plan assets	596	691	–	–
Amortization of unrecognized gains/losses	(12)	(36)	–	–
Amortization of past service costs	(23)	(7)	41	5
Change of restriction of asset recognition	(1)	–	–	–
Settlement/curtailment result	21	6	–	–
Total	**(215)**	**(171)**	**10**	**(22)**

The remaining plans primarily represent defined contribution plans. This includes, among others, the AkzoNobel Pension Fund in the Netherlands. The ITP2 plan in Sweden is financed through insurance with the Alecta insurance company and is classified as a multi-employer defined benefit plan. AkzoNobel does not have access to sufficient information from Alecta to enable a defined benefit accounting treatment and hence it is accounted for as a defined contribution plan. Contributions in 2010 were €10 million. Alecta's target funding ratio in 2010 was 140 percent. The expenses of plans classified as defined contribution plans in AkzoNobel totaled €136 million in 2010 (2009: €118 million).

Weighted average assumptions

In %	Pensions		Other post-retirement benefits	
	2009	2010	2009	2010
Pension benefit obligation at December 31:				
– Discount rate	5.6	5.4	5.3	4.9
– Rate of compensation increase	4.6	4.6		
Net periodic pension costs:				
– Discount rate	6.3	5.6	6.0	5.3
– Rate of compensation increase	3.5	4.6		
– Expected return on plan assets	5.2	5.7		

The table below illustrates the weighted average life expectancy of the persons participating in the defined benefit pension plans.

Life expectancy

In years	At December 31	
	2009	2010
Currently aged 60:		
Male	25.3	25.5
Female	27.8	27.9
Currently aged 45, at age 60:		
Male	26.8	27.0
Female	29.1	29.2

Plan assets

The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans. The primary objective with regard to the investment of pension plan assets is ensuring that each individual scheme has sufficient funds available to satisfy future benefit obligations. For this purpose so-called asset and liability management (ALM) studies are made periodically at each pension fund under responsibility of the fund managers. For each of the pension plans an appropriate mix is determined on the basis of the outcome of these ALM studies, taking into account the national rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. At year-end 2010 and 2009, plan assets did not include financial instruments issued by the company, nor any property occupied or other assets used by it. The weighted average pension plan asset allocation at year-end 2010 and 2009 and the target allocation for 2011 for the pension plans by asset category are as follows:

Plan asset allocation

In %	Plan assets at December 31		Target
	2009	2010	2011
Equity securities	17	16	15 – 18
Long-term interest earning investments	72	73	72 – 75
Real estate	2	2	0 – 3
Other	9	9	6 – 9
Total	**100**	**100**	**100**

At year-end 2010, an amount of £160 million (€186 million; 2009: £174 million or €195 million) remained in an escrow account on behalf of the AkzoNobel (CPS) Pension Scheme in the UK. The present minimum annual funding of this pension fund from the escrow account is £25 million. The current portion is included in trade and other receivables, and the non-current part in other financial non-current assets. For the latter see also note 12.

Weighted average assumptions for the other post-retirement benefit plans were as follows:

Assumed healthcare cost trend rates at year-end

In %/year	2009	2010
Healthcare cost trend rate assumed for next year	5.8	6.7
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.8	3.8
Year that the rate reaches the ultimate trend rate	2015 – 2024	2019 – 2024

Assumed healthcare cost trend rates can have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

Sensitivity healthcare cost trends

In € millions	1% point increase	1% point decrease
(Increase)/decrease on total of service and interest cost	(1)	1
(Increase)/decrease on post-retirement benefit obligations	(12)	10

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 €6 million at December 31, 2010 (December 31, 2009: €5 million).

Cash flows
We expect to contribute €525 million to our defined benefit pension plans in 2011. This includes additional top-up payments of £178 million (€206 million) for the ICI Pension Fund and £85 million (€99 million) for the AkzoNobel (CPS) Pension Scheme of which £25 million (€29 million) will be paid out of the escrow account. For other post-retirement benefit plans the contribution for 2011 is expected to be €32 million.

Expected benefit payments

In € millions	Pensions	Other post-retirement
2011	953	32
2012	937	32
2013	941	32
2014	948	32
2015	953	32
2016 – 2020	4,875	154

Provisions for restructuring of activities
Provisions for restructuring of activities comprise accruals for certain employee benefits and for costs which are directly associated with plans to exit or cease specific activities and closing down of facilities. For all restructuring provisions a detailed formal plan exists and the implementation of the plan has started or the plan has been announced before the balance sheet date. Most restructuring plans are expected to be completed within two years from the balance sheet date. For more information, see note 3.

Provisions for environmental costs
For details on environmental exposures, see note 21.

Other provisions
Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases, claims, other long-term employee benefits such as long-service leave and jubilee payments. At year-end 2010, the provision for antitrust cases amounted to €158 million (2009: €188 million), see note 21.

The majority of the cash outflows related to other provisions are expected to be within one to five years. In calculating the other provisions, a pre-tax discount rate of on average 5 percent has been used.

In € millions	2009	2010
Debt issued	3,276	2,684
Debt to credit institutions	7	6
Other borrowings	205	190
Total	**3,488**	**2,880**

The amounts due within one year are presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see note 24.

During 2010, the average effective interest rate was 6.14 percent (2009: 5.87 percent).

Debt issued

In € millions	2009	2010
4 1/4 % 2003/11 (€750/€539 million)	533	–
5 5/8 % 2003/13 ($500 million)	347	375
7 3/4 % 2008/14 (€1 billion)	993	995
7 1/4 % 2009/15 (€750 million)	746	748
7 1/4 % 2009/15 (€225 million)	259	252
8 % 2009/16 (£250 million)	278	289
Other	120	25
Total	**3,276**	**2,684**

Aggregate maturities of long-term borrowings

In € millions	2012 – 2015	After 2015
Debt issued	2,395	289
Debt to credit institutions	2	4
Other borrowings	162	28
Total	**2,559**	**321**

On December 31, 2010 and 2009, the total amount of long-term credit facilities arranged by AkzoNobel was €1.5 billion, maturing in 2013. Both at year-end 2010 and 2009, this facility had not been drawn. On December 31, 2010 and 2009, none of the borrowings was secured by collateral.

Finance lease liabilities are included in other borrowings and aggregated €10 million. An amount of €2 million will mature within one year and €8 million will mature in the period 2012 through 2015.

Note 19 Short-term borrowings

In € millions	2009	2010
Debt to credit institutions	209	168
Borrowings from associates and joint ventures	61	–
Current portion of long-term borrowings	114	739
Total	**384**	**907**

In June 2011, bonds totaling €0.5 billion will mature and are as such classified as short-term borrowings.

AkzoNobel has a $1.0 billion commercial paper program in the US and a €1.5 billion euro commercial paper program. On December 31, 2010, the commercial paper programs were not used (2009: € nil). The commercial paper programs can only be used to the extent that the equivalent portion of the revolving credit facility is not used. See also note 24.

Note 20 Trade and other payables

In € millions	2009	2010
Suppliers	1,522	1,807
Amounts payable to employees	230	261
Derivatives	112	137
Non-income taxes and social security contributions	209	216
Prepayments by customers	23	24
Dividends	17	20
Payable to related parties	3	30
Other liabilities	750	810
Total	**2,866**	**3,305**

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 necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

As stated in note 17, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated €419 million at year-end 2010 (2009: €352 million). The provision has been discounted using an average pre-tax discount rate of 4.1 percent (2009: 4.3 percent). While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion, based on information currently available, would not have a material effect on the company's financial position but could be material to the company's results of operations in any one accounting period.

Antitrust cases

AkzoNobel is – together with others – involved in civil proceedings initiated by Cartel Damages Claims HP SA/NV before the Dortmund court in Germany in relation to the Hydrogen Peroxide infringement in the 1990's. These claims are disputed. Two cases are pending in appeal by the company with the EU General Court against decisions by the EU Commission to impose fines on the company for violations of EU competition laws regarding the following products: Metacrylates and Heat Stabilizers. Both cases have been provided for. The total provision for the various antitrust cases at December 31, 2010, amounted to €158 million (2009: €188 million). It should be understood that, in light of possible future developments, such as (a) potential additional lawsuits by (direct or indirect) purchasers, (b) possible future civil settlements, and (c) rulings or judgments in the appeals with the General Court or in related civil suits, the antitrust cases may result in additional liabilities and related costs. At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence. The company believes that the aggregate amount of any additional fines and civil damages to be paid will not materially affect the company's financial position. The aggregate amount, however, could be material to our results of operations or cash flows in any one accounting period.

Other claims and litigation

In 1986, an ICI subsidiary acquired a business that manufactured and sold paint in the US and Canada, and named the company the Glidden Company ("Glidden"). Glidden was renamed as Akzo Nobel Paints LLC and is an indirect subsidiary of the company. The seller, a predecessor of Millennium Holdings LLC (the "Seller"), now a subsidiary of LyondellBasell Industries, continued to manufacture and sell pigment. An alleged predecessor of Glidden and the Seller manufactured lead pigment until the 1950s and lead pigment-based paint until the 1960s. Beginning in the late 1980s, both Glidden and the Seller were named as defendants along with former producers of lead pigment and lead pigment-based paint in a number of lawsuits in the United States. These lawsuits sought damages for alleged personal injury caused by lead pigment-based paint or the costs of removing lead pigment-based paint. As the suits progressed, the plaintiffs shifted their focus to manufacturers of lead pigment. As of 2010, Glidden has been dismissed from all of these lawsuits.

Under the sale agreement by which Glidden was acquired, the Seller agreed to indemnify Glidden against claims relating to certain pre-completion liabilities, and Glidden also gave certain indemnities to the Seller. While Glidden did not acquire any assets or liabilities relating to the manufacture or sale of pigments, the Seller has asserted that it is entitled to indemnification under the sale agreement for certain liabilities it may have relating to lead pigment and/or lead pigment-based paint litigation. In its public disclosures, the Seller has stated that it continues to defend against a number of lead-based lawsuits although it asserts that the claims are without merit. In 2008, the Seller filed suit against Glidden in New York Supreme Court seeking to establish the alleged indemnification obligation. Glidden believes that it has no such obligation to indemnify the Seller and is defending against the claim. In 2009, the Seller filed for bankruptcy as part of the bankruptcy of its parent LyondellBasell. An issue has arisen in the bankruptcy proceeding that could impact the indemnification claim. Under the 1986 agreement, Seller agreed to indemnify Glidden for certain environmental obligations. In the bankruptcy proceeding, Seller tried to reject their environmental indemnification obligations but retain their right to sue under the alleged lead paint indemnification. In 2010, the bankruptcy judge ruled that the indemnification obligations are part of a single agreement and Seller must choose to reject or assume the entire agreement. Seller has appealed the bankruptcy ruling. We are unable to reliably estimate any possible loss.

The US Army Pensions case reported in previous years was settled in 2010.

A number of other claims are pending, all of which are contested. We are also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

Commitments
Purchase commitments for property, plant and equipment aggregated €47 million at year-end 2010 (2009: €60 million). In addition, we have purchase commitments for raw materials and supplies incident to the ordinary conduct of business, for a total of €1.0 billion (2009: €1.2 billion).

Long-term commitments contracted in respect of leasehold, rental, operational leases, research, etc. aggregated €605 million at year-end 2010 (2009: €572 million), as follows:

In € millions	2009	**2010**
Payments due within one year	169	168
Payments between one and five years	289	305
Payments due after more than five years	114	132
Total	**572**	**605**

Maturity of long-term commitments
Guarantees related to investments in associates and joint ventures totaled €9 million (December 31, 2009: €12 million).

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. We have not recognized a provision in relation to this exposure.

We purchased and sold goods and services to various related parties in which we hold a 50 percent or less equity interest (investment in associates and joint ventures). Such transactions were conducted at arm's length with terms comparable to transactions with third parties. In 2010, a significant related party transaction was a €166 million gas supply (2009: €218 million) by the company to Delesto, a joint venture of AkzoNobel and Essent. Delesto transforms gas into steam and electricity. The steam is used in our production processes and the electricity is sold to the market.

We have contracts with several pension funds, for which the financial impact is disclosed in note 17.

- At year-end 2010, AkzoNobel had a loan to the AkzoNobel Pension Fund in the Netherlands of €83 million (2009: €90 million)
- In recognition of a funding deficit in the ICI Pension Fund in the UK, the company has agreed to make top-up contributions of £178 million in the year 2011, £198 million in each year from 2012 to 2016 and of £195m in 2017.
- A subsidiary of the company, Imperial Chemicals Industries Limited has provided an asset-backed guarantee, via another wholly owned subsidiary, ICI Receivables Funding Ltd (ICI RF), specifically incorporated to provide the guarantee, for £250 million to support its commitment for the ICI Pension Fund (also see note 17). The guarantee is backed by the cash balances of ICI RF of £201 million and the remainder by means of letters of credit
- In recognition of a funding deficit in the AkzoNobel (CPS) Pension Scheme in the UK, the company has agreed to make top-up contributions of £60 million in the year 2011 and of £75 million in each year from 2012 to 2018. In addition, contributions of at least £25m will be paid each year from the escrow account (see notes 12 and 17) until 2017 or the earlier date on which the escrow account is exhausted
- In recognition of a funding deficit in the ICI Specialty Chemicals Fund in the UK, the company has agreed to make top-up contributions of £11 million in the year 2011 and of £5 million in each year from 2012 to 2017
- In recognition of a funding deficit in the J P McDougall Pension Scheme in the UK, the company has agreed to make top-up contributions of £2 million in each year to 2018.

During 2010, we considered the members of the Board of Management 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, see note 23. In the ordinary course of business, we have transactions with various organizations with which certain of the members of the Supervisory Board or Board of Management are associated, but no related party transactions were effected in 2010. Likewise, there have not been any transactions with members of the Supervisory Board or Board of Management, 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 Board of Management, any other senior management personnel or any family member of such persons.

Note 23 Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €12.9 million (2009: €9,2 million), €7.4 million relates to short term employee benefits (2009: €5,7 million); €1.7 million to post-employment benefits (2009: €1,0 million) and €3.8 million to share-based payments (2009: €2.5 million).

Supervisory Board

In €	Total remuneration 2009	Remuneration	Attendance fee	Committee allowance fee: Audit committee	Committee allowance fee: Remuneration committee	Committee allowance fee: Nomination committee	Employer's charges	Total remuneration **2010**
Karel Vuursteen, Chairman[1]	115,500	100,000	2,500	–	–	15,000	2,300	119,800
Maarten van den Bergh[2]	19,200	–	–	–	–	–	–	–
Uwe-Ernst Bufe, Deputy Chairman	85,500	60,000	15,000	–	–	–	2,300	77,300
Virginia Bottomley[1]	82,200	50,000	12,500	–	10,000	–	2,300	74,800
Dolf van den Brink	77,200	50,000	2,500	20,000	–	–	–	72,500
Peggy Bruzelius	84,700	50,000	17,500	15,000	–	–	2,300	84,800
Antony Burgmans[1]	69,200	50,000	2,500	–	15,000	–	–	67,500
Peter Ellwood[1]	80,500	50,000	10,000	–	10,000	–	2,300	72,300
Louis Hughes	117,200	50,000	30,000	15,000	–	–	2,300	97,300
Total	**731,200**	**460,000**	**92,500**	**50,000**	**35,000**	**15,000**	**13,800**	**666,300**

[1] Also member of the Nomination Committee.
[2] Until March 5, 2009.

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 extend 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	2009	**2010**
Karel Vuursteen	400	400
Uwe-Ernst Bufe	–	500
Virginia Bottomley	1,758	1,758
Dolf van den Brink	–	500
Peggy Bruzelius	500	500
Antony Burgmans	–	500
Peter Ellwood	500	500
Louis Hughes	–	500

Board of Management

Active members

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. 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.

Board remuneration

In €	Salary		Short-term incentives		Other short-term benefits		Post-employment benefits		Share-based compensation		Total remuneration	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Hans Wijers	760,000	765,700	464,000	1,284,200	4,100	4,400	458,400	722,500	777,600	1,007,000	2,464,100	3,783,800
Leif Darner	570,000	574,300	339,300	513,000	151,900	151,800	208,600	272,200	546,600	741,000	1,816,400	2,252,300
Rob Frohn	570,000	574,300	339,300	513,000	54,400	7,100	146,000	206,900	546,600	741,000	1,656,300	2,042,300
Tex Gunning [1]	380,000	574,300	226,200	513,000	2,700	4,400	88,900	277,200	277,600	628,700	975,400	1,997,600
Keith Nichols	570,000	574,300	339,300	513,000	171,400	213,300	124,700	204,400	400,700	709,000	1,606,100	2,214,000
Total	**2,850,000**	**3,062,900**	**1,708,100**	**3,336,200**	**384,500**	**381,000**	**1,026,600**	**1,683,200**	**2,549,100**	**3,826,700**	**8,518,300**	**12,290,000**

[1] As from May 1, 2009.

Short-term incentive

The Supervisory Board decided in late 2009 to defer the receipt of 50 percent of the short-term incentive for the CEO and 25 percent for the other members. This deferred payment was made subject to the company achieving its medium-term target of an EBITDA margin of 14 percent at the end of 2011. Because this target was achieved in 2010 the Supervisory Board justified the pay-out of the deferred short-term incentive of 2009 in February 2011. As a consequence, an amount of €464,000 will be paid to Mr. Wijers and €113,100 to the other members of the Board of Management. These amounts are included in the short-term incentives as mentioned above; the regular short-term incentive over 2010 amounted to €820,200 for Mr. Wijers and €399,900 for the other Board members.

Post-employment benefits

Pension premiums were incurred over the deferred short-term incentive over 2009. These amounts, together with the premiums over the 2010 remuneration, are included in the post-employment benefits as presented above.

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 (€162,200) related to employer's contribution in the UK. A compensation for living expenses and home leave allowances was paid to Mr. Darner (€147,400) and Mr. Nichols (€51,100).

Share-based compensation

The costs for share-based compensation are non-cash and related to the performance-related share plan following IFRS 2.

Stock options

As from 2008, no stock options were granted to the members of the Board of Management. The aggregate numbers of stock options held by the members of the Board of Management were as follows:

Number of options

	Year of issue	Exercise price in €	Outstanding at January 1, 2010	Exercised in 2010	Outstanding at December 31, 2010	Expiry date
Hans Wijers	2002	46.53	14,850	–	14,850	April 25, 2012
	2003	19.51	29,700	(29,700)	–	April 22, 2010
	2004	31.45	23,000	–	23,000	April 25, 2011
	2005	31.98	23,000	–	23,000	April 24, 2012
	2006	46.46	19,800	–	19,800	April 26, 2013
	2007	58.89	19,800	–	19,800	April 26, 2014
Value of outstanding options (in €)					**1,013,400**	
Leif Darner	2004	31.45	15,000	(15,000)	–	April 25, 2011
	2005	31.98	15,000	(15,000)	–	April 24, 2012
	2006	46.46	13,000	–	13,000	April 26, 2013
	2007	58.89	13,000	–	13,000	April 26, 2014
Value of outstanding options (in €)					**171,100**	
Rob Frohn	2006	46.46	13,000	–	13,000	April 26, 2013
	2007	58.89	13,000	–	13,000	April 26, 2014
Value of outstanding options (in €)					**171,100**	
Keith Nichols	2006	46.46	3,000	–	3,000	April 26, 2013
	2007	58.89	3,750	–	3,750	April 26, 2014
Value of outstanding options (in €)					**44,300**	

Performance-related shares

With regard to the performance related shares granted to the members of the Board of Management in 2008, the final vesting percentage of the 2008 granted equaled zero (series 2007-2009: 150.78 percent).

The shares of the series 2007 - 2009 have vested in 2010 and were delivered to the individual Board members in 2010. Shares in the company and options of the members of the Board of Management are held in an account, administered by the Stichting Executive Management Beheer. This Foundation acts as an independent portfolio manager for AkzoNobel participants. We do not provide loans to members of the Board of Management.

Number of performance-related shares

	Series	Balance at January 1, 2010	Granted in 2010	Vested in 2010	Forfeited in 2010	Dividend in 2010	Balance at December 31, 2010	Vested on January 1, 2011
Hans Wijers	2007 – 2009	34,680	–	34,680	–	–	–	–
	2008 – 2010	18,352	–	–	18,352	–	–	–
	2009 – 2011	38,463	–	–	–	1,175	39,638	–
	2010 – 2012	–	24,400	–	–	744	25,144	–
Leif Darner	2007 – 2009	22,768	–	22,768	–	–	–	–
	2008 – 2010	12,672	–	–	12,672	–	–	–
	2009 – 2011	28,795	–	–	–	879	29,674	–
	2010 – 2012	–	18,300	–	–	558	18,858	–
Rob Frohn	2007 – 2009	22,768	–	22,768	–	–	–	–
	2008 – 2010	12,672	–	–	12,672	–	–	–
	2009 – 2011	28,795	–	–	–	879	29,674	–
	2010 – 2012	–	18,300	–	–	558	18,858	–
Tex Gunning	2008 – 2010	4,224	–	–	4,224	–	–	–
	2009 – 2011	28,795	–	–	–	879	29,674	–
	2010 – 2012	–	18,300	–	–	558	18,858	–
Keith Nichols	2007 – 2009	6,408	–	6,408	–	–	–	–
	2008 – 2010	9,540	–	–	9,540	–	–	–
	2009 – 2011	28,795	–	–	–	879	29,674	–
	2010 – 2012	–	18,300	–	–	558	18,858	–

Former members of the Board of Management

In 2010, charges for former members of the Board of Management amounted to €382,000 (2009: €66,600), mainly due to pension expenses.

Shares held by the Board of Management

Number of shares at year-end	2009	**2010**
Hans Wijers	58,234	75,324
Leif Darner	36,473	51,162
Rob Frohn	33,056	22,751
Keith Nichols	3,443	7,069

Our activities expose us to a variety of financial risks: market risk (including: currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. These risks are inherent to the way we operate as a multinational with a large number of locally operating subsidiaries. Our overall risk management program seeks to identify, assess, and – if necessary – mitigate these financial risks in order to minimize potential adverse effects on our financial performance. Our risk mitigating activities include the use of derivative financial instruments to hedge certain risk exposures. The Board of Management is ultimately responsible for risk management. Day-to-day risk management activities are carried out by a central treasury department (Corporate Treasury) in line with clearly identified and formalized corporate policies and in line with the Treasury Statute. Corporate Treasury identifies, evaluates and hedges financial risks at a corporate level, and monitors compliance with the corporate policies approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation and hedging at business unit level rather than at corporate level. We have a Corporate Finance & Treasury Committee in place that advises the CFO in respect of the financial policy and evaluates the scope and performance of liquidity, interest, credit and currency risk management.

The businesses play an important role in the process of identifying financial risk factors. Within the boundaries set in the corporate policies, the subsidiaries perform the appropriate risk management activities. We have treasury hubs which provide treasury services on behalf of Corporate Treasury to subsidiaries in their region. These treasury hubs are located in Brazil (São Paulo), Asia (Singapore/Shanghai) and the United States (Chicago) and are primarily responsible for local cash management and short-term financing.

The Treasury Statute does not allow for extensive treasury operations to be executed at subsidiary level directly with external parties. It is corporate policy that derivatives are entered into through Corporate Treasury.

Corporate Treasury is responsible for reporting to the Board of Management on company-wide exposures on a number of financial risks. This includes information regarding liquidity, foreign exchange, interest rate, capital and credit risk. In addition, Corporate Treasury is responsible for maintaining a robust set of internal controls over treasury operations. We use a well-known treasury management system to support our treasury activities.

Hedged notional amounts at year-end

In € millions	Buy 2009	Sell 2009	Buy **2010**	Sell **2010**
US dollar	241	1,474	214	977
Pound sterling	848	144	659	158
Swedish krona	270	91	390	51
Other	296	252	304	302
Total	**1,655**	**1,961**	**1,567**	**1,488**

Foreign exchange risk management

Trade and financing transactions

Our subsidiaries operate in a large number of countries, and as such have clients and suppliers in many countries. Many of these subsidiaries have clients and suppliers that are outside of their 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 eventual functional currency net cash flows resulting from trade or financing transactions are adversely affected by changes in exchange rates. Our policy defines that we hedge our transactional foreign exchange rate exposures above predefined thresholds from recognized assets and liabilities. Cash flow hedge accounting is applied by exception.

Corporate Treasury enters into derivative transactions with external parties and is bound by overnight limits per currency. Where hedging through Corporate Treasury is not feasible under local legislation, local hedging may take place.

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.

Translation risk related to investments in foreign subsidiaries associates and joint ventures

We have subsidiaries with a functional currency other than the euro. Therefore our consolidated financial statements are exposed to translation risk related to equity, intercompany loans of a permanent nature and earnings of foreign subsidiaries and investment in associates and joint ventures. In principle, we do not use financial instruments to hedge this risk.

In the following cases, we apply net investment hedge accounting. We have forward contracts to sell $780 million and buy £405 million, maturing in December 2011. This contract hedges the foreign currency risk on $780 million of net investments in foreign operations held by a pound sterling subsidiary. Net investment hedge accounting is also applied on hedges of pound sterling net investments in foreign operations which were hedged by a £250 million bond. In 2010, both of the hedges were fully effective.

In 2010, we applied cash flow hedge accounting for the acquisition of the acquired powder coatings activities. An amount of $130 million was hedged with forward contracts. The effective hedge realized a gain of €10 million which is included in the amount recognized in the statement of income in note 2.

The foreign exchange and interest rate risks on $800 million of the divestment of National Starch was hedged using forward contracts and cash flow hedge accounting was applied. A gain of €60 million was realized on the effective hedge and is included in the net cash inflow in note 7.

Foreign currency transaction risk

The table above presents a breakdown of the notional amounts of outstanding foreign currency contracts for entities with other functional currencies than the euro.

Sensitivity analysis

We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end.

At year-end 2010, if the euro had weakened/strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been €2 million (2009: €6 million) lower/higher. At year-end 2010, if the euro had weakened/strengthened by 10 percent against the pound sterling with all other variables held constant, post-tax profit for the year would have been €3 million (2009: €1 million) lower/higher.

Price risk management

Commodity price risk management

We use commodities, gas and electricity in our production processes and we are particularly sensitive to energy price movements.

Our Specialty Chemicals companies in the US hedge the price risk on natural gas through buying natural gas futures on the New York Mercantile Exchange. At year-end 2010, the notional amounts of these futures are 1.3 million dekatherms, spread over all 12 months of 2011 (2009: 1.7 million dekatherms, spread over all 12 months of 2010). The total fair value change of these futures is € nil at year-end (2009: € nil). No hedge accounting is applied to the changes of the fair value of these contracts.

To hedge the price risks related to energy supply in the Netherlands, we operate one power plant in joint venture with Essent/RWE in Delfzijl of 520 MW. AkzoNobel power plants are located in Hengelo (80 MW), Rotterdam (20 MW) and Mariager, Denmark (20 MW). The power plants transform natural gas into steam and electricity. The steam is used in our production facilities and excess electricity is sold on the market. The price for natural gas in our purchase contracts is a fixed or floating price. In order to hedge the price risk of natural gas in these contracts, we have partly entered into option contracts for the underlying oil price. In 2010 the fair value changes of these contracts amounted to a €2 million loss net of taxes (2009: €1 million loss). Income volatility caused by energy prices of the unit in Denmark has been hedged by an electricity price swap. The fair value changes of this contract amounted to a €1 million gain net of taxes (2009: € nil). We do not apply hedge accounting to the changes of the fair value of the hedge contracts.

To hedge the price risk of electricity that is used for the Specialty Chemicals plants in Sweden and Finland, we entered into future contracts on the power exchange Nord Pool Spot, based on expected use of electricity over the period 2011 – 2014. We apply cash flow hedge accounting to these contracts in order to mitigate the accounting mismatch that would otherwise occur. The effective part of the fair value changes of these contracts amounted to a €29 million gain net of deferred taxes in equity (2009: €12 million net deferred loss). In 2010, nothing was recorded in cost of goods sold due to ineffectiveness (2009: € nil loss). The amounts deferred in equity at year-end are expected to affect operational cost within the next four years.

Sensitivity analysis

We perform our commodity price risk sensitivity analysis by applying an adjustment to the forward rates prevailing at year-end. This adjustment is based on observed changes in commodity prices in the previous year and management expectations for possible future movements. We then apply the expected volatility to revalue all commodity-derivative financial instruments in the applicable commodity in our balance sheet at year-end. For the purpose of this sensitivity analysis, the change of the price of the commodity is not discounted to the net present value at balance sheet date.

At year-end 2010, if a parallel adjustment of the price curve of natural gas by €8,000 per 10,000 dekatherms up/down as compared with the market prices prevailing at that date had occurred, with all other variables held constant, post-tax profit would have been €1 million (2009: €2 million) higher/lower. This is due to the fair value changes of natural gas derivatives.

At year-end 2010, if the price of oil had weakened/strengthened by €7 per barrel (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, post-tax profit for 2010 would have been €2 million higher/lower (2009: € nil). Nevertheless over the full term of the (partially long-term) contracts, net impact on post-tax profit will be € nil.

At year-end 2010, if the forward price of electricity on the Nord Pool exchange had weakened/strengthened by €5,66 per MWh (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, equity would have been €13 million (2009: €8 million) higher/lower. This is due to the fair value changes of electricity futures which have been accounted for under cash flow hedge accounting.

Cash flow and fair value interest rate risk management

We are partly financed with debt in order to obtain more efficient leverage. Fixed rate debt results in fair value interest rate risk. Floating rate debt results in cash flow interest rate risk. The fixed/floating rate of our outstanding bonds shifted from 85 percent fixed at year-end 2009 to 80 percent fixed at year-end 2010.

We have entered into a number of interest rate swap contracts. A total of $500 million fixed rate liabilities with an interest rate of 5.625 percent were swapped with a three-month floating rate US dollar Libor plus an average of 1.1056 percent liabilities maturing in 2013. We classified these interest rate swaps as fair value hedges and recorded them at fair value until the derivatives were closed out in Q3 2010.

Fair value hedge accounting was applied to the above-mentioned interest rate swaps and fixed rate bond until close out date. During 2010, an amount of €16 million has been accounted for in the statement of income for fair value changes of the interest rate swaps and an amount of €15 million has been accounted for in the statement of income as an adjustment to the carrying amount of the hedged bond for fair value changes attributable to the hedged risk. The fully effective hedge relationship was discontinued following the close out of the interest rate swaps. Adjustments to the carrying amount of the hedged financial instrument have been amortized to profit and loss (interest).

The effective interest rate (excluding hedge results) over 2010 was 6.64 percent. Combined with the hedge result (interest rate swaps), the effective interest rate was 6.14 percent.

Sensitivity analysis

At year-end 2010, if EURIBOR interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been €5 million higher/lower (2009: €6 million higher/lower).

At year-end 2010, if US LIBOR interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been €nil million higher/lower (2009: €3 million lower/higher) .

At year-end 2010, if GBP LIBOR interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been €1 million higher/lower (2009: €2 million higher/lower).

Credit risk management

Credit risk arises from financial assets such as cash and cash equivalents, derivative financial instruments with a positive fair value, deposits with banks and financial institutions, and trade receivables.

We have a credit risk management policy in place to limit credit losses due to non-performance of financial counterparties and customers. We monitor our exposure to credit risk on an ongoing basis at various levels. We only deal with counterparties that have a sufficiently high credit rating. Generally, we do not require collateral in respect of financial assets.

Investments in cash and cash equivalents and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and good reputation. Derivative transactions are concluded mostly with parties with whom we have contractual netting agreements and ISDA agreements in place. In the Treasury Statute limits are set per counterparty for the different types of financial instruments the company uses. We closely monitor the acceptable counterparty credit ratings and credit limits and revise where required in line with the market circumstances. We have no reason to expect non-performance by the counterparties for these financial instruments.

Due to our geographical spread and the diversity of our customers, we were not subject to any significant concentration of credit risks at balance sheet date. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets, including derivative financial instruments, in the balance sheet. At year-end 2010, the credit risk on consolidated level was €6.0 billion (2009: €5.0 billion) for long-term borrowings given, trade and other receivables and cash. Our credit risk is well spread amongst both global and local counterparties. Our largest counterparty risk amounted to €299 million at year-end 2010. The credit risk from trade receivables is measured and analyzed at a local operating entity level, mainly by means of ageing analysis, see note 14.

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 2010, we had €2.7 billion available as cash and cash equivalents (2009: €1.9 billion), see note 15. In addition, we have a €1.5 billion multi-currency revolving credit facility expiring in 2013. Both at year-end 2010 and 2009, this facility had not been drawn. We have a commercial paper program in the US, which at both year-end 2010 and 2009 had a maximum of $1.0 billion and a euro commercial paper program, which at both year-end 2010 and 2009 ad a maximum of €1.5 billion. At December 31, 2010 and 2009, the commercial paper programs were not used. The commercial paper programs can only be used to the extent that the equivalent portion of the revolving credit facility is not used.

The opposite table analyzes our cash outflows per maturity group based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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. The credit rating at year-end 2010 was Baa1/BBB+ (year-end 2009: Baa1/BBB+ with a negative outlook). The capital structure can be altered, among others, by adjusting the amount of dividends paid to shareholders, return capital to capital providers, or issue new debt or shares.

Consistent with others in the industry, we monitor capital on the basis of funds from operations in relation to our net borrowings level (FFO/NB-ratio). The FFO/NB-ratio for 2010 at year-end amounted to 0.49 (2009: 0.23). Funds from operations are based on net cash from operating activities, which

Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
At December 31, 2009:			
Borrowings	381	2,163	1,313
Interest on borrowings	236	771	93
Finance lease liabilities	3	11	–
Trade and other payables	2,866	–	–
Forward foreign exchange contracts (hedges):			
– Outflow	2,372	569	–
– Inflow	(2,068)	(477)	–
Interest rate swaps:			
– Outflow	12	47	–
– Inflow	(20)	(68)	–
Other derivatives:			
– Outflow	103	26	–
– Inflow	(28)	(18)	–
Total	**3,857**	**3,024**	**1,406**
At December 31, 2010:			
Borrowings	905	2,531	322
Interest on borrowings	238	673	12
Finance lease liabilities	2	8	–
Trade and other payables	3,305	–	–
Forward foreign exchange contracts (hedges):			
– Outflow	2,350	–	–
– Inflow	(2,267)	–	–
Other derivatives:			
– Outflow	–	1	–
– Inflow	44	–	–
Total	**4,577**	**3,213**	**334**

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.

Fair value of financial instruments and IAS 39 categories

Loans and receivables and other liabilities are recognized at amortized cost, using the effective interest method. We estimated the fair value of our long-term borrowings based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with similar maturities.

The carrying amounts of cash and cash equivalents, receivables less allowance for impairment, short-term borrowings and other current liabilities approximate fair value due to the short maturity period of those instruments.

We have not applied the fair value option allowed under IFRS and reported certain energy purchasing contracts as held for trading. The only financial instruments accounted for at fair value through profit or loss are derivative financial instruments and the short-term investments included in cash. The fair value of foreign currency contracts, swap contracts, forward rate agreements, oil contracts and gas futures was determined by valuation techniques using market observable input (such as foreign currency interest rates based on Reuters) and by obtaining quotes from dealers and brokers.

The following valuation methods for financial instruments carried at fair value through profit or loss are distinguished:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable).

Fair value per financial instruments category

			Carrying value per IAS 39 category			
In € millions	Carrying amount	Out of scope of IFRS 7	Loans and receivables/ other liabilities	At fair value through profit or loss	Total carrying value	Fair value
2009 year-end:						
Other financial non-current assets	815	414	374	27	401	416
Trade and other receivables	2,564	246	2,290	28	2,318	2,318
Cash and cash equivalents	2,128	–	–	2,128	2,128	2,128
Total financial assets	**5,507**	**660**	**2,664**	**2,183**	**4,847**	**4,862**
Long-term borrowings	3,488	–	3,488	–	3,488	3,848
Short-term borrowings	384	–	384	–	384	384
Trade and other payables	2,866	1,231	1,523	112	1,635	1,635
Total financial liabilities	**6,738**	**1,231**	**5,395**	**112**	**5,507**	**5,867**
2010 year-end:						
Other financial non-current assets	1,008	640	368	–	368	386
Trade and other receivables	2,788	257	2,497	34	2,531	2,531
Cash and cash equivalents	2,851	–	–	2,851	2,851	2,851
Total financial assets	**6,647**	**897**	**2,865**	**2,885**	**5,750**	**5,768**
Long-term borrowings	2,880	–	2,880	–	2,880	3,266
Short-term borrowings	907	–	907	–	907	914
Trade and other payables	3,305	1,361	1,807	137	1,944	1,944
Total financial liabilities	**7,092**	**1,361**	**5,594**	**137**	**5,731**	**6,124**

Statement of income

In € millions	Note	2009		2010	
Net income from subsidiaries, associates and joint ventures	b		355		723
Other net income	b		(70)		31
Total net income			**285**		**754**

Balance sheet as of December 31, before allocation of profit

In € millions	Note	2009		2010	
Assets					
Non-current assets					
Financial non-current assets	c	15,418		16,874	
Loans to associates and joint ventures	c	11		–	
Total non-current assets			**15,429**		**16,874**
Current assets					
Trade and other receivables	d	201		265	
Cash and cash equivalents	e	775		1,459	
Total current assets			**976**		**1,724**
Total assets			**16,405**		**18,598**
Equity and liabilities					
Equity					
Subscribed share capital		465		467	
Additional paid-in capital		2		9	
Cash flow hedge reserves		(6)		29	
Revaluation reserve		7		7	
Other statutory reserves		237		242	
Cumulative translation reserves		(777)		(43)	
Other reserves		7,632		7,594	
Undistributed profit		215		679	
Shareholders' equity			**7,775**		**8,984**
Non-current liabilities					
Provision for subsidiaries	c	481		289	
Long-term borrowings	f	7,744		8,245	
Total non-current liabilities			**8,225**		**8,534**
Current liabilities					
Other short-term debt	g	405		1,080	
Total current liabilities			**405**		**1,080**
Total equity and liabilities			**16,405**		**18,598**

Movement in shareholders' equity

In € millions	Subscribed share capital	Additional paid-in capital	Statutory reserves: Cash flow hedge reserve	Statutory reserves: Revaluation reserve	Statutory reserves: Other statutory reserves	Statutory reserves: Cumulative translation reserves	Other reserves	Undistributed results	Shareholders' equity
Balance at January 1, 2009	463	–	(49)	–	236	(1,130)	9,122	(1,179)	7,463
Changes in fair value of derivatives	–	–	43	–	–	–	–	–	43
Revaluation related to step acquisitions	–	–	–	7	–	–	–	–	7
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	–	353	–	–	353
Net income	–	–	–	–	–	–	–	285	285
Comprehensive income	**–**	**–**	**43**	**7**	**–**	**353**	**–**	**285**	**688**
Dividend paid	–	–	–	–	–	–	–	(395)	(395)
Equity-settled transactions	–	–	–	–	–	–	15	–	15
Issue of common shares	2	2	–	–	–	–	–	–	4
Addition to other reserves	–	–	–	–	–	–	(1,504)	1,504	–
Changes in statutory reserves	–	–	–	–	1	–	(1)	–	–
Balance at December 31, 2009	**465**	**2**	**(6)**	**7**	**237**	**(777)**	**7,632**	**215**	**7,775**
Changes in fair value of derivatives	–	–	35	–	–	–	–	–	35
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	–	734	–	–	734
Net income	–	–	–	–	–	–	–	754	754
Comprehensive income	**–**	**–**	**35**	**–**	**–**	**734**	**–**	**754**	**1,523**
Dividend paid	–	–	–	–	–	–	–	(320)	(320)
Equity-settled transactions	–	–	–	–	–	–	27	–	27
Issue of common shares	2	7	–	–	–	–	–	–	9
Addition to other reserves	–	–	–	–	5	–	(35)	30	–
Acquisition of non-controlling interests	–	–	–	–	–	–	(30)	–	(30)
Balance at December 31, 2010	**467**	**9**	**29**	**7**	**242**	**(43)**	**7,594**	**679**	**8,984**

Note a General information

The financial statements of Akzo Nobel N.V. have been prepared using the option of section 362 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles used are the same as for the consolidated financial statements. Foreign currency amounts have been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income presented in note 1 to the consolidated financial statements.

Subsidiaries of Akzo Nobel N.V. are accounted for using the equity method.

As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code. The remuneration paragraph is included in note 23 of the consolidated financial statements.

Note b Net income from subsidiaries, associates and joint ventures

For further details on net income from subsidiaries, associates and joint ventures, see note c.

Note c Financial non-current assets and provision for subsidiaries

Movements in financial non-current assets

		Subsidiaries			
In € millions	Total	Share in capital	Loans [1]	Other financial non-current assets	Loans to associates and joint ventures
Balance at January 1, 2009	**14,095**	**8,505**	**5,481**	**90**	**19**
Acquisitions/capital contributions	3,167	3,127	–	40	–
Divestments/capital repayments	(3,769)	(3,769)	–	–	–
Net income from subsidiaries, associates and joint ventures	355	355	–	–	–
Equity-settled transactions	15	15	–	–	–
Change in fair value of derivatives	43	43	–	–	–
Loans granted	3,377	–	3,377	–	–
Repayment of loans	(2,210)	–	(2,202)	–	(8)
Changes in exchange rates	366	271	104	(9)	–
Other changes	(47)	(47)	–	–	–
Transfer to provision for subsidiaries	37	37	–	–	–
Balance at December 31, 2009	**15,429**	**8,537**	**6,760**	**121**	**11**
Acquisitions/capital contributions	111	109	–	2	–
Divestments/capital repayments	(115)	(68)	–	(47)	–
Net income from subsidiaries, associates and joint ventures	723	723	–	–	–
Equity-settled transactions	27	27	–	–	–
Change in fair value of derivatives	31	31	–	–	–
Loans granted	3,406	–	3,406	–	–
Repayment of loans	(3,251)	–	(3,240)	–	(11)
Changes in exchange rates	816	686	130	–	–
Other changes	(111)	(124)	–	13	–
Change to provisions for subsidiaries [2]	(192)	(192)	–	–	–
Balance at December 31, 2010	**16,874**	**9,729**	**7,056**	**89**	**–**

[1] Loans to these companies have no fixed repayment schedule.
[2] At year-end 2010 the provisions for subsidiaries amounted to €289 million.

Note d Trade and other receivables

In € millions	2009	2010
Receivables from subsidiaries	47	63
Receivables from associates and joint ventures	–	16
FX contracts	110	134
Other receivables	44	52
Total	**201**	**265**

Note e Cash and cash equivalents

In € millions	2009	2010
Short-term investments	704	878
Cash on hand and in banks	71	581
Total	**775**	**1,459**

Note f Long-term borrowings

In € millions	2009	2010
Debentures	1,842	1,289
Debt to subsidiaries	5,752	6,916
Other borrowings	150	40
Total	**7,744**	**8,245**

For the fair value of the debenture loans and the related interest-rate derivatives, see note 24 of the notes to the consolidated financial statements.

Debentures

In € millions	2009	2010
4 1/4 % 2003/11 (€750/€539 million)	533	–
7 1/4 % 2009/15 (€750 million)	746	748
7 1/4 % 2009/15 (€225 million)	259	252
8 % 2009/16 (£250 million)	278	289
Other	26	–
Total	**1,842**	**1,289**

At year-end 2010 and 2009, the total amount of long-term credit facilities arranged by AkzoNobel was €1.5 billion, maturing in 2013. Both at year-end 2010 and 2009, this facility had not been drawn. At year-end 2010 and 2009, none of the borrowings was secured by collateral. Borrowings from subsidiaries have no fixed repayment schedule. Interest charged on these borrowings averaged 0.9 percent in 2010 (2009: 1.0 percent).

Note g Short-term debt

In € millions	2009	2010
Current portion of long-term borrowings	64	702
Debt to subsidiaries	10	8
FX contracts	13	22
Borrowings from associates and joint ventures	62	40
Short-term bank loans	5	10
Debt related to pensions	–	6
Debt to other suppliers	23	19
Other liabilities	228	273
Total	**405**	**1,080**

Akzo Nobel N.V. has a euro commercial paper program, which at year-end 2010 and 2009 had a maximum of €1.5 billion. At year-end 2010 and 2009, the commercial paper program was not used.

Note h Financial instruments

At December 31, 2010, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.6 billion (December 31, 2009: €1.6 billion), while contracts to sell currencies totaled €1.5 billion (December 31, 2009: €1.6 billion). The contracts mainly related to US Dollars, Pound Sterling, Swedish Krona and Swiss Franc, and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidaries, and the fair value changes are recognized in the statement of income to offset the fair value changes on the contracts with the subsidaries. For information on risk exposure and risk management, see note 24 of the notes to the consolidated financial statements.

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 December 31, 2010, aggregating €0.4 billion (2009: €0.5 billion), are included in the consolidated balance sheet. Additionally, at December 31, 2010, guarantees were issued on behalf of consolidated companies for an amount of €2.4 billion (2009: €2.8 billion), including a guarantee issued by Akzo Nobel N.V. in relation to the exemption of Dulux Paints (Ireland) Ltd, under section 5(c) of the companies (amendment) Act 1986 Ireland.

The debts and liabilities of the consolidated companies underlying these guarantees are included in the consolidated balance sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc. as disclosed in note 21 of the notes to the consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €9 million (2009: €12 million).

Note j Auditor's fees

In € millions	In the Netherlands	Network outside the Netherlands	Total 2009	In the Netherlands	Network outside the Netherlands	Total 2010
Audit	3.4	6.9	10.3	3.5	8.1	11.6
Audit-related	0.5	0.1	0.6	0.3	0.2	0.5
Tax	–	0.4	0.4	–	0.5	0.5
Other services	–	0.3	0.3	0.1	0.2	0.3
Total	**3.9**	**7.7**	**11.6**	**3.9**	**9.0**	**12.9**

Amsterdam, February 16, 2011

The Board of Management
Hans Wijers
Leif Darner
Rob Frohn
Tex Gunning
Keith Nichols

The Supervisory Board
Karel Vuursteen
Uwe-Ernst Bufe
Virginia Bottomley
Dolf van den Brink
Peggy Bruzelius
Antony Burgmans
Peter Ellwood
Louis Hughes

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 2010 of Akzo Nobel N.V., Amsterdam as set out on pages 85 to 133. 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, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2010, the company statement of income for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Management in accordance with part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as valuating 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, 2010 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, 2010 and of its result for the year then ended in accordance with part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Board of Management, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the Board of Management as set out on pages 1 to 84, 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 16, 2011
KPMG ACCOUNTANTS N.V.

E.H.W. Weusten RA

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.

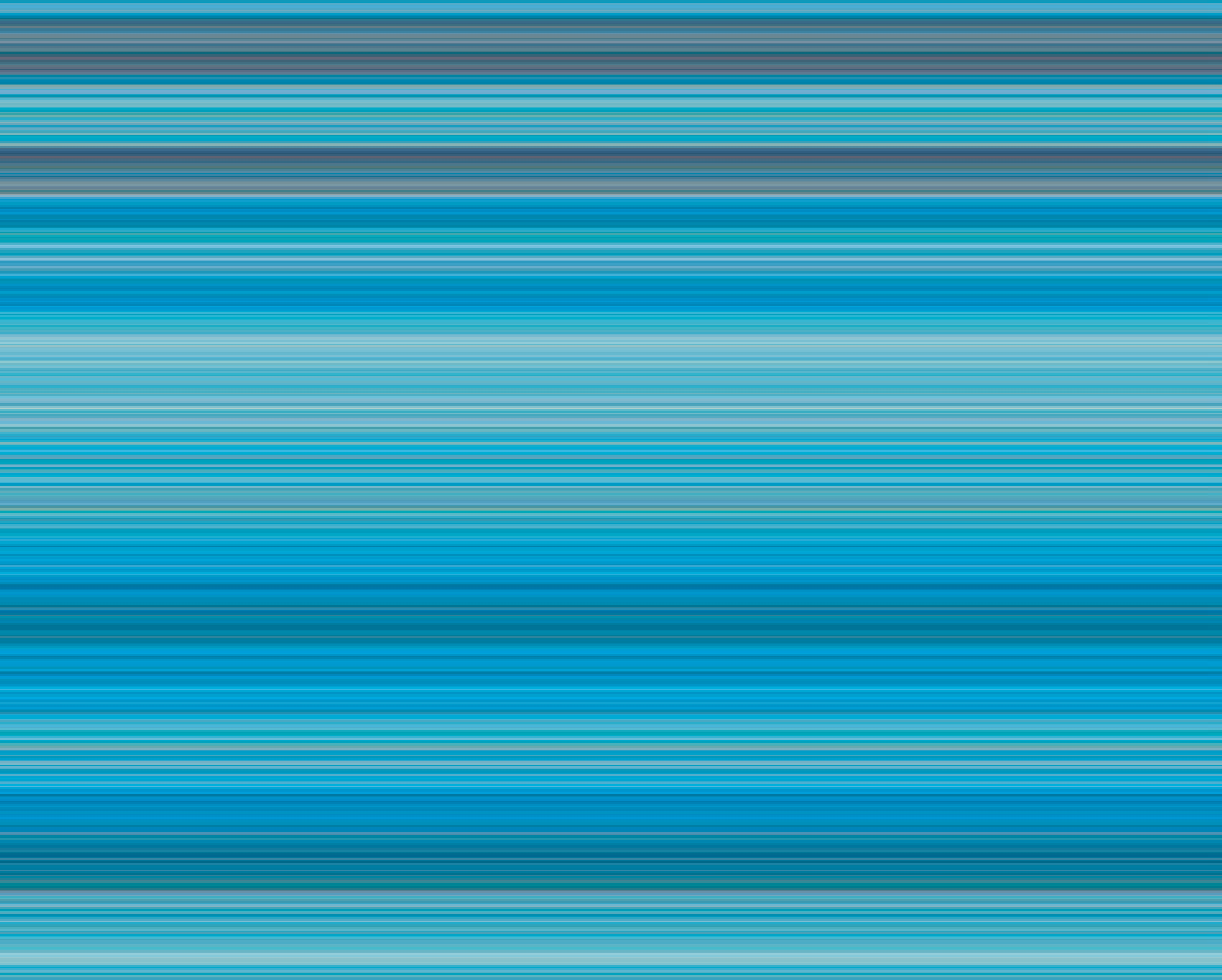
43.9
Without prejudice to the provisions of article 42 and paragraph 8 of this article, the Annual General Meeting of shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

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, €754 million of net income is carried to the other reserves. Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €326 million (to be increased by dividend on shares issued in 2011 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.40 per share of €2, of which €0.32 was paid earlier as an interim dividend. The final dividend of €1.08 will be made available from May 10, 2011.

Special rights to holders of priority shares
The priority shares are held by "Stichting AkzoNobel" (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 facts and figures

Other links to this section:

This Sustainability facts and figures section of the 2010 Report is separate from, and does not in any way form part of, the company's annual financial report ("jaarlikse financiële verslaggeving") as defined in article 5:25c of the Dutch Financial Markets Supervision Act for 2009. This section contains summarized key performance indicators (KPIs) relating to sustainability performance. Further information on AkzoNobel's sustainability strategy, activities and results can be found on our corporate website: **www.akzonobel.com/sustainability**

2010 key figures

Sustainability topics and data have been integrated into all sections of the AkzoNobel Report 2010. This summary focuses on sustainability processes and activities that span our businesses. A fuller overview of AkzoNobel's sustainability strategy, activities and results can be found in the Sustainability section of our corporate website: www.akzonobel.com/sustainability

- Eco-premium solutions 25 percent (2009: 20 percent)
- Employee/supervised contractors injury rate down 3 percent
- CO_2 emissions (cradle to gate) down around 3 percent per ton of product
- Sustainable fresh water management in place at 48 percent of production sites
- Total waste down 11 percent per ton of production
- 266 supportive supplier visits since 2007
- 95 percent of online employees completed Code of Conduct training
- More than 1,400 Community Program projects since 2005

Key Performance Indicator summary

Objective	Metric	2010 performance	2015 ambitions
Top three on DJSI	Position on DJSI	2nd place	Top 3
	Eco-premium solutions (% of sales)	25%	30%
	Cradle-to-gate carbon footprint	(3%)	Reduce 10% from 2009 Reduce 20% to 25% by 2020
	Sustainable fresh water (% of sites)	48%	100%
Top quartile safety performance	Total reportable injury rate (per million hours worked)	3.6	2.0
	Behavior-based safety (% of sites)	61%	100%
Step change in people development	Employee engagement (mean score out of 5)[1]	3.56	Improvement in employee survey index
	Women executives (in %)	12%	20%
	Executives from high growth countries (in %)	12%	20%

[1]The Gallup Q12 grand mean score: the average of the mean scores of each question (out of 5).

Managing **our values**

Strategic focus

The importance of sustainability to running our business is firmly integrated into AkzoNobel's strategy. In 2008, we set ambitions for 2015 for sustainable value creation in order to support our overall goals:

- Remain in the top three on the Dow Jones Sustainability Index (DJSI)
- Achieve top quartile safety performance
- Deliver a step change in people development

During 2010, these ambitions were updated and we reviewed our sustainability programs to bring greater focus to our efforts:

- Top quartile safety performance
- Top three position in sustainability
- Top quartile performance in diversity, employee engagement and talent development
- Top quartile eco-efficiency improvement rate.

For 2011, we will strengthen our safety peer group for external benchmarking.

The Board of Management (as of January 1, 2011, supported by the other members of the Executive Committee) monitors the company's financial and sustainability performance using a special dashboard, which specifies indicators – both leading and lagging – against each objective. For most key performance indicators we have announced 2015 ambitions; other short and long-term milestones are set at business level. Performance against these ambitions are described in the following pages.

Sustainability framework

The AkzoNobel sustainability framework maps out a progression towards sustainability. It has three levels (Invent, Manage and Improve – explained in detail in this section) which include environmental, economic and social aspects. The focus has shifted away from an emphasis purely on risks – working on integrity, governance and compliance – towards creating opportunities for value creation through process excellence, innovation and talent development. This framework covers issues and topics that are material for the company and support our strategic agenda (see page 20).

Management structure

We have established a Sustainability Council, which advises the Executive Committee on strategy developments, monitors the integration of sustainability into management processes and oversees the company's sustainability targets and overall performance. The Council includes representatives from the Executive Committee, General Managers from our businesses, Corporate Directors of Strategy, Research, Development and Innovation (RD&I), Sourcing, Human Resources (HR), Communications and Sustainability, as well as the Managing Director of Technology and Engineering. The Corporate Director of Sustainability (including Health, Safety, Environment and Security) reports directly to the CEO and has a small team, including an expert group focusing on lifecycle assessment.

The General Manager of each business defines their respective non-financial targets and reports on progress every quarter. All businesses have also appointed a Sustainability Focal Point to support the embedding of sustainability throughout their operations. They bring together an appropriate team to develop and implement the sustainability agenda for the business. Focal Points from across the company have regular meetings to exchange best practices and identify opportunities for further development.

A Compliance Committee also exists to foster awareness of, and monitor compliance with, the Code of Conduct. Members include the General Counsel, Secretary to the Executive Committee, and Corporate Directors of Internal Audit, Control, Compliance and HR. Each business has appointed a member of its management team to act as the Compliance Officer to manage the roll-out of compliance projects and to monitor compliance with the Code of Conduct. Meanwhile, each element of the value chain has identified focus areas for sustainability, with targets where appropriate. Functional management teams, such as HR, Sourcing and RD&I, which comprise corporate and business representatives, are in place to support the implementation of functional strategy, including the sustainability elements.

Management processes

We include key sustainability issues in our corporate and business planning processes, as well as in our risk management and compliance processes. Where there are specific "sustainability" risks or issues of concern to stakeholders, we develop position papers and an improvement plan owned by a corporate staff member.

Progress in embedding sustainability is monitored using an annual self-assessment benchmark which reflects the content of the sustainability framework and management processes. The assessment results are reviewed at corporate level. The current level of definition within the self assessment leads to some interpretation differences, but the results provide useful trends.

The 2010 results indicate that sustainability processes are in place, or mostly in place, in all businesses, except one that merged in 2010 and which is still developing common processes. The highest level of embedding is at the Improve or compliance level and processes such as risk management and reporting. Integration in the value chain, or Manage level, is making steady progress, but continuing focus is required in all areas. The Invent topics are making progress, but are a clear focus for improvement in 2011.

We strive to empower all employees to contribute and be accountable for our sustainability performance. This responsibility is increasingly anchored in the personal targets and remuneration packages of managers and employees. From 2009, half of the conditional grant of shares for Board members and all executives is based on AkzoNobel's performance in the DJSI over a three-year period (see page 74).

The main corporate monitoring processes for sustainability items are:

- **Non-financial Letter of Representation**. At the end of the year, the General Manager of each business signs the non-financial Letter of Representation to confirm compliance with the Code of Conduct and other corporate non-financial requirements, as well as indicating any material non-compliance. The outcome is reviewed with the responsible Board member and General Counsel and the results are reported to the Board of Management and the Audit Committee. Outstanding actions are followed up in each business and progressed in quarterly reviews
- **In-control process**. An annual in-depth in-control process informs management whether business processes are in control. Shortcomings are reported and remediated: during 2010 control awareness and training got special attention
- **Corporate audits**, which include sustainability and compliance issues. The outcomes are shared with the Compliance Committee and Sustainability Council.

Our processes for managing sustainability were again reviewed as part of our 2010 external assurance activity.

Stakeholder **activity**

We have established engagement processes and activities with many stakeholder groups, which are described in other sections of this report: employees (page 153); customers (see Business performance section); suppliers (page 149); investors (page 80); communities (page 156). During 2010 we continued to have dialog with external stakeholders through a range of external projects and partnerships, which align with our sustainability ambitions for now and the future. We are currently setting up a small group to oversee and integrate all the stakeholder engagement processes around the sustainability aspects of our business. They will build on work carried out this year to identify the key stakeholder groups in each of our key countries.

Suppliers and sustainable trade

The first International Supply Management Congress – a joint initiative between NEVI (knowledge network for purchasing and supply management in the Netherlands), Alfa Delta Compendium, AkzoNobel, Rabobank and the Dutch Sustainable Trade Initiative (IDH) – attracted more than 1,100 participants. Speakers included leaders from sustainability organizations, NGOs and business, including our CEO Hans Wijers.

The 2010 event focused on sustainability and innovation in supply chains in a range of sectors: construction, health care, transport & logistics, process industry, manufacturing industry, food & agricultural business, financial services, and the public sector. We were able to use this event to invite suppliers, customers and other stakeholders, raising their awareness of sustainable and innovative sourcing opportunities.

Biodiversity and eco-systems

The agenda around eco-systems stewardship continues to develop within AkzoNobel.

Wood stewardship and Forest Stewardship Council

In 2010, we underlined the importance of wood stewardship to our sustainability agenda by signing a landmark agreement with the Forest Stewardship Council (see separate case study).

Eco-systems services

Our involvement with the Eco-system Valuation Initiative started in 2008, when we took part in the World Business Council for Sustainable Development Future Leaders Team. That program explored how the Eco-systems Services Review (ESR) assessment tool could be incorporated into corporate decision-making processes. Our Pulp and Paper Chemicals business has used the process to evaluate pulp and paper production in China and identified both risks and business opportunities to explore. They recently road tested the Corporate Eco-systems Valuation on a project evaluating alternative chemicals used in solid board production. Fresh water is one of the identified priority eco-system services for gum rosin. The results can help in managing reputational risks and opportunities and are also demonstrating company values supporting long-term business. ESR is now one of the sustainability tools available for use in the BU strategy process.

Biodiversity

Linking with the International Year on Biodiversity, we are involved in two studies to formulate future priority and action around biodiversity, for our own sites and our supply chains.

Our Decorative Paints business in the UK is trialing a supply chain biodiversity risk assessment developed by Cranfield University School of Management. The trial includes three key suppliers representing important raw materials – titanium dioxide, filler and water. Our water supplier is also including the effect of customers' use of water – to clean brushes and so on – in his assessment. The results indicate generally low risks, but potential additional risks for second tier suppliers. At the same time, the business has initiated a full evaluation of two AkzoNobel production sites against the UK Wildlife Trust's biodiversity benchmark, which was set up to support the UK Biodiversity Action Plan to help increase the contribution that businesses can make towards enhancing biodiversity.

In the Netherlands, our Functional Chemicals business is working on a complementary project with Wageningen University to measure the biodiversity impact of one of our sites.

Partnerships and endorsements

We support a number of external organizations and charters to demonstrate our commitment to sustainability issues. These include the UN Global Compact – we are also an active member of the network in the Netherlands – and the Global Responsible Care Charter.

In order to contribute to, and keep up-to-date with, developments in the sustainability agenda, we continue to support the work of the World Business Council for Sustainable Development (WBCSD), the World Resources Institute, Forum for the Future in the UK and the Conference Board.

- AkzoNobel participated in the 2010 WBCSD Future Leaders Team with the task of bringing the Council's Vision 2050 to life
- We hosted a World Resources Institute meeting in Amsterdam to support their European program
- We have taken part in good practice sharing on linking sustainability to compensation via both a WRI Mindshare meeting and the WBCSD People Matter program
- Forum for the Future supported us to integrate sustainability aspects into our graduate development program.

Sustainability **framework**

Sustainability framework

The framework (right) maps out the sustainability topics covered in this report (see also the index on page 174). The AkzoNobel framework has three levels (Invent, Manage, Improve). Each includes environmental, economic and social aspects, which together map out the journey towards sustainability.

Invent: integrate sustainable value propositions

As we move forward, we are identifying and managing those issues which provide long-term opportunities for our businesses.

- Working in partnership with customers and suppliers to deliver eco-premium solutions
- Managing long-term resource and environmental issues
- Developing our people to lead and deliver innovative solutions
- Increasingly working in partnership with a range of stakeholders to achieve transformational change.

Manage: include sustainability in all aspects of the value chain

Based on the foundations of compliance and license to operate, we are now integrating sustainability into all areas of the value chain, from market research through to sales and marketing.

- Research, Development and Innovation groups focusing on product design for eco-efficiency, applying clever chemistry
- Sourcing managers working in partnership with suppliers to control business integrity issues, and to help us deliver sustainable value to our customers
- Manufacturing sites optimizing processes, improving yields, improving energy efficiency
- Sales and marketing teams working with customers to develop eco-premium solutions.

Improve: continue to comply and ensure our license to operate

Our management processes include directives and standards, management systems, improvement objectives, training and auditing. They are underpinned by AkzoNobel's risk management process, which integrates environmental, social and governance issues.

Economic

- Integrity management: Our Code of Conduct details the requirements on employees and on the company to operate with integrity. There is a compliance management process in place. In parallel, a global complaints procedure allows employees to report any violations which they encounter.

Environmental and social

- Health, Safety, Environment and Security management: HSE&S management systems are based on international and internal company standards. Implementation is carried out by trained, experienced employees. Improvement actions are driven by objectives, while verification is achieved though internal and external audits.
- Product stewardship: Management systems and processes are in place to control the safety and environmental impact of our products throughout the lifecycle and to manage compliance with international and local regulations.
- Employment practices: HR systems are set up to meet business and local needs, within the framework of the global HR policy, which sets out principles for development, education and training, and compensation and benefits.

Sustainability framework chart index

2010 priority areas

Sustainability framework

	Environmental	Economic/Governance	Social

Invent

Integrate sustainable value propositions

Environmental
Climate change
Carbon policy
Energy, greenhouse gases
Scarce resources
Managing scarce resources
Freshwater availability
Cradle to Cradle

Economic/Governance
Products
Eco-premium solutions
Mid-markets
External partnerships
Accerate profitable growth
Sourcing
RD&I
Cradle to Cradle

Social
Leadership development
Sustainability leadership
Talent factory
Mid-markets

Manage

Include sustainability in all aspects of the value chain

Market research	Research and development	Investment decisions	Sourcing	Manufacturing	Sales and marketing

Research & Development
Innovate more
RD&I
Eco-premium solutions

Sourcing
Functional Excellence
Sourcing

Manufacturing
Functional Excellence
Manufacturing

Sales & Marketing
Eco-premium solutions
Marketing

Stakeholder engagement Investors, customers, suppliers, employees, other stakeholders

Improve

Continue to comply and ensure a license to operate

Environmental
Environmental management
HSE&S management
Emissions, waste
Raw material efficiency
Energy, greenhouse gases
Land remediation
Product stewardship
Product stewardship
Distribution

Economic/Governance
Integrity management
Code of conduct
Competition compliance
Anti-bribery
Integrity management
Sourcing

Social
Health, Safety, Security management
HSE&S management
H&S performance
Process safety
Employment practices
People Development
Diversity & inclusion
Restructuring
Community involvement

Risk management

AKZONOBEL AND ECO-PREMIUM SOLUTIONS

With cries for manufacturers to stop using NPEs (nonylphenol ethoxylates) in their products becoming louder – and legislation to prevent their use becoming more global – the search is on for environmentally benign alternatives that offer similar performance.

NPEs are already banned completely in Europe, while in the US, the Environmental Protection Agency has announced that it will be banning NPEs in industrial laundry and cleaning products. The good news for customers seeking an eco-premium alternative is that our Surface Chemistry business has already developed one.

Berol 609 is AkzoNobel's next generation nonylphenol ethoxylate replacement which exceeds the degreasing power of leading NPE replacements. Completely water soluble and biodegradable, there's also no need for customers to reformulate. It can simply be used as a direct drop-in for NP9 or NP10.

Produced in large volumes and widely used in detergents and cleaning products, NPEs are thought to be toxic to aquatic organisms. Initiatives to encourage companies to voluntarily phase out their use (which we did some time ago) have been gathering momentum in recent months, with the world's high growth markets expected to follow suit sooner rather than later. Berol 609 is therefore well placed to position itself as the most attractive alternative.

Invent

Integrate sustainable value propositions

Eco-premium solutions

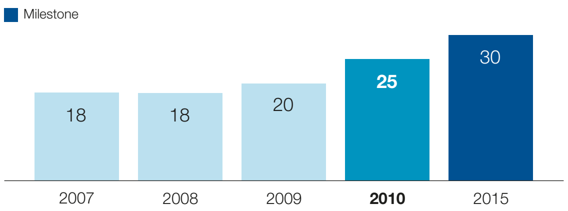
Eco-premium solutions help to create value for our businesses and our customers. They provide top line growth opportunities because of their improved performance in areas such as raw material use, manufacturing processes and product innovation.

We are committed to continuously improve the sustainability of our operations and the entire value chains in which we operate. Downstream, we seek to offer solutions that allow our customers, or their customers, to reduce their footprint. For example, by reducing energy or water requirement, or waste generation. Upstream, we achieve improvements by working with our suppliers to reduce their eco-footprint, or to identify new and lower footprint process, formulation or application routes to meet our customers' needs. Our businesses continue to use desktop tools to review the eco-footprint during R&D development processes. An additional tool being developed focuses on comparing the environmental and social impacts of renewable raw materials.

We have a ambition to increase the share of revenue from eco-premium solutions to at least 30 percent in 2015. This is a challenging objective because the measurement will be taken against the mainstream, or standard, product in the market, which is a moving target.

Our businesses carry out an annual assessment of their portfolio. In 2010, total revenue relating to eco-premium solutions were more than €3.5 billion. The proportion of revenue from eco-premium solutions has increased to 25 percent (2009: 20 percent). This is divided between Specialty Chemicals (23 percent), Performance Coatings (22 percent) and Decorative Paints (29 percent). The 2010 analysis shows that sales growth in eco-premium solutions is ahead of the total product portfolio. For more than 50 percent of these solutions, the eco-efficiency benefit is realized downstream by our customers or the end user of our products.

Eco-premium solutions in % of revenue



An eco-premium solution is measured using a quantitative analysis or a qualitative assessment focusing on six categories: toxicity, energy efficiency, use of natural resources/raw materials, emissions and waste, land use and risks (eg accidents). The eco-premium solution must be significantly better than currently available solutions in at least one criterion, and not significantly worse in any.

As an important element of portfolio analysis, we also use this analysis to identify products that may not be sustainable in the longer term due to competitive or regulatory pressures. This includes products which contain materials of concern where we have phase-out plans in place, for example some lead compounds and chromates.

Decorative Paints' Dulux Weathershield SunReflect lowers the temperature of external walls by up to 5° Celsius and reduces the need for air conditioning by reflecting up to 90 percent more infrared radiation than comparable exterior paints.

Our Pulp and Paper chemicals product Compozil Fx is a wet end management system for the largest and fastest paper machines. Top quality paper can be produced with higher productivity, better economy and reduced environmental impact.

Autoclear LV Exclusive is a high gloss clearcoat paint for car refinishing. Based on proprietary resin technology, it is not only highly resistant to scratches and easy to apply, but also features remarkable self-healing properties when exposed to gentle heat.

Additional examples are given in the case studies included in this report.

Cradle to Cradle studies

We have continued with the pilot phase of our Cradle to Cradle (C2C) activity with German professor Michael Braungart and his EPEA organization. This is enabling our businesses to explore the opportunities of the C2C concept. For our coatings businesses, the focus is on identifying products that support new functionality, for example recyclability, or absorption of air pollutants, rather than simply reducing footprint. Several exploratory projects are being developed with partners.

AkzoNobel has also been involved in a partnership with other corporations, research institutions and academia to develop a model for a C2C coatings/chemical plant, the "Factory of the Future". The facility design is based – as far possible – on C2C principles and emphasizes renewable energy, water management and active materials and transport management.

AkzoNobel Carbon Policy

Climate protection is an integral element of our business objectives. Early in 2009, the Board of Management approved the company's Carbon Policy, including 2015 and 2020 improvement targets and ambition levels. We continue

AKZONOBEL AND INVENTIVE THINKING

It's usually the major, pioneering product innovations that grab all the glory. And there's nothing wrong with that. But most of the time, it's the less high profile breakthroughs that give our customers the most satisfaction.

Applying putty to repair large wooden substrates is a classic example. Imperfections and defects that occur naturally in wood are normally repaired by hand, using putty. The putty then needs to be dried before the huge panels of wood can be turned into flooring, furniture, doors and so on. This process is slow, not always accurate and the technology used is not particularly durable.

So our Wood Finishes and Adhesives business – working together with leading manufacturers Swedwood (an IKEA company) and Tarkett – developed a new concept known as the Automatic Putty System (APS). It's an automated system which uses scanners/cameras to detect imperfections, robots for application and a special APS machine to push down, smooth out and cure the putty, which is supplied by AkzoNobel.

This new patented process brings major benefits to the customer as it requires fewer people, offers increased quality due to the use of our UV curing putty, results in higher productivity and efficiency and is more accurate and consistent. Tarkett is running one line in Hanaskog in Sweden, while Swedwood is using the system to produce spruce and pine furniture for IKEA.

The putty system also provides benefits in terms of sustainability. For example, because our customers are able to transform defective or poor quality wood into usable wood, it means there is less waste, so fewer trees are being harvested.

to focus on improving the energy efficiency and managing the fuel mix of our energy intensive businesses to reduce greenhouse gas emissions and potential carbon costs. We are also committed to reducing the impact of our raw materials and developing solutions that help our customers to reduce their energy requirements.

In addition to internal activity to reduce energy use and greenhouse gas emissions, we support transparent disclosure and business initiatives calling for urgent inter-governmental action. We are signatories of the UN Global Compact's Caring for Climate platform, and communiqués from the Prince of Wales' Corporate Leaders Group on Climate, which have urged action towards an international UN Climate Change treaty at each of the annual Climate Change conferences. We still advocate the implementation of global cap-and-trade mechanisms on carbon emissions as a requirement to accelerate transition towards a low carbon economy.

Cornerstones of Carbon Policy

Measurement
Measure and report on a cradle-to-gate basis and manage carbon along the value chain.

Reduction
Use a structured and consistent carbon reduction approach, aligned with business objectives.

Communication and advocacy
Actively communicate approach and performance to staff, customers, suppliers, investors and the general public and encourage dialog.

Best practices
Promote activities to share good practice, generate efficiencies and accelerate improvement.

Our carbon management and performance is reported through the Carbon Disclosure Project. We have also taken an active part in developing the GHG Protocol Accounting and Reporting Guidelines for product lifecycles and corporate value chains (Scope 3). During 2010, we were one of the companies chosen to road test both standards and carry out a trial assurance process. This pilot was helpful in providing boundaries and some prioritization tools, but reinforced the complexity of this developing reporting activity, and the uncertainty of some measurement processes and current data available. At AkzoNobel, we want to use these measurement activities to help drive performance improvement. During this learning and maturity phase, we will aim to monitor relative improvements by setting clear boundaries and consistent assumptions.

Our framework for measuring the carbon footprint of products and facilities is based on the international Greenhouse Gas Protocol and lifecycle analysis. It was tested with the World Resources Institute and several Dutch NGOs. During 2009, our businesses (see note to graph) identified and assessed the cradle-to-gate carbon footprint of key value chains in order to understand the high carbon areas where improvements will deliver financial and environmental benefits. This indicated that more than 70 percent of the company footprint is from raw materials extraction, processing and transport (Scope 3 upstream), while the remaining 25 to 30 percent is from our own direct emissions and indirect emissions from energy use. During 2010, our businesses have been developing carbon management plans which identify specific improvement opportunities and programs. Examples of programs in place include:

- Joint activities with suppliers to reduce the footprint of key raw materials
- Reformulations using lower footprint raw materials
- Site programs to improve yields, reduce waste and improve energy efficiency
- Technology and process developments
- New curing developments to reduce energy use during product application.

2010 is the second time we have assessed the cradle-to-gate footprint of our operations. We have now assessed 286 key value chains (2009: 158). This year's assessment indicates a total footprint of around 16.0 million tons CO_2(e) assessed cradle-to-gate. There was an additional 0.7 million tons Scope1 and 2 CO_2(e) reported from Chemicals Pakistan and National Starch (now divested). As in 2009, the cradle-to-gate assessment indicated around 70 percent was from raw materials and transport (Scope 3 upstream) and under 30 percent from our own direct and indirect emissions from energy use.

Since the 2009 assessment we have further developed our raw materials database and the value chains in some businesses. We have restated the 2009 figures to include these changes and also included a facility which was acquired

Ambitions

- Reduce our cradle-to-gate (scope 1, 2 and 3 upstream) carbon footprint per ton of product by 10 percent by 2015 (2009 baseline)
- Reduce cradle-to-gate carbon footprint per ton of product by 20 to 25 percent by 2020 (2009 baseline)
- Control absolute scope 1 and 2 greenhouse gas emissions below 2008 levels
- Our existing objective to increase eco-premium solutions to 30 percent of sales will track the provision of carbon-efficient solutions to customers, reducing our downstream footprint.

These improvements will be achieved though a mix of innovation, energy efficiency and fuel mix improvements.

Assessment method

The assessment uses boundaries in line with financial reporting and definitions in line with the Greenhouse Gas Protocol. It is carried out using recognized tools and staff experienced in lifecycle assessment. Businesses identify and assess the cradle-to-gate carbon footprint of key value chains in order to understand the high greenhouse gas emission areas where improvements will deliver financial and environmental benefits.

Scope 3 (upstream) includes GHG emissions from the extraction, production and transport of raw materials. We have developed a central raw materials database to provide consistency/transparency of data use. This database includes mainly "default" or proxy data which has been selected as the most representative/current data from recognized data sources, as well as specific supplier data. The absolute data and year on year comparision provide indicative assessments.

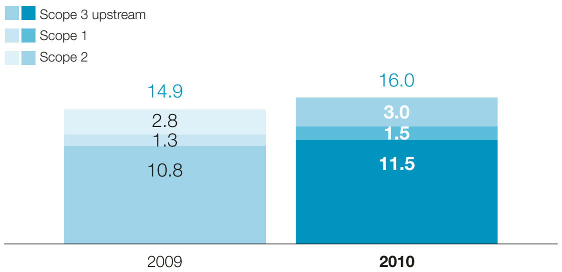
Scope 1 includes direct GHG emissions from our production and owned transport. Emissions from our sites are assessed from measured fuel use and process emissions; transport is assessed from fuel use and/or estimated distance traveled.

Scope 2 includes the indirect GHG emissions from purchased electricity and heat. Energy use is collected from site measurements, with emissions assessed using supplier or country grid factors and fuel mix.

The individual business footprint was calculated by extrapolating from measured key value chains, or from assessing the total raw material footprint from purchased materials, and total production and transport energy use.

but not reported last year – so we have an indication of the improvement per ton achieved during the year. The results of the cradle-to-gate assessments show a reduction of around 3 percent from about 853 kg/ton to approximately 827 kg/ton.

Cradle-to-gate carbon footprint in million tons of CO_2



The carbon footprint of the six main greenhouse gases is measured from cradle-to-gate based on the international Greenhouse Gas (GHG) Protocol and Lifecycle Assessment ISO 14040-44. See Assessment method.
The cradle-to-gate assessment excludes Chemicals Pakistan and National Starch. They measure Scope 1 and 2 emissions which is included in the Performance Summary data. 2009 cradle-to-gate data has been restated to reflect changes in portfolio and raw material data.

Sustainable fresh water management

AkzoNobel is concerned with the sustainable use and the conservation of water resources worldwide. We are aiming to achieve sustainable fresh water management at our production sites by 2015, as we recognize water supply is essential to life – and to the sustainability of our business. We rely on water for raw materials production, product formulation and manufacturing, power generation, cooling, cleaning, transporting and for effective use of some products.

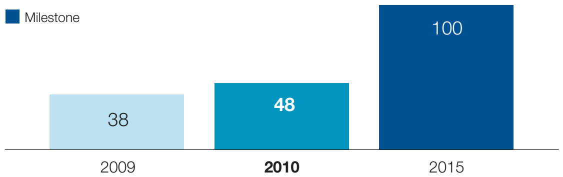
In July 2010, AkzoNobel signed the UN Global Compact CEO Water Mandate. By doing so, we have committed to developing our programs over time for: direct operations, supply chain and watershed management, collective action, public policy, community engagement and transparency. We also took part in the 2010 Carbon Disclosure Project water assessment.
We are currently defining an integrated, company-wide Water Program, including expert resource support for improvements, which has included benchmarking our efforts with the leaders in the water initiatives.

Current progress

We assess our progress using the AkzoNobel sustainable fresh water assessment tool, which evaluates risks in six categories: water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors. Sustainable management is indicated by a low risk score in all categories.

During 2009, our manufacturing sites completed the self-assessments – the results indicated that 38 percent of sites have sustainable fresh water in place (see our corporate website for more details). Our manufacturing sites will update their assessments every two years. The focus in 2010 has been on validating and updating the assessment tool and analyzing the preliminary results for common risks areas. Information on water use and discharges is included in the Environmental performance section of this report.

Sustainable fresh water management
in % sites



Sustainable fresh water management is defined as a low risk score in all categories in the AkzoNobel sustainable fresh water assessment tool.

Our sites are now developing improvement plans that may include investments in infrastructure and technology, changes in water use, improvements in water discharges, managing community and social water issues, etc. The improvement activity for water use and discharges will be integrated with our operational eco-efficiency program, described in the Manufacturing section. The quick scans have already identified opportunities for reuse of wash, cooling and other process waters, as well as improving controls for cooling water and heat extraction. Improvements already achieved include:

- In Australia, production was relocated to a customer location to take advantage of surplus recycled water
- Surface water has replaced ground water as the source for a site in the Netherlands
- Extensive recycle and reuse systems have been implemented at salt production sites in Europe, including reuse of condensate and recirculation of process water via technologies such as deionization.

Other aspects

Eco-efficiency assessment, which includes water, is at the heart of sustainability reviews for our eco-premium solutions and all major projects – to achieve a balance between environmental footprint and cost effectiveness. Our portfolio includes a number of processes/products that support more efficient water use, recycling and improved water/waste water treatment. Water scarcity, stricter regulation and consumer requirements for lower impact solutions are expected to provide increased opportunities for the future.

Our Supportive Supplier Visits program already reviews the water use and discharges of our critical suppliers in high growth economies, where required improvement plans are progressed and closed. In 2011, we will review how we might extend our sustainable water management.

Our commitment to sustainable fresh water management requires our sites to engage with local authorities and communities to understand the risks related to water supply and competition for water uses. Our sites also support local communities through community panels and projects. A recent project in Cikarang, Indonesia, involved 60 employees, in partnership with a local NGO, initiating a new local waste management system to separate household waste, which results in less land and water contamination.

Sustainability Leadership

In November 2010, 22 of AkzoNobel's future leaders traveled to India to take part in a week-long development program. Known as Sustainability Leadership, the new initiative is designed to help nurture the talent and skill set of the participants and expose them to both the social and environmental aspects of sustainability.

Traveling to India – one of AkzoNobel's strategic high growth regions – enabled the team of executive potentials to draw on a rich and diverse set of experiences and gain insight into different cultures. They were able to achieve better understanding of their motivation and skills and this will help improve their ability to contribute simultaneously to a more successful business and a more sustainable world.

Having taken part in the expedition element, each member of the team now has clear objectives and tangible projects to ensure that their businesses, and ultimately the whole of AkzoNobel, benefit from their personal development.

Manage

Include sustainability in all aspects of the value chain

Research, Development and Innovation (RD&I)

Sustainability and the reduction of our ecological footprint are embedded in AkzoNobel's strategy for RD&I and their consideration is inherent throughout the innovation process.

We use our eco-premium solutions metric – which considers the whole lifecycle – as the key performance indicator for our product sustainability performance. Two important focus areas have been VOC reduction and raw materials.

A cross-business group, including RD&I, marketing and product stewardship, has created a comprehensive model of VOC use across the Decorative Paints and Performance Coatings Business Areas. This has provided a thorough analysis of the 2009 VOC baseline and a robust forecast of the position in 2015. AkzoNobel is committed to taking a leadership role in the reduction of VOCs within the coatings industry and plans have been put in place to ensure that a 25 percent reduction in the volume weighted average VOC content of Decorative Paints and Performance Coatings products is achieved by 2015.

Renewable raw materials are already used extensively throughout the company. Our Surface Chemistry business has developed and introduced Alcoguard H5240, an anti-scalant used in automatic dishwashing and laundry detergent applications. Based on hybrid polymer technology in which a substantial proportion of the synthetic petrochemically-derived polymers are replaced by polysaccharides, Alcoguard H5240 has a significantly lower carbon footprint than competitive equivalent products, and its polysaccharide component is fully biodegradable. Hybrid polymers with similar compositions have been commercialized for use in oilfield applications and the technology has been nominated for P2 (pollution prevention) recognition by the US Environmental Protection Agency.

A number of our businesses are evaluating renewable raw materials as offering novel functionality or more sustainable alternatives to mainstream products. We are taking steps with supply chain partners and external bodies to ensure that, where used, renewables offer a genuine sustainability advantage taking social and environmental impacts fully into account.

Industrial Chemicals is developing innovative process technology for the use of carbon dioxide as a renewable basic feedstock. These processes are being developed in line with the principles of Green Chemistry and the targeted products will constitute valuable strategic additions to Industrial Chemicals' current portfolio. In order to accelerate progress in this relatively young field, a variety of collaborations have been set up with knowledge institutes, universities and industrial partners. In recognition of the highly innovative character and broader significance of these projects, they have recently been granted support by various public funding schemes such as the EU 7th Framework Program and the Dutch Energy Research Subsidies.

Elsewhere, open innovation approaches, both along the value chain as well as through the AkzoNobel Networked Innovation (ANNI) program, have been strengthened as a way of helping us to achieve our innovation ambitions. Strategic partnerships have been set up with key suppliers aimed at establishing long-term relationships in strategically important and mutually beneficial areas of research and development. ANNI has been embedded in the organization as a structured approach to acquiring solutions to unmet technology and know-how needs from within and outside AkzoNobel (together with NineSigma, a global leader in open innovation).

Decorative Paints is making good progress in establishing a global product architecture and raw materials strategy to significantly reduce complexity in the business. The new raw materials strategy being implemented is both reducing the number of raw materials it uses and helping to drive the move towards raw materials with lower ecological footprints. A principal goal of the strategy has been reformulation to reduce the TiO_2 content of paint, which is usually the main contributor to its carbon footprint. Further reductions of carbon footprint are being achieved through the choice of latex for water-based paints.

Investment decisions

All our major investment proposals require a sustainability evaluation alongside the financial case. This includes an eco-efficiency assessment, as well as a full review of health and safety, process and product safety, natural resource/raw material requirements and environmental impacts. These requirements are fully embedded in the company process for allocating funds for an investment or acquisition. The proposals are reviewed by subject matter experts, who provide comments and advice to the Board of Management, on both the financial and non-financial issues associated with the investment, to provide a strong basis of the investment decision.

Sourcing

Business principles

AkzoNobel aims to do business with partners who endorse our ethical values and our social and environmental standards. Our Supplier Support Visits (SSV) program was established to verify that the business principles and practices of our critical suppliers in high growth markets comply with our vendor policy. It also helps suppliers to improve their health, safety and environment standards.

Our businesses identify critical suppliers in each region and visit them on a regular basis, the frequency defined by their

Supplier engagement

% of spend	2007	2008	2009	2010	2010 ambitions	2011 ambitions
Raw material suppliers. Vendor policy signed	81	82	85	91	90	95
NPR[1] business suppliers. Vendor policy signed				62	50	Total 75
NPR[1] centrally contracted suppliers. Vendor policy signed		80	89	100	100	
Suppliers visited since 2007	100	152	185	266	220	300

[1] Non-product related.

performance rating provided by the SSV teams. These teams agree specific and continuous improvement programs with each supplier as appropriate and monitor progress through routine re-visits. Those suppliers either unwilling or incapable of positive progress are de-listed.

The SSV program has been a forceful and effective step towards creating a sustainable supplier base, needed for AkzoNobel's growth in high growth markets. The 2011 program will be enhanced and include metrics to monitor the development of a maturing, sustainable supplier base in the respective region, which supports AkzoNobel's sustainability objectives, eco-footprint initiative and the rapid growth of a high growth market supply base.

Key supplier management

In 2010, we further developed our Key Supplier Management program. We have set up 20 long-term agreements with global, leading suppliers for in-depth cooperation on value creation and innovation. Focusing on sustainability is paramount, as it supports our CO_2(e) reduction ambition and the delivery of eco-premium solutions to our customers (see Invent section).

Carbon footprint

The result of our initial calculations show that raw materials account for more than 70 percent of the AkzoNobel CO_2(e) footprint (see Carbon Policy section). Together with suppliers and RD&I, we are defining projects to reduce the volume of these raw materials in product recipes. We are also working with long-term cooperations to identify alternative raw materials with a reduced carbon footprint; to investigate the use of renewable raw materials; and to study their effect on our product quality and the carbon footprint.

Car lease

The AkzoNobel target for lease cars is to achieve a weighted average of 130g CO_2(e) emissions per kilometer by 2013. CO_2(e) levels in Europe for passenger cars came down from 158.8g/km to 152.4g/km, while the cars that were added to the fleet in 2010 have an average CO_2(e) level of 138.5g/km. During the fourth quarter of 2010, we adapted the maximum allowances in Europe downwards by 10g/km.

Logistics

We work closely with our road transport suppliers to measure their environmental performance and development. For example, we have ambitions to achieve Euro 5 level engines during 2011 and green driving training for drivers. We have started projects with suppliers on maximum payload utilization and reducing empty load journeys. In addition, we recently joined the clean shipping index to start measuring, comparing and put targets on shipping lines and their vessels.

Talent management

The AkzoNobel Procurement Academy provides standardized training for our worldwide procurement professionals. In 2010, we trained more than 250 purchasers in strategic sourcing methodology and negotiations and influencing in various parts of the world. At the end of the year, we started a new branch of the academy in China to provide this training to new hires in Mandarin. In October 2010, a global workshop took place, when 240 purchasers from 30 different countries worldwide initiated strategic learning projects.

During 2011, our executive potentials will carry out further work on learning projects, coached by senior executives from the Sourcing function. The learning projects are derived from our strategic sourcing initiatives.

A dedicated, one-week training for the executive potentials will give the AkzoNobel context for their learning path, with themes such as diversity, sustainability and innovation. The members of the global One Procurement Leadership Team were trained in executive performance to improve their creative and communication skills.

Remuneration

Within Sourcing, the sustainability agenda is linked to individual remuneration. Every member of the global Procurement Council has at least one sustainability target as an item in their personal targets.

Manufacturing

AkzoNobel is a manufacturing company, so excellence in supply chain management and manufacturing operations is a fundamental requirement for success. Our businesses use established tools such as Six Sigma and Black Belt training to achieve improvements. During the year, the Decorative Paints business set up a Supply Chain Academy to build manufacturing capability and skills and accelerate cross-functional and cross-country learning.

Lifecycle assessments have indicated that for most of our businesses, the environmental footprint of our direct activity is low compared with the impact of raw materials and use of our products. However, we see improving operational eco-efficiency as a fundamental element of manufacturing excellence – helping us to achieve cost reduction, environmental protection and more effective use of raw materials and natural resources. In January 2010, we initiated an Operational Eco-Efficiency Program to achieve a step change in the environmental footprint of our own operations. The main indicators are energy consumption, greenhouse gas emissions, waste produced, fresh water intake and VOC emissions. Quick scan reviews to identify improvement opportunities were conducted at 75 production sites, which represent approximately 75 percent of the whole company. A more extensive, comprehensive diagnostic toolkit for waste and energy consumption has been developed. This has been applied at selected sites.

As a result, AkzoNobel has defined a program to improve its environmental footprint by 10 percent, delivering €70 million in cost savings over the next two years. This is a first step towards a higher ambition of a 30 percent footprint reduction during the years to come. This 30 percent reduction will come from improving existing processes, rationalization of the manufacturing footprint and the application of best available technologies for new investments. We have brought together cross-functional and cross-business Expert Groups to support this activity by sharing good practice and expertise across the company and have developed a rigorous benefits monitoring process to track improvements. The first wave of projects is now being implemented.

For 2011, we have two main goals. The first is to rigorously implement the findings from the quick scans and comprehensive diagnostics. Secondly, we will be embarking on the next level of improvements: identifying best available technology for all new investment projects and manufacturing technologies, which will drive further and more ambitious footprint reductions.

Waste, water, energy and VOC improvements
Improvement on Operational Eco-Efficiency is not dependent on a handful of large projects, but on many smaller site initiatives. Some concrete examples:

- A Surface Chemistry site in Sweden has reduced VOC emissions by 70 percent and saved €100,000 in fixed and variable costs by reducing the level of excess methyl chloride required in the process reaction
- An agreement with a local raw material supplier to reuse steel drums, together with improved drum emptying procedures, saved a coatings site in China more than €33,000 in four months. They have reduced waste by 14 tons and recovered more than eight tons of raw materials
- A combined heat and power unit at a coatings site in Birmingham, UK, supplies most of the site's electricity and provides heat for the process and buildings. The €470,000 investment saves €116,000 from annual energy costs and reduces the site carbon footprint by 19 percent
- The impact of compressed air leaks was not fully understood at one of our Decorative Paints sites. However, following an ultrasonic leak detection survey, the site has repaired nearly 100 leaks with an estimated saving of €36,000.

Marketing

AkzoNobel's challenging target to extend sales of eco-premium solutions – which provide sustainability benefits over the mainstream products in the market – involves teamwork across the value chain. Our sales and marketing professionals have a pivotal role to play in engaging with customers to identify products to meet their immediate functional needs, and to deliver against immediate and longer term sustainability requirements.

The global AkzoNobel network Make More with Marketing (MMM) has identified innovation and sustainability as key themes to raise awareness and share successes. This was the focus when 60 European members met under the banner "Catch the customer if you can" earlier this year. A pre-event survey concluded that 92 percent of members believe sustainability is a priority for customers – but only 53 percent have it in the top three – and there are marked differences between the markets where we operate. Members raised their skills and understanding in innovation and sustainability workshops, but above all shared current successes and barriers to success in their markets. Examples included:

- Paper chemicals to help the paper industry speed up paper making and reduce the use of water and wood pulp
- Additives for tarmac to speed up road building and reduce energy and emissions
- Cleaning product ingredients which eliminate phosphates released in water
- Salt which de-ices road and limits the environmental effects
- Coatings which are harder wearing, so extend repainting programs.

These examples indicate that it is not about sustainable products with reduced functionality, but about new functionality which includes sustainability benefits. Marketers play a key role in developing an end-to-end view of value chains and identifying where AkzoNobel can contribute the most with leading, innovative, sustainable solutions.

Improve

Continue to comply and ensure our license to operate

Integrity management

Enhancing the compliance framework

We have defined our compliance framework based on the AkzoNobel value “Integrity and responsibility in our actions”. This has resulted in company-wide awareness on compliance, clear norms set in the Code of Conduct and Compliance Policies, implementation of the Compliance function within the businesses and clear monitoring and reporting lines. In 2010 the different elements were further enhanced.

Underlying principle

Underlying the compliance framework is the Code of Conduct, which contains a summary of the key elements of our compliance norms for the company and for each employee. Communication on the Code of Conduct for new employees starts at the time they join AkzoNobel and includes online or classroom training; for current employees the Code of Conduct is also discussed at the year-end performance and development review with their manager. For employees who have access to share price-sensitive information, AkzoNobel has a specific Code for Insider Trading, which provides guidance on allowable trading in AkzoNobel securities.

A core element of the framework is the AkzoNobel complaints procedure, which operates under the name Speak Up! The Speak Up! procedure encourages employees to address their concerns with their managers. If employees do not feel able to report within hierarchical lines, they may use the Speak Up! hotline or the internet to report their concerns directly into the Corporate Compliance Committee. Finally, the compliance framework includes (online) training programs and monitoring tools, and is overseen by the AkzoNobel Compliance Committee as described in the Managing our values section. By the end of 2010 we had invited nearly 41,000 employees to complete the online Code of Conduct training module. Completion rates are monitored monthly and business units are committed to having new employees trained within three months of that invitation.

Specific compliance areas

Within the compliance framework, specific compliance areas are addressed by specific programs. These include, among others, programs for competition law, anti-bribery regulations, privacy and trade secrets. Each of these topics is supported by online training and a declaration program. These programs can be supplemented with face-to-face training during annual conferences for some functions. For example, employees who have contacts with third parties (e.g. in sales or procurement) or have management positions, are called to complete online training in competition law. To close the loop, these employees complete an annual declaration confirming their adherence to the AkzoNobel standard on competition law: in 2010, almost 13,000 employees signed this declaration. In addition, each operational manager confirms adherence to the AkzoNobel standards during the annual non-financial Letter of Representation process (NFL). This provides evidence for the Statement of the Board of Management in this 2010 Report.

Communication

Communication is an essential part of an effective compliance framework. During regular meetings with business Compliance Officers, we have open dialog to support them to maintain an effective compliance framework within each business unit, and to ensure that the AkzoNobel compliance initiatives address the relevant issues within each of the business units.

Complaints procedure (Speak Up!)

In 2010 we dealt with 23 cases which were handled at the level of the Compliance Committee (2009: 19). Of these, 14 were substantiated and five are still under review. Company-wide we had 115 dismissals on grounds related to breaches of the Code of Conduct (2009: 66). While none of the issues reported has been material for AkzoNobel in total, we continue to analyze the root causes and take appropriate action. This has already resulted in specific issues addressed in our NFL process and resulted in adaption of our online training programs.

Key performance indicators – integrity

	2008	2009	2010	2010 ambitions
Code of Conduct trained (% online employees)	31	~95	95	100
Competition law certification		10,000	13,000	

Employees

Our Talent Factory ambition

We believe that growing our people is the way to grow our business for the long term. It is our ambition to be recognized by our employees – and those looking to join us – as a company which offers opportunity to its people for ongoing learning, development and growth in an environment that's defined by our company values.

In return, we expect all our employees to seize each opportunity to learn, develop and grow their talents in order to be the best at what they do and actively contribute to delivering Tomorrow's Answers Today.

Since 2006, our work to build AkzoNobel's Talent Factory has focused on the implementation of best practice HR and people development programs and processes. These programs have already significantly simplified and strengthened the way we work with our people and have driven a continuous focus on talent development.

In order to build on what has already been achieved, in 2010 we focused our efforts on three main areas, which are explained in detail on the following pages:

1. Excellence in people development – ensuring our people managers are given the right support to capitalize on our global development programs and processes and reach the next level of excellence.
2. Stronger employee engagement – creating a working environment where people feel valued and are given the right conditions to perform at their best.
3. Effectiveness of the HR function – ensuring that the HR function is ideally positioned to support the businesses in the best possible way.

Excellence in people development

Our targets and reporting are consolidated into a Talent Factory Scorecard to track our operational progress and create transparency across all AkzoNobel businesses.

Performance & Development Dialog (P&D Dialog)

The P&D Dialog incorporates both a performance review and development/career planning. Our company values and Success Factors (behavioral competencies) are an integral part of all development discussions and are integrated into the system and annual performance appraisal process. In 2010, we increased the number of employees using the web-based process to 76 percent (2009: 72 percent), with a paper system available for the remainder.

Management development programs

Our standardized best practice global Management Essentials and Advanced Management programs (MEP and AMP) are operational in 44 countries (2009: 32). 2,028 managers from across the globe started the MEP program in 2010 (2009: 2,256), representing, in total, 50 percent (2009: 32 percent) of the total target population of first line managers. During 2010, 724 senior managers (2009: 452) participated in the AMP, which represents, in total, 44 percent (2009: 21 percent) of the target population of senior managers.

Leadership pipeline

A strong leadership pipeline is crucial to supporting the company's growth ambitions, particularly in our target high growth countries. To develop this pipeline, we are working hard to deepen our understanding of future market needs, identify the talent that we already have and further improve our planning to ensure we can meet new requirements.

For example, Leadership Talent Reviews in our businesses and functions play an important role in identifying potential talent early, managing succession planning and structuring individual development. Our top management has also been actively involved in development dialogs with potential leaders, and facilitating career development moves.

During 2010, we made good progress on delivering on individual development plans and achieved improvement both in the number of cross-business moves made by our employees and in the diversity of our executives. In 2011, our businesses will be able to use a new guide for assessing leadership potential to conduct a fuller review of their potential future leaders. In addition, we will continue to take action to build the sort of engaging, challenging environment that is needed to attract and retain talented people.

Diversity & Inclusion

Input and feedback from our people continues to drive our focus on Diversity & Inclusion (D&I). While not excluding other groups, our current focus is on improving gender and cultural diversity and further strengthening our company's engaging environment. It's an environment in which everyone is valued, where everyone counts and where everyone has the opportunity to develop their skills and talents in line with our company values and objectives.

A dedicated global working team and steering committee oversees and supports all AkzoNobel businesses in improving their D&I performance. Using a standard framework and approach, the management teams of each AkzoNobel business are developing specific action plans to improve their unit's D&I performance. Nine of our businesses have D&I action plans in place. All other businesses will follow in 2011.

As work continues on business action planning, the data analysis and feedback from structured employee interviews – an integral part of the action planning process – indicates that women and employees from high growth regions (our two initial focus areas) are treated fairly, with no obvious discrimination. We also see that both of these groups are equally ambitious and that there is no significant difference in remuneration between female and male executives. The challenge is, therefore, to overcome the unconscious practices that may inhibit the progress of women and employees from high growth regions, consequently ensuring that these minority groups are adequately represented at senior levels in AkzoNobel.

While it is clear that a one-size-fits-all approach to D&I is not possible, we have identified a number of improvement actions common to all businesses which are being driven centrally. For example, we have developed a dedicated D&I training program for all people managers and an internet-based learning module for all employees. Both of these tools started to roll-out across the company at the end of 2010. We aim to see all managers complete the training program and all employees (including managers) complete the online learning module by the end of 2012. Other common actions include increasing the transparency of our internal job market by developing an improved vacancy bank and job rotation policy, and establishing a global mentoring framework to support mentor/mentee matching across the business.

Key performance indicators – employees

	2008	2009	2010	2010 ambitions
Online P&D Dialog participation (% employees)	60[2]	72	76	90
Women executives (%)	8	10	12	11.5
Executives from high growth markets (%)	10	11	12	13
MEP training participation (number of employees)	527	2,256	2,028	total 3,500
AMP training participation (number of employees)	0	452	724	total 850
Employee engagement (mean score out of 5)[1]	78	80	3.56	n/a

[1] The Gallop Q12 "grand mean" score: the average of the mean score of each question. Our employ survey has changed, the 2008 to 2009 results are not comparable.
[2] 2008 data excludes former ICI employees.

Management development programs
number of participants

	Management Essentials Program			Advanced Management Program		
	2008	2009	**2010**	2008	2009	**2010**
Europe	182	732	1,084	0	199	405
Americas	117	796	400	0	80	182
Asia	228	728	544	0	173	137
Total	527	2,256	2,028	0	452	724

Employee engagement

Our 2010 employee survey focused on engagement, because engaged teams produce better results. The 2010 Gallup Q12 survey was open to all employees. In total, 79 percent of our global workforce participated. The results indicated an overall engagement score of 3.56.

Compared with peer companies in the Gallup database, this puts AkzoNobel in the bottom quartile. The 2010 results provide us with an initial benchmark of our engagement levels and an excellent starting point to make the necessary improvements at all levels of our organization. We will implement another full survey of our people in 2011, when our ambition is an engagement score of 3.76. This will enable our managers to track their progress and continue to drive improvements.

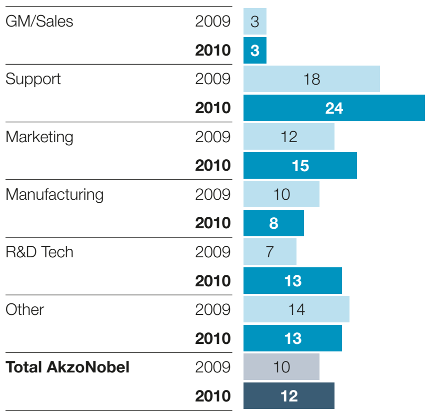
Effectiveness of the global HR function

In 2010, we continued our drive to significantly increase the effectiveness and efficiency of our HR function and increase the capability of HR professionals across the company. We are focusing our efforts on harmonizing our policies, programs and initiatives at a country level by creating service organizations to better support the activities of the various businesses operating in ten key countries, representing more than 71 percent of employees. The Netherlands organization was chosen to pilot this new approach and launched their new HR organization in July 2010. Learning is being transferred to other countries. The US and Sweden also continue to make notable progress.

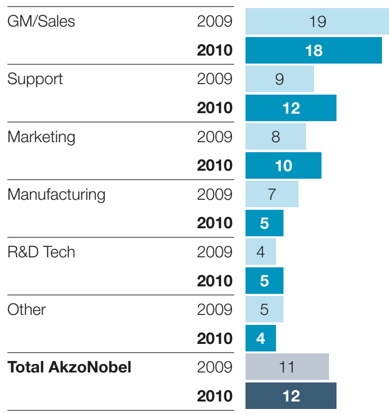
HR IT and data systems

Our drive to consolidate HR data and payroll systems made strong progress in 2010. This initiative, called OneView, is helping us to increase data quality and reduce costs. The OneView data system became fully operational in the second half of 2010. We also reduced the number of payroll systems from 251 to 89 in 76 countries.

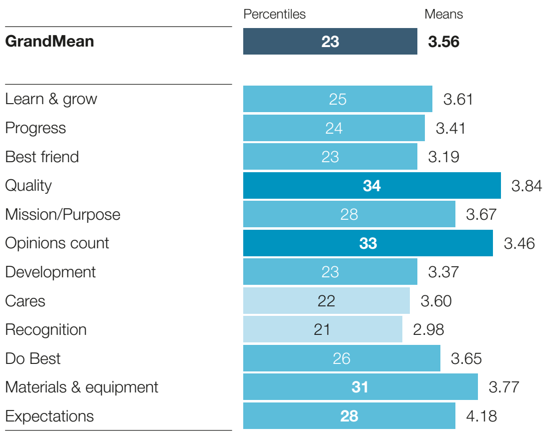
Executive diversity: female in %



Executive diversity: high growth markets in %



2010 employee survey score for each engagement item



Restructuring

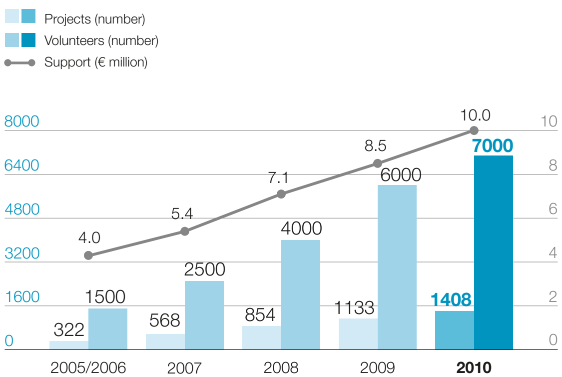
In 2010, we continued to restructure our business to meet the needs of our customers and deliver our company strategy. We are committed to supporting our employees during such reorganizations. We do this in compliance with legal requirements and, where applicable, in consultation with employee representative bodies. We strive to ensure clear and ongoing communications, transparent selection processes and, in many cases, support in the transition from work to work, which can include training and out-placement. While restructuring is a business necessity, our responsibility as an employer stretches to those who unfortunately have to leave our company.

Community

AkzoNobel's main societal contributions fall into three areas:

- Societal programs that support community/social development though the company's Community Program and Education Fund
- Fighting malnutrition through our products and partnerships
- The social contribution of our overall business activities (employment, sourcing, taxation), particularly in high growth economies.

Cumulative Community Program involvement



Community Program

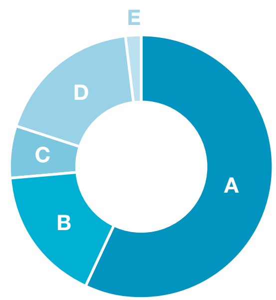
The success of our Community Program continued into 2010. Employees from the newest parts of the company (following acquisitions and integration) have embraced the opportunities the program offers and have started many new initiatives. The program encourages employees to engage in hands-on involvement in their local communities and gives them the necessary financial support. The fund is also available to support post-relief efforts for major disasters in countries where AkzoNobel operates – as long as there is hands-on involvement by our employees. In 2010, major disaster relief efforts included the volcano eruption in North Sumatra in Indonesia (including cross-business unit collaboration), the widespread flooding in Pakistan, the major earthquake in Haiti and the red sludge flooding in Hungary.

The initiative allows sites and individuals to take part in projects where our products/resources and the skills and knowledge of employees can benefit the wider community. In the past five years this has led to a great variety of projects; from educating underprivileged youngsters to contributing to creating more awareness in the community 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, more than 7,000 volunteers from 50 countries have worked on more than 1,400 projects, totaling about €10 million. According to the NCDO Millennium Development Goal Scan methodology, these projects have impacted an estimated 400,000 people. It is remarkable to observe that increased cross-business unit collaboration takes place in many countries. Over the last five years, nearly 70 percent of projects have supported educational/employability and healthcare/well-being activities, with environmental and housing projects also well represented.

In 2010, 275 new projects were initiated. These were narrowed down to a shortlist of 15 and more than 4,560 employees around the world then voted for their favorite in our annual Community Program Best Practice competition. First prize went to the "Help with healthy living" project, a cross business initiative by Marine and Protective Coatings, Industrial Coatings and Powder Coatings in India. Our volunteering employees have helped establish a health clinic which has become an indispensable part of life for residents in four villages in Bangalore.

2010 projects by region

A Europe	157
B North America	46
C South America	17
D Asia	50
E Africa/Oceania	5



Education Fund 15th anniversary

In 2010, a worldwide campaign was launched to create more awareness about the AkzoNobel Education Fund. A special internet site was developed in order to help reach employees, their families, friends and our business relations. The proceeds of this new fundraising campaign will go to support projects in Vietnam, India and Brazil. These three projects are designed to help young people – in many cases girls – find decent and safe employment that offers them long-term prospects.

The Education Fund was created at the end of 1994 to mark the 25th anniversary of the company Akzo, to make a contribution to the education of children in developing countries. Since the Education Fund was created, it has changed the lives of tens of thousands of young people by supporting projects from school renovation in Burkina Faso, through improving sanitation and hygiene conditions at schools in Vietnam, to increasing the capabilities of primary school teachers in Brazil.

Plan Nederland estimates that several thousand children aged three to 16 have directly benefited from quality pre-school and primary education provided by the Education Fund. The number of indirect beneficiaries is many times that number.

Health, Safety, Environment and Security management

Managing health, safety, environment and security (HSE&S) is a cornerstone of a successful coatings and chemicals industry. We have global HSE&S standards in place to ensure our sites protect people, assets, the environment, the business and society at large.

Leadership training

Our Safety Leadership Program targeted at senior business leaders was developed and launched with sessions for the Board of Management and corporate directors in 2009. It has now been rolled out across business management teams. The objective is to help senior managers to be a personal role model for safety in their organizations and for them to ensure the right level of management support for improvement activities.

Shared learning and engagement

An HSE&S alert system, to share learning on serious incidents and near misses, is now fully operational and reaches our HSE&S professionals worldwide. Alerts for 2010 have included learning and good practice around chemical burns, distribution and driving safety, and permit to work systems. An intranet-based global incident reporting system was successfully piloted in 2010 and was released for use across our businesses. We will analyze the basic risk factors from incidents to identify new improvement initiatives required to continue to improve the safety and health of our people and to safeguard our facilities.

HSE&S capability building and career development

Activities to strengthen our HSE&S capability standards and development processes are progressing to plan. The competency framework and role profiles for HSE&S professionals have been piloted and finalized. During 2011 the framework and profiles will be extended to management roles with critical HSE&S functions, including production managers and site managers. The framework will be applied in the 2011 annual performance assessment and resulting development planning activities.

Reliable operations

Operational management systems at our sites are integrated for quality and HSE&S. They are risk-based and follow the Responsible Care® and Coatings Care® principles. Our management standards are set up and updated in accordance with international standards such as ISO-9000, ISO-14001, RC-14001 and OHSAS-18001.

HSE&S audit

The new HSE&S audit process combines a continuous improvement tool for sites with a periodic audit managed by our internal auditing department. During 2010, we carried out 51 corporate HSE&S audits and 10 reassurance audits, which are required for sites with high risk findings.

As a result of the management review of the audit process in 2009, the HSE&S management system tools have been fine-tuned and further improved. All members of the corporate HSE&S auditor pool were trained on the improved audit protocol in the first half of 2010. The regionally conducted training sessions in North America, Latin America, Europe and Asia focused on calibration of the classification of audit findings, as well as the latest changes of the audit protocol and system tools.

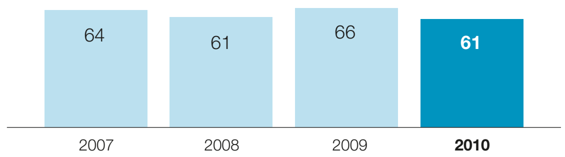
Learnings from the 2010 audits indicate that we need to improve our management of occupational health and process safety/asset integrity.

Serious incidents

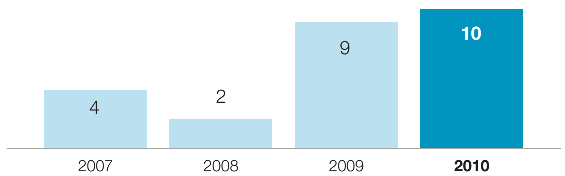
We classify incidents based on severity of outcome from local impact (Level 1) to serious incident (Level 3) – see glossary. All incidents are investigated to identify root causes, take remedial action and share learning, via HSE alerts, as appropriate across our other sites.

There were ten serious incidents (Level 3) during 2010. We regret that, although not under our direct control, haulage truck drivers and members of the public died as a result of these incidents.

Management audits number of audits



Serious incidents number of incidents



Serious incidents (Level 3) involve any loss of life; more than five serious injuries; environmental, asset or business damage totaling more than €25 million; or serious reputational damage.

- Six distribution incidents (in Brazil, China, Australia, India, the US and Colombia) involved loss of life to haulage truck drivers and members of the public
- One motor vehicle incident in the US in which one of our employees died and three incidents involving our employees in which four members of the public died in Brazil and Poland
- One kidnap case without personal injury in Pakistan.

All these incidents have renewed our focus on haulage contract management and implementation of safe and defensive driving practices. For further details on preventive action, see the Occupational safety/safe driving and Product stewardship/distribution sections.

AKZONOBEL AND COOL COATINGS

Many of us instantly recognize the familiar Heineken beer can. But what a lot of people may not be aware of is the fact that the new tactile packaging appearing in stores across Europe was achieved using technology developed by AkzoNobel.

The newly designed can features a stylish, embossed effect which uses tactile ink to form a series of tiny raised dots on the surface. When held, the improved grip becomes noticeable, while the texture gives the impression of condensation and the contents appear to be ice cold. These unique visual and sensory elements boost brand recognition and help the can to become even more instantly recognizable.

The technology behind the new can was supplied by our Industrial Coatings business, whose Aquaprime 186 product makes the so-called differential texturing possible. It offers a better alternative to current techniques as traditional embossing slows down the production.

Heineken initially approached the can makers in 2008, requesting ideas for how to change the specialty finish of cans that were embossed for the European market. The texturing proposal then surfaced, which is when AkzoNobel became involved, because we had the product which made it possible. Trials were conducted with can makers and, following a few modifications, the appearance and formulation were finalized and production was scaled up.

Heineken is now promoting the textured can globally.

Regulatory actions

We have defined three categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3) and are reporting these for the second year. There were four Level 3 incidents during 2010:

- Three minor violations of the risk management program regulations at LeMoyne
- An injury related to a hose rupture in Sweden
- A provisional fine for an infringement of the Seveso regulations at Kleefsewaard, the Netherlands, was commuted by timely corrective actions.

We also received a fine following an injury in Barcelona, reported last year.

Security management

Security of assets, people and information is an integral part of our HSE&S management system. Security assessments help our sites to identify risks and put in place appropriate security protection, as well as meeting the demands of increasingly strict legislation in the US and Europe. In 2010, a special team led by our corporate Information Management department has been addressing cyber security at our plants to protect our process safety performance and intellectual property rights.

Product stewardship

During 2010, the Product Stewardship & Regulatory Affairs core team strengthened a number of our product stewardship requirements – to support the development of a greater sustainable product culture and ensure that our substances and products can be used by all stakeholders in a safe and cost effective manner.

The team has developed strategies to replace major product liabilities from our portfolio, and policies to enable the company to position itself favorably against our leading competitors. An example is our new animal welfare policy, which clearly indicates our commitment to minimizing the use of animal testing, but without losing our ability to run such studies when they are clearly necessary.

Based on major changes in substance classification, we have updated the mechanism for defining substances of high concern within the portfolio. All substances that are classified according to the new UN globally harmonized System of Classification and Labeling, GHS, will fall under the category of "substance of concern". There is then a mechanism to prioritize substances with the highest degree of concern – a simple risk assessment to verify that concern – and, if required, a more robust lifecycle assessment to determine next steps. Specific plans are being developed for lead, chromate, cobalt and silica compounds.

Regulatory affairs

In order to meet our legal obligations, AkzoNobel continues to devote considerable resources to ensure that all substances and products can be manufactured and marketed in all countries where we operate. A number of substances have been registered with the European Chemicals Agency as defined by the first phase of the EU REACH regulations. To date, we have achieved the required submissions according to the specified requirements. We have continually tracked the work of our key raw materials suppliers and in a few cases we have taken special steps to ensure continued availability. Work to implement the GHS requirements in different parts of the world has continued.

We have initiated a number of new advocacy activities aimed at a more harmonised manner of introducing new legislation. Initiatives in countries such as China, the US, Malaysia, Taiwan and Turkey have shown supportive outcomes. Overall, AkzoNobel continues to ensure that all its substances and products are produced and marketed in accordance with all prerequisite legal requirements. Furthermore, we continuously strive to ensure that our substances and products are developed, manufactured and marketed in a manner that supports their long-term sustainable use.

Distribution

We are also increasing our attention on the distribution aspect of product stewardship. There were 91 distribution incidents during 2010 involving the transport of our product by road (82), sea (5) and rail (4) (see also the Serious incidents section).

We have been working actively with sourcing groups in emerging countries to improve the safety performance of contract distribution companies. In China, specific guidance on the content and follow-up of these distribution contracts has been prepared and implemented.

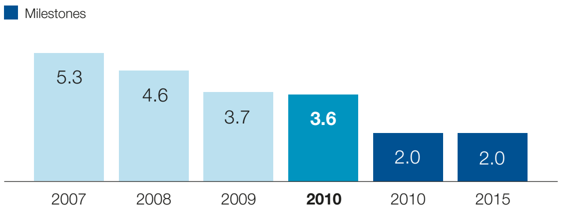
Health and safety performance

Occupational safety

The human factor remains an essential element in safety management. In 2006, we set an ambitious target to improve safety performance by a factor of four by 2010, reducing the Total Reportable Rate (TRR) for employee injuries to 2.0 per million hours worked. Since 2009, we have reported the safety performance of employees together with our supervised contractors. Quarterly reports on business safety improvement programs and agreed targets are reviewed by the Executive Committee, together with the quarterly financial performance indicators.

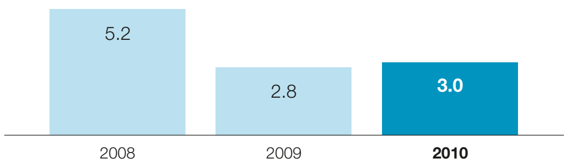
There had been a steady reduction in TRR since 2005, with good progress towards the 2010 milestone rate of 2.0. However, in 2010, this trend stagnated. The TRR for employees and supervised contractors improved slightly to 3.6 injuries per million hours worked (2009: 3.7). The rate for independent contractors is 3.0 injuries per million hours (2009: 2.8). In total, in 2010, 66 percent of our units performed at or better than the milestone, representing approximately 50 percent of the hours worked by our employees and supervised contractors. We have not achieved the ambitious target, however senior managers have focused significant attention on re-establishing the improvement trend – with success towards the end of the year. In October, we organized a global AkzoNobel Safety Day, when more than 14,000 employees made their personal pledge towards safety in both their working and private lives.

Employee and supervised contractors total reportable injuries injury rate



2007 and 2008 data includes employees only.
The total reportable rate 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.

Independent contractors total reportable injuries injury rate



2008 data includes supervised and independent contractors.
The total reportable rate 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.

We continue to focus improvement actions on behavior-based safety (BBS) training and continuous raising of awareness. In 2010, BBS improvement processes – which involve employees and focus on reducing unsafe situations and unsafe behaviors – were in place at more than 60 percent of our sites worldwide. We believe that full implementation of BBS and management leadership training is essential to meet the challenge. Five of our businesses were operating at safety levels below the 2015 ambition level during the year. This sets an excellent example for the other businesses to follow. In 2010, we developed a generic AkzoNobel safety induction package for our new and existing employees, to complement site specific training. Currently available in four main languages, the package will be extended in 2011 to cover all ten major countries where we operate.

Our ambition for 2015 remains to be in the top quartile of our peer group in TRR performance – the milestone we have set is 2.0 for both employees and supervised contractors.

Safe driving

This is a priority area, based on the many incidents we have had over two years of monitoring. During 2010, there were 34 incidents involving injury, as well as the fatalities of one employee and four members of the public. An analysis of the serious motor vehicle incidents revealed that the major cause was distraction from the main task – driving the car safely – which was attributed to fatigue, mobile phone use, intense discussions with passengers, etc.

We have signed a global contract for defensive driving through e-learning programs and have developed a company-wide approach for training those who drive on company business. The program and good practice guidance will be rolled out across our businesses in 2011. Drivers at risk (covering more than 20,000 business miles) will also be advised to take regular hands-on safe driver training.

Employee health

As well as ensuring a safe working environment, we also focus on employee health and managing illness absence. Businesses continued to implement a health management standard during the year. The Total Illness Absence Rate has improved to 1.9 percent (2009: 2.0 percent). We will keep monitoring this indicator for the whole company, aiming to stay at a level around 2 percent, but will not set new long-term targets.

The Occupational Illness Rate for employees and supervised contractors stands at 0.3 illnesses per million hours worked (2009: 0.4).

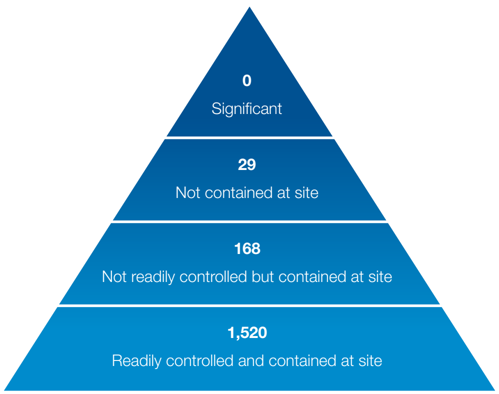
With our expansion in high growth countries, we recognize that there are challenges associated with cultural aspects – health beliefs and the emphasis on group importance rather than the individual – as well as differences in healthcare. During 2010, we strengthened our occupational health provision in China and Vietnam. They have made important contributions by visiting sites and supporting local management to identify improvement opportunities.

Process safety

Drawing on the learning from the process safety audits carried out after the Baker Report, and best practices from the former ICI, we updated our process safety/asset integrity standard and management practices in 2009. Businesses are now implementing the requirements – the management system and revised standards for management of change (including organizational change), contractor safety and hazard studies.

The global process safety network has developed additional guidance and training materials to support roll-out. We are using “loss of containment” as the main indicator for asset integrity management – four categories indicate the severity of the loss, from small on-site spill (Level 1) to a major emission of toxic/hazardous materials (Level 4) – see glossary. There was no serious loss of containment (Level 4) during 2010.

Loss of containment incidents



Environmental performance

Operational eco-efficiency improvement

Improvement activities are focused on the Operational Eco-Efficiency (OEE) program described in the Manufacturing section. This first wave is expected to deliver approximately 3 to 4 percent footprint reduction, resulting in €26 million recurring cost benefits.

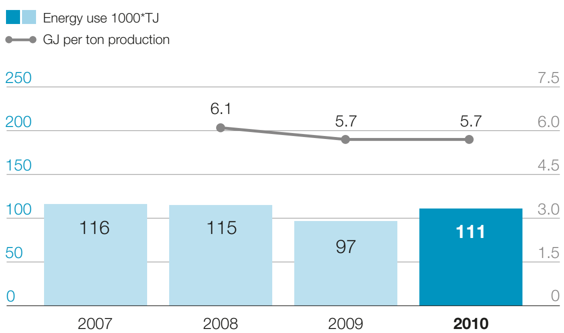
Emissions to air

Energy and greenhouse gases

This section reflects the performance of our own operations. More details on our Carbon Policy and cradle-to-gate reporting can be found in the Invent section. Energy is a major raw material for some of our Specialty Chemicals businesses, so energy efficiency and carbon efficient energy consumption are important metrics for our operations. Energy reduction is also part of the OEE program.

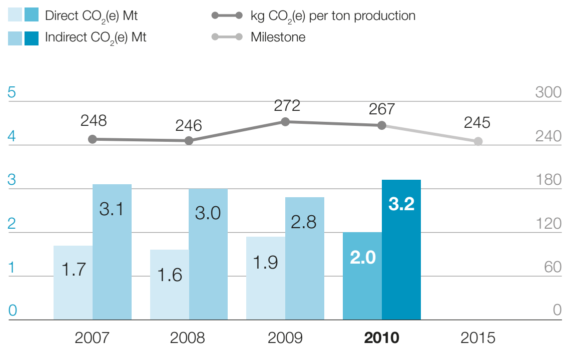
- Energy consumption per ton of production is stable at 5.7GJ/ton (2009: 5.7GJ/ton). Absolute consumption was up 14 percent at 111,000TJ (2009: 97,000TJ) due to higher production volumes, the acquisition of the high energy Frankfurt site, and partly compensated in the last quarter by the divestment of our National Starch business
- Greenhouse gas emissions per ton of production decreased slightly to 267kg/ton CO_2(e) (2009: 272kg/ton). Absolute GHG emissions stand at 5.2 million tons of CO_2(e) (2009: 4.7 million tons). Increase caused by higher energy intake caused by increased production volumes
- Direct greenhouse gas emissions (2.0 million tons of CO_2(e)) are split into 1.7 million tons from fuel burned and 0.3 million tons of CO_2(e) process emissions, mainly from the Soda Ash business in Pakistan and the carbide business in Sweden.

Energy use in 1000*TJ



2007 and 2008 data for former AkzoNobel coatings businesses were based on factors per ton production.

Greenhouse gas emissions in million ton



Total greenhouse gas emissions made up of direct emissions from processes and combustion at our facilities and indirect emissions from purchased energy. 2007 and 2008 data for former AkzoNobel coatings businesses were based on factors per ton production.

Clean air around our plants

Our air monitoring is focused on volatile organic compound (VOC) emissions that may lead to local low level ozone creation, smog formation and associated health problems for people in surrounding areas, and NOx and SOx emissions which contribute to acidification. In 2009, we strengthened our NOx and SOx reporting to include the contribution from fuel burned across our operations. In 2005, before AkzoNobel's portfolio change, we set a milestone to reduce VOC emissions to 4,000 tons by 2010. We continue to reduce the level of emissions, but have not yet achieved this target with the changed business portfolio.

Our Specialty Chemicals businesses will continue to manage VOC emissions from plants in line with regional legal requirements. In future, VOC ambitions will be set at BU level, but monitored at company level. The VOC reduction focus for our paints and coatings businesses has shifted from controlling VOCs in our operations to low/zero VOC product design. Reducing VOC emissions from our plants remains part of the

AKZONOBEL AND SUPPLYING IKEA

It started out as a special soft touch finish for laptop computers. But when an enterprising global market sector manager showed it to IKEA, the seeds of a new opportunity for our Powder Coatings business were planted.

The technology in question was initially developed for use on laptop covers. Customers were looking for eco-efficient solutions that offered new textures, effects and patterns. So a soft touch topcoat was developed which met all the demanding specifications.

However, one of Powder Coatings' furniture sector managers thought the new range might be of interest to IKEA and before long a new business opportunity was born. IKEA will now produce 1.5 million flower pots during 2011 in Vietnam and Germany, all coated with our soft touch powder technology. Not only is it far more eco-efficient in terms of energy consumption when compared with traditional glaze, but the overall cost is lower as well.

The product also fits in with IKEA's drive to encourage suppliers to use more sustainable materials and processes.

scope of our OEE program, while our Research, Development and Innovation groups (RD&I) are working on projects to reduce the solvent content of our products – the zero VOC challenge (see the RD&I section).

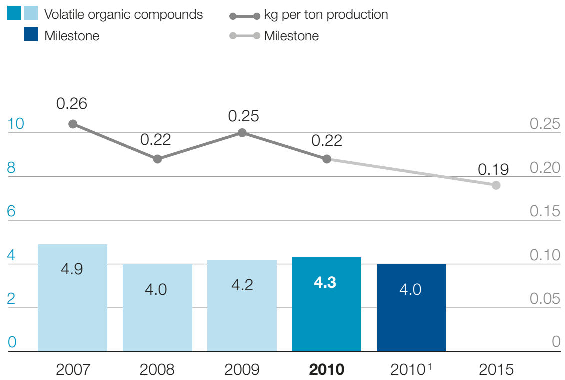
- VOC emissions per ton of production were down 12 percent to 0.22kg/ton (2009: 0.25kg/ton) as a result of site rationalization and the closure of inefficient plants. Total VOC emissions were up 2 percent to 4.3 kilotons (2009: 4.2 kilotons), due to increased production rates
- SOx emissions (from process emissions and energy) per ton of production were down 3 percent to 0.36kg/ton of production (2009: 0.37kg/ton) due to increased efficiency in our three sulfur derivatives plants. Absolute emissions were up 15 percent at 7.1 kilotons (2009: 6.2 kilotons). Although the main contribution comes from three sulfur derivatives plants in Germany, the US and Argentina, there was also an increase from our Pakistan operations, where scarcity of natural gas has led to higher oil consumption for power generation
- NOx emissions from our sites per ton of production were down 17 percent at 0.10kg/ton (2009: 0.12kg/ton). Total emissions were slightly down at 2.0 kilotons (2009: 2.1 kilotons)
- Emissions of ozone depleting substances are at a very low level. They are mainly due to Freon22 in older air conditioning and cooling units, which are continuously being replaced.

NOx and SOx emissions in kilotons

	2007[1]	2008[1]	2009	**2010**
NOx	0.9	1.1	2.1	2.0
NOx kg/ton			0.12	0.10
SOx	4.1	4.8	6.2	7.1
SOx kg/ton			0.37	0.36

Emissions may form acid rain that can lead to acidification. The gases are emissions from manufacturing and combustion of fuel that we burn.
[1]main emissions only

Volatile organic compounds in kilotons



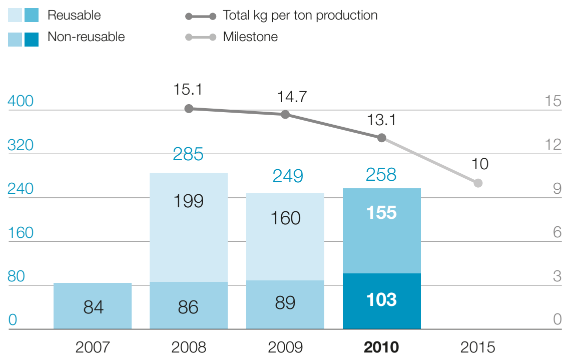
VOC emissions may lead to local low level ozone creation, smog formation and associated local health issues. We measure halogenated and non-halogenated organic compounds discharged to air.
[1]2010 milestones were set in 2005, based on the AkzoNobel portfolio that year.

Raw materials efficiency

Effective waste management helps to increase raw material efficiency in our manufacturing operations, reduces our environmental footprint and reduces costs. Our focus is on reducing total waste and eliminating hazardous waste to landfill. The exception is asbestos waste – mainly from demolishing old equipment and buildings – where the only current safe disposal route is properly designed landfill facilities.

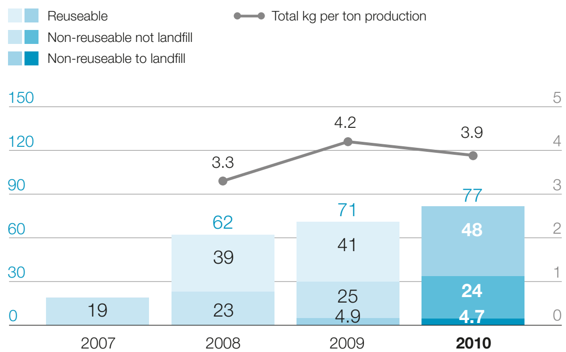
- Non-reusable waste. We have realized improvements from projects implemented in the Operational Eco-Efficiency program, but total non-reusable waste per ton has increased slightly. Improvements are anticipated in 2011
- Total waste per ton of production generated and leaving our sites is down 11 percent to 13.1kg/ton (2009: 14.7kg/ton). However, increased production levels and the new Frankfurt facility have led to absolute waste rising to 258 kilotons (2009: 249 kilotons) an increase of 4 percent. Due to this acquisition, hazardous waste also increased in absolute terms
- Hazardous waste to landfill per ton of production is down 17 percent to 0.24kg/ton (2009: 0.29kg/ton) and the total figure is down to 4.7 kilotons (2009: 4.9 kilotons) down 4 percent. This is mainly due to site closures in Moi Rana, Opava, a successful brine waste recovery project in Deer Park and improved waste management practices at our Decorative Paints Europe business.

Total waste in kilotons



Non-reusable waste is not used for resource recovery, recycling, reclamation, direct reuse, or alternative uses.

Hazardous waste in kilotons



2007 – 2008 indicate total non-reusable waste.

AKZONOBEL AND CUTTING OUT CARBON

Saying that you're going to become more sustainable is one thing, but actually embracing the whole concept of being more eco-efficient and less reliant on fossil fuels requires positive action.

One of the most active and successful businesses in AkzoNobel's concerted drive to lower its environmental footprint is Industrial Chemicals. Already honored externally for its Carbon Policy, it is one of our most energy intensive businesses, but it has also adopted an integrated approach to sustainability and is constantly implementing new and innovative ways of improving its carbon and ecological footprint.

For example, much of the steam Industrial Chemicals uses in its various manufacturing processes comes from waste or renewables, with four plants in Europe now using energy being created from these sources. Initiatives involving wind energy are also being investigated, while the business already operates so-called green barges and runs trucks on bio-diesel, ensuring that its transportation of products is also sustainable and that its efforts stretch across the value chain.

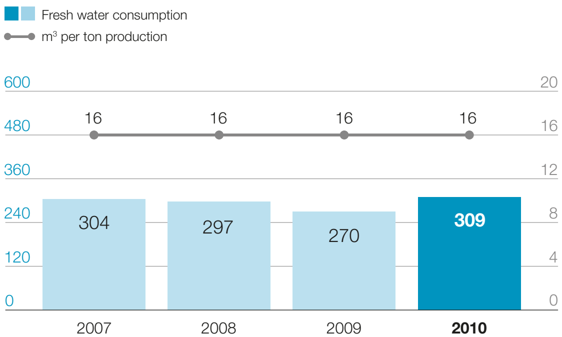
In addition, as part of the overall plan to reduce its carbon footprint, the business is currently engaged in a site modernization program, which will further optimize the drive towards more sustainable manufacturing.

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. Our Environmental Affairs Group provides support for managing these issues professionally and effectively and is also a key contributor to an integrated legacy management approach across the company.

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 €419 million which we believe is sufficient for the sites where we have ownership or responsibility (see also notes 3, 17 and 21 in the Financial statements).

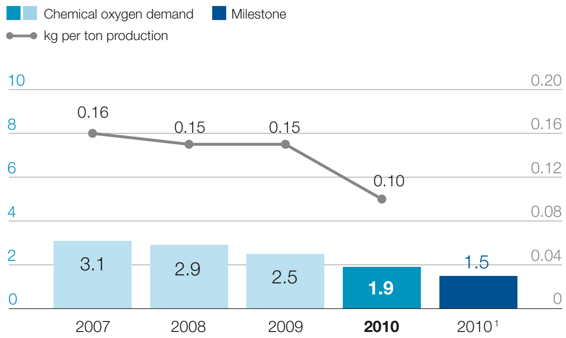
Fresh water availability
Sustainable fresh water supply is essential to life – and to the sustainability of our business. Our ambition is to achieve sustainable fresh water management at all our sites in 2015. See the Sustainable fresh water management section for details of the water program.

Fresh water use in million m^3



Total fresh water used from surface, ground or potable water sources.

Chemical oxygen demand in kilotons



Chemical oxygen demand (COD) is the amount of oxygen required for the chemical oxidation of substances in the waste water effluent which is directly discharged into surface waters from our facilities. It excludes our effluent treated by others.

[1] 2010 milestones were set in 2005, based on the AkzoNobel portfolio that year.

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 COD of our effluent to surface water.

In 2005, before AkzoNobel's portfolio change, we set a milestone to reduce COD emissions to surface water to 1,500 tons by 2010. We continue to reduce the level of emissions, but have not yet achieved this target with the changed business portfolio.

- Fresh water use per ton of production has remained stable at $16m^3$/ton (2009: $16m^3$/ton). Total fresh water use was 309 million m^3 (2009: 270 million m^3), an increase of 14 percent, mainly due to production volume increases
- Reductions in COD in effluent are being achieved across the company. The COD load to surface water per ton of production was down 33 percent to 0.10kg/ton (2009: 0.15kg/ton). The total COD load to surface water was down 24 percent to 1.9 kilotons (2009: 2.5 kilotons). Improvements are due to the divestment of National Starch business in the last quarter and improvement projects executed in this business earlier in the year.

Reporting **principles**

Reporting scope

This integrated report combines our financial and sustainability reporting and is addressed to readers interested in both areas: shareholders, value chain partners and analysts. In particular, we seek ways of linking sustainability performance to business results in areas such as carbon emission reduction and eco-premium solutions.

Alongside the publication of this report, more sustainability information, including an index of all GRI indicators, will be made available online on our corporate website (www.akzonobel.com/sustainability).

The information in the AkzoNobel Report 2010 also serves as a progress report on our implementation of the ten principles of the United Nations Global Compact. The Global Compact Index on the website gives an overview of all the topics.

In our 2010 reporting we have made a conscious effort to extend our application of the Reporting Guidelines issued by the Global Reporting Initiative (GRI). The topics covered in this report were selected on the basis of the GRI guidelines, the sustainability aspects which form part of the AkzoNobel strategy and various external stakeholders. These include our engagement with external organizations such as Forum for the Future, the World Business Council for Sustainable Development and the World Resources Institute and third party questionnaires, notably the influential Dow Jones Sustainability Indices.

We have used the principle of materiality to assess the topics to include in the report, which are current and important for the company and key stakeholders. Our website includes a fuller review of processes in place.

Reporting boundaries

AkzoNobel's 2010 Report integrates sustainability aspects of our processes and business operations in each section, in particular the strategy, business reports and governance and compliance sections.

This Sustainability facts and figures section summarizes the global, cross-business elements of the sustainability agenda and company performance. Specifically, it includes quantitative and qualitative information relating to the calendar year 2010 and comparative data for 2009, 2008 and 2007, which is based on the AkzoNobel portfolio, including the former ICI at the end of 2008. Data for 2005 and 2006 cover the AkzoNobel portfolio in those years, including Organon.

We report on consolidated data from entities where AkzoNobel is the majority shareholder (more than 50 percent) and joint ventures where we have management control, but exclude all data from entities where we have minority ownership, or no management control. Former ICI business Chemicals Pakistan has its own management board. The requirement to report on specific AkzoNobel sustainability indicators has been limited to HSE&S and compliance issues. Chemicals Pakistan was included in the Sustainability self-assessment benchmark process in 2010.

Comparability

Previously, our policy was to report new acquisitions within one calendar year. From 2010, we reported from the date of purchase, recognizing that there may be reporting improvements required at these facilities. Significant changes which are reflected in 2010 data are:

- Acquisitions: Industrial Chemicals facility in Frankfurt (2009), Dow Chemicals Powder Coatings business (Q2 2010)
- Divestments: Chemicals Pakistan PTA (2009), National Starch (Q4 2010).

We introduced a revised set of HSE&S KPIs with detailed reporting guidance for 2009. There are a number of definition, calculation and reporting differences which impacted the comparability of data with 2007 and 2008: Total Reportable Rate, energy, CO_2, NOx and SOx emissions. We identify these in the text and footnotes. More details are available on our corporate website.

In 2010 we changed our employee survey to Gallup Q12. The Gallup "grand mean" scores are not comparable with the previous survey's percent favorable score.

Reporting process and assurance

The reporting period is 2010. Data has mainly been obtained from our financial management reporting systems, corporate HR information management system and the AkzoNobel and former ICI corporate reporting systems for Health, Safety, Environment & Security (HSE&S) performance indicators. We are confident in the overall reliability of the data reported, but recognize that some of these data are subject to a certain degree of uncertainty, inherent to limitations associated with measuring and calculating data.

Senior managers approved the content and the quantitative data used in the Sustainability facts and figures relating to their respective areas of responsibility. The integration of sustainability in day-to-day business is part of our routine internal audit process.

The Sustainability facts and figures section has been reviewed by independent, external auditors. The Assurance report, including the scope of the audit, can be found in the Independent assurance report section.

Independent **assurance report**

To the readers of AkzoNobel's Sustainability facts and figures:

We have been engaged by the Board of Management of Akzo Nobel N.V. to provide assurance on the information in the section Sustainability facts and figures of the AkzoNobel Report 2010. The Board of Management of Akzo Nobel N.V. is responsible for reporting on sustainability in such a way that it provides an adequate view of AkzoNobel's sustainability policies, measures and performance in 2010. This includes the identification of material issues and the design and implementation of an adequate internal control system to ensure the sustainability information does not contain any material inaccuracies.

Our responsibility is to provide assurance on this information based on the engagement outlined below.

Our engagement was designed to provide:

- Reasonable assurance on whether the information in the section Managing our values is fairly presented in accordance with the reporting criteria
- Limited assurance on whether the other information in Sustainability facts and figures is fairly stated in accordance with the reporting criteria.

Procedures performed to obtain a reasonable level of assurance are more extensive than those for a limited level of assurance which are aimed at determining the plausibility of information.

Reporting criteria and assurance standard

AkzoNobel applies the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3), supported by internally developed guidelines, as described in the section Reporting principles. It is important to view the performance data in the context of this explanatory information. We believe that these criteria are suitable in view of the purpose of our assurance engagement.

We conducted our engagement in accordance with the International Standard for Assurance Engagements (ISAE) 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This Standard requires, among others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand and review sustainability information, and that they comply with the requirements of the Code of Ethics for Professional Accountants from the International Federation of Accountants to ensure their independence.

Work undertaken

We have performed the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions.

Our procedures for the information for which limited assurance was provided, were:

- A documentation study to obtain insight into the organization and a risk analysis (including a sector benchmark, a media analysis and internet search) to identify relevant environmental, safety and social issues for AkzoNobel in the reporting period
- A review of the reporting criteria and the design and implementation of systems and processes for information management, internal control and processing of the qualitative and quantitative information in Sustainability facts and figures
- Interviewing management at corporate and business level who are responsible for the sustainability policies, management, internal control and reporting and evaluating trends and the explanations provided in Sustainability facts and figures
- Reviewing internal and external documentation to determine whether the qualitative information in the section Sustainability facts and figures is supported by sufficient evidence
- Joining two site visits of the Internal Audit department in relation to Health, Safety and Environment (Cologne and Huron).

In order to obtain reasonable assurance on the information in the section Managing our values, we performed additional procedures, including:

- Reviewing relevant internal audit work for all business units
- Joining one business unit visit of the Internal Audit department in relation to managing our values (Marine and Protective Coatings).

During the assurance process, we discussed changes to the various drafts of Sustainability facts and figures with AkzoNobel, and reviewed the final version of Sustainability facts and figures to ensure that it reflects our findings.

Conclusions

Based on our procedures for reasonable assurance, we conclude that the information in the paragraph Managing our values is fairly presented, in all material respects, in accordance with the reporting criteria.

Based on our procedures for limited assurance, nothing came to our attention to indicate that the other information in the section Sustainability facts and figures is not fairly stated, in all material respects, in accordance with the reporting criteria.

Amsterdam, February 16, 2011
KPMG Sustainability

W.J. Bartels RA

Sustainability **performance summary**

Economic/Governance/Social

Area			2005	2006	2007	2008	2009	**2010**	Milestones 2010	Milestones 2015
Product	Eco-premium solutions[5]	% revenue			18	18	20	25	22 (2009)	30
Business integrity	Code of Conduct incidents handled by the Compliance Committee	number					19	23		
	Code of Conduct trained	% employees				31	~95	95		
H&S[2]	Fatalities employees	number			1	0	0	1		
	Total reportable injury rate employees/supervised contractors	/million hour	7.4	6.8	5.3	4.6	3.7	3.6	2.0[3]	2.0
	Lost time injury rate employees/supervised contractors	/million hour	2.3	2.2	1.9	1.9	1.5	1.6	0.5[3]	
	Occupational illness rate employees	/million hour	0.5	0.4	0.3	0.3	0.4	0.3	0.2[3]	
	Total illness absence rate employees	%	2.4	2.3	2.2[1]	2.2[1]	2.0	1.9		
	Fatalities contractors (supervised plus independent)	number			1	0	3	0		
	Total reportable injury rate independent contractors	/million hour			–	5.2	2.8	3.0		
	Lost time injury incidents contractors	number	76	72	66	–	–	–		
	% sites with BBS program	%					56	61		100
	Distribution incidents	number					52	91		
	Motor vehicle incidents with injury	number					31	34		
Employees[5]	Employee numbers	number					54,740	55,590		
	Women executives	%				8	10	12		20
	High growth country executives	%				10	11	12		20
	Online P&D Dialog participation	%			53	60	72	76		
	Management development program participation	number				527	2,708	2,752		
	Employee engagement index[7]	% favorable[7]		72	76	78	80	3.56		
	Community program investment	€m		4	1.4	1.5	1.4	1.5		
Reliable operations	Management audits plus reassurance audits	number		46	64	61	66	60		
	Serious incidents – Level 3	number	15	3	4	2	9	10		
	Serious incidents – Level 1, 2	number					24	22		
	Significant loss of containment	number					1	0		
	Regulatory actions – Level 3	number					3	4		
Sourcing[5]	Raw material suppliers – vendor policy signed	% purchases			81	82	85	91	90	
	NPR central suppliers – vendor policy signed	% purchases				80	89	100	100	
	NPR business suppliers – vendor policy signed	% purchases						62	50	
	Supportive Supplier Visits since 2007	number			100	152	185	266	220	

Environmental

Area			2005	2006	2007	2008	2009	**2010**	Milestones 2010	Milestones 2015
Raw material efficiency	Total waste (excluding Soda Ash process)[4]	kiloton				285	249	258		
	per ton production	kg/ton				15.1	14.7	13.1		10.0
	Total hazardous waste	kiloton				62	71	77		
	per ton production	kg/ton				3.3	4.2	3.9		
	Non-reusable waste[4]	kiloton	109	112	84	86	89	103	75[3]	
	per ton production	kg/ton			4.4	4.5	5.2	5.3		
	Hazardous non-reusable waste[4]	kiloton	25	27	19	23	30	29		
	per ton production	kg/ton			1	1.2	1.8	1.5		
	Hazardous waste to landfill	kiloton					4.9	4.7		
	per ton production	kg/ton					0.29	0.24		
Maintain natural resources/fresh air	Fresh water use	million m^3	298	285	304	297	270	309		
	per ton production	m^3/ton			16	16	16	16		
	COD emissions	kiloton	2.4	2.4	3.1	2.9	2.5	1.9	1.5[3]	
	per ton production	kg/ton			0.16	0.15	0.15	0.10		
	% sites with sustainable fresh water	%					38	48		100
	VOC emissions	kiloton	5.1	4.9	4.9	4.0	4.2	4.3	4.0[3]	
	per ton production	kg/ton			0.26	0.22	0.25	0.22		0.19
	NOx emissions	kiloton			0.9	1.1	2.1	2.0		
	per ton production	kg/ton					0.12	0.10		
	SOx emissions	kiloton			4.1	4.8	6.2	7.1		
	per ton production	kg/ton					0.37	0.36		
	Total CO_2(e) emissions (cradle-to-gate)[5]	kiloton					14.9[8]	16.0		
	per ton product[5]	kg/ton					853[8]	827		-10%
	Raw material CO_2(e) emissions (Scope 3)[5]	million ton					10.8[8]	11.5		
	per ton product[5]	kg/ton					621[8]	593		-10%
	Direct CO_2(e) emissions (Scope 1)[6]	million ton	3.3	3.2	1.7	1.6	1.9	2.0		
	per ton production[6]	kg/ton			87	85	110	102		-10%
	Indirect CO_2(e) emissions (Scope 2)[6]	million ton			3.1	3.0	2.8	3.2		
	per ton production[6]	kg/ton			161	161	162	165		-10%
	Total energy consumption	1000TJ			116	115	97	111		
	per ton prodcution	GJ/ton				6.1	5.7	5.7		

2005, 2006 data: former AkzoNobel businesses in those years.
2007-2010: current AkzoNobel business.
[1] Former AkzoNobel businesses only.
[2] HSE KPIs: from 2009 report employees/supervised contractors (was employees only) and independent contractors (was all contractors).
[3] Targets set in 2005 have been replaced by 2015 ambitions, baseline 2009.
[4] In addition to this figure, our Soda Ash facility in Pakistan generated on dry basis 533 kilotons (2009: 515 kilotons) of non- (non-reusable) waste, as a result of the process chemistry. This aqueous mixture is stored and evaporates in large, managed on-site lagoons.
[5] Excludes National Starch and Chemicals Pakistan. 2009 figures restated.
[6] Includes Chemicals Pakistan and National Starch
[7] Employee survey has changed, from % favorable to Gallup Q12 "grand mean": average of mean scores for each question (out of 5).
[8] 2009 figures restated

Financial **summary**

Consolidated statement of income

In € millions	2001	2002	2003 [1]	2004	2005 [2]	2006	2007	2008 [3]	2009	**2010**
Revenue	14,158	14,059	13,106	12,833	13,000	10,023	10,217	15,415	13,028	14,640
Operating income	1,162	1,390	1,146	1,588	1,492	887	778	(577)	855	1,219
Financing income and expenses	(221)	(232)	(248)	(205)	(162)	(134)	(151)	(232)	(405)	(327)
Income tax	(294)	(335)	(254)	(412)	(338)	(96)	(166)	(260)	(141)	(170)
Results from associates and joint ventures	55	30	7	10	6	87	(20)	25	21	25
Profit for the period from continuing operations	**702**	**853**	**651**	**981**	**998**	**744**	**441**	**(1,044)**	**330**	**747**
Non-controlling interests	(31)	(35)	(49)	(36)	(37)	(29)	(31)	(65)	(77)	(83)
Discontinued operations	–	–	–	–	–	438	8,920	23	32	90
Net income attributable to shareholders	**671**	**818**	**602**	**945**	**961**	**1,153**	**9,330**	**(1,086)**	**285**	**754**
Common shares in millions at year-end	285.9	285.7	285.7	285.8	285.8	287.0	262.3	231.7	232.3	233.5
Dividend	343	343	343	343	343	344	472	417	325	320
Number of employees at year-end	66,300	67,900	64,600	61,400	61,300	42,700	42,600	60,000	54,700	55,600
Salaries, wages and other employee benefits	3,416	3,552	3,505	3,216	3,221	2,158	2,215	3,022	2,955	2,980
Salaries, wages and other employee benefits (in % of revenue)	24.1	25.3	26.7	25.1	24.8	21.5	21.7	19.6	22.7	20.4
Ratios										
Operating income in percent of revenue	8.2	9.9	8.7	12.4	11.5	8.8	7.6	(3.7)	6.6	8.3
Operating income in percent of invested capital	12.5	15.4	13.6	20.8	19.4	16.3	14.6	– [4]	7.3	9.6
Net income in percent of shareholders' equity	24.1	32.9	26.2	40.6	32.0	30.5	122.9	– [4]	3.7	8.4
Interest coverage	5.3	6.0	4.6	7.7	9.2	6.6	5.2	– [4]	2.1	3.7
EBITDA coverage	8.3	8.9	7.3	10.5	12.7	9.4	7.5	– [4]	4.2	6.0
Per share information										
Net income	2.35	2.86	2.11	3.31	3.36	4.02	33.82	(4.38)	1.23	3.23
Dividend	1.20	1.20	1.20	1.20	1.20	1.20	1.80	1.80	1.35	1.40
Shareholders' equity	10.07	7.34	8.76	9.12	11.95	14.44	42.06	32.21	33.48	38.47
Highest share price during the year	57.85	54.50	32.44	33.79	40.18	49.41	65.56	57.11	46.52	47.70
Lowest share price during the year	33.73	27.25	16.00	24.87	30.82	38.30	44.41	22.85	26.01	37.18
Year-end share price	50.15	30.23	30.60	31.38	39.15	46.18	54.79	29.44	46.40	46.49

[1] The 2001 – 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred tax on intercompany profit. and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of the assets, liabilities and related results.

[2] The 2001 – 2005 figures have not been restated for the Organon BioScences divestment.

[3] The 2001 – 2008 figures have not been restated for the National Starch divestment.

[4] Not meaningful as operating income was a loss.

Consolidated balance sheet

In € millions, December 31	2001	2002	2003 [1]	2004	2005 [2]	2006	2007	2008 [3]	2009	**2010**
Intangible assets	508	629	590	448	488	682	669	7,172	7,388	7,308
Property, plant and equipment	4,568	4,402	3,967	3,535	3,432	3,346	2,203	3,357	3,474	3,384
Financial non-current assets	1,895	2,217	1,866	1,418	1,800	1,706	1,402	1,848	1,783	1,977
Total non-current assets	**6,971**	**7,248**	**6,423**	**5,401**	**5,720**	**5,734**	**4,274**	**12,377**	**12,645**	**12,669**
Inventories	2,270	2,206	2,133	1,978	1,987	2,042	1,177	1,781	1,441	1,678
Receivables	3,229	2,815	2,671	2,761	2,910	2,919	2,164	2,977	2,666	2,896
Cash and cash equivalents	455	520	727	1,811	1,486	1,871	11,628	1,595	2,128	2,851
Assets held for sale	–	–	–	–	322	219	–	4	–	–
Total current assets	**5,954**	**5,541**	**5,531**	**6,550**	**6,705**	**7,051**	**14,969**	**6,357**	**6,235**	**7,425**
Shareholders' equity	2,878	2,098	2,502	2,605	3,415	4,144	11,032	7,463	7,775	8,984
Minority interests	138	137	140	140	161	119	97	450	470	525
Total equity	**3,016**	**2,235**	**2,642**	**2,745**	**3,576**	**4,263**	**11,129**	**7,913**	**8,245**	**9,509**
Provisions	2,400	3,855	3,333	2,877	2,210	2,132	1,598	2,072	1,919	1,855
Long-term borrowings	2,235	2,797	2,717	2,392	2,702	2,551	1,954	2,341	3,488	2,880
Other non-current liabilities	560	513	590	200	183	181	133	715	674	589
Total non-current liabilities	**5,195**	**7,165**	**6,640**	**5,469**	**5,095**	**4,864**	**3,685**	**5,128**	**6,081**	**5,324**
Short-term borrowings	2,267	979	441	560	357	410	1,635	1,338	384	907
Current liabilities	2,447	2,410	2,231	2,677	2,571	2,652	2,276	3,510	3,373	3,761
Current portion of provisions	–	–	–	500	766	571	518	845	797	593
Liabilities held for sale	–	–	–	–	60	25	–	–	–	–
Total current liabilities	**4,714**	**3,389**	**2,672**	**3,737**	**3,754**	**3,658**	**4,429**	**5,693**	**4,554**	**5,261**
Invested capital:										
- Of consolidated companies	9,395	8,692	8,117	7,145	8,007	8,060	5,197	13,424	11,732	12,718
- Of investments in associates and joint ventures	575	491	353	318	301	177	142	201	175	175
Property, plant and equipment:										
- Capital expenditures	822	689	581	551	514	371	359	534	513	534
- Depreciation	635	622	599	540	528	349	330	453	424	435
Ratios:										
- Revenue/invested capital	1.52	1.55	1.56	1.68	1.68	1.85	1.91	1.07	1.11	1.15
- Equity/non-current assets	0.43	0.31	0.41	0.51	0.62	0.74	2.60	0.64	0.65	0.75
- Inventories and receivables/current liabilities	2.25	2.08	2.15	1.77	1.9	1.87	1.47	1.36	1.22	1.22

[1] The 2001 – 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred taxes on intercompany profit, and the recognition of goodwill.

[2] The 2001 – 2005 figures have not been restated for the Organon BioSciences divestment.

[3] The 2001 – 2008 figures have not been restated for the National Starch divestment.

Business Area statistics

In € millions	2008	2009[1]	2010
Decorative Paints			
Revenue	5,006	4,573	4,968
EBITDA[2]	598	487	548
EBIT[2]	401	298	343
Operating income	(669)	133	275
Invested capital[3]	6,187	6,206	6,404
EBIT margin[2] (in %)	8.0	6.5	6.9
Capital expenditures	120	112	154
Average number of employees	24,600	22,900	21,800
Average revenue per employee (in €1,000)	203	200	228
Average EBITDA per employee (in €1,000)	24	21	25
Performance Coatings			
Revenue	4,575	4,112	4,786
EBITDA[2]	566	594	647
EBIT[2]	467	492	540
Operating income	444	433	487
Invested capital[3]	2,004	1,817	2,122
EBIT margin[2] (in %)	10.2	12.0	11.3
Capital expenditures	89	61	87
Average number of employees	21,000	20,200	20,600
Average revenue per employee (in €1,000)	218	204	232
Average EBITDA per employee (in €1,000)	27	29	31
Specialty Chemicals			
Revenue	5,687	4,359	4,943
EBITDA[2]	909	738	939
EBIT[2]	605	490	679
Operating income	130	422	604
Invested capital[3]	4,055	3,106	3,457
EBIT margin[2] (in %)	10.6	11.2	13.7
Capital expenditures	305	319	273
Average number of employees	12,900	11,400	11,100
Average revenue per employee (in €1,000)	441	382	445
Average EBITDA per employee (in €1,000)	70	65	85

[1] Restated for transferred businesses and excluding National Starch, divested in 2010.
[2] Before incidentals.
[3] At year-end.

Regional statistics

In € millions	2007	2008	2009[1]	**2010**
The Netherlands				
Revenue by destination	777	867	792	**803**
Revenue by origin	1,368	1,423	1,284	**1,537**
EBIT[2]	103	18	(49)	**(41)**
Operating income	(6)	(45)	(69)	**(78)**
Capital expenditures	83	86	104	**84**
Invested capital[3]	893	2,007	1,489	**1,290**
Number of employees[3]	4,900	5,000	4,800	**5,000**
Germany				
Revenue by destination	907	1,141	1,088	**1,160**
Revenue by origin	930	1,179	1,089	**1,096**
EBIT[2]	66	115	90	**102**
Operating income	59	(34)	44	**91**
Capital expenditures	17	25	19	**22**
Invested capital[3]	365	1,086	983	**915**
Number of employees[3]	3,100	3,600	3,700	**3,500**
Sweden				
Revenue by destination	472	478	423	**468**
Revenue by origin	1,406	1,457	1,284	**1,475**
EBIT[2]	156	157	124	**200**
Operating income	156	126	59	**162**
Capital expenditures	53	50	37	**19**
Invested capital[3]	564	557	461	**542**
Number of employees[3]	3,700	3,800	3,500	**3,400**
UK				
Revenue by destination	552	1,093	768	**798**
Revenue by origin	617	1,206	830	**854**
EBIT[2]	14	153	82	**67**
Operating income	12	(48)	75	**76**
Capital expenditures	14	31	22	**28**
Invested capital[3]	486	1,324	1,562	**1,782**
Number of employees[3]	3,000	4,200	3,800	**3,900**
Other European countries				
Revenue by destination	3,147	3,666	3,095	**3,398**
Revenue by origin	2,068	2,582	2,211	**2,336**
EBIT[2]	186	195	216	**269**
Operating income	163	113	115	**172**
Capital expenditures	66	81	69	**83**
Invested capital[3]	950	2,359	2,420	**2,616**
Number of employees[3]	9,000	10,100	9,400	**9,100**

In € millions	2007	2008	2009[1]	**2010**
US and Canada				
Revenue by destination	1,855	3,330	2,600	**2,954**
Revenue by origin	1,871	3,463	2,712	**3,074**
EBIT[2]	136	154	123	**226**
Operating income	118	(608)	114	**225**
Capital expenditures	56	94	55	**63**
Invested capital[3]	1,214	325	2,554	**2,762**
Number of employees[3]	6,100	12,000	10,100	**10,300**
Latin America				
Revenue by destination	606	1,306	1,147	**1,394**
Revenue by origin	475	1,103	959	**1,168**
EBIT[2]	58	135	121	**121**
Operating income	62	89	108	**140**
Capital expenditures	15	49	30	**30**
Invested capital[3]	272	776	767	**872**
Number of employees[3]	2,700	4,800	4,300	**4,300**
China				
Revenue by destination	687	1,054	997	**1,249**
Revenue by origin	658	968	929	**1,177**
EBIT[2]	110	144	159	**161**
Operating income	110	(98)	157	**162**
Capital expenditures	38	67	143	**147**
Invested capital[3]	142	861	772	**952**
Number of employees[3]	5,100	6,300	6,100	**6,700**
Other Asian countries				
Revenue by destination	784	1,866	1,585	**1,780**
Revenue by origin	567	1,682	1,389	**1,514**
EBIT[2]	85	199	224	**212**
Operating income	76	(110)	220	**217**
Capital expenditures	10	43	27	**48**
Invested capital[3]	195	103	610	**766**
Number of employees[3]	3,300	7,800	6,800	**7,200**
Other regions				
Revenue by destination	430	614	533	**636**
Revenue by origin	257	352	341	**409**
EBIT[2]	33	45	41	**57**
Operating income	28	38	32	**52**
Capital expenditures	7	8	7	**10**
Invested capital[3]	116	174	114	**221**
Number of employees[3]	1,700	2,400	2,200	**2,200**

[1] Excluding National Starch, divested in 2010.
[2] Before incidentals.
[3] At year-end.

Index

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.

ADR
American depositary receipt.

Autonomous growth
is defined as the change in revenue attributable to changed volumes and selling prices. It excludes effects from currency and acquisition and divestment.

BBS
Behavior-based safety.

Carbon footprint
The carbon footprint of a product or organization is the total amount of greenhouse gas (GHG) emissions caused during a defined period, or across the total or part of a product life-cycle. It is expressed in terms of the amount of carbon dioxide equivalents emitted.

Code of Conduct
Our Code of Conduct defines our company values and how we work. It incorporates fundamental principles on issues such as business integrity, labor relations, health, safety, environment and security and community involvement.

Code of Conduct incident
The Code of Conduct incidents handled by to the Corporate Compliance Committee will cover competition law, bribery, export control, insider trading or auditing matters; or involve a senior member of corporate staff, business teams or local management; or have a value greater than EUR 0.1 million.

Community Program
AkzoNobel's global Community Program encourages and gives financial support for employees to get involved, hands-on, in their local communities.

Comprehensive income
is 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.

Cradle to Cradle
The Cradle to Cradle concept encourages the creation of products for cradle-to-cradle cycles, whose materials are perpetually circulated in closed loops.

Dow Jones Sustainability Index (DJSI)
The Dow Jones Sustainability Index tracks the performance of the global sustainability leaders. The top 10 percent of the 2,500 largest companies in the Dow Jones Global Indexes, rated by sustainability performance, are selected as components of DJSI.

Earnings per share
Net income attributable to shareholders divided by the weighted average number of common shares outstanding during the year.

EBIT
Operating income before incidentals.

EBIT margin
Operating income or EBIT as percentage of revenue and can refer to margins both before and after incidentals.

EBITDA
EBIT before depreciation and amortization and refers in this report to EBITDA before incidentals.

EBITDA coverage
EBITDA divided by the sum of financing income and expenses.

EBITDA margin
EBITDA as percentage of revenue.

Eco-efficiency
Eco-efficiency means doing more for less: creating goods and services while using fewer resources and creating less waste and pollution.

Eco-premium solutions
A measure of the eco-efficiency of our products. An eco-premium solution is significantly better than competing offers in the market in at least one eco-efficiency criterion (toxicity, energy use, use of natural resources/raw materials, emissions and waste, land use, risks), and not significantly worse in any other criteria.

EMEA
Europe, Middle East and Africa.

Emerging Europe
Czech Republic, Estonia, Hungary, Poland, Romania, Russian Federation, Slovenia, Turkey and Ukraine.

Emissions and waste
We report emissions to air, land and water for those substances which may have an impact on people or the environment: CO_2, NOx and SOx, VOCs, chemical oxygen demand, hazardous and non-hazardous waste. Definitions are in the Sustainability facts and figures section.

EOI (EVA on invested capital)
Economic value created in relation to invested capital during the period of three consecutive years. This measure is used to encourage EVA performance over a longer period of time.

EVA (Economic Value Added)
Calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital.

GHG
Greenhouse gases.

Incidentals
Incidentals are special charges and benefits, results on acquisitions and divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases. EBIT and EBITDA before incidentals are key figures management uses to assess the company's performance, as these figures better reflect the underlying trends in the results of the activities.

Interest coverage
Operating Income divided by net financing expenses.

Invested capital
Total assets (excluding cash and cash equivalents, investments in associates, assets held for sale) less current income tax payable, deferred tax liabilities and trade and other payables.

Key value chain
Used to map the carbon footprint of our businesses. Key value chains are product groupings with similar footprint characteristics, which are representative of the majority of total BU revenue/production.

Loss of containment
Loss of containment is an indicator we use to monitor the integrity of our assets. We have defined four levels to indicate the level of loss, from small, on-site spill to Level 4 – a significant emission of a toxic/hazardous material.

Mature markets
Comprise of Western Europe, the US, Canada, Japan and Oceania.

Moving average ROI
is calculated as EBIT of the last 12 months divided by average invested capital.

Natural resource use
We do not report specific natural resource use, except water. We do report our use of energy and wastes from our operations, and indicate the main raw materials used in our products.

Net debt
is defined as long-term borrowings plus short-term borrowings less cash and cash equivalents.

Net income
Net income attributable to shareholders of Akzo Nobel N.V.

Operating income
Operating income is defined in accordance with IFRS and includes the relevant incidental charges.

Operating ROI
is calculated as EBIT before amortization of the last 12 months divided by average invested capital excluding intangible assets.

Operating working capital
Operating working capital is defined as the sum of inventories, trade receivables and trade payables in the Business Areas. When expressed as a ratio, operating working capital is measured against four times last quarter revenue.

Operational eco-efficiency
Operational eco-efficiency is the eco-efficiency of our manufacturing operations. Our aim is to improve the operational eco-efficiency by reducing the resources used and emissions/waste from our sites during the manufacture of our products.

P&D Dialog
The Performance & Development Dialog (P&D Dialog) is AkzoNobel's global performance and appraisal system for employees.

Profit for the period
The sum of net income attributable to shareholders of Akzo Nobel N.V. and the income attributable to non-controlling interests.

RD&I
Research, Development and Innovation.

Revenue
Revenue consists of sales of goods, services and royalty income.

Serious incident
We have defined three levels of serious incident. The highest category – Level 3 – involves any loss of life; more than five serious injuries; environmental, asset or business damage totaling more than €25 million; inability to maintain business; or serious reputation damage to AkzoNobel stakeholders.

Shareholders' equity per share
Akzo Nobel N.V. shareholders' equity divided by the number of common shares outstanding at December 31.

Talent Factory
Talent Factory describes our ambition to be recognized as a company which offers opportunities to its people for ongoing learning, development and growth.

Total reportable rate of injuries (TRR)
The total reportable rate is the number of injuries per million hours worked. Full definitions are in the Sustainability facts and figures section.

TSR (total shareholder return)
Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

Financial calendar

2011

April 21	**Report for the first quarter**
April 27	Annual General Meeting
April 29	Ex-dividend date of 2010 final dividend
May 3	Record date of 2010 final dividend
May 10	Payment date of 2010 final dividend
July 21	**Report for the second quarter**
October 20	**Report for the third quarter**

2012

February 16	**Report for the fourth quarter and full-year 2011**

Ablestik Acoat Selected AkzoNobel AKUCELL ALBA Alabastine ANAC Antoni Astral

Bevela BINDZIL® bolikel Butanox Cegecol CEILCOTE® Cetol CHARTEK® FIREPROOFING

COMPOZIL Consolan Coral cromadex Cuprinol DEMEON'D Devoe Paint DEVOE HIGH PERFORMANCE COATINGS

DYNA COAT eka EkO Peroxide LLC ELOTEX Emerson & Cuming enviroline prequenza Expancel

Flood (fore)sē The Freshaire choice PREMIUM LATEX PAINT FULLER O'BRIEN GABROSA Glidden HAMMERITE Herbol

ICI ICLA International Interpon EVERY COLOUR IS GREEN JOZO SALT KLENKS Kromasil® LESONAL

LUXOL Marshall MASON CT MCA MULCO Nezo SALT Nordsjö PERMASCAND

Probastine Profi Consolan Purate RL PAINT RESICOAT Rexene® Rexolin® Sandtex

SICO SIGN FINISHES sikkens SINCLAIR Soliant Sparlack stickerfix Suprasel SALT

TERYLENE TWITEX ITI Trimetal VIVECHROM Van Noordenne De Rooij Coatings WANDA Wind Jammer Xyladecor

Disclaimer

In this Report, 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 report 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 contains statements which address such key issues as AkzoNobel’s growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies.

Report 2010 including Sustainability Report

The company’s annual financial report has this year been combined with the sustainability report into one Report 2010. The sustainability sections, however, in no way form part of the company’s annual report as the company is required to publish pursuant to Dutch law.

Report 2010 – Dutch version

Selected chapters of this report are also available in Dutch. In the event of any discrepancies between the two versions, the English report will prevail.

Brands and trademarks

Concept, design and realisation
Pentagram
AkzoNobel Corporate Communications

Photography
Allon Wechsler
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AkzoNobel is the largest global paints and coatings company and a major producer of specialty chemicals. We supply industries and consumers worldwide with innovative products and are passionate about developing sustainable answers for our customers. Our portfolio includes well known brands such as Dulux, Sikkens, International and Eka.

Headquartered in Amsterdam, the Netherlands, we are a Global Fortune 500 company and are consistently ranked as one of the leaders in the area of sustainability. With operations in more than 80 countries, our 55,000 people around the world are committed to excellence and delivering Tomorrow's Answers Today™.