

# 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% of our pension plan obligations. The benefits of these and other plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment. Obligations under the defined benefit plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. Valuations of the obligations under the pension and other post-retirement plans are carried out regularly by independent qualified actuaries.

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

The main changes in 2009 related to our pension and other post-retirement obligations were:

- During the year changes were made to the pension and post-retirement plans in the US resulting in reductions in the defined benefit obligations of those plans. The freezing of certain defined benefit pension plans resulted in a curtailment gain of €25 million and an amendment to the post-retirement healthcare plans resulted in a gain of €49 million.
- During the year, the obligation of the Dutch Noblesse pension plan was transferred to an external insurer. This transfer was accounted for as a plan settlement, with the obligation and associated assets removed from the balance sheet. As the assets had been restricted under accounting interpretation IFRIC 14 to the value of the obligation, there was no net gain or loss on this settlement.

The table below shows a summary of the changes in the pension and the other post-retirement benefit obligations and plan assets for 2009 and 2008.

### Movements in provisions for pension and other post-irement benefit obligations

In € millions	Pensions		Other post-retirement benefits	
	2008	2009	2008	2009
<b>Defined benefit obligation</b>				
Balance at beginning of year	(4,628)	(11,468)	(286)	(441)
Acquisitions/divestments	(11,477)	(32)	(136)	–
Settlements/curtailments	136	222	–	–
Plan amendment	(21)	(28)	(28)	48
Service costs	(76)	(50)	(7)	(7)
Contribution by employees	(7)	(5)	(2)	(3)
Interest costs	(827)	(746)	(24)	(24)
Benefits paid	968	943	47	40
Actuarial gains/(losses)	1,477	(1,703)	–	(7)
Changes in exchange rates	2,987	(821)	(5)	1
<b>Defined benefit obligation at year-end</b>	<b>(11,468)</b>	<b>(13,688)</b>	<b>(441)</b>	<b>(393)</b>
<b>Plan assets</b>				
Balance at beginning of year	3,502	10,480	–	–
Acquisitions/divestments	11,093	31	–	–
Settlements	(111)	(217)	–	–
Contribution by employer	560	414	45	37
Contribution by employees	7	5	2	3
Benefits paid	(968)	(943)	(47)	(40)
Expected return on plan assets	802	596	–	–
Actuarial gains/(losses)	(1,445)	614	–	–
Changes in exchange rates	(2,960)	841	–	–
<b>Plan assets at year-end</b>	<b>10,480</b>	<b>11,821</b>	<b>–</b>	<b>–</b>
<b>Funded status</b>	<b>(988)</b>	<b>(1,867)</b>	<b>(441)</b>	<b>(393)</b>
Unrecognized net loss/(gain)	35	1,065	(11)	(4)
Unrecognized past service costs	–	4	(13)	(20)
Restriction on asset recognition	(34) <sup>1</sup>	–	–	–
Medicare receivable	–	–	(32)	(5)
<b>Net balance pension provisions</b>	<b>(987)</b>	<b>(798)</b>	<b>(497)</b>	<b>(422)</b>
Recorded under:				
- Provisions for pensions and other post-retirement benefits	(1,129)	(1,017)	(497)	(422)
- Other financial non-current assets	142	219	–	–
<b>Total</b>	<b>(987)</b>	<b>(798)</b>	<b>(497)</b>	<b>(422)</b>

<sup>1</sup> In 2008, pension prepayments of €34 million were not recognized as an asset as they did not meet the recognition criteria of IAS 19 and IFRIC 14.

### Funded and unfunded pension plans

In € millions	2008	2009
Wholly or partly funded plans	11,145	13,347
Unfunded plans	323	341
<b>Total</b>	<b>11,468</b>	<b>13,688</b>

### Funded status in earlier years at December 31

In € millions	Pensions			Other post-retirement benefits		
	2005	2006	2007	2005	2006	2007
Defined benefit obligation	(5,510)	(5,760)	(4,628)	(508)	(292)	(286)
Plan assets	3,596	3,942	3,502	–	–	–
<b>Funded status</b>	<b>(1,914)</b>	<b>(1,818)</b>	<b>(1,126)</b>	<b>(508)</b>	<b>(292)</b>	<b>(286)</b>

The difference between the actual and the expected return on plan assets was a gain of €614 million in 2009, a loss of €1,445 million in 2008, a loss of €29 million in 2007, a gain of €214 million in 2006 and a gain of €736 million in 2005. The actuarial gains and losses on the defined benefit obligation over the period 2006-2009 break down as follows:

### Actuarial gains and losses

In € millions	Pensions			Other post-retirement benefits				
	2006	2007	2008	2009	2006	2007	2008	2009
Due to experience	2	90	(147)	331	74	(3)	(5)	5
Due to change in assumptions	(199)	166	1,624	(2,034)	19	6	5	(12)
<b>Total</b>	<b>(197)</b>	<b>256</b>	<b>1,477</b>	<b>(1,703)</b>	<b>93</b>	<b>3</b>	<b>–</b>	<b>(7)</b>

### Net periodic pension cost

In € millions	Pensions		Other post-retirement benefits	
	2008	2009	2008	2009
Service costs for benefits earned during the period	(76)	(50)	(7)	(7)
Interest costs on defined benefit obligations	(827)	(746)	(24)	(24)
Expected return on plan assets	802	596	–	–
Amortization of unrecognized losses/(gains)	(32)	(12)	–	–
Amortization of past service costs	(20)	(23)	(25)	41
Change of restriction of asset recognition	31	(1)	–	–
Settlement/curtailment gain	(4)	21	–	–
<b>Total</b>	<b>(126)</b>	<b>(215)</b>	<b>(56)</b>	<b>10</b>

The remaining plans primarily represent defined contribution plans. This includes, among others, the AkzoNobel Pension Fund in the Netherlands. Expenses for these plans totaled €118 million in 2009 (2008: €112 million).

#### Weighted average assumptions for pensions

In %	Pensions		Other post-retirement benefits	
	2008	2009	2008	2009
<b>Pension benefit obligation at December 31:</b>				
- Discount rate	6.3	5.6	6.0	5.3
- Rate of compensation increase	3.5	4.6		
<b>Net periodic pension costs:</b>				
- Discount rate	5.8	6.3	5.8	6.0
- Rate of compensation increase	4.4	3.5		
- Expected return on plan assets	6.0	5.2		

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	
	2008	2009
<b>Currently aged 60</b>		
Male	25.4	25.3
Female	27.5	27.8
<b>Currently aged 45, at age 60</b>		
Male	26.8	26.8
Female	28.8	29.1

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. On December 31, 2009 and 2008, 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 December 31, 2009 and 2008, and the target allocation for 2010 for the pension plans by asset category are as follows:

#### Plan asset allocation

In %	Plan assets at December 31		Target allocation
	2008	2009	2010
Equity securities	23	17	15 – 20
Long-term interest earning investments	72	72	70 – 75
Real estate	2	2	0 – 5
Other	3	9	5 – 10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

At year-end 2009, an amount of £174 million (€195 million; 2008: £184 million or €189 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:

#### Weighted average assumptions

In %/year	2008	2009
	<b>Assumed healthcare cost trend rates at December 31:</b>	
- Healthcare cost trend rate assumed for next year	6.3	5.8
- Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.0	3.8
- Year that the rate reaches the ultimate trend rate	2014 – 2016	2015 – 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. Due to the amendment of our US post-retirement healthcare plans, this value decreased to €5 million at December 31, 2009 (December 31, 2008: €32 million).

#### Cash flows

We expect to contribute €490 million to our defined benefit pension plans in 2010. This includes additional payments of £175 million (€196 million) for the ICI Pension Fund and £85 million (€95 million) for the AkzoNobel (CPS) Pension Scheme of which £25 million (€28 million) will be paid out of the escrow account. For other post-retirement benefit plans the contribution for 2010 is expected to be €34 million.

#### Expected benefit payments

In € millions	Pensions	Other post- retirement benefits
2010	929	34
2011	923	34
2012	915	34
2013	918	33
2014	924	33
2015 – 2019	4,723	152