

09 Delivering Tomorrow's Answers Today

AkzoNobel Report 2009

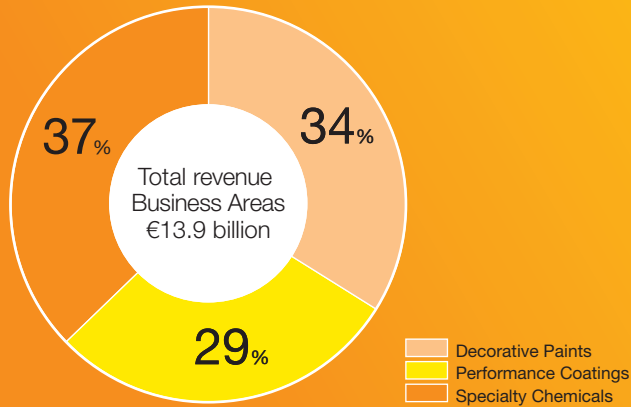


AkzoNobel

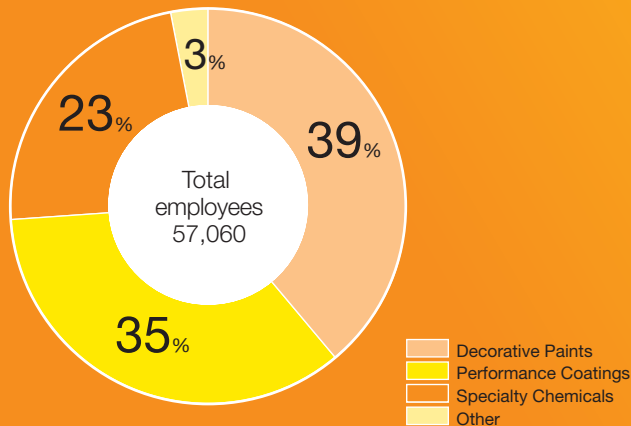


AkzoNobel at a glance in 2009

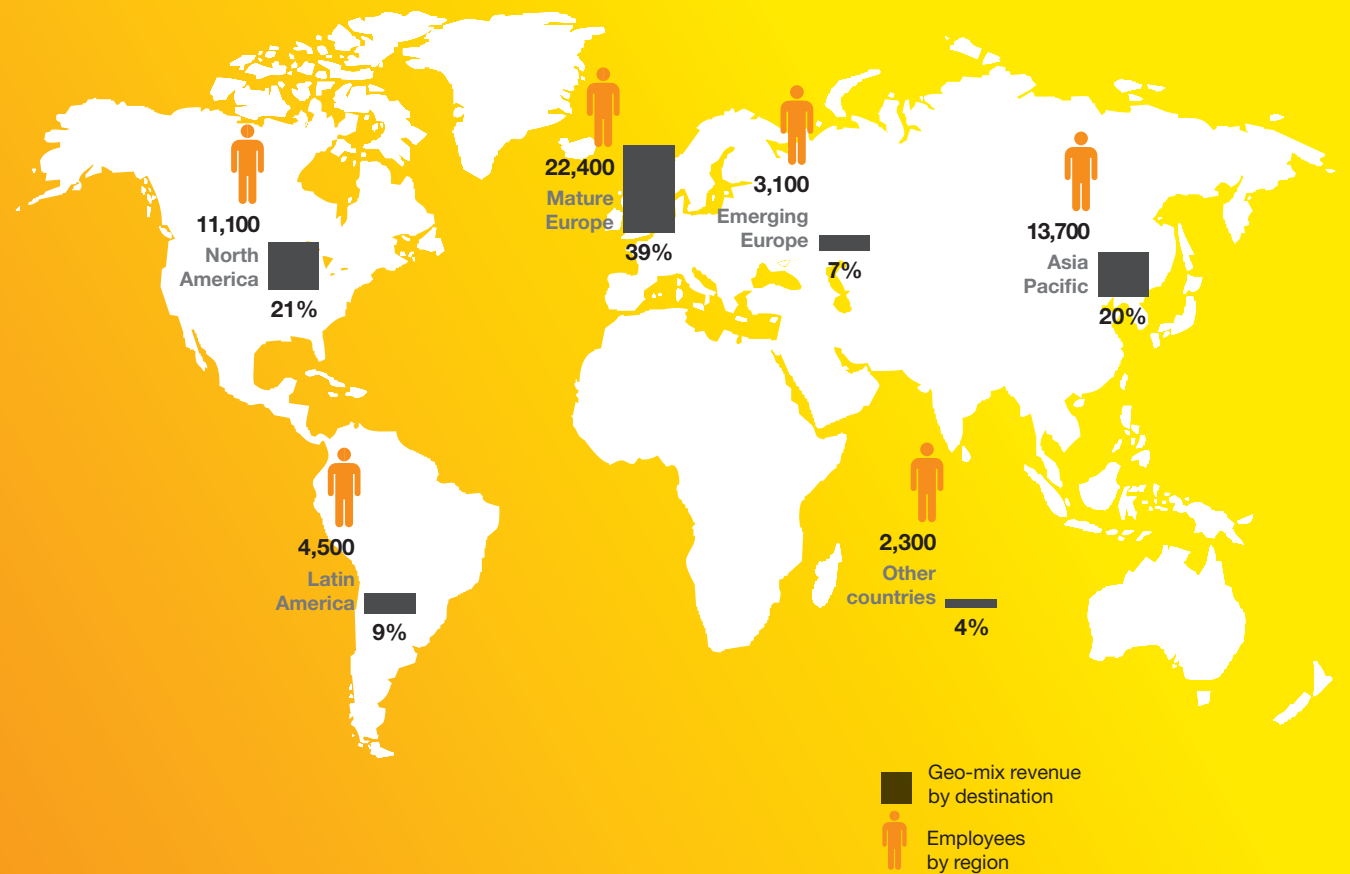
Revenue by Business Area



Employees by Business Area



Our geo-mix and employees



Employees

57,060

Revenue (in billion)

€13.9

Key performance indicators

Statement of income in € millions

Revenue

2008 15,415 ↓ **-10%**
2009 13,893

EBITDA

2008 1,927 ↓ **-8%**
2009 1,768

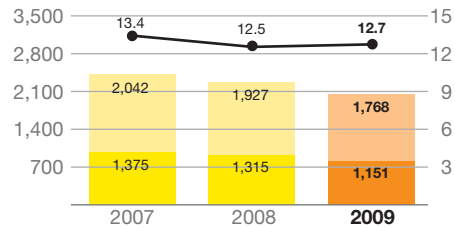
EBITDA margin as a % of revenue

2008 12.5 ↑ **+0.2**
2009 12.7

Net income/(loss) attributable to shareholders

2008 (1,086) ↑
2009 285

EBIT and EBITDA in € millions



■ EBIT
■ EBITDA
● EBITDA as a % of revenue

Dividend and earnings per share

Dividend basis in € millions

2008 865 ↓ **-37%**
2009 547

Dividend per share, in €

2008 1.80 ↓ **-25%**
2009 1.35

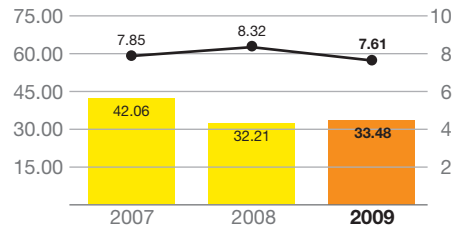
Pay-out ratio

2008 48% ↑ **+9.0**
2009 57%

Earnings per share from continuing operations in €

2008 (4.47) ↑
2009 1.20

Equity and EBITDA per common share in €



■ Stockholders equity per common share
● EBITDA per common share

Cash flows in € millions

Net debt

2008 2,084 ↓ **-16%**
2009 1,744

Operating working capital

2008 2,359 ↓ **-23%**
2009 1,826

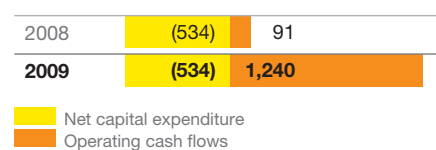
Net cash from operating activities

2008 91 ↑
2009 1,240

Capital expenditures

2008 534 = **0%**
2009 534

Operating cash flows in € millions



■ Net capital expenditure
■ Operating cash flows

Ratios in %

Moving average ROI

2008 8.6 ↓ **-0.2**
2009 8.4

Operating working capital as a % of revenue

2008 16.5 ↓ **-2.8**
2009 13.7

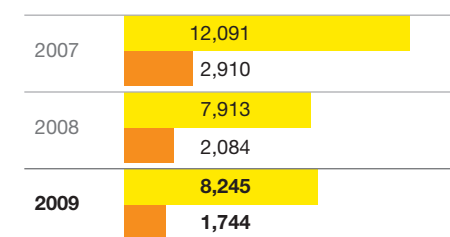
Research and development expenses as a % of revenue

2008 2.3 ↑ **+0.1**
2009 2.4

Interest coverage after incidentals

2008 - ↑
2009 2.1

Net debt (cash) and group equity in € millions



■ Group equity
■ Net debt

Sustainability

Total reportable rate of injuries

2008	4.6	↓	-20%
2009	3.7		

Eco-premium solutions in % of sales

2008	18	↑	+2%
2009	20		

Key value chains carbon footprint assessment

2009 158

Total waste

in kilo tons

2008	285	↓	-12%
2009	249		

Total reportable rate of injuries per million hours

2005	7.4
2006	6.8
2007	5.3
2008	4.6
2009	3.7

Eco-premium solutions in % of sales

2007	18
2008	18
2009	20

Decorative Paints

Revenue in € millions

2008	5,006	↓	-7%
2009	4,677		

EBITDA in € millions

2008	598	↓	-18%
2009	492		

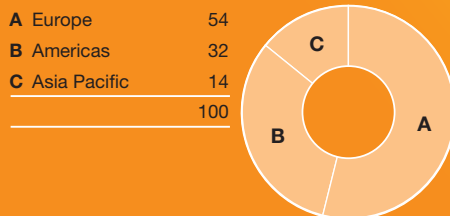
EBITDA margin as a % of revenue

2008	11.9	↓	-1.4
2009	10.5		

Total reportable rate of injuries per million hours

2008	4.9	↓	-4%
2009	4.7		

Revenue breakdown in %



Total revenue high growth markets vs mature



Performance Coatings

Revenue in € millions

2008	4,575	↓	-12%
2009	4,038		

EBITDA in € millions

2008	566	↑	+4%
2009	587		

EBITDA margin as a % of revenue

2008	12.4	↑	+2.1
2009	14.5		

Total reportable rate of injuries per million hours

2008	4.8	↓	-31%
2009	3.3		

Revenue breakdown in %



Total revenue high growth markets vs mature



Specialty Chemicals

Revenue in € millions

2008	5,687	↓	-8%
2009	5,209		

EBITDA in € millions

2008	909	↓	-10%
2009	814		

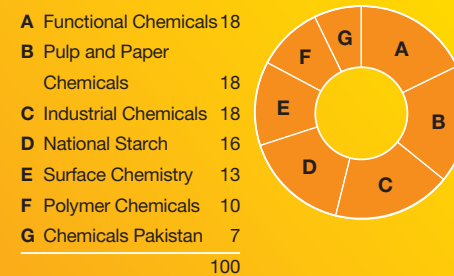
EBITDA margin as a % of revenue

2008	16.0	↓	-0.4
2009	15.6		

Total reportable rate of injuries per million hours

2008	3.7	↓	-24%
2009	2.8		

Revenue breakdown in %



Total revenue high growth markets vs mature



What's inside?

For the second year in a row, we have combined our annual financial report and sustainability report into one publication.

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Case studies



No place like home



Adding color to people's lives



On solid ground



Staying connected



Cleaner and greener



Building on a relationship

Cover image: The picture on the cover signifies our colorful approach to innovation, our ambitious spirit and our creative drive to deliver Tomorrow's Answers Today.

For an explanation of terms and phrases used in this report please refer to the glossary on page 157.



Strategy

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

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Delivering Tomorrow's Answers Today



“Although the economic situation demanded most of our attention, we never allowed it to distract us from making progress in other vital areas of our operations. Investing in the future of AkzoNobel remained a priority.”

Dear stakeholder

It's safe to say that 2009 was a year few of us will easily forget. We experienced the most severe global financial and economic crisis since the crippling Great Depression of the late 1920s and 1930s. Companies all over the world faced enormous challenges due to the inevitable impact on markets and many struggled to remain competitive as the recession began to bite. Our aim was to emerge an even stronger company.

It was a unique and extremely tough situation which demanded a swift and effective response. I'm proud to say that our employees across the world displayed tremendous commitment and spirit to ensure that AkzoNobel remained strong during such testing economic times. Our ability to quickly adapt to the new reality was crucial. We overcame the virtual standstill at the beginning of the year, negotiated the gradual stabilization mid-year and then experienced some rebounding of growth in selected markets as 2009 came to an end. This carefully planned and disciplined response to the downturn means we have maneuvered ourselves into a robust position where we can take full advantage of any opportunities that may present themselves.

Solid performance

Our rigorous efforts to maintain our competitiveness were underpinned by a strict focus on operational effectiveness, specifically concentrated on “Customers, Costs and Cash”. In fact, many of our businesses forged even stronger links with customers to help them weather the storm caused by the ongoing crisis. Close collaboration of this nature is integral to the way we do business and it resulted in even deeper relationships being formed, which subsequently led to higher market shares. The emphasis we have placed on margin management in recent years also paid off, illustrated by our gross profit margin improving from 36.4 percent in 2008 to 39.3 percent in 2009.

Another key achievement was the realization of €508 million cumulative annualized savings in 2009. This was the result of accelerated synergies from the ICI acquisition and a fundamental cost-reduction program introduced throughout the portfolio. The success of our company-wide operational focus also led to improvements in operating working capital (OWC). We significantly exceeded our medium-term ambition of a 0.5 percent OWC reduction per year by ending 2009 with a percentage of 13.7, compared with 16.5 percent in 2008. Due to the severity of the financial crisis, our 2009 revenue fell 10 percent, but thanks to the disciplined approach to customers, costs and cash, our EBITDA margin improved to 12.7 percent.

But 2009 wasn't just about focusing on our operational performance. Although the economic situation demanded most of our attention, we never allowed it to distract us from making progress in other vital areas of our operations. Investing in the future of AkzoNobel remained a priority, even though we were in the grip of financial turmoil. A number of acquisitions were made across the business, while our commitment to innovation and sustainable growth was highlighted by our continued funding for R&D and capital expenditures such as plants, sites, equipment and information technology. A particular highlight was the start-up of our new site in Ningbo, China, which includes facilities for multiple businesses and is a shining example of our commitment to investing in profitable growth in high growth markets. We also continued to invest in our people, successfully rolling out new training programs and introducing a Diversity and Inclusion initiative designed to increase the number of roles for women and non-Westerners at all levels within the company. Product development was another area where we never lost focus, with all of our businesses introducing new technologies or eco-premium innovations to the market.

Gathering momentum

Our sustainability agenda also gathered momentum. I took great pride in the fact that AkzoNobel was again listed among the world leaders in the Chemicals sector on the Dow Jones Sustainability Index, with a second place rating. Our clear objective is to remain in the top three. Safety – just one part of our broader sustainability agenda – also remained paramount and continuous step-by-step improvements have been made in our performance. In fact, the total reportable rate of injuries for our employees and contractors improved by around 20 percent during 2009, while we are still striving to achieve our ambitious 2010 target of two or less injuries per one million hours worked. I feel confident that we will get there.

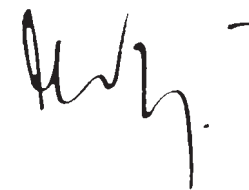
Despite the challenges we faced during 2009, there can be no doubt that it was a year in which we demonstrated the fundamental strength of our company. We have the utmost confidence in that strength, and in the ability of our management to successfully guide AkzoNobel into the future. We will therefore propose a dividend at the upper end of the dividend policy range to our shareholders at the forthcoming Annual General Meeting.

Focus on improvement

Of course, while most of our markets now seem to have stabilized and are even showing some signs of growth – particularly in high growth markets – we still lack clear visibility about developments in 2010. We are, however, optimistic about our ability to embrace any growth opportunities in high growth markets and will allocate our resources accordingly. The situation in most mature economies is somewhat different. There has been almost no robust volume growth and as a consequence we will maintain our focus in these regions on

“Customers, Costs and Cash”. In terms of overall strategy, we will continue to focus on growing market share, improving our EBITDA margin towards 14 percent by the end of 2011, further reducing OWC and becoming a true leader in sustainability, safety and talent development. This commitment to constant improvement will ensure that we remain inspired and continue to deliver Tomorrow's Answers Today.

My colleagues on the Board of Management and I take great pride in leading this great company. We would like to express our sincere gratitude and admiration to all the great teams and individuals who are leading AkzoNobel with such commitment through this difficult and challenging period.



Hans Wijers
CEO and Chairman of the Board of Management



Our Board of Management

Rob Frohn

Board member responsible for Specialty Chemicals
(1960, Dutch)

Having graduated from the University of Groningen, Rob Frohn joined AkzoNobel as a business analyst in 1984. After several jobs in control and finance in the Netherlands and the US, he made the switch to a management position in 1994.

Following several General Manager positions within Surface Chemistry, part of the company's chemicals operations, he was appointed in 2000 to lead the business unit, based in Sweden. He returned to the Netherlands in 2004 when 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 NV.

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 NV, 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, Chairman of the Oranje Fonds and Chairman of the Ubbo Emmius Fund Foundation at the University of Groningen. In addition, Mr. Wijers is a member of the Board of Directors of the Concertgebouw, a member of the European Roundtable of Industrialists and the Conference Board.

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 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.

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.

Report of the Board of Management

- Revenue in 2009 declined by 10 percent to €13,893 million
- 2009 EBITDA before incidentals 8 percent lower at €1,768 million, margin at 12.7 percent (2008: 12.5 percent)
- Operating working capital reduced to 13.7 percent of revenue (2008: 16.5 percent)
- Net cash from operating activities €1,240 million (2008: €91 million)
- Restructuring and synergies: ahead of schedule
- Net income: €285 million (2008: €1,086 million loss)
- Weak demand in mature economies; stronger in high growth markets
- Investments in strategic growth opportunities continue
- Final dividend of €1.05 per share proposed making a total dividend of €1.35 (2008: €1.80) being a 57 percent pay-out (2008: 48 percent)

Financial highlights in € millions

	2008	2009	Δ%
Continuing operations before incidentals			
Revenue	15,415	13,893	(10)
EBITDA	1,927	1,768	(8)
EBITDA margin (in %)	12.5	12.7	
EBIT	1,315	1,151	(12)
EBIT margin (in %)	8.5	8.3	
Moving average ROI (in %)	8.6	8.4	
After incidentals			
Operating income/(loss)	(577)	870	
Net income/(loss) from continuing operations	(1,109)	278	
Net income/(loss) from discontinued operations	23	7	
Net income/(loss) total operations	(1,086)	285	
Earnings per share from continuing operations (in €)	(4.47)	1.20	
Earnings per share from total operations (in €)	(4.38)	1.23	
Capital expenditures	534	534	
Net cash from operating activities	91	1,240	
Interest coverage	- ¹	2.1	
Invested capital	13,424	13,204	
Net debt	2,084	1,744	
Number of employees	60,040	57,060	

¹ Not meaningful as operating income is a loss.

Revenue

Volumes were 10 percent lower than last year. However, some recovery and growth became visible in early cycle businesses. Pricing pressure became more evident during the year.

Decorative Paints

Lower demand in Decorative Paints for the full-year resulted in 9 percent lower volumes than 2008.

Performance Coatings

Revenue in Performance Coatings was down 12 percent, due to lower demand across all businesses.

Specialty Chemicals

For the full-year, Specialty Chemicals experienced lower demand across all businesses, resulting in 9 percent lower volumes.

Acquisitions and divestments

Acquisitions and divestments did not impact total revenue for 2009. During the year, however, acquisitions and divestments affected revenue in the individual business areas:

Decorative Paints

In Decorative Paints, we acquired two distributors in Continental Europe.

Performance Coatings

In Performance Coatings, we divested Chemcraft Brazil and the non-stick businesses. We completed the acquisitions of SABA and Kronospan and announced the acquisition of the Dow Powder Coatings assets. This business has global revenue of several hundred million dollars and employs around 700 employees. It will further strengthen our Powder Coatings business in Europe and North America and will bring key technological know-how and significant synergy potential. The transaction is expected to close during the second quarter of 2010, subject to customary closing conditions, including regulatory approvals.

Specialty Chemicals

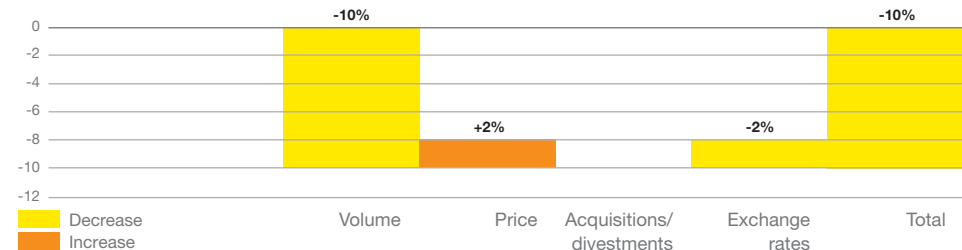
In Specialty Chemicals we acquired LII Europe and Penford Australia and additional interests in joint ventures. We divested PTA Pakistan.

Revenue in € millions

2007	5,191	4,609	5,400
2008	5,006	4,575	5,687
2009	4,677	4,038	5,209

■	Decorative Paints
■	Performance Coatings
■	Specialty Chemicals

Total revenue growth year 2009 vs 2008



Revenue development in % versus 2008

	Volume	Price	Acquisitions/ divestments	Exchange rates	Total
Decorative Paints	(9)	3	1	(2)	(7)
Performance Coatings	(13)	2	-	(1)	(12)
Specialty Chemicals	(9)	-	2	(1)	(8)
AkzoNobel	(10)	2	-	(2)	(10)

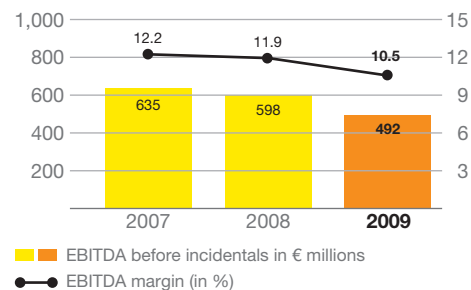
EBITDA

For the full-year, EBITDA totaled €1,768 million, 8 percent lower than in 2008, with the EBITDA margin at 12.7 percent (2008: 12.5 percent). In Q4, EBITDA was €396 million, 4 percent higher than in 2008 (€381 million), due to continued margin management and cost reduction programs.

Decorative Paints

In Decorative Paints, Europe achieved a mixed performance, while North America continued to be strongly impacted by a further decline in the US paint market and investments in advertising and promotion costs from the Glidden relaunch. Latin America and Asia delivered an increasingly strong performance during the year, with Q4 starting to outperform the relatively weak final quarter of 2008.

EBITDA Decorative Paints 2007 – 2009 in € millions



EBITDA AkzoNobel 2007 – 2009 in € millions

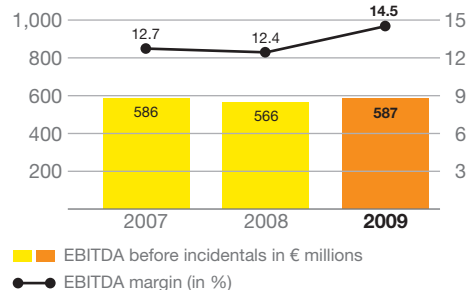
2007	635	586	945
2008	598	566	909
2009	492	587	814

Decorative Paints
Performance Coatings
Specialty Chemicals

Performance Coatings

It was an excellent year for Performance Coatings. Despite lower revenue, EBITDA improved by 4 percent for the year. Marine and Protective Coatings and Packaging Coatings performed well in 2009 despite lower volumes in Marine. The EBITDA margin for the year increased to 14.5 percent (2008: 12.4 percent).

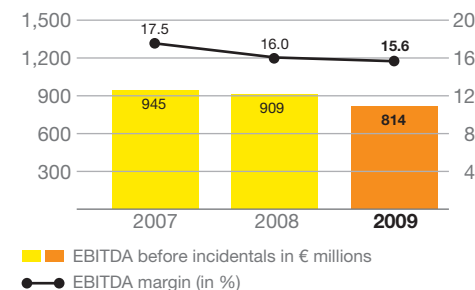
EBITDA Performance Coatings 2007 – 2009 in € millions



Specialty Chemicals

For the full-year, EBITDA for Specialty Chemicals decreased by 10 percent, mainly due to the net high input costs for National Starch during the first half of the year. Industrial Chemicals' performance was below 2008 levels due to the drop in demand for chlorine and caustic. The EBITDA margin for the full-year was 15.6 percent (2008: 16.0 percent).

EBITDA Specialty Chemicals 2007 – 2009 in € millions



Restructuring costs

- Major restructuring projects in Decorative Paints during 2009 were related to supply chain and integration projects in Europe, Canada and Latin America, and to closing stores in the US
- In Performance Coatings, we incurred costs for headcount reduction programs in all businesses, the most significant being in Industrial Activities and Car Refinishes
- In Specialty Chemicals, we announced the closure of four sites including the Skoghall site in Sweden and the Mo I Rana site in Norway
- Corporate cost savings are on track.

Incidental items included in operating income

Apart from restructuring costs, incidental items were related to a fine imposed by the European Commission. Incidental gains were realized from changing conditions in certain pension plans (€58 million) and the divestment of PTA Pakistan (€23 million).

Interest

The net financing charges increased by €177 million to €409 million:

- Financing income decreased by €92 million to €62 million (2008: €154 million) due to significantly lower market interest rates and cash utilized for the share buyback program in 2008
- Financing expenses on pensions increased by €125 million to €174 million (2008: €49 million) due to lower expected returns on plan assets
- Other financing expenses decreased by €40 million to €297 million (2008: €337 million). Higher interest expense for our refinanced debt during 2009 was offset by lower costs for fair value changes of financial instruments.

Incidental charges included in operating income in € millions

	2008	2009
Impairment of ICI intangibles	(1,275)	–
Restructuring costs	(275)	(353)
Costs of pensions and post-retirement	(38)	58
Transformation costs	(190)	(14)
Results related to major legal, antitrust and environmental cases	(32)	(38)
Results on acquisitions and divestments	(23)	48
Other incidental results	(5)	18
Fair value adjustments of acquired inventories	(54)	–
Incidentals included in operating income	(1,892)	(281)

Restructuring costs in € millions

	2008	2009
Decorative Paints	(189)	(158)
Performance Coatings	(20)	(55)
Specialty Chemicals	(29)	(103)
Other	(37)	(37)
Total restructuring costs	(275)	(353)

EBIT in "other" in € millions

	2008	2009
Corporate costs	(128)	(99)
Pension costs	20	31
Insurances	(13)	(9)
Other	(37)	(69)
EBIT in "other"	(158)	(146)

Earnings per share total operations

2007	2.16
2008	(4.38)
2009	1.23

Dividend

2007	1.80
2008	1.80
2009	1.35

Tax

Our year-to-date effective tax rate was 26 percent (2008: 31 percent excluding the impact of the impairment of goodwill/intangibles and derecognition of deferred tax assets). In Q3, we received €75 million on a contingent basis as part of ongoing tax litigation. We recorded a net gain of €57 million on the tax line. Several other adjustments have been made with regard to tax liabilities from prior years. In addition, we recorded several tax-exempt or low tax gains, such as the PTA Pakistan divestment, as well as some incidental non-deductible expenses. Excluding the incidental items and prior years adjustments, the year-to-date tax rate would have been 29 percent (2008: 27 percent).

The "other" category

In the category "other" we report activities which are not allocated to a particular business. The 2008 figures have been restated and are lower due to a number of special items related to the ICI integration and a new corporate cost allocation method. Corporate costs are the unallocated costs of the AkzoNobel head office and shared services center in the Netherlands.

The corporate costs showed a considerable improvement on last year due to restructuring and cost-saving programs. Our captive insurance companies generated an overall result better than the previous year, which also included a number of general product and liability claims. Other costs included, among others, share-based payments, the result from two small businesses and some holding companies, treasury results and legacy operations.

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. The elements of the EVA calculation cannot be derived directly from the financial statements, as it takes into account certain adjustments such as the amortization of incidentals to capital. EVA for 2009 totaled a negative amount of €492 million (2008: €1,723 million negative).

Dividend proposal

We will propose to pay a total dividend of €1.35 per share to the Annual General Meeting on April 28, 2010. An interim dividend of €0.30 per share was paid in November. Our dividend policy is based on an annual pay-out ratio of at least 45 percent of net income before incidentals and fair value adjustments for the ICI acquisition. This proposed full-year dividend of €1.35 per share represents a 57 percent payment under our policy.

Cash and debt management

For the full-year, operating cash resulted in a cash inflow of €1,240 million (2008: €91 million). The main change comes from operating working capital management, which released €533 million cash, while we maintained investment levels during 2008.

During 2009, we refinanced our debt portfolio and extended payment terms.

- In March 2009, a €750 million bond was issued, maturing in six years, with an interest rate of 7.25 percent
- In April 2009, a pound sterling bond of £250 million was issued, maturing in seven years, with an interest rate of 8.0 percent
- In May 2009, bonds totaling €1,000 million matured
- In June 2009, new private debt of €150 million was issued
- In December 2009, we redeemed €215 million, due in 2011, and issued new debt of €225 million, maturing in five years, by means of extending our existing bond issued in March 2009.

Operating working capital

Operating working capital decreased €533 million due to working capital management. Expressed as a percentage of revenue, operating working capital was 13.7 (year-end 2008: 16.5 percent).

Operating working capital in € millions

2008	2,359
2009	1,826

Condensed cash flow statement in € millions

	2008 ¹	2009
Cash and cash equivalents opening balance	11,067	1,449
Profit for the period from continuing operations	(1,044)	355
Amortization, depreciation and impairments	2,042	680
Changes in working capital	(356)	639
Changes in provisions	(560)	(497)
Other changes	9	63
Net cash from operating activities	91	1,240
Capital expenditures	(534)	(534)
Acquisition and divestments ²	(10,113)	(55)
Other changes	106	40
Net cash from investing activities	(10,541)	(549)
Changes from borrowings	(433)	175
Dividends ³	(581)	(454)
Buyback of shares	(1,437)	-
Other changes	(42)	4
Net cash from financing activities	(2,493)	(275)
Net cash used for continuing operations	(12,943)	416
Cash flows from discontinued operations	3,519	19
Net change in cash and cash equivalents of total operations	(9,424)	435
Effect of exchange rate changes on cash and cash equivalents	(194)	35
Cash and cash equivalents at December 31	1,449	1,919

¹ Reclassified for comparative presentation.

² Net of cash.

³ In 2008 including dividends to ICI shareholders.

Shareholders' equity

Shareholders' equity as at December 31, 2009, increased to €7.8 billion, due to:

- Net income of €285 million
- Cumulative translation reserves of €353 million, mainly due to the stronger pound sterling
- Dividend payments of €395 million.

Pensions

The funded status of the pension plans at December 31, 2009, was estimated to be a deficit of €1.9 billion (year-end 2008: €1.0 billion). The movement is due to:

- Lower discount rates and higher inflation expectations, both increasing the pension obligation, partly offset by:
- Increased asset values
- Top-up payments into certain UK defined benefit pension plans.

Workforce

At year-end 2009, our workforce had decreased to 57,060 employees (year-end 2008: 60,040 employees). The net decrease was due to:

- Acquisitions adding 980 employees
- 3,960 employees leaving during 2009, mainly due to continued restructuring and realized synergies.

Invested capital

Invested capital at December 31, 2009, totaled €13.2 billion, €0.2 billion lower than year-end 2008. Invested capital was impacted by the following items:

- Foreign currency effects on intangibles and property, plant and equipment, mainly from a strengthening pound sterling
- Increase of €77 million of long-term receivables related to pension funds in an asset position
- An increase of €206 million due to acquisitions and divestments
- An increase of accrued interest of €82 million on a bond issued in December 2008
- The decrease of operating working capital of €533 million due to working capital management. Expressed as a percentage of revenue, operating working capital was 13.7 percent (year-end 2008: 16.5 percent).

Condensed balance sheet in € millions

	2008	2009
Intangible assets	7,172	7,388
Property, plant and equipment	3,357	3,474
Other financial non-current assets	1,848	1,783
Total non-current assets	12,377	12,645
Inventories	1,781	1,441
Trade and other receivables	2,924	2,564
Cash and cash equivalents	1,595	2,128
Other current assets	57	102
Total current assets	6,357	6,235
Total assets	18,734	18,880
Total equity	7,913	8,245
Provisions and deferred tax liabilities	2,787	2,593
Long-term borrowings	2,341	3,488
Total non-current liabilities	5,128	6,081
Short-term borrowings	1,338	384
Trade and other payables	2,985	2,866
Other current liabilities	1,370	1,304
Total current liabilities	5,693	4,554
Total equity and liabilities	18,734	18,880

Invested capital in € millions

2007	15,480
2008	13,424
2009	13,204

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 2009 annual 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 2009 Report give a true and fair view of our assets and liabilities, our financial position at December 31, 2009, and of the result of our consolidated operations for the financial year 2009.
- 2 The management report in this 2009 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 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 2009 Report does not contain any errors of material importance
- Have worked properly in the year 2009.

For a detailed description of the risk management system with regard to the strategic, operational and compliance risks and the principal risks identified, reference is made to the Risk Management chapter (see page 73 onwards). We have discussed the above opinions and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

Outlook and medium-term targets

The economic recovery remains uncertain, particularly in mature markets. However, AkzoNobel remains on track to achieve its medium-term target of an EBITDA margin of 14 percent by the end of 2011. The results of the actions that the company has taken, and will continue to take, underpin our confidence in achieving this target.

The focus on customers, cost reduction and cash generation will continue, but investments to capture growth will remain a priority, particularly in high growth markets.

Amsterdam, February 16, 2010

The Board of Management

Hans Wijers
Leif Darnier
Rob Frohn
Tex Gunning
Keith Nichols

Achieving our medium-term ambitions

Strategic ambitions

Value ambition

Outgrow our markets

A measure of growth. Measured by growing faster than the markets we participate in.

EBITDA margin > 14 percent by end 2011

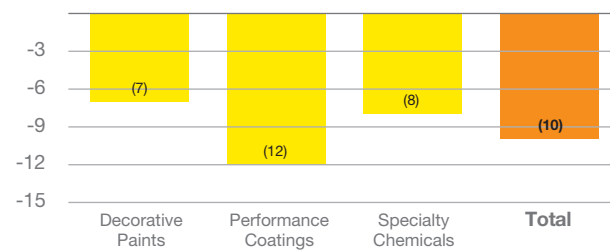
A measure of operational effectiveness. On a corporate level, we use 14 percent as a proxy measure performance for top quartile.

Operating working capital percent of sales level decreasing by 0.5 per annum

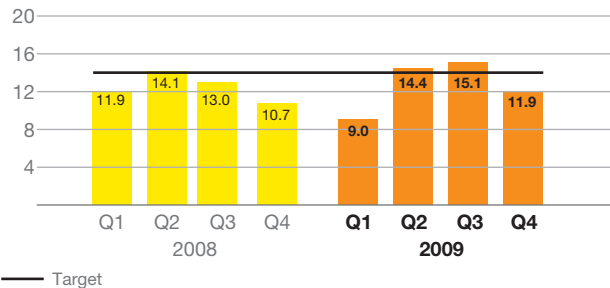
A measure of capital efficiency and operational effectiveness.

Progress 2009

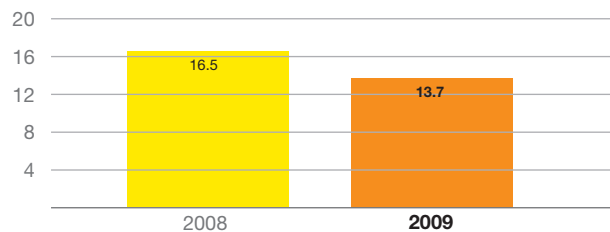
Revenue growth in %



EBITDA margin as a % of revenue



Operating working capital as a % of revenue



Overview 2009

- A difficult year from a volume perspective due to the market downturn and de-stocking effects
- Some market share gains; limited evidence of market share loss
- Strong performance from margin management
- Continued to invest in future growth in high growth markets.

- Exceeded the 14 percent EBITDA margin target in two quarters, despite the difficult economic climate
- Strong performance in gross profit margins due to margin management
- Major cost reductions delivered from ICI synergies and other restructuring.

- With a reduction of operating working capital as a percentage of revenue by 2.8 basis points, outperformed our ambitions
- Control of inventory levels and receivables particularly noteworthy
- Achieved improvements virtually across the board with 13 of the 15 businesses showing improvement.

Plans 2010

- Ensure delivery of volume growth expectations from significant investments (for example in China and in technology)
- Continue to aggressively invest in high growth markets
- Continue to redirect investment to bigger research and development projects.

- Continue to focus on the three Cs (Customers, Costs and Cash)
- Continue to professionalize the procurement function and ensure we best leverage our scale
- Deliver remaining ICI synergies and restructuring savings
- Increase focus on absolute EBITDA growth, consistent with the focus on volume and market share gains.

- Continue to reinforce and leverage processes, systems and tools for operating working capital improvement
- Increase focus on inventory improvement through greater emphasis on complexity reduction.

Value ambition**Remain in the top three on the Dow Jones Sustainability Index**

A measure of long-term performance potential. Measured by external assessment of performance versus our peer group by Dow Jones.

Top quartile safety performance

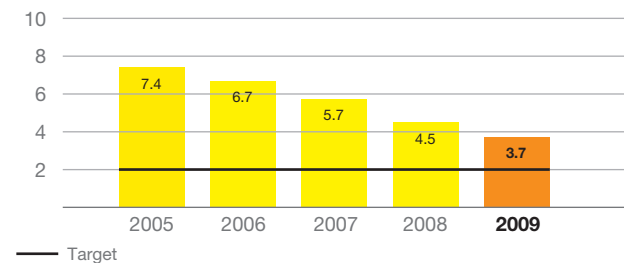
A measure of how we look after our people and operational effectiveness. Best-in-class performance in total reportable injuries for employees and contractors per million hours worked; proxy for best-in-class performance defined as 2.

Step change in people development

A measure of how we look after our people and long-term performance potential. Measured by improvement on key metrics in our employee engagement survey.

Progress 2009**DJSI position Chemicals sector**

	DJSI position
2005	Top 10%
2006	2 nd
2007	1 st
2008	2 nd
2009	2nd

Total reportable injuries per million hours**Employee opinion** in % favorable

Engagement	80
Diversity and inclusion	74
Integrity and responsibility	73
Developing our people	56

Overview 2009

- Remained in the top three (top two)
- Key areas of strong performance were corporate governance, risk management, supplier aspects and climate policy
- Key areas for improvement identified as operational eco-efficiency improvement, aspects of people development and implementation of R&D processes.

- Significantly improved performance versus 2008; nearing our target of 2
- Greatly increased number of sites using behavior-based safety
- Began to implement safety leadership training and enhanced HSE&S (Health, Safety, Environmental and Security) audits.

- Strong performance in many employee engagement measures
- Improvement required in our people management focus
- Agreed a comprehensive company-wide strategy agenda for HR
- Continued to deliver key management development training programs
- Began taking irreversible steps in diversity and inclusion.

Plans 2010

- Focus strongly on operational eco-efficiency improvement (e.g. energy, raw materials efficiency, waste, water, emissions)
- Embed the Carbon Policy
- Pursue safety and people development actions as identified below.

- Continue roll-out of behavior-based safety, safety leadership training and HSE&S audits to fully cover AkzoNobel sites
- Develop and roll out a more consistent and professional approach to process safety.

- Roll out new leadership development series for our senior executives and executive potentials
- Implement the Talent Factory scorecard and monitor and drive action plans for improvements on key metrics
- Continue activities to significantly enhance diversity and inclusion levels
- Establish regular company-wide employee engagement survey.

Improving our performance levels

Strategic agenda

- Successfully integrate ICI
- Deliver profitable growth by leveraging our strong emerging market and technology positions, augmenting growth by bolt-on acquisitions
- Improve gross profit margins through margin management
- Increase operational effectiveness, partly through restructuring, particularly in mature markets
- Embed the AkzoNobel values
- Create an industry-leading Talent Factory
- Strive for world class levels of sustainability and safety

In 2008, we devised a strategic agenda to map out the performance improvement plans which would enable us to achieve the “value” and “values” of our strategic ambitions (described on the previous two pages). During 2009, we stuck to this agenda (see left) and firmly believe it has helped to ensure that we are well positioned for the future. We measure the company’s progress against our strategic ambitions and agenda using a strategy dashboard which incorporates both leading and lagging indicators and a balance of financial and non-financial metrics.

Successfully integrate ICI

We are on track to deliver on the promises we made with regard to the ICI synergies, which have become more aggressive in terms of size and timing, as shown in the box below.

	What we said in			Where we are
	Late 2007	April, 2008	Sept, 2008	Today
Amount of synergies	€280 million	€340 million (20 percent increase)	€340 million	€300 or ~90 percent of the €340 million target already delivered
Timing of delivery	85 percent delivered by end 2010	85 percent delivered by end 2010	100 percent delivered by end 2010	100 percent delivered by end 2010

Outside of Decorative Paints (for example at the corporate center), virtually all the synergy savings have been delivered. In 2010, the Decorative Paints agenda will begin to evolve from integration to transformation. The integration agenda has been focused on bringing together the two businesses and optimizing the cost base. The transformation agenda has started to concentrate more on building a global business from our strong, but “multi-local” businesses.

Deliver profitable growth

Our profitable growth agenda is based on leveraging our strong technology and positions in high growth markets, augmented by bolt-on acquisitions.

Leveraging our strong technology positions

AkzoNobel's Research, Development and Innovation (RD&I) strategy is focused on creating bigger, bolder innovations to drive profitable growth. It's about ensuring that we pioneer technologies with major potential and putting the right resources behind them. To do this, we are directing a greater proportion of our expenditure towards major innovations.

Specifically, we have identified the 50 largest innovation projects with the highest potential impact currently being carried out by our businesses. Major programs on water-based decorative and protective coatings, next generation antifouling coatings, self-healing coatings, low energy curing, delivery systems, bio-renewable raw materials and advanced processing technologies all feature in this list of exciting developments.

Using all available resources

To support these projects, we have introduced the scientific expertise of Expert Capability Groups (ECGs). These teams work with our businesses to help accelerate project delivery and enhance their impact. This partnership approach is enhanced by networks called Communities of Practice (CoPs). They bring together our leading experts, who contribute their knowledge from across the entire RD&I function – and elsewhere within AkzoNobel – to transfer best practices and utilize all our technical knowledge in order to deliver the highest level of product functionality to our customers.

Beyond using our internal resources to their best advantage, we also strive to look beyond AkzoNobel to help further explore and develop other opportunities. To encourage a more open approach, we have established a Networked Innovation Program in partnership with NineSigma. The program is based on a structured methodology for defining technology and know-how needs and then creating strategies for locating and acquiring solutions that may exist beyond our company boundaries. We expect the program to substantially enhance our rate of innovation by accelerating our access to new technologies.

Using all available resources for technology development

The Networked Innovation Program is complemented by a family of Communities of Practice (CoPs). Existing CoPs for bio-renewable materials, waterborne technologies and corrosion protection will soon be joined by new CoPs in process efficiency and low energy curing.

The bio-renewables CoP has already been instrumental in sharing latex technology based on bio-monomers. The technology, developed by Decorative Paints in partnership with two of our Expert Capability Groups (ECGs), is currently being explored by Functional Chemicals' Elotex business as a possible building block for novel re-dispersible polymer powders used in dry mortar mixes.

Car Refinishes applied an open innovation approach for the development of its new StickerFix do-it-yourself (DIY) repair and protection solution. Working with a global leader in films and pressure sensitive technology, they have introduced a new approach to covering minor scratches on vehicles using AkzoNobel paint technology.

The output of innovation is protected by Intellectual Property rights. In many of our businesses, maintaining inventions as trade secrets is preferred to seeking patent protection. However, full patent protection is occasionally pursued. In doing so, we focus on quality rather than quantity. In 2009, patent protection was sought for 79 inventions, bringing the company's patent portfolio close to 10,000 applied and granted patents.

Sustainability – always a key driver

A few years ago, we announced a company target of generating 30 percent of revenue from eco-premium solutions. We measure whether a product is eco-premium using quantitative or qualitative analyses focusing on six categories: toxicity, energy efficiency, use of natural resources/raw materials, emissions and waste, land use and risks (of accidents, for example). The eco-premium solution must be significantly better than currently available solutions in at least one criterion, and not significantly worse in any.

The 2009 assessment indicates that the proportion of eco-premium products in our portfolio increased to 20 percent of sales (2008: 18 percent). Businesses made progress identifying opportunity areas for eco-premium solutions and are building these into development programs as they draw up forward plans to achieve the 2015 target. This process will be further embedded in 2010.

As well as meeting our customer and market needs, our research is directed towards addressing societal and environmental aspirations, such as more sustainable housing and transportation. Eco-premium solutions help to create value for our business and for 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.

Sustainability as a key driver of innovation

Rediset WMX is a new asphalt binder developed by our Surface Chemistry business which not only improves the durability of road pavings, but also enables the transportation and laying of asphalt at lower temperatures. This results in significant energy savings and greatly reduced noxious fume generation.

Energy saving and a lower carbon footprint also apply to our Dulux Ecosure Matt Light & Space range of decorative paints, which won the UK Green Business Awards' Green Product Award for 2009. The launch of our low carbon footprint Dulux Ecosure range in 2008, together with the energy saving potential of Dulux Light & Space's Lumitec technology, means we have created unique products that deliver unparalleled consumer and environmental benefits. High Light Reflectance Value colors in the new range lead to significant energy cost savings of up to 22 percent on average, versus the use of more conventional paints. Lights can also be switched on up to 20 minutes later every day, all of which equates to turning off one in every five 60W filament bulbs.

Last year, our Packaging Coatings business introduced its Aquabase 353 washcoat to a major can customer in Europe. The coating – which is used to protect the exterior of two-piece steel food cans from corrosion – has a lower solvent content than the product it replaced. It can also be applied at much lower film weight to provide the required level of protection, resulting in lower VOC emissions and materials usage.

Examples of development in high growth markets



1 Brazil

- In Brazil, Packaging Coatings increased its reactor capacity
- In Decorative Paints we are investing in our “Tudo de Cor” (Everything in Color) program. This aims to build strong relationships with local communities and add color to people’s lives by, for example, painting buildings in deprived neighborhoods
- Investment continued at our Pulp and Paper Chemicals business’ Chemical Island at Três Lagoas in Brazil to support local pulp production facilities.

2 Emerging Europe

- Our new solvent-based Decorative Paints plant in Pilawa, Poland, has been successfully scaled up
- Bolt-on acquisitions were completed for Wood Adhesives in the Czech Republic/Romania and Slovakia.

3 India

- Plans were announced to build new capacity for Specialty Plastics and Coil Coatings in India.

4 China

- In China, the roll out of 184 new controlled Decorative Paints stores was completed
- The new Protective Coatings factory in Suzhou, China, which opened in late 2008, is already running at full capacity
- A new technology center for Powder Coatings opened in Ningbo, China
- Continued investment in our Specialty Chemicals multi-site in Ningbo, China. Full production is expected to begin in 2010.

5 Asia Pacific

- Investment in a new R&D laboratory in Singapore made by our Marine and Protective Coatings business
- Investment in increased distribution and sales strength in Decorative Paints Indonesia and Vietnam.

Leveraging our strong positions in high growth markets

One of our key successes has been – and will continue to be – our truly global profile. A particular area of strength is our position in high growth markets, where we have leading positions in all three of our business areas. Today, more than 35 percent of our sales and employees originate from high growth markets. We take pride in the fact that these strong positions are based on the same high standards we apply in the more mature markets with regard to sustainability, corporate governance and corporate social responsibility.

Every year, we continue to build these strong positions in high growth markets and 2009 was no exception. Despite the difficult economic climate, we continued to invest in high growth markets in all of our businesses, as described in the accompanying map above.

Augmenting our growth through bolt-on acquisitions

In 2009, we continued to add to our profitable organic growth by investing in selective bolt-on acquisitions. One of these key acquisitions, which is due to be completed in 2010, is described on the right.

Augmenting our growth through bolt-on acquisitions

The general industrial market for coating metal is large and fragmented. We intend to focus on powder coatings because this is the most sustainable form of coating for metal in this particular market. In November 2009, we announced the acquisition of the Dow Chemical Company’s powder coatings business, which they had purchased as part of their acquisition of Rohm & Haas. Our acquisition of this business (subject to regulatory approvals) will complement our existing powder coatings activities and boost our global capability to develop innovative new technologies, products and services. The integration of the two businesses will provide a solid platform for building sustainable relationships with customers over the long term. We expect great things from this acquisition and from our Powder Coatings business in general.

Improve gross profit margins

Although 2009 was a difficult year, it was successful from a gross profit margin perspective. This was largely due to a combination of our strong product portfolio, a disciplined margin management program – which we began implementing prior to the economic downturn – and an increasingly professional approach to procurement.

From a procurement perspective, the emphasis as we move forward will be on rolling out processes across the company. Procurement best practice is not just about unit cost reduction, but also implementing programs to ensure suppliers will be able to support AkzoNobel in meeting the future demands of our customers. The AkzoNobel Vendor Policy sets out the environmental and social standards we expect.

We are also planning to go beyond implementation of our existing best practice margin management and procurement processes and take a more cross-functional, proactive approach to rationalizing our product architectures in order to deliver appropriate products to our customers at lower cost levels. An example from Decorative Paints is shown below.

Product architectures approach to gross profit margin improvement

We are in the process of analyzing our Decorative Paints formulations using a rigorous product architecture approach. Early results indicate that there may be potential to reduce our portfolio of tens of thousands of formulations to fewer than 100 architectures. Reducing our formulations will allow us to operate with a far less complex mix of raw materials, as well as eliminating duplicate development efforts. It will also allow us to deliver faster roll-out of new products at competitive margins into our global markets.

Increase operational effectiveness

In September 2008, we announced planned restructuring savings of €100 million, which was increased by an additional €100 million in savings announced in early 2009. We are on track to deliver this €200 million in cost savings and the improvements we have made are already visible in our 2009 results. In fact, during the year, we realized €300 million of cumulative annualized restructuring savings. Given the uncertainty in the market environment, we will continue to look for opportunities to improve our processes and performance.

A particular focus for improvement is in mature markets, where we continue to consolidate manufacturing and distribution facilities. The cost savings brought about by this consolidation will help us to generate the financial flexibility we need to invest in high growth markets where the growth prospects are stronger.

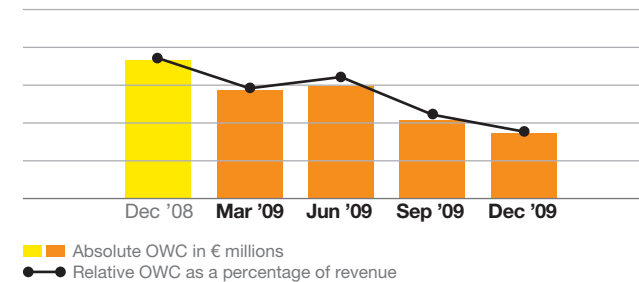
Operational effectiveness goes beyond restructuring to cover all aspects of cost and cash management. Our operating working capital (OWC) initiative aims to realize a structural and sustainable improvement in the level of working capital in our businesses. We have increased our management focus on this important topic and are encouraging the application of best practices. An example is shown on the right.

Another key area for operational effectiveness is energy and waste reduction. Work in this area provides two important benefits: reduced costs and improved environmental footprint.

OWC improvement efforts in Industrial Chemicals

- Targeted incentives
- OWC champions at key decision points
- Development of OWC dashboard including detailed targets for the OWC components
- OWC manual
- OWC challenge (competition) to harvest our BU best practices.

Operating working capital development per quarter



Non-reusable waste reduction at Surface Chemistry

Surface Chemistry has been able to reduce its non-reusable waste by more than 20 percent by switching to higher purity raw materials and eliminating a product purification step using clay, which was previously treated as non-reusable waste.

Non-reusable waste in million tons

2007	11,489
2008	9,810
2009	8,973

Embed the AkzoNobel values

We refined our core values in 2008. They define who we are and what we aspire to become. The values are:

- Focusing on our customers' future first
- Embracing entrepreneurial thinking
- Developing the talents of our people
- The courage and curiosity to question
- Integrity and responsibility in our actions.

In 2009, we integrated these values into our global performance appraisal system, known as the Performance and Development Dialog (P&D Dialog), using a model which describes the behaviors associated with each value. We also used our Global Employee Survey to gather feedback from a representative sample of employees regarding the extent to which our company delivers on its values. The results reconfirmed the collaborative culture that the majority of employees are experiencing across AkzoNobel. Even in 2009's challenging economic climate, we saw a positive trend in engagement.

Integrity and responsibility, for example, is embedded in our Code of Conduct and Business Principles. This value incorporates fundamental principles on issues such as business integrity, labor relations, health, safety and environment and community involvement.

Beyond being a starting point for developing our employees and our corporate culture, we also use our values to guide everything we do. One example of how we are putting our values into action is to recognize and reward scientific development – both internally within AkzoNobel and externally within the science base upon which we depend.

Outstanding people, tremendous ideas, great outcomes

The internal AkzoNobel Innovation Award, presented for the successful introduction of new innovations to the market, was won in 2009 by the team which developed Interseek 900. Introduced by our Marine and Protective Coatings business in 2007, the revolutionary foul release coating is based on novel fluoropolymer technology and has now been applied to the hulls of almost 300 ocean-going vessels.

The AkzoNobel Science Award

This annual award has been presented in recognition of groundbreaking interdisciplinary research alternately in Sweden and the Netherlands since 1970. In order to reflect our position as a global leader in coatings and specialty chemicals, at the end of 2009 we extended the scope of the award and introduced a new AkzoNobel Chemical Sciences Award in China, which was established in partnership with the Chinese Chemical Society.

Create an industry-leading Talent Factory

Creating an industry-leading Talent Factory is fundamental to delivering our strategic ambitions. We use the term Talent Factory because we believe the attraction, development and retention of great people is just as important to the success of our company as the development, production and sale of great products. In 2009, our Global Employee Survey indicated that we can be proud of our achievements in this area, but there is still room for improvement.

Diversity and Inclusion

A core program which gained significant momentum in 2009 was our renewed focus on Diversity and Inclusion (D&I). Following a global D&I workshop held at the end of 2008, which was attended by representatives from all our businesses, we defined a set of irreversible steps to improve our performance.

Our initial focus is on improving gender and cultural diversity. We have set clear and stretching ambitions for improvement in these areas.

Four businesses have now taken these ambitions and made a detailed and business-specific analysis of the D&I challenges for their part of the company. During 2010, we expect to develop detailed plans for all businesses.

Management and leadership development

The successful roll-out of our two standardized global management development programs is continuing. The Management Essentials Program (MEP) is designed to provide state-of-the-art people management basics for all first-line people managers across the company, while the Advanced Management Program (AMP) caters for senior managers. Both programs include specific training on the use and application of our values on a day-to-day basis.

Self-managed leadership journeys

As part of the Decorative Paints integration process, we identified a strong need to build a new culture within the business. Through a series of journeys, the organization embarked on a process to strengthen the common culture and increase understanding of the business strategy, while simultaneously providing the opportunity for employees' individual development. More than 1,200 senior and middle managers have successfully completed the program to date. Roll out will continue in 2010.

Enablers

In 2009 we initiated an HR council with the participation of key business and functional leaders within AkzoNobel. This council will help to set and guide the Talent Factory agenda going forward.

A new drive to significantly improve HR capability was launched in 2009 in our top nine countries, where close to 70 percent of our employees are based. This will allow us to reduce the existing fragmentation of HR support and ensure that the Talent Factory runs efficiently and effectively.

We have simultaneously embarked on a program to consolidate our current HR data and payroll systems across all businesses and countries. This will help to improve data quality, reduce costs and, most importantly, support human resources initiatives going forward.

To measure whether we are delivering on our Talent Factory aspirations, we have established clear targets and a quarterly reporting mechanism which we call the Talent Factory scorecard. The key metrics from this scorecard are included in our strategy dashboard.

Strive for world class levels of sustainability and safety

Building a sustainable, successful business is embedded in all aspects of our strategic agenda, because at AkzoNobel, our commitment to sustainability goes substantially beyond managing risks, governance and compliance. To us, sustainability involves creating opportunities for value creation through process excellence, innovation and talent development. We have developed a framework to demonstrate the essential relationship between all these elements, which is described in the Sustainability facts and figures section (see page 131).

The good progress we have made in this respect was recognized externally in 2009 when we maintained our position in second place on the Dow Jones Sustainability Index for 2010. The assessment confirmed areas of strength in corporate governance, risk management, supplier aspects and climate policy. In the area of innovation management, improvement opportunities were identified consistent with the way our RD&I processes are developing. Other focus areas for improvement are operational eco-efficiency and aspects of talent attraction and retention.

Our Sustainability Framework includes a number of key areas described earlier:

- Employee engagement and people development (see page 22)
- Integrity (see page 22)
- Integrating sustainability into sourcing and R&D strategy (see page 19).

Additional key components of our framework are described below.

Safety

We are very pleased to have made a noticeable improvement in our total reportable injury rate for employees and supervised contractors. We achieved a total reportable injury rate of 3.7 injuries per million hours worked in 2009, down from 4.6 in 2008. This improvement was due, in part, to the continued roll-out of our behavior-based safety program at all our sites. We also piloted a new Safety Leadership Program targeted at senior business leaders. The first sessions were held in the Netherlands and involved all members of the Board of Management and the corporate directors. Both programs will continue to be implemented throughout the company during 2010.

Behavior-based safety (BBS) in Functional Chemicals

Our Functional Chemicals site in LeMoyné, Alabama, in the US has a long history in BBS which dates back to 1996. The facility has an excellent track record, achieving three million hours without a lost time injury. Employees are very active in sharing best practices with other AkzoNobel sites, having notably partnered with a nearby Pulp and Paper Chemicals plant to host a networking meeting with eight US manufacturing sites.

Our sites around the world have been implementing enhanced standards for process safety and occupational health, and an improved Health, Safety, Environment and Security (HSE&S) audit process. This new process has raised the bar to deliver a step change in performance during the next five years. It focuses on site-based improvement targets and sharing good practice across the company, with corporate HSE&S audits to review progress.

Product stewardship

A newly-formed Global Product Stewardship and Regulatory Affairs Council, with representatives from all Business Areas, is responsible for ensuring that AkzoNobel goes beyond all legal and ethical requirements for our products on the global market. The council will integrate the good practice from across the company into a product stewardship framework and subsequently ensure that resources, training and audits are optimized.

The regulatory focus has been on implementing a range of notification, classification and labeling regulations around the world. We are working towards the 2010 REACH registrations in Europe; a range of new notification requirements in Asia; as well as implementation of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS).

Managing scarce resources

Managing the carbon footprint of our products not only creates more value for our customers, but is also a societal imperative. Following the 2008 pilots, we have assessed the cradle-to-gate carbon footprint of the 159 key value chains across our businesses, with the aim of identifying focus areas for improvement. Each business is developing a carbon management plan and improvement targets, while sourcing managers have started working with suppliers to reduce raw material footprints. During 2010, we will continue to assess key

customer applications to gain a better view of the downstream footprint of our products. Details of the company cradle-to-gate footprint are included in the Sustainability facts and figures section.

Beyond carbon, during 2009, we started to estimate the total eco-footprint of our businesses in order to prioritize future improvement areas in all parts of the lifecycle. We have engaged external support from German professor Michael Braungart and EPEA to review the cradle-to-cradle opportunities in our businesses. The aim is to integrate this approach into innovation processes and accelerate the changes required to reduce the footprint of our products.

Improving the eco-footprint in Pulp and Paper Chemicals

At our facilities in Québec, Canada, Pulp and Paper Chemicals reduced its electricity consumption per ton of product through technology improvement. In total, power consumption has decreased by more than 20,000 MWh per year.

Sustainable fresh water supply is essential to life – and to the sustainability of our business. During 2009, 99 percent of our production sites (our target is 100 percent) carried out a risk assessment of the sustainability of their fresh water supply and use, taking into account both the societal impact and the business continuity aspects. The results show that 38 percent of sites already have sustainable fresh water management in place. The remainder will develop plans to achieve this status by 2015.



Business performance

The following chapter gives a detailed summary of how each of our Businesses Areas performed during 2009. Information on market characteristics, key brands and revenue comparisons is also provided.

AkzoNobel Decorative Paints	26
AkzoNobel Performance Coatings	34
AkzoNobel Specialty Chemicals	44

AkzoNobel Decorative Paints



“Armed with a new global strategy, we can confidently move forward and reap the rewards of our stronger, more focused organization.”

Tex Gunning

Board member responsible for Decorative Paints

There can be no doubt that 2009 was a challenging year for AkzoNobel Decorative Paints, following the exciting and historic events of 2008. The ongoing integration activities and tough business climate certainly concentrated our focus. But we were determined to turn the economic crisis into an opportunity and used it as an additional drive for change and reinvention as we maintained our push to develop winning businesses in all regions.

Integration on track

So while we had to cope with the strong impact of the downturn and carefully manage our margins, particularly in Europe and the US, we remained on track with integrating the former ICI activities and continued to capture the expected savings resulting from the synergies associated with the acquisition. In this respect, our “best of both” approach – looking for the best talent, processes and products – clearly paid off.

Transforming the organization

Our primary focus in Europe during 2009 was on rationalization and removing complexity. We further reduced the number of brands and stock keeping units and made good progress in integrating the supply chain and becoming a more regional/global organization, as opposed to being organized on a purely local basis. In Asia, we reorganized and created three distinct regional businesses. This now gives us a more direct focus on high growth markets and will help to deliver better profitability in the medium to long term as we target further growth and allocate more resources to our Asian activities. It was a challenging year in the US, but the relaunch of our Glidden brand proved to be highly successful and strengthened our relationship with The Home Depot. In Latin America, the downturn had less of an impact and we achieved good profit levels.

Of course, innovation remained a priority despite the adverse impact of the global economy and we continued to launch eco-premium products in all our markets. This included the introduction of Dulux All Round Guard throughout China, a product which absorbs and decomposes harmful elements from the air to create a safer home environment. Customer innovation was another key focus area, highlighted by a special program in India which involved educating around 100,000 painters about our Dulux brand portfolio. Dulux also won several awards – notably in the UK – honoring the sustainable nature of our products. This recognition helped to underline our status as the first major paint manufacturer to make a significant move towards creating credible environmentally sustainable paint products for the consumer and professional markets. I’m also proud to mention a special “Tudo de Cor” project in Brazil, which saw our Coral brand – and our employees – help to revitalize old neighborhoods in São Paulo and Rio de Janeiro.

Cohesive community

This year was also extremely important in terms of continuing to create the right high performance culture. We have a major transformation agenda committed to creating a cohesive community and we made great strides with our ongoing leadership program. The feedback we have received from employees has been extremely positive and this journey towards providing meaning and inspiration to the whole organization will continue during 2010.

Armed with a new global strategy, we can confidently move forward and reap the rewards of our stronger, more focused organization. There is still some progress to be made, but there is no doubt that we will emerge from the downturn in better shape to capture the growth opportunities that a revitalized economy will present.]

Strong brands from our portfolio



Key developments and deliverables 2009

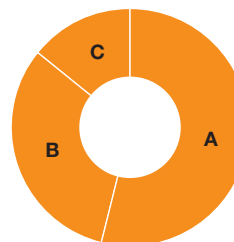
- Revenue: €4.7 billion, down 7 percent
- EBITDA of €492 million, down 18 percent
- More than 35 percent of revenue from high growth markets
- Largest global supplier of decorative paints
- Global portfolio of strong and leading brands
- More than 1,200 managers participated in a major leadership program
- Integration and restructuring continued to streamline portfolio

Key figures in € millions

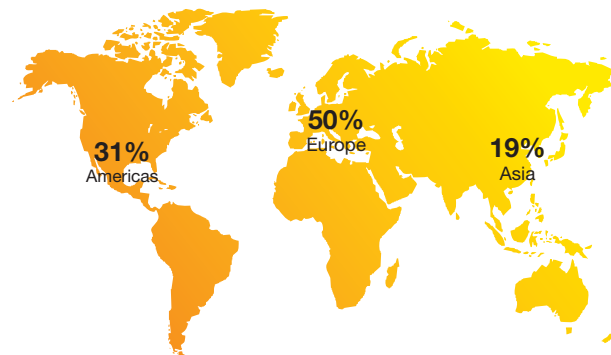
	2008	2009
Revenue	5,006	4,677
EBITDA	598	492
EBITDA margin (as a % of revenue)	11.9	10.5
EBIT	401	302
EBIT margin (as a % of revenue)	8.0	6.5
Operating income/(loss)	(669)	137

Revenue breakdown by business unit in %

A Decorative Paints Europe	54
B Decorative Paints Americas	32
C Decorative Paints Asia	14
	100



Geo-mix revenue by destination



Employees by region at year-end

	2008	2009
US and Canada	5,700	5,200
Latin America	1,900	1,700
China	700	1,200
Other Asian countries	2,600	2,200
The Netherlands	1,100	1,000
Germany	1,700	1,600
Sweden	600	600
UK	2,300	2,200
Other European countries	5,700	5,400
Other regions	1,300	1,100
Total	23,600	22,200

Product: Eco-premium solutions as % of sales

2007	15
2008	15
2009	22

Key value chains with carbon footprint assessment

2009	32
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Total reportable rate of injuries per million hours

2006	6.3
2007	5.7
2008	4.9
2009	4.7

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, 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

Making decoration easy – convenience of application

- Cuprinol Sprayable – sprayable fence treatment
- Hammerite Metalmaster – unique “wrap-around” metal protection spray coating
- Dulux PaintPod – automated, easy-to-use wall paint application system.

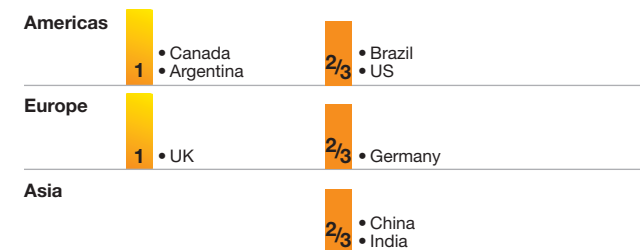
Key raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

Price drivers

- Energy, oil and raw material prices
- Steel prices

Market leadership positions



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 Centres) 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
- Herbol Symbiotec – nanotechnology based, dirt repellent wall paint.



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AkzoNobel Decorative Paints Europe

1 Antoine Fady

Managing Director Continental Europe

2 Ruud Joosten

Managing Director Northern and Eastern Europe

3 Richard Stuckes

Managing Director UK, Ireland and South Africa, Building Adhesives

Revenue in € millions

2007	2,791
2008	2,711
2009	2,533

Key brands



Overview

Despite the significant market decline, AkzoNobel Decorative Paints Europe performed well in many regions, maintaining or increasing market share. Most of the negative impact of lower volumes was offset by tight cost control and restructuring. The integration of the former ICI businesses continued, with the related synergy benefits being achieved earlier – and in some cases to a higher extent – than originally expected.

Analysis

The early part of 2009 was particularly difficult, although there was some improvement evident as the year came to an end. Streamlining the portfolio – reducing the number of products to concentrate on key strategic brands – had a positive affect, while active margin management helped boost results in many countries, notably Sweden, Turkey and Poland. Although market conditions were unfavorable, we continued to invest in promoting our brands and in new innovations and this helped to protect margins and grow market share.

Downturn

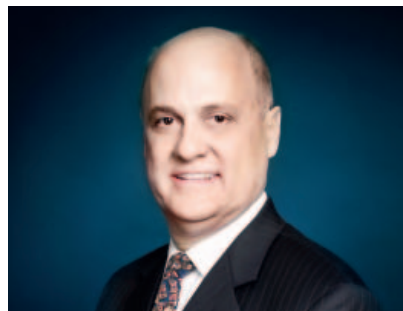
Sales across Europe were heavily impacted by the downturn. The Baltics and the Ukraine were among the worst hit, while Ireland, South Africa and the Nordics also faced very tough trading conditions. The UK do-it-yourself market probably performed better during the recession in 2009 than any other major market in Europe. Our results there were driven by inspirational advertising and communication campaigns and new product launches. Furthermore, despite the challenging economy, we continued to expand our integrated approach to sustainability in all aspects of our business.

Actions

We completely refocused our activities in Continental Europe, where the economic climate forced us to reorganize deeper and broader than first anticipated. This was part of the strategic plan to move away from localized operations to a more Europe-wide organization. We shut down factories in the Ukraine and the Czech Republic and announced additional closures in Poland and France. There are also plans to continue reducing the number of product brands and formulations, which will bring about more savings and simplify our business. This will result in a further improvement in operating working capital, which fell significantly during the year.

Developments

The Dulux PaintPod Compact was introduced, while the Flexa brand was successfully relaunched in the Netherlands and a new range of Dulux trim paints went on sale in France. This year also saw the introduction of the unique Dulux online color testers service, which enables customers to choose from more than 1,900 colors online and then have tester pots delivered to their door. We also launched a variety of VOC compliant paints across the region ahead of the 2010 deadline. In Poland, we successfully scaled up our Pilawa plant, strengthening its position as one of the company's key European sites. We also benefited from preparations for forthcoming high profile events, having supplied products for venues being used at the 2010 soccer World Cup in South Africa and the London Olympics in 2012. In addition, approval was obtained for a single one kit Schönox building adhesive waterproofing system which enables us to sell in all our European markets.



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AkzoNobel Decorative Paints Americas

1 Pierre Dufresne
Managing Director Canada

2 Erik Bouts
Managing Director United States

3 Jaap Kuiper
Managing Director Latin America

Revenue in € millions



Key brands

Coral



**MARTHA
LIVING**

DEVOE
HIGH PERFORMANCE
COATINGS

SICO

Overview

AkzoNobel's Decorative Paints activities in the Americas were heavily impacted by the global recession in 2009, particularly in North America. Volumes dropped in the US and Canada, resulting in lower revenue compared with 2008, but the market was rather more buoyant in Latin America, where a strong focus on merchandising and customers helped to boost sales.

Analysis

In the US, the paint market declined throughout the year. The volume shortfall negatively affected revenue, although market share held steady. Lower sales volumes and higher raw material costs also hit profitability in Canada, where there was a slight loss of market share. The decorative paint market in Brazil remained more or less flat in terms of volume, and while a fall off was evident in Argentina and Uruguay, bottom line results for the Latin American region improved by a double digit percentage.

Downturn

The recession brought about the predicted shift of some professional volume to the do-it-yourself sector in the US, with no catalyst to help increase total demand in evidence before the end of the year. In Canada, the impact of the economic climate varied by region, although overall the Canadian economy was not as severely impacted as the US due to government stimulus programs. Sales to professional painters suffered more as few new construction projects started during the year. Latin America went somewhat against the trend of the global economy. We gained market share in Brazil and performance improved across the South American region propelled by better-than-expected sales, higher margins and rigid efficiency measures.

Actions

In Canada we worked to align our cost structure to the lower sales volumes and closed down three plants between the end of 2008 and the end of 2009, transferring production to other sites. The headcount was also reduced in the US, where the company-owned stores network was rationalized. Margin management played a key role in mitigating the volume pressure, along with synergy benefits, the latter helping to counter the downturn in Latin America in particular. The management teams in Argentina and Uruguay were merged into one, while we closed our Raposo Tavares site in Brazil and transferred production capacity to the nearby Mauá facility.

Developments

The relaunch of our Glidden brand in North America proved to be successful. Towards the end of the year, we also became the exclusive manufacturer of a new paint line sold under the Martha Stewart Living brand within The Home Depot. The revamp of our Sparlack woodcare range in Brazil proved to be a success, as was a special project involving our Coral brand designed to help restore and revitalize rundown areas of São Paulo and Rio de Janeiro, the latter as part of preparations for the 2016 Olympic Games. Our Metalmaster electrostatic gun was successfully introduced in Canada, where we also ran the first ever national advertising campaign for our Sico brand, which covered 40 major markets and helped to boost sales despite the declining market. Several new products highlighting our innovative expertise and environmental commitment are due for launch in 2010.



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AkzoNobel Decorative Paints Asia

1 Jeremy Rowe

Managing Director South East Asia & Pacific (SEAP)

2 Amit Jain

Managing Director India and South Asia (ISA)

3 Peter Chen

Managing Director China & North Asia (CNA)

Revenue in € millions

2007	635
2008	682
2009	659

Key brand

Dulux

Overview

Despite the global economic slowdown, AkzoNobel Decorative Paints' overall business performance in Asia was relatively good. Revenue increased and market share grew in several countries, including China, Indonesia, Vietnam and Thailand. Conditions proved to be more testing in India, where the decorative market was impacted by the recession.

Analysis

Revenue picked up strongly in the second half of the year in China, where integration activities designed to realize the benefits from the 2008 ICI acquisition remained a priority. Low demand in India resulted in a slight loss in market share, but aggressive investment in Southern Asia brought higher growth and additional market share was captured. There was also some improvement in Sri Lanka. Elsewhere, the retail market proved challenging in the largely export-driven economies of Malaysia and Singapore, while record volume levels were achieved in Papua New Guinea, mainly due to several ongoing projects in the mining, oil and gas industries. Growth in South East Asia was driven by a strong performance by the Dulux brand. Cost management and brand rationalization were key areas of attention across the entire region.

Actions

There was a strong focus on customers, cost and cash due to the challenging economic conditions. Cost saving opportunities were identified in all countries and various operational excellence programs were introduced designed to improve profitability. Various government stimulus packages designed to give lagging economies a boost also brought some benefits. This was

especially helpful in Singapore and Malaysia. In other parts of South East Asia, we responded quickly to the changing market conditions and reinvested when the situation improved in the middle of the year. Particular attention was paid to improving channel penetration and brand rationalization. In India, we launched three aggressive programs to help increase sales, which included contacting around 100,000 painters to educate them about the Dulux brand portfolio. A major consumer promotion was also launched.

Developments

Dulux All Round Guard was introduced throughout China. The product absorbs and decomposes harmful elements from the air to create a safer home environment. Our Easy Paint service – which simplifies the painting experience for consumers – was also piloted in several major Chinese cities. In addition, we launched Malaysia's first ever complete range of low odor, low VOC Green Label certified interior emulsion paint, as well as introducing Dulux EasyClean, Dulux Power Plus primer and World of Weathershield across the whole of South East Asia. In Vietnam, our Decorative Paints business was awarded the Golden FDI Enterprise – Friendly With the Environment award by the Ministry of Planning and Investment.

Environment

Together with 20 other corporate members, we formed the Green Building Council of Indonesia and launched an Indonesian initiative designed to establish a program of zero waste from manufacturing. Total recycling of solid waste was achieved by the fourth quarter and the total recycling of liquid waste is projected to have been completed during the first quarter of 2010.

No place like home

We've been working with The Home Depot in North America – the world's largest home improvement specialty retailer – since 1979. It's an extremely successful partnership which enables their customers to choose from a complete portfolio of quality decorative paints.

The strength of this relationship was reinforced during 2009 thanks to the successful relaunch of our Glidden brand and a joint collaboration to develop and produce a Martha Stewart Living range of paints.

"Successfully relaunching Glidden paint helped us capture incremental market share during a period of unprecedented decline across all home improvement categories," says Lyne Castonguay, merchandising vice-president and project leader for the Martha Stewart Living brand at The Home Depot. "It also restored one of the great American brands – a brand we've proudly stood behind since opening our first home improvement center."

Following on from the Glidden relaunch, The Home Depot turned to AkzoNobel to produce a range of products for the Martha Stewart Living brand.

"This new program, which is part of a larger merchandising effort across multiple categories of products, is a core strategic priority for our organization and one we believe will allow us to attract a new set of customers to The Home Depot," adds Castonguay.

"Clearly, AkzoNobel delivered in 2009 and we look forward to building upon that momentum. We see numerous opportunities as together we work to deliver Tomorrow's Answers Today."





Adding color to people's lives

As the world's largest coatings company, we believe that color has the power to change people's lives. This belief has been underlined by employees working for our Coral decorative paints brand in Brazil, who volunteered their time and donated products to help revitalize a neighborhood in São Paulo.

Organized as part of a unique community initiative called Everything in Color, the project involved renovating and repainting run-down buildings in Bixiga. It proved so successful that another three neighborhoods have also been lined up for a colorful facelift. "Bixiga is bursting with joy because up to now, nobody had done anything like this for us," said Walter Taverna, President of the Defense Society of the Traditions and Progress of Bella Vista and the Bixiga Heritage Center. Added São Paulo City Mayor, Gilberto Kassab: "May this AkzoNobel action be an example to other companies and I gratefully acknowledge Coral and the Coral family."



AkzoNobel Performance Coatings



“We are not only committed to supporting growth markets, but are also serious about investing in and developing sustainable technologies.”

Leif Darner

Board member responsible for Performance Coatings

┌ AkzoNobel's Performance Coatings activities entered 2009 surrounded by uncertainty, having experienced a rapid decline in sales volumes across most sectors during the last quarter of 2008. The focus immediately shifted to short-term operational efficiency and through a combination of cost and margin management and attention to cash flow we emerged from a difficult year in good shape and ready to take advantage of any upturn.

Balanced portfolio

The recession had a harsh and immediate impact on our industrial businesses, notably Industrial Finishes and Powder Coatings. But the balance we have in our portfolio meant that some activities were less affected by the sales slump, such as Marine and Protective Coatings and Packaging Coatings. These businesses have different cycles, and while there was some fall off in volumes, it was much less dramatic.

Operational efficiency

We had already increased our focus on margin management at the end of 2008, but the severity of the downturn required us to take further steps to improve operational efficiency during the first quarter of 2009. This included taking a closer look at our manufacturing footprint in order to right-size – without cutting back on our capabilities – which led to a rationalization, particularly in Europe and North America. We also focused on cash flow and were able to more than finance capital expenditure and incidental costs for restructuring by releasing cash in operating working capital. As a result, we generated an operational cash flow in 2009 higher than our EBITDA.

However, 2009 was by no means all about cost saving and cutting back in production. Providing support in regions where growth was still taking place remained critical and all our activities, apart from Wood Coatings, made progress in high

growth markets, particularly in China and India. A number of investments were made in these regions in order to step up production levels, while we also made a significant acquisition, agreeing to take over the former Rohm and Haas powder coatings business from the Dow Chemical Company. This deal was another indication that we are not only committed to supporting growth markets, but are also serious about investing in and developing sustainable technologies.

Commitment to excellence

At no point during the economic crisis did we lose focus on our customers or compromise on our drive to improve sustainability. On the contrary, I think it helped to escalate our efforts because we're fully aware that when the economy begins to recover, markets and customers will be more focused on sustainable products. We therefore maintained our focus on R&D and product stewardship and continued to concentrate on innovations in the field of sustainable technology. Safety performance was another parameter which improved and I'm proud to say that we never wavered from our commitment to excellence in all these areas. Credit for this should go to our people, who worked extremely hard during a testing and stressful year and adopted a very open, collaborative and flexible attitude in difficult circumstances.

One additional development of major significance during the year was our decision to rearrange the portfolio. We wanted to create a better balance in terms of technologies and markets, size and complexity, so that our businesses and activities are better equipped for growth. The new set-up is also more logical for customers and the supply chain and we now have a much better focus as we look to see where the real growth will come from, because that is what will drive us forward and bring success in the longer term. ┌

Strong brands from our portfolio



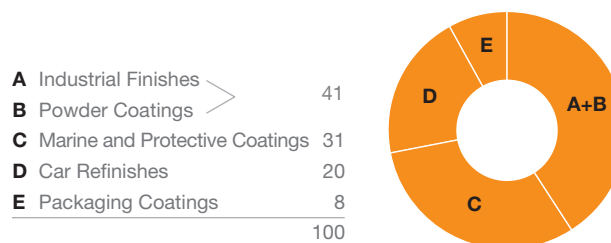
Key developments and deliverables 2009

- Revenue: €4 billion, down 12 percent
- Operational costs down 7 percent
- EBITDA of €587 million, up 4 percent
- Acquisition of the Dow Chemical Company's powder coatings activities
- More than 45 percent of sales in high growth markets
- Steady improvement of safety performance
- New eco-premium solutions including waterborne coatings

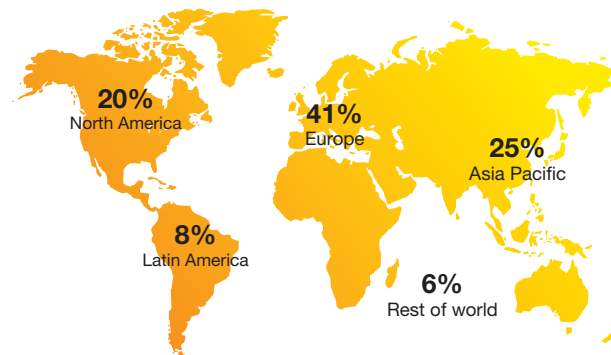
Key figures in € millions

	2008	2009
Revenue	4,575	4,038
EBITDA	566	587
EBITDA margin (as a % of revenue)	12.4	14.5
EBIT	467	486
EBIT margin (as a % of revenue)	10.2	12.0
Operating income/(loss)	444	427

Revenue breakdown by business unit in %



Geo-mix revenue by destination



Employees by region at year-end

	2008	2009
US and Canada	3,300	3,000
Latin America	1,800	1,700
China	4,600	3,800
Other Asian countries	2,900	3,000
The Netherlands	1,000	1,000
Germany	900	1,000
Sweden	1,000	900
UK	1,700	1,500
Other European countries	3,100	2,900
Other regions	1,100	1,100
Total	21,400	19,900

Product: Eco-premium solutions as % of sales

2007	17
2008	19
2009	18

Key value chains with carbon footprint assessment

2009	52
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Total reportable rate of injuries per million hours

2006	6.1
2007	5.7
2008	4.8
2009	3.3

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 busses) 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, either in a fluidized bed, or it can be 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 marine vessels, including commercial tankers, ferries and leisure craft, have been developed to act as a salt water barrier and to minimize the build-up of organic material.

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.

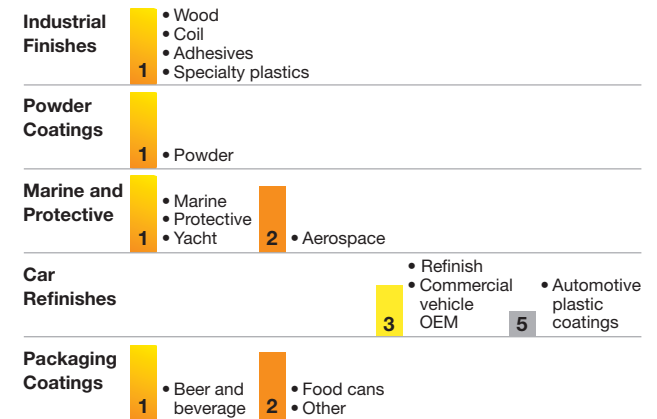
Customers

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.

Market leadership positions



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.

Key raw materials

- Resins
- Coatings additives
- Solvents
- Pigments

Price drivers

- Energy, oil and raw materials



AkzoNobel Industrial Finishes

“We are well positioned for the rebound from a structural cost perspective, in terms of our global capacity footprint and the markets we’ve penetrated.”

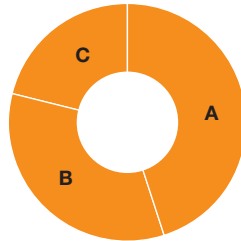
Bob Taylor
Managing Director

Revenue in € millions

2007	1,351
2008	1,283
2009	1,075

Geo-mix revenue by destination in %

A Europe	45
B Americas	34
C Asia Pacific	21
	100



Main products

- Wood coatings
- Wood adhesives and board resins
- Coil and extrusion coatings
- Specialty plastics coatings

Key markets

- Furniture and flooring
- Consumer electronics such as cell phones and laptops
- Construction industry

Key brand



Overview

We entered 2009 under extremely weak market conditions and experienced significant erosion in demand during the year. However, thanks to a global effort to manage costs, focus on working capital and right-size our capacity, we successfully managed a soft landing through the most severe manufacturing downturn in 50 years.

Analysis

We were able to remain financially sound despite the stressful market conditions and volume pressure. We removed a lot of costs from the business, both in terms of headcount and capacity, resulting in a significant reduction in our structural cost base. Our capacity and cost base have therefore been successfully aligned with the shift in the global economy.

Downturn

The first indications of the impending recession alerted us at the end of 2007 and it wasn't until the end of 2009 that the wood markets started to show signs of stabilizing. In many industries, Asia began to recover first, but we experienced a different scenario. The Industrial Finishes business has a heavy wood coatings footprint in Asia which is closely tied to the US market, so our Asian wood business actually remained as depressed as North America due to this link with US housing. It will only recover in a meaningful way once US housing comes back. Coil markets, on the other hand, clearly started to improve during the second half of the year, while the plastics market also began to stabilize.

Actions

We reduced headcount and streamlined the number of sites we operate around the world in order to right-size and stabilize the business. This realignment enabled us to remove underutilized capacity in mature markets and manage our capital down, while continuing to focus on technology and strategic investments in

high growth markets such as China, India, Vietnam and Russia. We never took our eye off the marketplace and towards the end of the year our results started to improve as we increased our share in new market sectors and gained new customers. As a result, we are well positioned for the rebound from a structural cost perspective, in terms of our global capacity footprint and the markets we've penetrated. This means we have the ideal capacity to meet the requirements of an upturn once the economy recovers.

Developments

We acquired the Kronospan wood adhesives business in the Czech Republic, Romania and Slovakia and purchased two wood coatings distributors – SABA in Russia and ICLA in Romania. In addition, we fully integrated the US Lord acquisition from 2008 and started driving that floor coatings technology into high growth markets, primarily China. We also started supplying one of the largest domestic furniture manufacturers in China with eco-premium technologies. Our expertise will enable them to convert to UV-curable coatings technology from traditional solvent-based coatings. On the product side, sales of our Cool Chemistry line of coil coatings for metal roofs doubled in the US, despite the depressed market conditions. This was mainly due to the tax credit the US government allowed homeowners who made “green” improvements to their homes. We were also successful with the introduction of a new wood grain finish for coil coatings used to make garage doors. Other notable developments included a further improvement in our excellent safety performance and significant progress in our training and management development.



AkzoNobel Powder Coatings

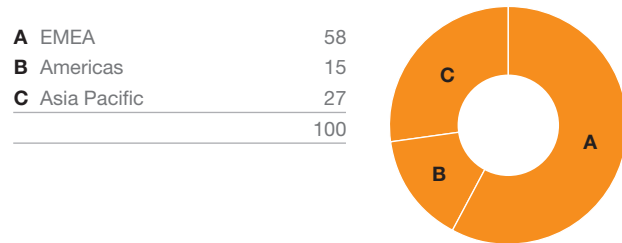
“Our emphasis on developing more sustainable technologies will put us in a strong position to grow further as the environmental benefits of powder coatings continue to become more attractive to customers around the world.”

Rob Molenaar
Managing Director

Revenue in € millions



Geo-mix revenue by destination in %



Main products

- Powder coatings

Key markets

- Appliances
- Architectural
- Automotive
- Furniture
- General industrial

Key brands



Overview

The global economic downturn has had a major impact on the powder market, leading to a substantial reduction in volume and severe pressure on prices. In this context, our business performed well. We produced satisfactory results and maintained course on our strategic growth agenda.

Analysis

We have been steadily investing in building a global position, especially in high growth markets – notably China and Eastern Europe. This policy paid off in 2009 as the economies in these high growth markets bounced back faster than the rest of the world, which had a positive impact on our sales. We maintained our strategy of focusing on defined market segments and developing segment-specific value propositions which offer customers a complete service package rather than just a product. Our sites are also becoming more dedicated by concentrating on specific technologies and segments. This approach has been the foundation of our market share growth and has strengthened our ability to resist price pressure and maintain margins.

Downturn

We responded to the downturn in market volumes by implementing extensive cost-cutting programs, especially in the mature markets, which mainly involved workforce reductions. This included the announced closure of our site in Fombio, Italy. These actions played a significant role in helping us to maintain our financial performance, although part of this improvement will not be realized until 2010.

Developments

We continued to expand in high growth markets and announced plans to open another factory in China, which will be inaugurated in early 2010. Our new plant in Russia also had an extremely good year. We are the only international company supplying powder coatings from within Russia and the facility is well on its way to becoming very successful. In addition, we secured supply agreements with Dell, Hewlett Packard, Whirlpool, Volvo and NCR, as well as being specified by McDonald's to coat the interior furniture in their European restaurants. Meanwhile, a safety campaign launched throughout the business at the end of 2008 proved to be highly successful as our performance greatly improved during the course of this year. In early 2009, we divested our non-stick coatings activities, while towards the end of the year we boosted our global presence and technology portfolio by signing an agreement to acquire the former Rohm and Haas powder coatings activities from the Dow Chemical Company. This will add notable MDF and thermoplastic capabilities to our existing expertise.

Technology

Our commitment to sustainable innovation was underlined by the opening of a new research facility in Ningbo, China, and our plans to open a new resin technology laboratory in Felling, UK, where we are conducting applied research on lower temperature curing, new substrates and different resin formulations. This emphasis on developing more sustainable technologies will put us in a strong position to grow further as the environmental benefits of powder coatings continue to become more attractive to customers around the world, especially in high growth markets, where there is a high level of interest.



AkzoNobel Marine and Protective Coatings

“The weakness in some markets and in some geographies was offset by continued rising demand in marine newbuilding and protective coatings.”

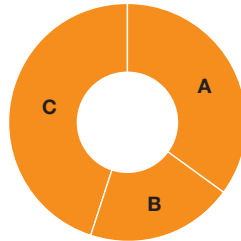
Bill McPherson
Managing Director

Revenue in € millions

2007	1,251
2008	1,355
2009	1,274

Geo-mix revenue by destination in %

A Europe	35
B Americas	20
C Asia Pacific	45
	100



Main products

- Marine coatings
- Yacht paints
- Protective coatings
- Aerospace coatings

Key markets

- Ship building
- Oil and gas facilities
- High value infrastructure such as airports, stadia and bridges
- Power generation installations

Key brands



Overview

It was another highly successful year, despite our first fall in revenue (6 percent overall) for a number of years. We experienced relatively healthy demand, particularly in China, the Middle East, India and other parts of Asia. This was accompanied by the twin benefits of new product introductions and lower raw material costs, which, coupled with internal cost-cutting, underpinned a strong set of results. The performance remained robust.

Analysis

Overall sales revenue held steady during the first half of the year compared with the first half of 2008. The weakness in some markets and in some geographies was offset by continued rising demand in marine newbuilding and protective coatings. But in the second half, revenue fell by around 10 percent as the weakness in Europe and the Americas more than offset the growth elsewhere.

Downturn

There was great uncertainty about the level of demand, the financial solidity of some customers, the direction of a number of volatile currencies and the movement in raw material prices – particularly metals such as copper and zinc. During this turbulence it was important to reduce our costs without reducing our customer service levels, or our ability to take advantage of some limited growth opportunities. Due to the deteriorating financial climate, we needed to reduce our operating working capital and generate cash. We had been improving our position gradually – but continuously – for a number of years, but a quantum change in performance was required. A thorough review of processes and procedures resulted in a number of breakthroughs in performance level and the achievement of the stretch targets. Operating working capital as a percentage of sales now stands at an historic low.

Action

We saw some weakening in our yacht and aerospace markets in mid-2008 and, in response, took action to reduce our cost base during the following months. In September 2008, we activated the initial phase of our contingency plans for all market sectors, which were then implemented over a six-month period.

Developments

We completed the acquisition and integration of the Enviroline specialist protective coatings business in the US. This has increased our capability in the high performance tank linings market for oil and gas, chemical processing and the waste and water industries. We also purchased the remaining shares in our joint venture company in South Africa from Freeworld, and reached an agreement to acquire the assets of a privately run distributor in Canada. In addition, we secured the supply of specialist coatings for five of the main stadia being used for the 2010 soccer World Cup, and invested in a new antifouling development laboratory in Singapore. With regards to sustainability, we recorded significant improvements in our HSE metrics overall, along with reductions in VOC emissions and in waste.

Products

Our groundbreaking Intersleek 900 foul release coating won the prestigious Lloyd's List Global Award in the Clean Seas category and was featured in the Discovery Channel series Industrial Junkie. Our Aerospace Coatings business also introduced a novel peelable coating, Intergard 10220, for military use as a temporary camouflage coating with chemical agent absorbing properties. Although developed for the military, the product is likely to have a much wider impact on civil protection techniques and urban environmental projects in the future, ranging from protecting infrastructure such as stadia or government buildings against contamination, to cutting the cost of removing graffiti. We also have a very strong flow of new products in the pipeline.



AkzoNobel Car Refinishes

“Because we maintained our focus on our key capabilities – service, availability, quality and innovation – we were a port in a storm for our customers.”

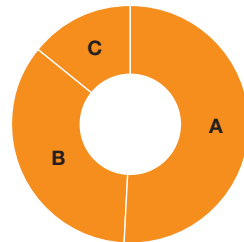
Jim Rees
Managing Director

Revenue in € millions



Geo-mix revenue by destination in %

A Europe	51
B Americas	35
C Asia Pacific	14
	100



Main products

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

Key markets

- Collision repairers and commercial vehicle refinishes
- Bus, truck, specialty vehicle OEMs
- Automobile insurer networks
- Fleet owners and operators
- Automotive OEMs aftermarkets

Key brands



Overview

It proved to be a good year in difficult times. We were clearly impacted by the economic downturn, primarily as a result of lower demand in all of our market segments. But through various business improvement projects and cost-cutting we weathered the storm and were able to pick up on some uplift in the market towards the end of the year.

Analysis

The downturn had the most significant affect on our Commercial Vehicles and Automotive Plastic Coatings businesses, which are closely related to the automotive OEM (original equipment manufacturers) segment. Our vehicle refinishes activities also suffered, but to a lesser extent, because they are more connected to the aftermarket. So we did experience lower demand, which resulted in lower revenue, the hardest hit regions being North America and Western Europe. But due to our strength in brands and distribution, focus on customers and operational excellence, we negotiated the hostile climate.

Downturn

Because we maintained our focus on our key capabilities – service, availability, quality and innovation – we were a port in a storm for our customers; a safe place for them to come in difficult times. We therefore not only ended the year with a higher customer retention rate than ever, but also attracted a number of strategic new customers. We devoted more resources to the training and development of our employees than in previous years, despite the downturn. This helped to continue their career development and enhance their ability to serve customer requirements.

Actions

Various operational issues were addressed to bring costs more in line with the current volumes. This included restructuring the business, which resulted in a reduction in headcount. The organization is now leaner and more efficient. We also made significant strides, even in a downturn, in terms of lowering our working capital and were able to redeploy resources into key growth markets. This helped us to take advantage of the bounce back in regions such as China, India, Brazil and Turkey. But even in light of restructuring to align costs and increase synergies, we did not let up on quality or availability and innovation was as robust this year as any other.

Developments

Early in the year we announced that we had become the official supplier of paint solutions to the McLaren Mercedes Formula 1 team through our Sikkens brand. We signed a deal to coat 1,000 electric buses in China, while further contracts were signed with various manufacturers, including Toyota, Kia, GM, Honda and Mazda. In terms of products, our UV LED gun proved to be a success in the markets where it was launched, and there was very high market acceptance – both in the aftermarket and the OEM markets – for our StickerFix adhesive do-it-yourself repair and protection system. This year also saw the launch of our first self-repairing clearcoat, Autoclear Exclusive. Another important development was the fact that we made significant strides in increasing the strength of our distribution footprint in vehicle refinishes across the globe. Major progress was also made in the area of safety and we recorded a significant reduction in incidents.



AkzoNobel Packaging Coatings

“We clearly benefited from being a global business and gained in regions less affected by the economic crisis, particularly parts of Asia and South America.”

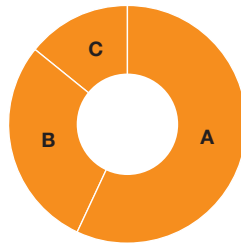
Conrad Keijzer
Managing Director

Revenue in € millions

2007	340
2008	344
2009	322

Geo-mix revenue by destination in %

A Europe	57
B Americas	29
C Asia Pacific	14
	100



Main products

- Coatings and inks for beverage, food, aerosol and general line cans

Key markets

- Beer and beverage can producers
- Food can producers
- Producers of crowns, pilfer proofs and vacuum closers
- Metal packaging industry

Key brands

Aquabase
Aqualure
Icimar

Marlux
Vitalac
Vitalure

Overview

Despite the challenging operating conditions and lower revenue, we were able to sustain and improve our results through a combination of successful cost and margin management and value engineering. We clearly benefited from being a global business and gained in regions less affected by the economic crisis, particularly parts of Asia and South America. At the same time, we continued to invest in growth markets, from where we believe long-term sustainable growth will come.

Analysis

We entered 2009 on the back of recent performance improvement. But while consumer demand was quite robust, the year began with an unprecedented global de-stocking in the supply chain. This included temporary line closures at some of our beer and beverage customers. The situation recovered somewhat from Q2. Volumes held up much better in South America and – later in the year – in Asia, when compared with Europe and North America, clearly driven by local demand. But we finished the year with overall revenue down on 2008.

Downturn

There was an extraordinary contrast to 2008, which was a year of market growth, when customers were increasing capacity through investments, particularly in high growth markets. In 2009, many of these trends – at least temporarily – were put into reverse. In fact, some of our customers were seeing double digit decreases in the early part of the year. We therefore had to react to significant fluctuations in demand and adaptation and flexibility were the main characteristics of 2009.

Actions

Our focus throughout the year was on customers, cost and cash. Faced with a difficult trading environment – customers adapting to the lower demand and a lack of forward visibility – we quickly

adjusted and focused on supporting our customers with improved service and supply delivery. We also focused our efforts on cash, with a particular emphasis on stock levels, while maintaining best-in-class service. We reduced our costs in response to the new demand level, despite the residual inflation in some of the regions that we operate in. This required us to reduce staffing levels at some of our operations to ensure our sustained competitiveness, while we continued to invest in innovation, management and R&D.

Developments

We took steps to counter the recession by making additional investments – rather than cuts – in R&D to prepare ourselves for the economic upswing. We continued to drive basic innovation out of our global R&D center in Strongsville in the US, while also developing an increasing number of successful localized products at facilities in various high growth markets. In response to the growing market for energy drinks, and coffee and tea products packed in beverage cans in Asia, we introduced a waterborne white basecoat and overprint varnish which can withstand the heat treatment process used for these beverages. The system, Aquaprime 200/250, is the only water-based product on the market which meets the strict performance requirements and replaces the existing solvent-borne technology. We also introduced an innovative range of UV varnishes into South America. We continued to grow our position in South America by leveraging the AkzoNobel infrastructure in countries such as Chile, Colombia and Argentina, as well as increasing reactor capacity in Brazil. We are also using similar footprint opportunities in India, China and Australia. Overall, we are satisfied that the clear response we made to the difficult trading conditions was successful and is reflected in our solid 2009 performance. We are upbeat about the strengths that we have developed during this period and the opportunities this will give us in the market as the global upswing reappears.



On solid ground

You don't have to look far before coming across a massive infrastructure project, and chances are that when you find one, our Marine and Protective Coatings business and market-leading International brand are involved.

Trusted around the world having built a global reputation for outstanding quality and service, one of the latest projects to solely specify an International Paint coatings system is the ongoing seismic overhaul of the San Francisco to Oakland Bay Bridge in the US.

The multi-billion dollar project involves completely replacing the existing east span on the Oakland side, with coating of the new steelwork – using 400,000 liters of International Paint products – being carried out in China.

“The new San Francisco-Oakland Bay Bridge is a milestone project for us,” explained a representative from Shanghai Zhenhua Heavy Industry Co. Ltd, who are building the steel structures for the new east span section. “In view of its high technical and engineering standards, we have imposed stringent requirements in selecting suppliers for this assignment and only work with world class companies. AkzoNobel has been providing us with quality solutions and professional advice, which are of great value to this project.”

The first batch of steel structures for the east span has already been shipped to the US after being coated in Shanghai with an International Paint system which meets the rigorous requirements for anti-corrosion, abrasion and impact resistance, gloss and color retention. The system also carries a 20-year warranty.

Staying connected

Major international projects rely heavily on trusted suppliers with world class products and global capability. Which is why Europipe and Mülheim Pipe Coatings turned to AkzoNobel to provide coatings for the 1,223-kilometer long Nord Stream gas pipeline.

Due to become operational in 2012, the pipes have been coated with a Resicoat-primer for a three-layer system supplied by our Powder Coatings business. In total, 1,500 tons of coatings were delivered for the project, which involves laying a pipeline from Russia, through the Baltic Sea to northern Germany. Gas will then be delivered to other connected European countries.

“The pipeline project has adhered to strict environmental guidelines to ensure that no damage is done to the ecosystem of the Baltic Sea,” explained Senior Technical Manager of Europipe GmbH, Peter Gronsfeld. “Sourcing sustainable powder coatings from the world’s leading supplier ensures that we are using the latest technology, and because the products contain no solvents, the integrity of the marine environment is assured.”

Once operational, the Nord Stream pipeline – being constructed to secure gas supply to Europe – will transport 55 billion cubic meters of gas per year and supply more than 26 million households.



AkzoNobel Specialty Chemicals



“Our robust performance this year has certainly proved that the portfolio has strength to carry us forward as we look to pursue further growth.”

Rob Frohn
Board member responsible for Specialty Chemicals

“The biggest challenge we faced in Specialty Chemicals in 2009 was how to respond to the sudden change in the world economy and the impact it had on the chemicals industry. The shift from record pace in 2008 to almost a complete standstill during Q1 was dramatic and we showed remarkable resilience in adjusting to the new situation.

Great achievement

Our top line inevitably suffered due to the significant volume loss caused by the recession, but the bottom line was much less impacted. We were able to maintain margins at a very acceptable level across the board thanks to stringent margin management and cost control. It was a great achievement by all our employees and I am very proud and grateful for their efforts. We created significant cash flow despite the lower earnings because we reduced working capital and our capital expenditures, throttling back on new projects in particular.

Commercial success

As well as improving margins, we also concentrated on operational effectiveness and restructured in the mature markets, taking out cost and reducing headcount. Delivering profitable growth proved difficult given the depressed economic climate, but we did not divert from our efforts to expand in high growth markets and continued to spend on technology and R&D. The success of our GLDA green chelate is just one example of how maintaining this focus on innovation has paid off.

Throughout the year, we never lost our focus on the market or our customers. In fact, when customers started to consider their supply risk maps and saw that some suppliers weren't financially strong, many of them came to us. So our global reputation helped us to attract more business and improve customer relationships. One positive side effect of the recession was the fact that some customers had more time and capacity

to run trials for new products. This had particular benefits for our Pulp and Paper Chemicals and Polymer Chemicals businesses.

High growth markets

Our sustainability agenda did not suffer as a result of the downturn. As well as continuing to work on talent development, our businesses made major progress with regard to safety. We had an excellent year in this respect and while we realize that further improvements can be made, our enhanced safety performance underlined our commitment to achieving the ambitious targets we have set. Another major highlight of 2009 was the start up of the first unit at our new Ningbo site in China. Operations there are being brought on stream gradually and all the plants should be fully operational by the end of 2010. Our growing presence in high growth markets was also boosted by the inauguration of two new Pulp and Paper Chemicals facilities in Brazil. In addition, Polymer Chemicals took a majority position in an existing joint venture in Japan, while Industrial Chemicals completed an acquisition in chlor-alkali in Europe. One organizational change we made was the merger of our Polymer Chemicals activities into our Functional Chemicals business. This will take out cost and complexity and in many ways the recession was a good catalyst for helping us to come to this decision. With the integration of a number of former ICI activities into AkzoNobel Specialty Chemicals now complete, we can give full attention to market opportunities.

In many ways, 2009 saw us reap the benefits of the strategic realignment of Specialty Chemicals which began several years ago. Over time, the portfolio has demonstrated resilience and is better placed to grow. On the one hand, we have to make sure we capture the growth in high growth markets and position ourselves properly, while in mature markets, it's more about operational excellence and productivity gains to ensure we remain competitive. Our robust performance this year has certainly proved that the portfolio has the strength to carry us forward as we look to pursue further growth. ▣

Strong brands from our portfolio



Key developments 2009

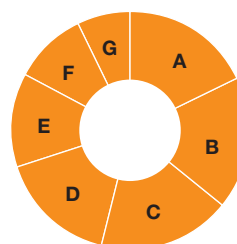
- Revenue: €5.2 billion, down 8 percent
- EBITDA of €814 million, down 10 percent
- More than 32 percent of sales in high growth markets
- Start of chelate production in Ningbo, China
- Inaugurated two new Pulp and Paper Chemicals facilities in Brazil
- Decision to merge Functional Chemicals and Polymer Chemicals
- Acquired LII Europe
- Sold stake in Pakistan PTA
- Strong improvement of our safety record
- Eco-premium solutions such as Dissolvine GL, Rediset WMX and Compozil Fx continued to gain momentum

Key figures in € millions

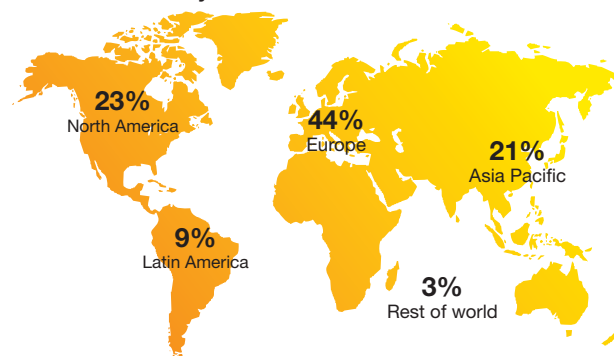
	2008	2009
Revenue	5,687	5,209
EBITDA	909	814
EBITDA margin (as a % of revenue)	16.0	15.6
EBIT	605	509
EBIT margin (as a % of revenue)	10.6	9.8
Operating income/(loss)	130	436

Revenue breakdown by business unit in %

A Functional Chemicals	18
B Pulp and Paper Chemicals	18
C Industrial Chemicals	18
D National Starch	16
E Surface Chemistry	13
F Polymer Chemicals	10
G Chemicals Pakistan	7
	100



Geo-mix revenue by destination



Employees by region at year-end

	2008	2009
US and Canada	2,800	2,700
Latin America	1,100	1,100
China	900	1,100
Other Asian countries	2,300	2,200
The Netherlands	1,900	1,900
Germany	900	1,200
Sweden	2,100	2,000
UK	100	100
Other European countries	1,100	800
Other regions	100	200
Total	13,300	13,300

Product: Eco-premium solutions as % of sales

2007	23
2008	21
2009	20

Key value chains with carbon footprint assessment

2009	74
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Total reportable rate of injuries per million hours

2006	6.2
2007	6.0
2008	3.7
2009	2.8

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.

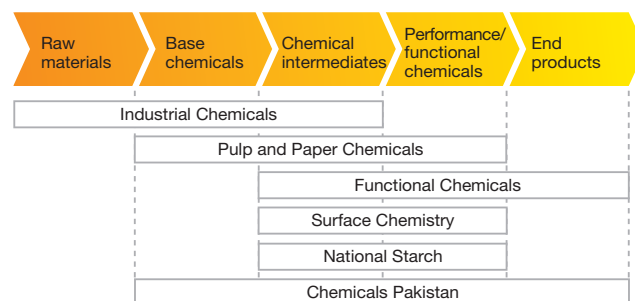
Our Industrial Chemicals business, for example, mines salt through vacuum extraction. It's used as a raw material for our own activities, as well as being an end product found in grocery stores under brand names such as Jozo and Nezo.

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.

Very 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 and National Starch are both global businesses, 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 35 percent of revenue is in high growth markets.

Market leadership positions

Pulp and Paper	1	• Bleaching chemicals	2	• Sizing chemicals	3	• Retention chemicals
Industrial Chemicals	1	• Monochloroacetic acid (MCA)	1	• Chlorine merchant (Europe)		• Caustic merchant (Europe)
				• Salt (chemical transformation-Europe)		
Functional Chemicals	1	• Chelates and micronutrients	2	• Redispersible polymer powders, additives for mortar application	3	• Cellulosic specialties
		• Sulfur products				
		• Polysulfides				
		• Ethylene amines				
Surface Chemistry	1	• Industrial applications			3	• Home and personal care
		• Agricultural applications				
Polymer Chemicals	1	• High polymer specialties	1	• Cross-linking thermoset peroxides and additives	2	• Organo-metallic specialties

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
- Nano-particle 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
- Corn
- Ethylene oxide
- Acetic acid
- Polymers
- Sulfur

Price drivers

- Energy, oil and raw materials



AkzoNobel Functional Chemicals

“The start of production at our new facility in Ningbo, China, will add more capacity to serve our customers and will help us to optimize our supply chain.”

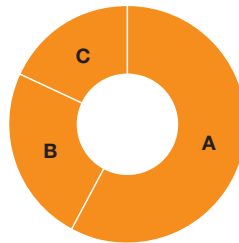
Bob Margevich
Managing Director

Revenue in € millions

2007	1,057
2008	1,147
2009	959

Geo-mix revenue by destination in %

A EMEA	58
B Americas	24
C Asia Pacific	18
	100



Main products

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

Key markets

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

Key brands



AKUCCELL®



Dissolvine®
master the elements

Suprasel®
SALT

JOZO
SALT

ELOTEX®

Overview

Conditions were tough. Our sales volumes were down across all of our business activities. But our pricing held up quite well and, combined with good use of margin management and on average lower raw material costs, we were able to keep our profitability at a higher level than in 2008.

Analysis

We initiated substantial cost saving initiatives, some of which had already been started in the latter part of 2008. Exchange rates were also favorable over the course of the year, thanks to a stronger US dollar and a weaker Swedish krona. In addition, we started selling some of our newer innovative products, which have relatively higher margins. So despite the tough conditions and volumes falling sharply compared with 2008, our EBIT was higher.

Downturn

We were most affected by the global downturn in construction, automotive and mining. Polysulfides was one of the most impacted in terms of volumes. It's used as the insulating material around double and triple paned glass windows and production of those windows nose-dived worldwide. We even felt the pressure in China, certainly in Europe and also the US. There was a slight recovery, but we expect some stabilization before there's any steady improvement. Elotex also experienced tough conditions in Eastern Europe, which is a key strategic region for them, while our Micronutrients business was impacted as well, partly due to the overall demand swing and partly because customers were de-stocking.

Action

Managing our margins was critical to our performance. We noticed the slowdown coming in some of our businesses towards the end of 2008 and we proactively started to restructure and reorganize, especially at Elotex, which we took over as part of the ICI acquisition. Aggressive restructuring took place in Germany, Switzerland and the US. Our Sulfur Derivatives business, especially in Argentina, was also very aggressive, having been impacted by a downturn in the mining industry. Cellulosic Specialties – which is a major supplier to the paint industry – was heavily impacted too and again major restructuring was needed.

Performance

Our Ethylene Amines, Salt Specialties and Chelates businesses performed very well. We are leaders in these markets and due to the diverse applications our products are used in, we perhaps didn't feel the economic pressure as badly in these areas. The strategic growth in most of our product lines is coming from Asia – especially China – as well as India, but this is particularly applicable in the case of our Ethylene Amines and Chelates activities.

Developments

We announced that the company's Polymer Chemicals business will be merged into Functional Chemicals as of January 2010. It's a strong business, and we'll be integrating their activities as two separate businesses alongside our current portfolio of six. We also made good progress with our global sustainability checks and have identified areas where we need to improve, while we are continuing to develop our green chemistry offering. The start of production at our new facility in Ningbo, China, towards the end of the year was another notable highlight, which will add more capacity to serve our customers and will help us to optimize our supply chain.



AkzoNobel Pulp and Paper Chemicals

“The fact that we are a global business – offering the most advanced pulp and paper chemical technology everywhere – was a major advantage and softened the impact of the downturn.”

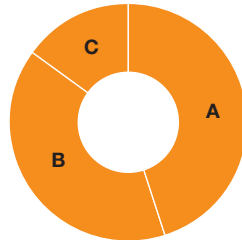
Jan Svärd
Managing Director

Revenue in € millions



Geo-mix revenue by destination in %

A Europe	45
B Americas	40
C Asia Pacific	15
	100



Main products

- Pulp and paper chemicals

Key markets

- Pulp and paper

Key brand



Overview

After a strong ending to 2008 there was a dramatic drop in demand at the beginning of the year, particularly in Europe and North America. Volumes picked up gradually from the second quarter, however, and with the help of careful margin management and substantial cost-reducing measures we had a satisfactory 2009 in terms of performance while maintaining our market share.

Analysis

There was a slow recovery in demand as the year progressed, with the pick up in volumes being led by Asia and South America in the second quarter. However, the recession had a major impact on our activities and we had to cut costs significantly in order to mitigate the loss in revenue. Business improvement projects therefore played a major role, while favorable currency swings during the early part of the year also proved beneficial.

Downturn

The fact that we are a global business – offering the most advanced pulp and paper chemical technology everywhere – was a major advantage and softened the impact of the downturn. Europe and North America suffered the most, but we were helped by the fact that Asia was impacted to a lesser extent, while there was hardly any fall off in volumes in South America. So the major investments we have made in South America in recent years really paid off. Most notably, in April we inaugurated both of our new facilities in Brazil – the Chemical Island at Três Lagoas and the expanded chlorine dioxide plant in Jundiaí – which were an immediate success. Our specialty activities had mixed results. The Kromasil business continued to grow and the Expancel business improved, supported by a substantial productivity program.

Actions

We launched a number of restructuring programs which reduced both capacity and headcount. Our Mo I Rana plant in Norway was closed and we had to shut down production lines in Sweden, France, Finland and the US for part of the year, while in Germany we rationalized our research organization. Various investment projects at customer locations were also delayed or even cancelled due to the economic climate, mainly in Asia and South America.

Developments

We inaugurated two facilities at Suzhou in China, one for our Expancel microspheres and one for Purate production. We also launched a new silica sol, starting in North America, called Eka NP 2180, which has proved to be extremely successful. It's based on a new molecule which offers several major benefits to the customer such as improved efficiency, increased machine speed and, perhaps more importantly, cost savings. This product is now being rolled out in other regions. It was also a very good year for our Compozil Fx concept, which helps our customers achieve extremely high speed and reduces fiber and energy consumption. It was introduced to several new machines in Asia and is ideal for large paper machines. We also made excellent progress with our safety performance this year and, despite the tough economic climate, continued to concentrate on product development focused on reducing fiber use and energy consumption.



AkzoNobel Industrial Chemicals

“The market dynamics vary in each of our activities, but we were able to manage the business under extremely volatile conditions and kept our financials in good shape.”

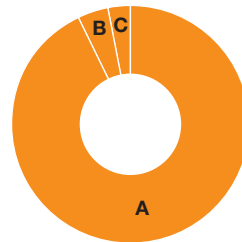
Werner Fuhrmann
Managing Director

Revenue in € millions

2007	877
2008	966
2009	949

Geo-mix revenue by destination in %

A Europe	93
B Americas	4
C Asia Pacific	3
	100



Main products

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

Key markets

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

Key brand



Overview

Our results were adversely affected by the unprecedented drop in demand, although we managed to keep our financial ratios at a relatively healthy level. There was some recovery in volumes towards the end of the year.

Analysis

Early in the year our businesses experienced volume drops of between 15 and 30 percent, mainly due to the downturn in the construction and automotive sectors. During the first few months we maintained relatively good margins due to falling raw material prices and strong sale prices for some of our products. But we later faced margin pressure because of the imbalance in supply and demand. The market dynamics vary in each of our activities, so they were impacted in different ways, but we were able to manage the business under extremely volatile conditions and kept our financials in good shape. Cash management was important and we recorded our lowest ever operating working capital figures both in absolute and relative terms.

Actions

The lack of visibility and economic uncertainty required close attention and we were forced to react to the volume drop. We therefore embarked on a swift and comprehensive profit and cash improvement plan – without losing sight of our customers. This helped mitigate the adverse impact of the drop in volumes significantly, with around half the shortfall in margins being offset by countering actions. One tough decision we took was to close our Skoghall site in Sweden, where our employees have done a tremendous job. This decision involved the closure of the MCA, chlor-alkali and ferric chloride plants, and was mainly triggered by the falling demand in MCA. We concluded that the drop in demand for MCA was not only being caused by de-stocking and recession, there was actually a structural shift to Asia taking place, resulting in diminished European customer

base. We can serve existing MCA demand with fewer sites, so we realigned our global supply chain. We are ramping up our Delfzijl location in the Netherlands (the biggest MCA plant in the world) and completed an ongoing expansion of our Taixing plant in China. So shutting down Skoghall won't affect our customers. Our market position for caustic in the Nordics will be maintained based on imports.

Developments

We integrated our Ecosystems activities into other areas of the organization, largely into Chlor-Alkali. Early in the year we finalized the acquisition of the business and assets of German company LII Europe, which particularly strengthened our position in the European caustic market. In addition, we acquired the remaining shares in the Salinco co-generation unit in Hengelo, the Netherlands. We also made progress with our concept for small salt conversion plants to reduce chlorine transportation, and launched mTA (Fe-meso-Tartrate), an innovative anti-caking agent for salt, which has a better environmental profile than current alternatives.

Sustainability

There's a big challenge for the chemical industry to contribute to some major global issues, notably climate change. This presents opportunities in the areas of green chemistry, new products and carbon capture. As we are at the beginning of the chain, we believe we can play a prominent role. We therefore stepped up our research and innovation efforts, despite the adverse business conditions. Our Carbon Policy was recognized as one of the top three innovations by the Association of the Dutch Chemical Industry (VNCI).



AkzoNobel Surface Chemistry

“Having already restructured over the last few years, we were well prepared for the recession. Subsequently, we fared better than some of our competitors, gaining market share in Europe and South America.”

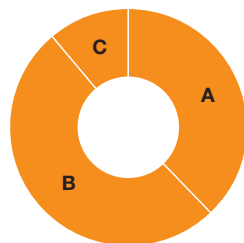
Frank Sherman
Managing Director

Revenue in € millions



Geo-mix revenue by destination in %

A Europe	38
B Americas	51
C Asia Pacific	11
	100



Main products

- Surfactants
- Synthetic and natural polymers

Key markets

- Agriculture
- Asphalt
- Personal care
- Petroleum
- Water treatment
- Household cleaning
- Mining

Key brands

Armeen
Arquad
Berol
Morwet

Amphomer
Navance
Alcogum
Alcospense

Overview

After a difficult start to the year, which was dominated by a dramatic drop in market demand, our shipments began to improve by the third quarter as de-stocking ended and demand started to slowly recover. The sales volume shortfall was partially offset by declining raw material prices and a stringent cost control program. We ended the year close to our 2008 results, a very good performance given the severe economic climate.

Analysis

Our key challenge was to balance cost and cash initiatives by planting the seeds for future growth. Having already restructured over the last few years – which included the successful integration of AkzoNobel’s surfactants business with the specialty polymer activities from National Starch – we were well prepared for the recession. Subsequently, we fared better than some of our competitors, gaining market share in Europe and South America.

Downturn

Our Asian activities were the first to be affected by the recession in mid-2008 and then led the recovery in the second quarter of 2009. The situation was similar but less dramatic in the US, while the recovery in Europe was much slower. A number of the market segments we serve were severely impacted by the recession, including the mining industry, which suffered from lack of infrastructure spending (iron ore). Paper production (calcite) and fertilizer use (potash) were also affected. Oil and gas drilling dropped by half, while agrochemical sales fell during the first half year when there was de-stocking throughout the value chain. Asphalt road paving had a slow start due to weather conditions, but picked up later in the year thanks to government stimulus spending. Consumer-based markets, such as personal care, fabric care and home care, were less impacted and even grew during the year.

Actions

Operating costs were lowered further with a salary and hiring freeze, along with staffing level adjustments to align capacities with demand. Inventories and receivables were also trimmed to reduce working capital.

Developments

In the middle of the economic storm we developed a new winning strategy for the future based on three technology platforms – surfactants, synthetic polymers and biopolymers – and a consumer intimacy business model. We aim to drive growth by promoting sustainable solutions, investing in high growth regions and pursuing bolt-on acquisitions and alliances. Sustainability is a growth driver as well as differentiator, with nearly 50 percent of our product sales based on renewable feedstocks.

During 2009, we introduced several new products, including asphalt additives that enable road paving at lower temperatures, thus saving energy and reducing VOC emissions. We commercialized biopolymer hair gels and developed starch-based oil and gas well fracturing fluids. In the meantime, our operations have improved by obtaining third party verification of the Responsible Care® management systems at all our manufacturing sites. Emissions were reduced beyond regulatory requirements through the use of enhanced vapor recovery systems and high efficiency thermal oxidizers. Diligent implementation of behavior-based safety processes also resulted in a significant improvement in safety performance, with a record low total recordable injury rate of less than 1.0 injury per million work hours. Our people are passionate about our business and excited about the future.



AkzoNobel Polymer Chemicals

“We kept ourselves relevant and competitive in the market and responded very well to the global downturn.”

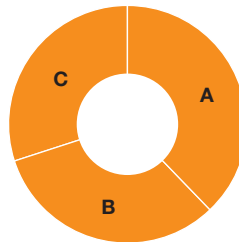
Alan Kwek
Managing Director

Revenue in € millions

2007	524
2008	521
2009	521

Geo-mix revenue by destination in %

A EMEA	38
B Americas	32
C Asia Pacific	30
	100



Main products

- Organic peroxides
- Metal alkyls
- Thermosets and elastomers

Key markets

- Plastics
- PVC

Key brands



Butanox

TrigonoX
Perkadox

Overview

We had a very slow start to the year, but there was a major improvement during all of the remaining three quarters, notably Q3, when we posted a record profit. Overall, our results for the year were back to pre-crisis levels. We kept ourselves relevant and competitive in the market and responded very well to the global downturn.

Analysis

We were very effective at taking out costs and improving our margins. Crucially, we reacted very quickly to the recession. By mid-2008, we'd already started a cost reduction and business improvement program. This allowed us to continue serving our customers well and prepared us to take full advantage of any renewed growth. We also started taking a more holistic approach, reorganizing and changing the business model and substantially reducing our credit risk. In addition, this was the first full year that the 2008 Jiangsu QiangSheng deal contributed to our results. Combined with acquiring a majority interest in our Kayaku Akzo Co. Ltd (KAC) joint venture – which we completed in January 2009 – we saw a positive impact in terms of the top line. The KAC transaction was a strategic deal which gives us a good position in Japan and we believe we can still realize a lot of synergies.

Downturn

We serve a lot of industries involved in the housing, durable goods and automotive sectors and these nose-dived once the recession kicked in. Our High Polymer Specialties (HPS) business suffered most, because it mainly supplies PVC manufacturers, with most of the PVC produced going into housing and infrastructure. Our Cross-Linking Peroxides business was also impacted, although to a lesser extent, because it serves a wide variety of sectors, while our Organometallic Specialties (OMS)

activities were the least affected because they are more geared towards consumer markets such as polyethylene, rubber tires and food packaging. By the second half of the year there were signs of a recovery in the US, while Asia – especially China – recovered earlier. We have a good presence in Asia thanks to our focus on the BRIC countries and these regions made an important contribution to our profit levels.

Action

We reduced the complexity of the business and reorganized to focus resources more on our customers. This included merging our HPS and OMS activities. They were sharing a lot of common customers and used the same sales forces in some parts of the world, so it didn't make sense to have two separate businesses. We were therefore able to take out a whole layer of costs and have made our organization much stronger.

Developments

Our patented continuous initiator dosing (CID) technology – which helps increase PVC reactor capacity – continued to gather momentum. We secured a number of European contracts by the end of the year within the PVC market and are now looking to expand into the expandable polystyrene (EPS) market. There are clear opportunities for a further roll-out of this technology into the US and Asia and this will enable us to further differentiate ourselves from our competitors. Sustainability remained a key priority throughout the year, with good progress being made in several areas, notably on customer testing of the new, heavy metal-free corrosion protection technology – known as Fuzebox – which we are developing. It was also announced that Polymer Chemicals will be merged into the Functional Chemicals business unit. This is a move which will streamline the organization and make our business even more cost competitive.



Chemicals Pakistan

Waqar A Malik
Chief Executive ICI Pakistan
Chairman Pakistan PPTA

Revenue in € millions

2007	504
2008	470
2009	377

Main products

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

Chemicals Pakistan

Chemicals Pakistan is part of AkzoNobel's 75.8 percent stake in ICI Pakistan Limited, a listed company in Pakistan (the company's stake in Pakistan PTA Limited was divested during 2009). The company focuses primarily on the Pakistan domestic market and has a diversified portfolio, serving a broad industrial spectrum. Main products include soda ash, polyester fiber, pharmaceutical and agricultural products and a host of specialty chemicals.

Overview

Despite a difficult business environment, Chemicals Pakistan out performed 2008 in local currency, mainly due to higher volumes in the Polyester and Life Sciences businesses. Margin management and other operational efficiencies also contributed to a 15 percent improvement in EBITDA in local currency.

During 2009, AkzoNobel divested its 75.8 percent stake in the PTA activities of the Chemicals Pakistan business to Korean company KP Chemical Corporation (KPC). The holding in Pakistan PTA Limited was acquired by AkzoNobel in 2008 as part of its acquisition of ICI.



National Starch

James P. Zallie
Managing Director

Revenue in € millions

2007	813
2008	894
2009	878

Main products

- Specialty starches

Key markets

- Food
- Papermaking
- Industrial

Key brand



National Starch

National Starch is the leading global supplier of specialty starches, with a principal focus on supplying the food industry. We also serve niche papermaking markets and supply high value industrial starches for use in a variety of other consumer and industrial products and processes.

Overview

The global corn wet milling industry experienced tough trading conditions in 2009, primarily caused by increased net corn costs. This was brought about by a collapse in by-product pricing and soft demand in both industrial and food sectors. The decline in demand in the food segment was prompted by a combination of factors, including de-stocking across customers' supply chains, rationalization of brands and changes in consumer choices regarding eating away from the home. The papermaking segment experienced a more pronounced decline due to its more cyclical nature and negative market drivers.

National Starch recovered from the softness in sales and finished 2009 strongly, with overall sales in line with the previous year. High input costs and unfavorable currencies were a dominant theme in 2009 and they impacted margins. Overall, costs were well controlled as a result of focused profit protection plans, including staff reductions and the closure of a manufacturing facility. We performed strongly on cash delivery due to a focused working capital reduction program.

Strategic progress was also made in expanding our market leadership position. We acquired the Australian specialty starch business of Penford to strengthen our supply network in support of the growing Asia-Pacific markets. We also launched innovative food texture solutions, a major factor in the consumer appeal of new products. Work in understanding the science of texture earned us an innovation award at the Institute of Food Technologists Food Expo in the US, while we also picked up the prestigious Food Innovation of the Year Award at the Food Ingredients Europe Expo.

The ability of our specialty starches to replace synthetic compounds is a source of new market opportunities, particularly as manufacturers seek to raise the levels of sustainable content in their products and packaging.

We continued our strong HSE performance, earning recognition for two of our largest facilities from our peer trade group in the US. In Thailand, we received the Outstanding Labor Relations and Welfare Award from the Thai Ministry of Labor and Welfare for our commitment to safety, fair and equal treatment and employee development. In addition, 2009 saw significant activity and progress towards the completion of the self-sufficiency agenda which separates National Starch from the former ICI infrastructure.



Cleaner and greener

Customers and regulatory bodies around the world are making increasing demands for products with better environmental profiles. Which is why we try to stay one step ahead when it comes to developing new technologies for the markets we serve.

A prime example is Berol ENV226, supplied by our Surface Chemistry business. It's a new generation of readily biodegradable materials which can be used as the key cleaning component in powerful, water-based degreasers/cleaners. It's commonly used in products such as vehicle cleaners, all-purpose cleaners, façade cleaners and many other industrial cleaning products.

"The new generation of the well-known Berol 226 line has allowed me to continue providing excellent cleaning while meeting the regulations of the European Union and the need for products that are better for the environment," said K.G. Wangel, Managing Director of distributors AmphoChem.

Based on a special process for surfactants, one of the secrets of the Berol ENV226 system lies in its ability to remain highly effective, even after diluting.



AmphoChem



Building on a relationship

Sustainability is not only a top priority for AkzoNobel, it's also essential to most of our customers. This shared commitment to safeguarding the environment was brought into sharp focus when leading building material producers Knauf wanted to develop hydrophobizing solutions for their gypsum building systems.

Their researchers worked together with our Elotex business and the result was Elotex BNSEAL712, a water repellent in powder form which enables Knauf to extend the technical performance, water resistance and durability of its innovative gypsum building products.

“By combining our own know-how and the technology developed by Elotex, it's now possible to market complete eco-designs in Europe for wet areas (kitchens, bathrooms, cellars) based on environmentally-friendly and water-resistant building systems,” said Joachim Haas, R&D Head of Department Plasters and Joint Compounds at Knauf.

“It also offers numerous advantages for both professional and seasonal applicators, such as reducing the complexity and cost of applying wall systems.”

Gypsum is an infinitely recyclable and low energy intensive building raw material which is playing an increasingly important role in the reduction of carbon emissions in the construction and building environment.

KNAUF

Governance and compliance

In this section we introduce our Supervisory Board and present their Report for 2009, 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.

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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 2009, as prepared by the Board of Management and approved by the Supervisory Board in its meeting of February 16, 2010.

The 2009 financial statements were audited by KPMG Accountants N.V. and the Auditor's Report appears on page 129. 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 2009 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 2009 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 2009 financial statements as presented in this 2009 Report. We recommend that the Annual General Meeting of shareholders resolves that the total dividend for 2009 on each of the common shares outstanding will be €1.35 and that this amount, less the interim dividend of €0.30 which was payable in November 2009, will be payable on May 11, 2010. Additionally, we request that shareholders discharge the members of the Board of Management of their responsibility for the conduct of business in 2009 and the members of the Supervisory Board for their supervision of management.

Supervisory Board activities

The Supervisory Board met six times during 2009, including a one-day meeting fully dedicated to the company's strategy. All meetings were plenary sessions with the full Board of Management present. These meetings were also attended by all the Supervisory Board members. 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 2009, 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

Main 2009 activities

- Advising the Board of Management during the economic downturn
- Strategic discussions at company and Business Area level
- Human resources and succession planning
- Board visit to India.

risks and the mechanisms for controlling financial risks. Other topics included:

- Integration of ICI
- Additional cost savings at the company
- Governance of the company, including the implementation of the new Dutch Corporate Governance Code (the "Code")
- Risk management
- Sourcing
- Strategy for the company in certain high growth economies
- Operating working capital management
- Human resources and succession planning
- Sustainability
- 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 2009, the full Supervisory Board and Board of Management met in India. The visit included meetings with local management, customers, suppliers and other stakeholders, as well as a tour of AkzoNobel's Bangalore multi-site.



1 Karel Vuursteen

(1941, Dutch) Chairman
Initial appointment 2002
Current term of office 2006 – 2010

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 Boards of ING Group and Henkel AG.

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

2 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 Boards of Solvay SA, Umicore SA and Kali + Salz AG; non-executive Director of SunPower Inc.

3 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 Ray & Berndtson; Trustee of the Economist newspaper.

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

4 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

5 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 Scania AB, Axfood AB, Syngenta AG, Husqvarna AB and Diageo plc; Chairman of the Board of Directors of Lancelot Asset Management; Director of Axel Johnson AB; Governor of Stockholm School of Economics; Chairman of the Swedish National Agency for Higher Education.

- Member of the Audit Committee

6 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

7 Antony Burgmans

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

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

8 Louis Hughes

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

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 AG and Alcatel-Lucent SA; Executive Advisor of Wind Point Partners.

- Member of the Audit Committee

The Board of Management keeps the Supervisory Board regularly informed of intended organizational changes and appointments of senior managers. The main topic for the Supervisory Board meeting in October 2009 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 Code, which ensures that its composition better reflects 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.

On February 23, 2009, Mr. Van den Bergh resigned as Chairman of the Supervisory Board and Mr. Vuursteen was appointed Chairman with immediate effect. On March 5, 2009, Mr. Bufe was appointed Deputy Chairman. The terms of office of Messrs. Vuursteen, Burgmans and Hughes expire on May 1, 2010. Messrs. Vuursteen, Burgmans and Hughes are available for reappointment. It will be proposed at the 2010 Annual General Meeting of shareholders that Messrs. Vuursteen, Burgmans and Hughes should be reappointed for a second term of four years.

Audit Committee

The Audit Committee consists of three members and is chaired by Mr. Van den Brink. With effect from March 5, 2009, Mr. Bufe resigned from the Audit Committee. On the same date, Mrs. Bruzelius was appointed as a member of the Audit Committee. Seven meetings were held during 2009. As a rule, the CEO, the CFO, the director of corporate 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
- The company finance policy
- Operating working capital management
- Tax strategy
- Compliance at the company.

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. Mr. Ellwood was appointed to the Remuneration Committee with effect from March 5, 2009. Four meetings were held in 2009. Recommendations were made on the remuneration and remuneration policy for members of the Board of Management, including personal targets. Information on the remuneration of the Board of Management and the Supervisory Board can be found on pages 115 onwards in the Supervisory Board's remuneration report.

Nomination Committee

The Nomination Committee consists of four members and is chaired by Mr. Vuursteen. Messrs. Burgmans and Ellwood were appointed as members with effect from March 5, 2009. During the year, proposals were made for the reappointment of Messrs. Vuursteen, Hughes and Burgmans to the Supervisory Board.

Changes in the composition of the Board of Management

At the 2009 Annual General Meeting of shareholders, Mr. Gunning was appointed to AkzoNobel's Board of Management for a four-year term, commencing May 1, 2009.

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 2009.

Amsterdam, February 16, 2010

The Supervisory Board

Corporate governance statement

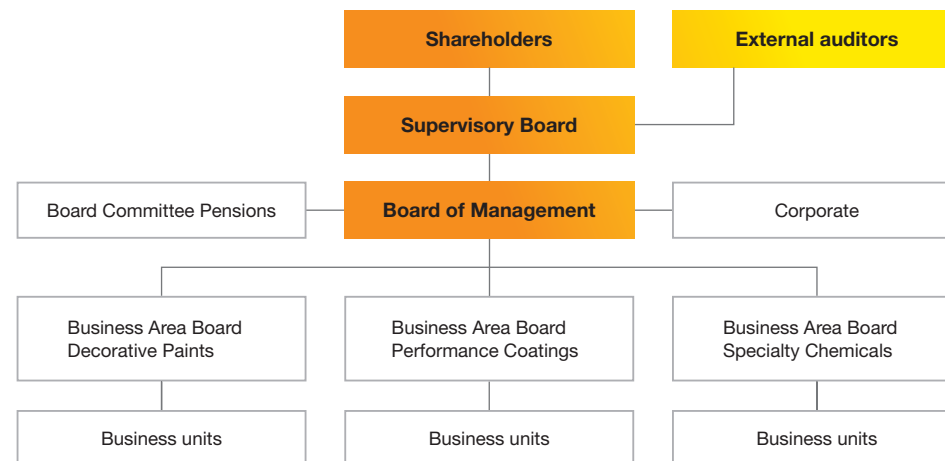
Akzo Nobel N.V. is a public limited liability company (“Naamloze Vennootschap”) established under the laws of the Netherlands. Its common shares are listed on NYSE Euronext Amsterdam. The company’s management and supervision structure is organized in a so-called two-tier system, comprising a Board of 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

Governance structure



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
- Corporate Directives and Policies
- Authority schedules

discussion. This specifically included a number of aspects where our corporate governance deviates from the Code, as explained in the 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, most 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 in this 2009 Report. The introduction of a claw back provision (in accordance with the Code's provision II.2.11) will be initiated by proposing an amendment to the remuneration policy on this subject at the 2010 Annual General Meeting of shareholders.

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 here, 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, which means that – among other responsibilities – members define the strategic direction, establish the policies and manage the company's day-to-day operations. They collectively manage the company and are responsible for its performance. Members are jointly and individually accountable for all decisions made by 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 Board of Management is guided by the interests of the company and its affiliated enterprise, taking into consideration the relevant interests of the company's stakeholders. Board of Management meetings are held once a fortnight.

The Chief Executive Officer (CEO) leads the Board of Management 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 Board members with specific responsibility for their activities and performance. To safeguard consistency and coherence for the total organization, the Board of Management has established corporate directives.

To effectively steer the strategy of our businesses and their operations, the Board of Management 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 Board of Management 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 Board of Management jointly. Corporate agents may be appointed, whose powers of attorney will be determined by the Board of Management.

The tasks and responsibilities, as well as internal procedural matters for the Board of Management, are addressed in the Rules of Procedure for the Board of Management. These Rules of Procedure have been adopted 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.

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 66). 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.

Members of the Board of Management are allowed to hold a maximum of two supervisory board memberships or non-executive directorships in other listed companies. This is in line with the Code (provision II.1.8). The exception to this rule is that in the year prior to their retirement, Board of Management members are allowed to hold more than two supervisory board memberships or non-executive directorships 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 Board of Management. Acceptance of external supervisory board memberships or non-executive directorships is subject to approval by the Supervisory Board, with authority having been delegated to the Chairman of the Supervisory Board. During 2009, Mr. Wijers was appointed a non-executive Board Member of Royal Dutch Shell plc, while Mr. Frohn was appointed 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 is governed by the Rules of Procedure for the Board of Management. Decisions to enter into transactions under which Board of Management members have conflicts of interests 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 2009, 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 composition of the remuneration of Board of Management members, and the remuneration policy itself, are described in the Remuneration Report (see page 67) and the Financial Statements (see note 23 on page 115).

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 73).

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 Board of Management to ensure adequate and timely disclosure of material financial and non-financial information.

Though not subject to SOX requirements, an "in-control" department is operational to secure compliance.

Reference is made to the Board of Management's report (see page 8) 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 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 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 outlined above for the members of the Board of Management (see page 62). 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. 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 2009, 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. From May 1, 2006, to February 23, 2009, the Supervisory Board was chaired by Mr. Van den Bergh. On February 23, 2009, Mr. Vuursteen was appointed Chairman of the Supervisory Board.

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 on page 67.

Board appointments 2009:

- Mr. Vuursteen was appointed Chairman of the Supervisory Board
- Mr. Bufe was appointed Deputy Chairman of the Supervisory Board
- Mr. Burgmans was appointed Chairman of the Remuneration Committee
- Mrs. Bruzelius was appointed a member of the Audit Committee
- Mr. Ellwood was appointed a member of both the Nomination Committee and the Remuneration Committee
- Mr. Gunning was appointed a member of the Board of Management.

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 oversight 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, 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 and Supervisory Board are subject to the AkzoNobel Rules on Inside Information and Insider Trading, which limit 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.

Certain employees are subject to the same limitations under the AkzoNobel Rules on Inside Information and Insider Trading.

The AkzoNobel Rules on Inside Information and Insider Trading state 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 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 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. The Board of Management has adopted a Financial Code of Ethics for senior financial officers. Certain designated persons, including the CEO and the CFO, have to confirm annually in writing that they have adhered to this code. The Financial Code of Ethics can be found on our corporate website.

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, 2009, a total of 232,253,633 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, 2009, AkzoNobel had been notified by Capital Research and Management Company that their participation in the company's share capital was more than 10 percent, while Paulson & Co informed us 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 62) 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, 2009, authorized the Board of Management for the 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 may influence the share price, 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 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 62), 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 2009, including amendments proposed by the Supervisory Board for 2010.

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 amended in 2006, 2008 and 2009.

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 mid and long-term 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 keeping 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
- Philips
- Randstad
- Reed Elsevier
- Rhodia
- Royal Ahold
- Royal DSM
- Royal KPN
- Solvay
- TNT
- Wolters Kluwer

The Remuneration Committee 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.

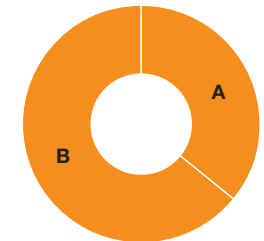
Furthermore, all members of the Board of Management are entitled to other benefits – such as a company car and representation allowance – which are needed for carrying out their duties and which are in line with market norms.

For communication purposes, the table on the next page presents a summarizing overview of the remuneration of the current members of the Board of Management. Reference is made to note 23 on page 115 of the Financial statements for more details.

In 2009, the value of fixed and variable cash components at target levels breaks down as follows:

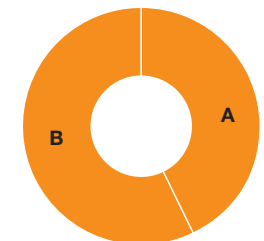
CEO in %

A Base salary	36
B Variable compensation	64
	100



Board members in %

A Base salary	43
B Variable compensation	57
	100



Compensation overview members of the Board of Management 2007 – 2009

Amounts in €	Year	Base salary	Short-term incentive ¹	Share awards ²	Option awards ²	Pension premium paid	Other emoluments	Other compensation	Total remuneration
Hans Wijers Chief Executive Officer	2009	760,000	464,000	678,400	99,200	458,400	4,100	–	2,464,100
	2008	760,000	700,000	485,900	161,500	565,600	4,500	–	2,677,500
	2007	705,500	1,036,500	435,000	200,100	557,900	4,000	–	2,939,000
Leif Darner Board member Performance Coatings	2009	570,000	339,300	481,500	65,100	208,600	4,100	147,800	1,816,400
	2008	570,000	340,000	325,500	105,900	291,400	4,600	169,300	1,806,700
	2007	504,000	450,000	287,000	131,000	228,400	4,000	126,700	1,731,100
Rob Frohn Board member Specialty Chemicals	2009	570,000	339,300	481,500	65,100	146,000	6,900	47,500	1,656,300
	2008	570,000	340,000	325,500	105,900	156,200	7,200	–	1,504,800
	2007	504,000	450,000	287,000	131,000	149,800	6,500	34,600	1,562,900
Tex Gunning³ Board member Decorative Paints	2009	380,000	226,200	277,600	–	88,900	2,700	–	975,400
Keith Nichols⁴ Chief Financial Officer	2009	570,000	339,300	382,500	18,200	124,700	112,700 ⁴	58,700	1,606,100
	2008	380,000	226,700	131,300	25,000	57,600	45,200	36,900	902,700

¹ Actual short-term incentive disclosed relates to the performance in the financial year. The figures for 2009 are the non-deferred amounts (see also page 69).

² Costs are non-cash and relate to the expenses following IFRS 2.

³ As from May 1, 2009.

⁴ Social charges 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

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

The target values for the shares are average expected values over the longer term. The maximum percentage for shares assumes that the share price remains unchanged.

Base salary

The base salaries of members of the Board of Management remained unchanged in 2009.

Short-term incentive

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.

At the 2009 Annual General Meeting of shareholders, the remuneration policy was amended. 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. This change is meant to ensure that short-term incentive measures are also aligned with AkzoNobel's stated EBITDA goals as part of the company strategy. 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.

On the outcome of the three short-term incentive elements (EVA, EBITDA and personal), the Supervisory Board applies an overall rating based on the principles of the Performance and Development Dialog, an appraisal system implemented throughout AkzoNobel in 2005. 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, as introduced in January 2005.

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 section which starts on page 8 for the actual 2009 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 and are derived from the budget. The maximum 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. 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 these targets. However, the targets included goals set with respect to guiding the company through the crisis, increasing operational effectiveness, management development and the integration of ICI.

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.

The Board of Management and the Supervisory Board have considered the company's 2009 results in light of the current economic climate and the need to find the right balance between short and long-term incentives. As a result, they have decided to strengthen the link between the remuneration of the Board of Management and the medium and long-term targets of the company. Therefore, Mr. Hans Wijers, CEO, will defer receipt

of 50 percent of his short-term incentive for 2009. Receipt of this deferred payment will be subject to the company achieving its medium-term target of an EBITDA margin of 14 percent by the end of 2011. The remaining members of the Board of Management will defer receipt of 25 percent of their short-term incentive for 2009 subject to the same condition. During the course of 2010, the Remuneration Committee will reflect further on current policy and the balance between short and long-term compensation and the company's targets.

Long-term incentive

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. The actual number of options which the Board of Management receives depends 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 is 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 is used to encourage EVA performance over a longer period of time.

Stock options will not vest below 80 percent of the targeted EOI. The number of options conditionally granted is also the maximum number of options that vest upon achieving the targeted performance. If targeted performance is exceeded, there will be no increase in the number of options that vest. The specific targets have not been disclosed as they qualify as commercially sensitive information.

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 will become 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 to executives 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 will conditionally be 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, an amendment to the remuneration policy which introduced a sustainability element was proposed, and was subsequently approved by shareholders. This amendment states that, as of 2009, 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 would dilute 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 2009.

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.

As of 2007, the relative TSR performance has been compared with the following peer group:

- Arkema group
- BASF
- Ciba Specialty Chemicals
- Dow Chemical Company
- DuPont
- Hercules
- Kansai Paint
- Kemira OYJ
- PPG Industries
- RPM Industrial
- Sherwin-Williams
- Valspar Corporation

In order to reflect both the delisting of Ciba Specialty Chemicals and Hercules, as well as the conclusion that the former peer group did not properly reflect the competitive environment in which we operate, the Supervisory Board decided to amend the peer group to be applied from 2009 onwards. Ciba Specialty Chemicals and Hercules have been replaced by Rhodia and Nippon Paint in the peer group from 2009 onwards. Considering the profile of Dow Chemical Company and BASF, the Supervisory Board decided to remove these companies from the peer group as of 2009.

As of 2009, our peer group has therefore been determined by the Supervisory Board as follows:

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

The following TSR vesting schemes apply for the conditional grants as of 2007 and 2009 respectively:

Rank	Vesting (as % of conditional grant)	Rank	Vesting (as % of half of conditional grant)
As from 2007		2009 onwards	
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%		

The vesting schedule changed due to the peer group adjustment, ensuring that targets are no more difficult or easier to achieve. The value of the share and the threshold criteria did not change.

AkzoNobel's performance over the period 2007 to 2009 resulted in a second position within the ranking of the peer group companies. Consequently, the final vesting percentage of the 2007 grant equaled 135 percent, resulting in a definitive grant of shares (including the compounded dividend yield until December 31, 2009 – 11.69 percent) of 34,680 shares for the CEO and 22,768 shares for the other members of the Board of Management, except for Mr. Nichols, who received a definitive grant of 6,408 shares, it being noted that this conditional grant was made when Mr. Nichols was not yet a member of the Board of Management. Mr. Gunning has received a conditional grant of shares from 2008 onwards.

The number of performance-related shares conditionally granted in 2009 amounted to 36,600 for the CEO and 27,400 for the other members of the Board of Management (face value method).

For the grants not yet vested, the following TSR performance can be reported:

- For the two-year period ending 2009, AkzoNobel's position is eighth (indicative)
- For the one-year period ending 2009, AkzoNobel's position is fourth (indicative).

In accordance with provision II.2.13d) of the Dutch Corporate Governance Code, the schedule on the following page 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.

As stated in our 2007 Annual Report, the Supervisory Board has considered remuneration criteria which would apply in a change of control situation. It has been 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.

The Supervisory Board will propose to the 2010 Annual General Meeting of shareholders that a claw back provision be included in the remuneration policy for the Board of Management. This provision will provide 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. The members of the Board of Management have agreed to accept this proposed claw back provision.

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 in 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. Members of the Board of Management normally retire in the year that they reach the age of 62.

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 for 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 62). 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.

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.

Valuation¹ shares Board of Management**Unconditional shares, vested**

Number of shares	Series 2004 – 2006						Series 2005 – 2007					
	Conditional share grant		Number of vested shares		End of lock up period (2009)		Conditional share grant		Number of vested shares		End of lock up period (2010)	
	Number	Value at grant	Total	Value at vesting	Number	Value	Number	Value at grant	Total	Value at vesting	Number	Value
Hans Wijers	33,000	1,009,800	14,596	674,043	14,596	429,706	33,000	1,035,540	35,898	1,966,851	26,548	1,231,827
Leif Darner	22,000	673,200	9,731	449,378	7,236	213,028	22,000	690,360	23,932	1,311,234	20,342	943,869
Rob Frohn	22,000	673,200	9,731	449,378	9,731	286,481	22,000	690,360	23,932	1,311,234	11,794	547,242
Number of shares	Series 2006 – 2008						Series 2007 – 2009					
	Conditional share grant		Number of vested shares		End of lock up period (2011)		Conditional share grant		Number of vested shares		End of lock up period (2012)	
	Number	Value at grant	Total	Value at vesting	Number	Value	Number	Value at grant	Total	Value at vesting	Number	Value
Hans Wijers	23,000	900,450	17,536	516,260	8,656	NA	23,000	1,062,140	34,680	1,609,152		NA
Leif Darner	15,100	591,165	11,531	339,473	7,470	NA	15,100	697,318	22,768	1,056,435		NA
Rob Frohn	15,100	591,165	11,531	339,473	11,531	NA	15,100	697,318	22,768	1,056,435		NA
Keith Nichols	4,198	164,352	3,055	89,939	1,943	NA	4,250	196,265	6,408	297,331		NA

Conditional shares¹, not vested

Number of shares	Series 2008 – 2010		Series 2009 – 2011	
	Conditional share grant at target		Conditional share grant at target	
	Number	Value at grant	Number	Value at grant
Hans Wijers	16,800	920,472	36,600	1,077,504
Leif Darner	11,600	635,564	27,400	806,656
Rob Frohn	11,600	635,564	27,400	806,656
Keith Nichols	8,733	478,481	27,400	806,656
Tex Gunning	3,867	211,873	27,400	806,656

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

Overview performance-related stock options Board of Management

Number of shares	2006 – 2013				2007 – 2014	
	Conditional stock option grant	Fair value at grant	Number of vested stock options	Intrinsic value at vesting ¹	Conditional stock option grant	Fair value at grant
Hans Wijers	19,800	195,200	19,800	nil	19,800	235,224
Leif Darner	13,000	128,200	13,000	nil	13,000	154,440
Rob Frohn	13,000	128,200	13,000	nil	13,000	154,440
Keith Nichols	3,000	29,600	3,000	nil	3,750	44,550

¹ 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 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 the Board of Management's statement on page 15).

AkzoNobel risk management framework

Through our risk management framework, shown on the right, 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 management in 2009

Scoping of our 2009 risk management activities was performed by the Board of Management, business unit Managing Directors and Corporate Directors, in association with the risk management function. The emphasis has been on completing the integration of the former ICI into the AkzoNobel risk management framework. In addition, we improved guidance on risk appetite and enhanced the use of risk knowledge for trend reporting.

During 2009, we held more than 100 facilitated Enterprise Risk Management workshops, while a large number of self-assessments were carried out with business and corporate management and with project teams. 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. More than 5,000 risk scenarios were identified and prioritized by the responsible managers, their management teams and functional experts. All major risks were responded to by the unit that identified them. The outcome of all risk assessments was reported to the next higher management level as part of our Business Planning and Review cycle. Risk profiles 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, resulting from risk consolidation and the subsequent risk assessment by the Board of Management, are presented on the following pages.

The risks related to adaptation to economic conditions, operations in international environment and access to funding became more apparent during the course of 2009.

AkzoNobel risk management framework



Major risk factors

Under the explicit understanding that this is not an exhaustive list, the major risk factors that may prevent full achievement of our 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 in the table on the right, 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)

Objectives	Cause	
	Internal	External
Strategic	Risk <ul style="list-style-type: none"> • Implementation of strategic agenda • Identification of major transforming technologies • Integration of acquisitions 	Risk <ul style="list-style-type: none"> • Adaptation to economic conditions Top five risk • Operations in international environment Top five risk • Assuring stakeholder support
Operational	Risk <ul style="list-style-type: none"> • Attraction and retention of talent • Management of change • Production process risks 	Risk <ul style="list-style-type: none"> • Differentiation in energy pricing Top five risk • Sourcing of raw materials • Environmental liabilities • Product liabilities
Financial		Risk <ul style="list-style-type: none"> • Contribution to pension funds Top five risk • Access to funding Top five risk • Decline of asset values • Fluctuations in exchange rates
Compliance		Risk <ul style="list-style-type: none"> • Complying with laws and regulations

Strategic risks

Internal

Risk	Risk corrective actions	
<p>Implementation of strategic agenda A failure to properly and fully implement our strategic agenda could adversely affect our company and its businesses.</p>	<p>The appropriateness of our strategic agenda, our performance against this agenda and our governance structure is continuously monitored by the Board of Management 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, high growth markets, political risks, acquisition and divestment opportunities.</p>	<p>Risks are minimized as we operate in attractive industries, have global leading positions and have the right management team in place to deliver on our ambitious targets. Remuneration systems are tied to performance against key strategic agenda items. For example, our long-term executive bonuses are partly linked to the relevant Dow Jones Sustainability Index (see Remuneration report starting on page 67).</p>
<p>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.</p>	<p>We continuously aim for the sustainable growth of our businesses through research and development, production and sale of new products and regularly add new businesses and technologies through selective alliances, ventures, or acquisitions.</p>	<p>We have a global approach to innovation and are committed to sustainability at all levels. Despite the economic downturn, we maintain stable R&D expenses. Our emphasis is on focused, bigger and bolder innovation.</p>
<p>Integration of acquisitions We may not be successful in integrating acquired businesses and not reach the full synergy effects.</p>	<p>Our company continues to participate in industry consolidation. We place a strong focus on integration of acquisitions as this is critical to achieve the expected results. Our policies and directives are implemented without delay in newly-acquired businesses.</p>	<p>We are committed to delivering synergies and retaining key personnel. Individuals who are central to acquisition implementation are incited accordingly.</p>

External

Risk	Risk corrective actions	
<p>Adaptation to economic conditions – Top five risk Failure to adapt adequately and in time to economic conditions can have a harmful impact on our business and results of operations.</p>	<p>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. For planning and budgeting we apply various scenarios to be best prepared for further changes in economic conditions.</p>	<p>Focus continues to be placed on customers, cost reduction and cash generation actions so that we are well positioned to meet the current challenges and will be in good shape to take advantage of the recovery when it comes.</p>
<p>Operations in international environment – Top five risk 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.</p>	<p>We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Unfavorable political, social or economic developments and developments in laws, regulations and standards could adversely affect our businesses and results of operations.</p>	<p>Political, economic and legislative conditions are carefully monitored. The Board of Management decides on the countries and industry segments in which AkzoNobel conducts its business.</p>
<p>Assuring stakeholder support Failure to maintain the support of our stakeholders for our strategy and its execution could adversely affect our company and its businesses.</p>	<p>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</p>	<p>our suppliers, providing competitive returns to our investors, creating an attractive working environment for our people and conducting all our activities in the most socially responsible manner.</p>

Operational risks

Internal

Risk	Risk corrective actions
<p>Attraction and retention of talent Our ambitious growth plans may not be achieved if we fail to attract and retain the right people.</p>	<p>Without our people we would not have a business. Growing our business calls for the need to develop 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 Human Resources instruments such as performance appraisals, the employee survey and leadership identification and review, as well as leadership development.</p> <p>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 Board of Management (see Remuneration report, page 67), ensures that employees are not encouraged to act in their own interest and take risks that are not in keeping with the company's strategy and risk appetite.</p>
<p>Management of change If our management of change is not adequate, this could have a negative affect on productivity and customer focus.</p>	<p>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.</p> <p>Senior management is involved in the management of critical projects that are prioritized and supervised by the Board of Management.</p>
<p>Production process risks Risks in production processes can adversely affect our results of operations.</p>	<p>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).</p> <p>We have implemented enhanced process safety, asset integrity and occupational health standards and also improved the Health, Safety, Environment and Security audit process in 2009.</p>

External

Risk	Risk corrective actions
<p>Differentiation in energy pricing – Top five risk Differences in energy prices pose a risk to the competitiveness of several of our chemical businesses.</p>	<p>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.</p> <p>We are implementing our Carbon Policy, working on energy efficiency programs and investing in energy from waste and biomass. We have hedging policies for energy contracts and have long-term purchase contracts in place (see note 24 on page 119).</p>
<p>Sourcing of raw materials Inability to access raw materials, growth in cost and expenses for raw materials, energy and changes in product mix may adversely influence the future results of our company.</p>	<p>We are sensitive to price movements that may lead to erosion of margins and allow product substitution. We may also be impacted by business interruption or product discontinuation at one 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, under the best conditions.</p> <p>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.</p>
<p>Environmental liabilities Our businesses will continue to expose us to risks of environmental liabilities.</p>	<p>We use, and have in the past used, hazardous materials, chemicals and biological and toxic compounds in several product development programs and manufacturing processes. 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 property damage claims resulting therefrom.</p> <p>Regulations and standards are becoming increasingly stringent. We are committed to conducting all our activities in the most socially responsible manner and contingency plans and assignment arrangements are in place to seek to mitigate these risks. In addition, our policy is to accrue and charge against earnings environmental clean-up costs when it is probable that a liability has materialized and an amount can be reasonably estimated (see also note 21 on page 113).</p>
<p>Product liabilities Product liability claims could adversely affect our company's business and results of operations.</p>	<p>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.</p>

Financial risks

External

Risk	Risk corrective actions	
<p>Contribution to pension funds – Top five risk Various external developments may affect assets and liabilities of pension funds, causing higher post-retirement charges and pension premiums payable.</p>	<p>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.</p>	<p>We measure and monitor our pension risks frequently and adopt investment strategies designed to reduce financial risks. We are committed to further de-risking over time. Pension activities are overseen by the Board Committee Pensions (see note 17 on page 108).</p>
<p>Access to funding – Top five risk Inability to have access, control and visibility of liquidity by AkzoNobel and/or its partners in the value chain may have an adverse affect on our business and results.</p>	<p>Our debt profile is 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 on page 119).</p>	<p>We are committed to maintaining strong investment grade credit ratings. Ratings at year-end were Standard & Poor's BBB+ (negative outlook) and Moody's Baa1 (negative outlook).</p>
<p>Decline of asset values Impairments and book losses could adversely affect our financial results.</p>	<p>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 Board of Management.</p>	<p>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 on page 87).</p>
<p>Fluctuations in exchange rates Exchange rate fluctuations can have a harmful impact on our financial results.</p>	<p>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</p>	<p>exchange rate risks (see note 24 on page 119). At a more operational level, risks are reduced by the prevalence of local-for-local production, which is standard in many of our businesses.</p>

Compliance risks

External

Risk	Risk corrective actions	
<p>Complying with laws and regulations We may be held responsible for any liabilities arising out of non-compliance with laws and regulations.</p>	<p>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 involved in investigations by the antitrust authorities in the European Union and we are defending civil damage claims in relation to alleged antitrust violations in the European Union and the US (see note 22 on page 114).</p>	<p>We are dedicated to minimizing such risks with special emphasis on the application of our Code of Conduct (see page 64). We operate under a comprehensive competition law compliance program including training, monitoring and assessment. In 2009, we launched a new company-wide corporate complaints procedure called Speak Up!, which enables all our employees to report irregularities in relation to our Code of Conduct.</p>

AkzoNobel on the capital market

- 2009 share price performance 58 percent
- Proposed dividend of €1.35 per share
- Attractive dividend yield of 3.8 percent

Share price performance

Our share price increased 58 percent in 2009, outperforming both the DJ Stoxx Chemicals and AEX indices. The share price performance relative to these indices for a one-year and a five-year period is shown in the graphs below.

Proposed dividend of €1.35 per share

The Board of Management proposes a dividend of €1.35 per common share. AkzoNobel's shares will be trading ex-dividend as of April 30, 2010. In compliance with the listing requirements of Euronext Amsterdam, the record date will be May 4, 2010.

The dividend as proposed to the 2010 Annual General Meeting of shareholders will be payable as of May 11, 2010. The dividend payment to holders of ADRs will be made in US \$ at the \$/€ rate fixed by the European Central Bank on May 11, 2010.

The dividend paid over the last five years is shown in the graph at the bottom of this page.

Dividend policy

AkzoNobel's dividend policy is based on an annual pay-out ratio of at least 45 percent of net income before incidentals and fair value adjustments for the ICI acquisition.

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 December 2009, we gave a presentation to the financial community at our well-attended Specialty Chemicals Teach-In in Amsterdam.

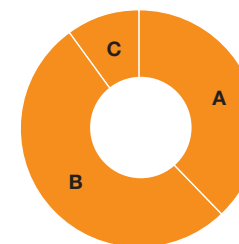
In the Netherlands, AkzoNobel uses the Shareholders' Communication Channel to distribute the agenda of the Annual General Meeting of shareholders and to allow shareholders who hold their shares through an associated bank to participate in proxy voting at the AGM.

Analyst recommendations

At year-end 2009, AkzoNobel was covered by 29 equity brokers and the following analyst recommendations were applicable:

Analyst recommendations in %

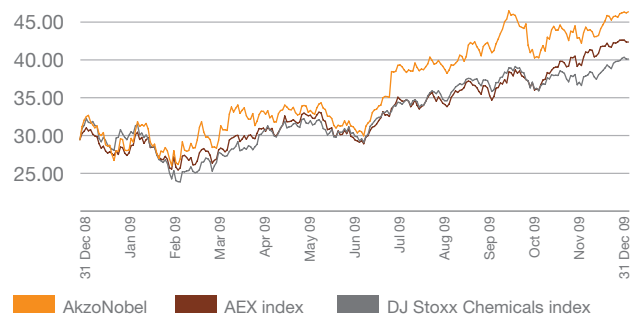
A Buy	38
B Hold	52
C Sell	10
	100



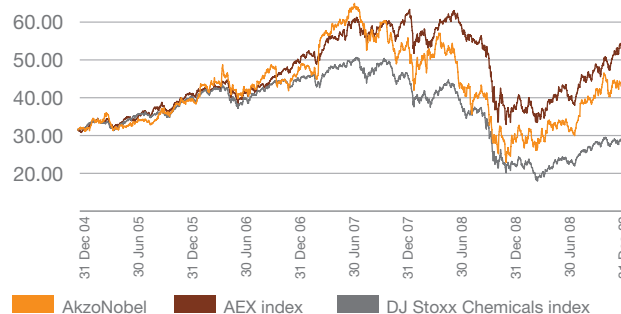
Listings

AkzoNobel's common shares are listed on the stock exchange of Euronext Amsterdam. AkzoNobel is included in the AEX Index,

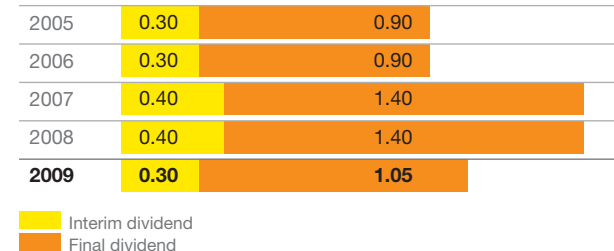
Share price performance 2009 AkzoNobel share price in €



Share price performance 2005 – 2009 AkzoNobel share price in €



Dividend paid in € per share



which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 4.43 percent at year-end 2009. In 2009, 312 million AkzoNobel shares were traded on Euronext Amsterdam (2008: 567 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

Broad base of international shareholders

AkzoNobel, which has a 100 percent free float, has a broad base of international shareholders.

An analysis of the shareholder structure carried out in January 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 20 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

Capital Research and Management Company and Paulson & Co. notified the Netherlands Authority for the Financial Markets (AFM) that they held more than 10 and 5 percent respectively of the issued shares in Akzo Nobel N.V. by December 31, 2009.

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.

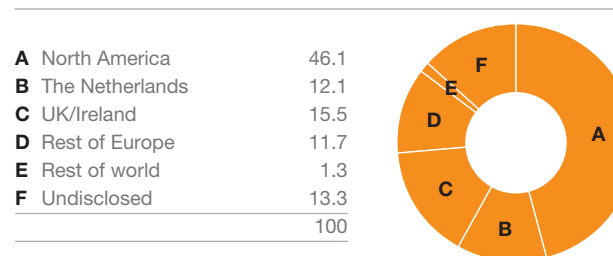
Key share data

	2007	2008	2009
Year-end (share price in €)	54.79	29.44	46.40
Year-high (share price in €)	65.56	57.11	46.52
Year-low (share price in €)	44.41	22.85	26.01
Year-average (share price in €)	55.48	42.57	35.92
Average daily trade (in € millions)	151.8	94.0	43.4
Average daily trade (in millions of shares)	2.7	2.2	1.2
Number of shares outstanding at year-end (in millions)	262	232	232
Market capitalization at year-end (in € billions)	14.4	6.8	10.8
Net income per share (in €)	33.82 ²	(4.38) ¹	1.23
Dividend per share (in €)	1.80	1.80	1.35
Dividend yield (in %)	3.2	4.2	3.8
Pay-out ratio	45.5	48.2	57.3
Price-earnings ratio (P/E ratio)	1.6	(6.7) ¹	37.7

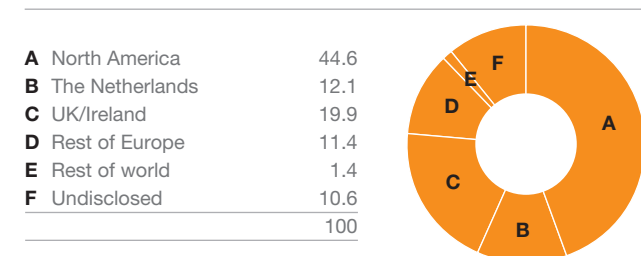
¹ The 2008 net income per share includes the non-cash impairment of ICI intangibles of €1.2 billion after tax and incidental charges of €0.6 billion.

² The 2007 net income per share includes the profit on the sale of OBS, but is before the acquisition of ICI.

Distribution of shares 2008 at year-end in %



Distribution of shares 2009 at year-end in %



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	Baa1	negative
Standard & Poor's ²	BBB+	negative

¹ Rating affirmed on March 16, 2009.

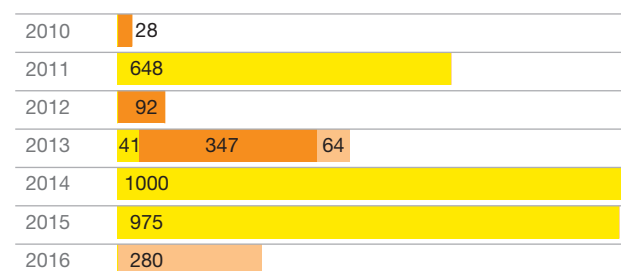
² Rating affirmed on August 25, 2009, unchanged since February 25, 2009.

Bonds successfully issued

As part of our long-term financing strategy, we successfully issued a €750 million and a £250 million bond in March and April 2009 respectively. The proceeds of this transaction allowed AkzoNobel to extend its debt maturity profile. The €750 million bond offers a 7.25 percent coupon, and has a maturity of six years. The £250 million bond offers an 8 percent coupon, and has a maturity of seven years. Both bonds are issued by Akzo Nobel N.V., and are listed on the Luxembourg Stock Exchange. Furthermore, in November 2009, AkzoNobel tendered €212 million from its 4.25 percent bond due in 2011 and added €225 million to its 7.25 percent bond due in 2015 to lengthen its bond maturity profile.

See the graph for the maturity schedule.

Debt maturity in millions



■ € Bonds
■ \$ Bonds
■ GBP Bonds

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, the Investor & Analyst 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 "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.

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

The 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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 1077 ZZ Amsterdam
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Holders of ADRs in the US can contact our Transfer and Register Agent:

Deutsche Bank Trust Company Americas

c/o American Stock Transfer & Trust Company
 Peck Slip Station
 P.O. Box 2050
 New York, NY 10272-2050
www.adr.db.com

T +1 800 749 1873 (toll-free number)
 T +1 718 921 8137
 E DB@amstock.com

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Consolidated statement of income

for the year ended December 31

In € millions	Note	2008 ¹	2009
Continuing operations			
Revenue		15,415	13,893
Cost of sales		(9,796)	(8,431)
Gross profit		5,619	5,462
Selling expenses	(3,387)	(3,211)	
Impairment of ICI intangibles	(1,275)	–	
General and administrative expenses	(1,108)	(1,091)	
Research and development expenses	(353)	(338)	
Other operating income/(expenses)	4	(73)	48
		(6,196)	(4,592)
Operating income/(loss)		(577)	870
Financing income	5	154	62
Financing expenses related to pensions	5	(49)	(174)
Other financing expenses	5	(337)	(297)
Results from associates and joint ventures	11	25	22
Profit/(loss) before tax		(784)	483
Income tax	6	(260)	(128)
Profit/(loss) for the period from continuing operations		(1,044)	355
Discontinued operations			
Profit for the period from discontinued operations	7	23	7
Profit/(loss) for the period		(1,021)	362
Attributable to:			
- Shareholders of the company		(1,086)	285
- Minority interests		65	77
Profit/(loss) for the period		(1,021)	362
Earnings per share, in €			
Continuing operations:			
- Basic	16	(4.47)	1.20
- Diluted	16	(4.45)	1.18
Discontinued operations:			
- Basic	16	0.09	0.03
- Diluted	16	0.09	0.03
Total operations:			
- Basic	16	(4.38)	1.23
- Diluted	16	(4.36)	1.21

¹ Restated for comparative presentation.

Consolidated statement of comprehensive income

for the year ended December 31

In € millions	2008	2009
Profit/(loss) for the period	(1,021)	362
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(1,281)	383
Cash flow hedge reserve	444	48
Revaluation reserve related to step acquisitions	–	7
Income tax relating to components of other comprehensive income	134	(38)
Other comprehensive income for the period (net of tax)	(703)	400
Comprehensive income for the period	(1,724)	762
Comprehensive income attributable to:		
Shareholders of the company	(1,704)	688
Minority interests	(20)	74
Comprehensive income for the period	(1,724)	762

Consolidated balance sheet

at year-end, before allocation of profit

In € millions

	Note	2008	2009
Assets			
Non-current assets			
Intangible assets	9	7,172	7,388
Property, plant and equipment	10	3,357	3,474
Deferred tax assets	6	890	793
Investment in associates and joint ventures	11	201	175
Other financial non-current assets	12	757	815
Total non-current assets		12,377	12,645
Current assets			
Inventories	13	1,781	1,441
Current tax assets	6	53	102
Trade and other receivables	14	2,924	2,564
Cash and cash equivalents	15	1,595	2,128
Assets held for sale		4	–
Total current assets		6,357	6,235
Total assets		18,734	18,880
Equity and liabilities			
Equity			
Shareholders' equity		7,463	7,775
Minority interests		450	470
Total equity	16	7,913	8,245
Non-current liabilities			
Provisions	17	2,072	1,919
Deferred tax liabilities	6	715	674
Long-term borrowings	18	2,341	3,488
Total non-current liabilities		5,128	6,081
Current liabilities			
Short-term borrowings	19	1,338	384
Current tax liabilities	6	525	507
Trade and other payables	20	2,985	2,866
Current portion of provisions	17	845	797
Total current liabilities		5,693	4,554
Total equity and liabilities		18,734	18,880

Consolidated statement of cash flows

for the year ended December 31

In € millions	2008 ¹	2009
Profit/(loss) for the period	(1,021)	362
Income/(loss) from discontinued operations	(23)	(7)
Adjustments to reconcile earnings to cash generated from operating activities		
Amortization/depreciation	612	617
Inventory step-up	54	–
Impairment losses	1,430	63
Financing income and expenses	232	409
Results from associates and joint ventures	(25)	(22)
Pre-tax result on divestments	23	(48)
Income tax	260	128
Changes in working capital ²	(356)	639
Changes in provisions	(560)	(497)
Interest paid	(218)	(173)
Income tax paid	(317)	(231)
Net cash from operating activities	91	1,240
Capital expenditures	(534)	(534)
Interest received	103	53
Dividends from associates and joint ventures	43	17
Acquisition of consolidated companies ³	(10,187)	(78)
Proceeds from sale of interests ³	74	23
Other changes	(40)	(30)
Net cash from investing activities	(10,541)	(549)
Proceeds from borrowings	1,000	1,391
Borrowings repaid	(1,433)	(1,216)
Settlement of former ICI net investment hedges	(49)	–
Issue of shares for stock option plan	7	4
Buyback of shares	(1,437)	–
Dividends ⁴	(581)	(454)
Net cash from financing activities	(2,493)	(275)
Net cash used for continuing operations	(12,943)	416
Cash flows from discontinued operations	3,519	19
Net change in cash and cash equivalents of continued and discontinued operations	(9,424)	435
Cash and cash equivalents at January 1	11,067	1,449
Effect of exchange rate changes on cash and cash equivalents	(194)	35
Cash and cash equivalents⁵	1,449	1,919

¹ Restated for comparative presentation.² Comprises a decrease of €357 million in trade and other receivables (2008: €19 million), a decrease of €383 million in inventories (2008: €14 million), and a decrease of €101 million in trade and other payables (2008: €389 million).³ Net of cash and cash equivalents acquired or disposed of.⁴ 2008: including €79 million dividends to ICI shareholders.⁵ Consist of €2,128 million cash and cash equivalents (2008: €1,595 million) and €209 million debt to credit institutions (2008: €146 million).

Consolidated statement of changes in equity

In € millions	Attributable to shareholders of the company								
	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Revaluation reserve	Cumulative translation reserve	Other (statutory) reserves and undistributed profit	Shareholders' equity	Minority interests	Total equity
Balance at January 1, 2008	525	363	(510)	–	(51)	10,705	11,032	97	11,129
Profit/(loss) for the period	–	–	–	–	–	(1,086)	(1,086)	65	(1,021)
Reclassification into the balance sheet	–	–	551	–	–	–	551	–	551
Other comprehensive income	–	–	(70)	–	(1,196)	–	(1,266)	(85)	(1,351)
Tax on other comprehensive income	–	–	17	–	117	–	134	–	134
Reclassification into the statement of income	–	–	(37)	–	–	–	(37)	–	(37)
Comprehensive income	–	–	461	–	(1,079)	(1,086)	(1,704)	(20)	(1,724)
Dividend paid	–	–	–	–	–	(458)	(458)	(44)	(502)
Buyback of shares	(64)	(368)	–	–	–	(1,005)	(1,437)	–	(1,437)
Equity-settled transactions	–	–	–	–	–	23	23	–	23
Issue of common shares	2	5	–	–	–	–	7	–	7
Acquisitions and divestments	–	–	–	–	–	–	–	417	417
Balance at December 31, 2008	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
Tax on other comprehensive income	–	–	(5)	–	(33)	–	(38)	–	(38)
Reclassification into the statement of income	–	–	40	–	(2)	–	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

Segment information

Our Decorative Paints businesses supply a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself markets. Our Performance Coatings businesses are represented in most markets of this industry and we serve a large range of customers including ship and yacht builders and architects, consumer electronics and

appliance companies, steel manufacturers, the construction industry, furniture makers, aircraft, bus and truck producers, 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	
	2008 ²	2009	2008 ²	2009	2008 ²	2009	2008	2009	2008	2009	2008 ²	2009
Decorative Paints	4,962	4,643	5,006	4,677	598	492	(197)	(190)	(1,070)	(165)	(669)	137
Performance Coatings	4,537	4,005	4,575	4,038	566	587	(99)	(101)	(23)	(59)	444	427
Specialty Chemicals	5,636	5,034	5,687	5,209	909	814	(304)	(305)	(475)	(164)	130	345
Corporate and other	280	211	147	(31)	(146)	(125)	(12)	(21)	(324)	107	(482)	(39)
Total	15,415	13,893	15,415	13,893	1,927	1,768	(612)	(617)	(1,892)	(281)	(577)	870

In € millions	Invested capital		Total assets		Total liabilities		Capital expenditures		Impairment	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Decorative Paints	6,187	6,382	8,569	6,902	2,010	690	120	113	950	15
Performance Coatings	2,004	1,958	2,793	2,445	2,480	2,153	89	61	3	6
Specialty Chemicals	4,055	3,968	5,252	5,005	1,416	1,242	305	338	436	35
Corporate and other	1,178	896	2,120	4,528	4,915	6,550	20	22	41	7
Total	13,424	13,204	18,734	18,880	10,821	10,635	534	534	1,430	63

Regional information

In € millions	Revenue by region of destination		Intangible assets and property, plant and equipment		Capital expenditures	
	2008	2009	2008	2009	2008	2009
The Netherlands	867	807	1,000	1,079	86	104
Germany	1,141	1,121	870	885	25	21
Sweden	478	428	414	422	50	37
UK	1,093	816	1,182	1,242	31	22
Other European countries	3,666	3,174	2,141	2,174	81	70
US and Canada	3,330	2,985	2,353	2,265	94	68
Latin America	1,306	1,232	625	765	49	33
China	1,054	1,044	911	1,013	67	144
Other Asian countries	1,866	1,704	941	905	43	29
Other regions	614	582	92	112	8	6
Total	15,415	13,893	10,529	10,862	534	534

¹ EBITDA is operating income before incidentals and amortization/depreciation.

² Restated for comparative presentation, see note 1.

Notes to the consolidated financial statements

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, 2010, 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. Minority interests in equity and in the 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 reclassifications

- As from 2009, we adopted IFRS 8, "Operating Segments" and the revised IAS 1, "Presentation of Financial Statements".
- We have changed the presentation of interest related to pensions (interest cost on defined benefit obligations for pensions and other post-retirement benefits and the expected return on plan assets) and have restated our 2008 figures accordingly. As from 2009, we report interest on pensions on a separate interest line in the statement of income, as this more clearly reflects the composition of interest. As a consequence, both operating income and the pension-related interest expense in 2008 increased by €49 million. In the statement of cash flows, we adjusted financing income and expenses as well as changes in provisions for 2008 by the same amount. No restatement in the balance sheet and statement of changes in equity was necessary. Within the segment information, aforementioned presentation adjustment for 2008 only affected EBITDA and operating income of the business area Corporate and other.
- We made reclassifications in the 2008 figures to align to our 2009 structure and presentation. This resulted in reclassifications between the business areas Decorative Paints to Performance Coatings in the segment information and between the cost lines in the statement of income, which did not impact the net result.
- We reclassified the divestment of Henkel into discontinued operations, consistent with the presentation in the statement of income.

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 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 of 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. 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 closure 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 average exchange 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, insofar 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. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged item.

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 stock options and performance shares granted to employees.

Operating segments

As of January 1, 2009, we determine and present operating segments ("business areas") on the information that internally is provided to the Board of Management, the body that is our chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8, "Operating segments". Previously, business areas were determined and presented in accordance with IAS 14. The new accounting policy in respect of business area operating disclosures has not impacted the determination and presentation of results.

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 are 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 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 to the statement of income upon disposal or liquidation of a foreign subsidiary or redemption of an intercompany loan with a permanent nature, for the full amount or proportionally if applicable. 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	
	2008	2009	2008	2009
US dollar	1.409	1.440	1.471	1.394
Pound sterling	0.974	0.893	0.805	0.890
Swedish krona	10.911	10.268	9.680	10.608

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 in respect of 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.

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 relating 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 in respect of employee service in previous years.

Actuarial gains and losses that arise in calculating our obligation in respect of a plan, are recognized to the extent that any cumulative unrecognized actuarial gains or losses 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 are improved, the portion of the increased benefit relating 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.

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 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 stock option plan that conditionally allows certain employees to acquire Akzo Nobel N.V. common shares. These options generally vest in three years. As from 2008, no new options are granted under this plan. In addition, we have a performance 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 Total Shareholder Return (TSR) performance over a three-year period. 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 options or performance 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 options or performance shares. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. For the performance shares, the fair value is measured using the Monte Carlo simulation model. This 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 options or performance shares that vest, except where forfeiture or extra vesting of performance shares is due to a TSR performance that differs from the performance anticipated at the grant of the performance shares.

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 in respect of 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. 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 relating 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 set off 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 those 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 intangible assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. In addition, intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually. 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, plus costs directly attributable to the acquisition. 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, which generally ranges from 10 to 40 years. Development costs are capitalized if the costs can be measured reliably, the product or process is technically and commercially feasible and sufficient future economic benefits will be generated, and we have sufficient resources 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, 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, which we have determined 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 cost 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 includes direct labor and fixed and variable production overheads, and takes into account the stage of completion. The cost of inventories is 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 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 operating income, unless cash flow hedge accounting is applied. In that case, the effective part of the fair value changes is deferred in other comprehensive income (in equity) 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 borrowing is included in financing income and 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 2009 and beyond may be affected.

- An amendment to IFRS 2, "Share-based Payment" clarifies the definitions of vesting conditions and cancellations and became effective in 2009. The amendment did not affect the accounting for our stock option and performance shares plans. A second amendment was issued in June 2009 and clarified how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements. 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 will be effective as from 2010. These standards will bring significant changes to the accounting policies related to business combinations and changed ownership interests. We do not expect a material impact on presented figures, as the carrying amounts of any assets and liabilities that arose under business combinations prior to the application of the revised standard are not adjusted.
- An amendment to IFRS 7, "Financial Instrument: Disclosures" introduces a fair value hierarchy and additional disclosures for measurement of financial instruments. The amendment became effective in 2009 and resulted in limited additional disclosures in our financial statements.
- IFRS 8, "Operating Segments" requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported is what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. We adopted this standard in 2009, which resulted in limited presentation changes.

- IFRS 9, “Financial Instruments (replacement of IAS 39)” will become effective as from 2013, with earlier adoption permitted, including for 2009. IFRS 9 introduced new requirements for classifying and measuring financial assets. This standard encompasses an overall change of accounting principles in that standard and will eventually replace IAS 39 – the current standard on financial instruments. As its scope will be expanded during 2010, we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate.
- IASB’s annual improvements projects results in many smaller amendments to several IFRSs. Most amendments will be effective as from 2010 and they are not expected to materially impact our consolidated financial statements.
- The revised IAS 1, “Presentation of Financial Statements” mainly introduces a statement of comprehensive income. We adopted this standard in 2009 and changed the presentation of our financial statements accordingly.
- An amendment to IAS 23, “Borrowing Costs” removes the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. This amendment became effective in 2009 and has not impacted our consolidated financial statements, as we already capitalized borrowing cost.
- An amendment to IAS 24, “Related Party Disclosures” clarifies the definition of a related party and provided a partial exemption from the disclosure requirements for government-related entities. The revised standard also clarifies that disclosure is required of 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.
- Amendments to IFRS 1 and IAS 27, “Determining the cost of an investment in the separate financial statements” became effective in 2009. The amendments apply to company financial statements prepared under IFRS. These amendments will not be applicable to our company financial statements, as these are prepared under Dutch law.
- An amendment to IAS 32, “Financial Instruments: Presentation” changes the classification of some puttable financial instruments that meet the definition of a financial liability into equity because they represent a residual interest in the net assets. A second amendment was issued which addresses the accounting for rights issues such as options and warrants, denominated in a currency other than the functional currency of the issuer. Our financial statements are not affected by either 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 will be effective as from 2010. As we commonly use forward contracts for hedges, we do not expect a material impact from adopting this amendment.
- An amendment to IFRIC 9 and IAS 39, “Embedded Derivatives” clarifies the accounting treatment of embedded derivatives for entities that use the reclassification amendment to IAS 39. As the reclassification amendment is an option which we do not use, these amendments to IFRIC 9 and IAS 39 will not affect our financial statements.
- IFRIC 13 “Customer Loyalty Programmes” addresses accounting by entities that grant loyalty award credits (such as points or travel miles) to customers who buy goods or services. We adopted this interpretation in 2009. The interpretation has not materially affected our consolidated financial statements.
- 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 15 “Agreements for the Construction of Real Estate” applies to companies that develop real estate and became effective in 2009. As we do not have activities in this area, our financial statements were not affected by this interpretation.
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” clarifies hedge accounting for an entity which hedges the investment in its subsidiaries. We adopted this interpretation in 2009. As we already accounted for net investment hedges in line with IFRIC 16, our financial statements were not affected by this interpretation.
- IFRIC 17 “Distribution of Non-cash Assets to Owners” will apply prospectively as from 2010. We do not expect impact on our financial statements as no proposal to distribute non-cash assets to shareholders has been made.
- IFRIC 18, “Transfers of Assets from Customers” clarifies the accounting for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation must be applied prospectively to transfers of assets from customers received on or after July 1, 2009. This interpretation has not materially affected our consolidated financial statements.
- 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. We are currently reviewing whether such agreements exist within our businesses.

Note 2 Acquisitions and divestments

In 2009, we completed several acquisitions and divestments:

- In Decorative Paints, we acquired two distributors in Continental Europe.
- In Performance Coatings, we divested Chemcraft Brazil and the non-stick businesses. We completed the acquisitions of SABA and Kronospan and we announced the acquisition of the Dow Powder Coatings assets. This business has global revenue of several hundred million dollars and employs around 700 employees. It will further strengthen the Powder business in Europe and North America and will bring key technological know-how and significant synergy potential. The transaction is expected to close during the second quarter of 2010, subject to customary closing conditions, including regulatory approvals.
- In Specialty Chemicals we acquired LII Europe and Penford Australia and additional interests in joint ventures. We divested PTA Pakistan.

The acquisitions in 2009, both individually and in total, were deemed immaterial in respect of the IFRS 3 disclosure requirements. Pre-acquisition carrying amounts were not gathered.

Aggregated recognized values of acquisitions in 2009

In € millions	Recognized values at acquisition
Goodwill	33
Other intangible assets	61
Property, plant and equipment	53
Investments in associates and joint ventures	(20)
Other non-current assets	1
Inventories	29
Trade and other receivables	29
Cash and cash equivalents	4
Provisions	(13)
Deferred tax liabilities	(12)
Long-term borrowings	(17)
Trade and other payables	(34)
Net identifiable assets and liabilities	114
Minority interests	(6)
Revaluation of former investments in step acquisitions	(7)
Recognized in the statement of income	(10)
Consideration paid	91
Cash and cash equivalents acquired	(4)
To be paid in 2010 and later years	(9)
Net cash outflow	78

On January 2, 2008, we acquired 100 percent of the share capital of Imperial Chemical Industries plc (ICI). The total cost of the acquisition, paid mostly in cash, was €11.6 billion. ICI was one of the world's leading coatings, adhesives, starches and synthetic polymer businesses, with products and ingredients developed for a wide range of markets. It had operations in more than 50 countries around the world and its customers are spread across a diverse range of product sectors.

Acquisition of ICI

In € millions	Pre-acquisition carrying amounts	Recognized values at acquisition
Goodwill	413	4,465
Other intangible assets	61	3,763
Property, plant and equipment	1,135	1,382
Other non-current assets	545	513
Inventories	568	622
Trade and other receivables	977	979
Assets held for sale	1,200	4,413
Cash and cash equivalents	1,088	1,088
Provisions	(1,271)	(1,402)
Deferred tax liabilities	(21)	(884)
Long-term borrowings	(372)	(372)
Trade and other payables	(1,915)	(1,940)
Liabilities held for sale	(554)	(581)
Net identifiable assets and liabilities	1,854	12,046
Minority interests		(435)

Consideration paid

11,611

In connection with the acquisition of ICI, we sold all assets and liabilities comprising the businesses known within ICI as the Adhesives business and the Electronic Materials business to Henkel, for €3.6 billion. The transaction took place in April 2008.

In addition, in granting clearance, the EU and Canadian authorities accepted a commitment package from AkzoNobel involving the divestment of a number of AkzoNobel Decorative Paints businesses in the UK, Ireland, Belgium and Canada. These businesses were sold in the course of 2008.

Note 3 Incidentals

Incidental gains and losses included in operating income

In € millions	2008	2009
Restructuring costs	(275)	(353)
Costs of pensions and other post-retirement benefits	(38)	58
Results on acquisitions and divestments	(23)	48
Results related to major legal, antitrust and environmental cases	(32)	(38)
Other incidental results	(5)	18
Transformation costs	(190)	(14)
Fair value adjustments of acquired inventories	(54)	-
Impairment of ICI intangibles	(1,275)	-
Total	(1,892)	(281)

Apart from restructuring costs, incidental items in 2009 primarily related to a fine imposed by the European Commission. Incidental gains were realized from changing conditions in certain pension plans (€58 million) and the divestment of PTA Pakistan (€23 million).

In 2008, we recorded a goodwill impairment of €1,275 million after tax, covering the value of ICI intangibles related to the Decorative Paints and National Starch businesses. In addition, we incurred transformation costs, which included the closure of the London-based ICI headquarters (€59 million) and an impairment loss of €65 million for the Decorative Paints businesses which were sold due to the commitment packages agreed with European and Canadian authorities. In addition, transformation costs included costs of external advisors related to the ICI acquisition and costs to establish our new corporate identity. Other incidental charges in 2008 came from the fair value step-up for inventories acquired from ICI (€54 million, non-cash) and additional costs for the settlement of a claim related to post-retirement healthcare benefits for retired employees in the Netherlands. Furthermore, we incurred a charge of €29 million due to foreign currency results on a provision in the UK. The mandatory divestment of the Decorative Paints businesses in Canada, the UK, Ireland and Belgium resulted in a loss of €23 million.

Restructuring costs

In € millions		
	2008	2009
Decorative Paints	(189)	(158)
Performance Coatings	(20)	(55)
Specialty Chemicals	(29)	(103)
Other	(37)	(37)
Total	(275)	(353)

Major restructuring projects in Decorative Paints during 2009 related to supply chain and integration projects in Europe, Canada and Latin America and to closing stores in the US. In Performance Coatings, we incurred costs for headcount reduction programs in all businesses, the most significant being in Industrial Activities and Car Refinishes. In Specialty Chemicals, we announced the closure of four sites including the Skoghall site in Sweden and the Mo I Rana site in Norway. We announced a 20 percent reduction of staff working at our headquarters and shared service center in the Netherlands and recognized a provision of €11 million.

Incidentals per cost category

In € millions		
	2008	2009
Cost of sales	(376)	(146)
Selling expenses	(53)	(94)
Impairment of ICI intangibles	(1,275)	-
Research and development expenses	(15)	(19)
General and administrative expenses	(68)	(64)
Other operating income/(expenses)	(105)	42
Total	(1,892)	(281)

Note 4 Other operating income/(expenses)

In € millions		
	2008	2009
Incidental gains and losses	(105)	42
Results on sale of redundant assets	2	2
Currency exchange differences:		
- Derivatives	(138)	37
- Loans and receivables	185	(43)
- Other financial liabilities	(19)	6
Other items	2	4
Total	(73)	48

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

In 2008, the incidental losses related to costs of external advisors for the integration of ICI, the costs of our new corporate identity as launched in April 2008 and the foreign currency results on a legal provision in the UK.

Note 5 Financing income and expenses

In € millions		
	2008	2009
Interest income:		
- Interest rate derivatives	36	19
- Loans and receivables	113	43
- Other	5	-
Interest expenses:		
- Net financing expenses on pensions and other post-retirement benefits	(49)	(174)
- Interest rate derivatives	(54)	(9)
- Other financial liabilities	(236)	(231)
- Other	(37)	(54)
Fair value changes:		
- Interest rate derivatives	49	(14)
- Other financial liabilities	(46)	12
Other	(13)	(1)
Total	(232)	(409)

The net financing charges increased by €177 million to €409 million:

- Financing income decreased by €92 million to €62 million (2008: €154 million) due to significantly lower market interest rates and cash utilized for the share buyback program in 2008.
- Net financing expenses on pensions and other post-retirement benefits increased by €125 million to €174 million (2008: €49 million) due to lower expected returns on plan assets. These expenses are composed of interest expenses for €770 million (2008: €851 million), which is being offset by the expected return on plan assets of €596 million (2008: €802 million).
- Other financing expenses decreased by €40 million to €297 million (2008: €337 million). Higher interest expense for our refinanced debt during 2009 was offset by lower costs for fair value changes of financial instruments.

Included in the interest expenses was a reduction of €6 million (2008: €3 million) 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 percent.

Note 6 Income tax

Pre-tax income (including the share in profit of associates and joint ventures) amounted to a profit of €483 million (2008: loss €784 million). Tax benefits/(charges) are included in the statement of income as follows:

Tax in the statement of income

In € millions	2008	2009
Tax on operating income less financing income and expenses	(259)	(128)
Tax on share in profit of associates and joint ventures	(1)	-
Total	(260)	(128)

The 2009 net tax charge of €128 million (2008: €260 million) related to continuing operations only. The total tax charge, including discontinued operations was €162 million (2008: €260 million).

Classification of current and deferred tax result

In € millions	2008	2009
Current tax expense for:		
- The year	(459)	(190)
- Adjustments for prior years	(13)	30
	(472)	(160)
Deferred tax expense for:		
- Origination and reversal of temporary differences	341	24
- Changes in tax rates	5	14
- Tax losses recognized or derecognized	(134)	(6)
	212	32
Total	(260)	(128)

When comparing 2009 tax amounts with previous year, the following should be noted. In 2008 there was a high level of current tax expense and deferred tax gain caused by tax costs that are related to breaking up National Starch into the part that was sold to Henkel and that was kept by AkzoNobel. These costs were included in the ICI opening balance sheet as deferred tax liabilities which reversed into current tax at the moment of the breakup.

The deferred tax gain in 2008 was partly offset by a €133 million derecognition of deferred tax assets.

Based on assessments of the major deferred tax asset positions per December 31, 2009 we concluded that no further derecognition is necessary, as we consider it probable that those deferred tax assets can be utilized against future taxable income.

The reconciliation of the corporate tax rate in the Netherlands to the effective consolidated tax rate is as follows:

Effective consolidated tax rate

in %	2008	2009
Corporate tax rate in the Netherlands	25.5	25.5
Net effect of different tax rates in certain countries	(2.0)	(0.6)
Non-deductible expenses/(tax-exempt income)	3.9	7.9
Non-taxable income from investment in associates and joint ventures	(1.2)	(1.1)
Changes in enacted tax rates (reductions in tax rate)	(1.1)	(3.0)
Recognition/derecognition of previously unrecognized tax losses	0.2	-
Current year losses for which no deferred tax asset was recognized	2.4	1.7
Profits of the year compensated with losses carried forward for which no deferred tax asset was recognized	(2.5)	(0.3)
Under/(over)-provided in prior years	2.7	(6.2)
Non-refundable withholding taxes	4.0	3.6
Other	(0.5)	(1.1)
Effective consolidated tax rate	31.4	26.4

In 2009, the effective rate was 26 percent (2008: 31 percent excluding the impact of the impairment of goodwill/intangibles and derecognition of deferred tax assets). The under/(over)-provision in prior years related to a receipt of €75 million on a contingent basis as part of ongoing tax litigation. We recorded a net gain €57 million on the tax line. Several other adjustments have been made with regard to the tax provisions for prior years. In addition, we recorded several tax-exempt income items, such as the PTA Pakistan divestment, as well as certain incidental non-deductible expenses, mainly related to antitrust costs.

The worldwide trend of decreasing tax rates – which seems to have come to a halt – 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 2010 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 caused by the fact that the relative share of AkzoNobel's profit from countries that levy withholding tax on dividends is increasing. Based on the Dutch tax system there is only a limited credit for such taxes.

For comparative reasons, the effective tax rate table presents the 2008 effective consolidated tax rate on the results excluding the incidental impairment loss on ICI intangibles, and the tax expense excluding the incidental derecognition of deferred tax assets of €133 million and the deferred tax liabilities released due to the impairment of ICI intangibles. In 2008, the effective consolidated tax rate was affected by the tax-exempt loss from the divestment of the Decorative business in the UK and from several non-deductible expenses.

Income tax recognized directly in equity

In € millions	2008	2009
Current tax for:		
- Currency exchange differences on intercompany loans of a permanent nature	117	(33)
	117	(33)
Deferred tax for:		
- Share-based compensation	(13)	(8)
- Hedge accounting	17	(5)
- Other	(3)	(1)
	1	(14)
Total	118	(47)

Tax in the balance sheet

Current tax assets of €102 million (2008: €53 million) represent the amount of income taxes recoverable in respect of current and prior periods. Current tax liabilities of €507 million (2008: €525 million) relate to the amount of taxes payable for current and prior periods.

Breakdown of deferred tax assets and liabilities

In € millions	Assets	Liabilities	Assets	Liabilities
	2008		2009	
Intangible assets	85	895	51	755
Property, plant and equipment	53	237	72	261
Inventories	34	5	33	8
Trade and other receivables	32	16	29	21
Share-based compensation	15	–	15	–
Provisions:				
- Pensions and other post-retirement benefits	469	21	346	103
- Restructuring	33	2	30	2
- Other provisions	441	53	457	175
Other items	180	78	156	54
Net loss carryforwards	517	–	685	–
Deferred tax assets not recognized	(377)	–	(376)	–
Tax assets/liabilities	1,482	1,307	1,498	1,379
Set-off of tax	(592)	(592)	(705)	(705)
Net deferred taxes	890	715	793	674

In the deferred tax asset for other provisions (€457 million), an amount of €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 carryforward period are revised.

From the total amount of recognized deferred tax assets, €652 million (2008: €186 million) is related to entities that have suffered a loss in either 2009 or 2008 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.

At December 31, 2009, the loss carryforwards expire as follows:

Loss carryforwards recognized in the balance sheet

In € millions								
	2010	2011	2012	2013	2014	Later	Unlimited	Total
Total loss carryforwards	13	11	34	740	28	446	976	2,248
Loss carryforwards not recognized in deferred tax assets	(8)	(8)	(24)	(616)	(17)	(65)	(22)	(760)
Total	5	3	10	124	11	381	954	1,488

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

Unrecognized deferred tax assets

In € millions		
	2008	2009
Capital losses	200	220
Tax losses	42	43
Deductible temporary differences	135	113
Total	377	376

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 2008

In € millions						
	Net balance January 1, 2008	Changes in exchange rates	Acquisitions/ divestments	Recognized in income	Recognized in equity	Net balance December 31, 2008
Intangible assets		11	87	(1,020)	112	(810)
Property, plant and equipment		(68)	32	(204)	56	(184)
Inventories		17	2	(18)	28	29
Trade and other receivables		(6)	-	-	5	16
Share-based compensation		40	(1)	-	(11)	15
Provisions:						
- Pensions and other post-retirement benefits		153	(12)	193	114	448
- Restructuring		8	(1)	-	24	31
- Other provisions		125	(9)	196	76	388
Other items		56	(3)	(103)	155	102
Net loss carryforwards		189	(25)	563	(210)	517
Deferred tax assets not recognized		(28)	11	(223)	(137)	(377)
Tax assets/liabilities		497	81	(616)	212	175

Movement in deferred tax in 2009

In € millions	Net balance December 31, 2008	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 compensation	15	–	–	8	(8)	15
Provisions:						
- Pensions 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 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

Note 7 Discontinued operations

In results from discontinued operations, we have recorded the results from the disentanglement of the businesses divested to Henkel in 2008 and to Schering Plough in 2007. Results from discontinued operations consist of a gross amount of €41 million and a tax charge of €34 million (2008: €23 million and € nil respectively).

Note 8 Employee benefits**Salaries, wages and other employee benefits**

In € millions	2008	2009
Salaries and wages	(2,322)	(2,147)
Pension and other post-retirement cost	(242)	(363)
Other social charges	(458)	(434)
Total	(3,022)	(2,944)

The increase of pension and other post-retirement cost is due to the related financing expenses of €174 million (2008: €49 million).

Employees

Average number during the year	2008	2009
Decorative Paints	24,100	23,200
Performance Coatings	21,500	20,200
Specialty Chemicals	12,900	13,400
Corporate and other	2,800	1,800
Total	61,300	58,600

At year-end 2009, our workforce had decreased to 57,060 employees (year-end 2008, 60,040 employees). The net decrease was due to:

- Acquisitions adding 980 employees
- 3,960 employees leaving, during 2009 mainly due to continued restructuring and realized synergies.

The average number of employees working outside the Netherlands was 53,700 (2008: 56,300).

Salaries, wages and other employee benefits per cost category

In € millions	2008	2009
Cost of sales	(1,098)	(870)
Selling expenses	(1,013)	(1,020)
Research and development expenses	(211)	(206)
General and administrative expenses	(651)	(674)
Net financing expenses related to pensions and other post-retirement benefits	(49)	(174)
Total	(3,022)	(2,944)

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 2009 statement of income for share-based compensation amounted to €23 million and are included in salaries and wages (2008: €20 million).

Performance-related shares

Series	Balance at January 1, 2009	Granted in 2009	Vested in 2009	Forfeited in 2009	Dividend in 2009 ¹	Balance at December 31, 2009	Vested on January 1, 2010
2006 – 2008	442,226	–	(442,226)	–	–	–	–
2007 – 2009	672,987	226,766	–	(15,100)	59,001	943,654	943,654
2008 – 2010	526,152	10,422	–	(8,855)	26,921	554,640	–
2009 – 2011	–	1,127,705	–	(11,813)	56,799	1,172,691	–
Total	1,641,365	1,364,893	(442,226)	(35,768)	142,721	2,670,985	943,654

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

The shares of the series 2006 – 2008 have vested and were delivered to the participants in 2009. The share price of a common AkzoNobel share at December 31, 2009, amounted to €46.40 (2008: €29.44).

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. Stock

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 2009 was 579 (2008: 548). 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, 2007, until December 31, 2009, resulted in a second position within the ranking of the peer group companies. The vesting percentage of the 2007 grant amounted to 135 percent (series 2006 – 2008: 70 percent), including dividend shares of 11.69 percent (series 2006 – 2008: 9.09 percent), the final vesting percentage amounted to 150.78 percent (series 2006 – 2008: 76.36 percent).

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 shares 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 €26.39 per performance-related share conditionally granted in 2009 (2008: €33.98). The 2009 charge recognized for performance-related shares aggregated €21 million (2008: €16 million).

For further details on our performance-related share plan, see page 70.

options cannot be exercised during the first three years. 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. 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 (ADRs), a total of 51,540 option rights, to exchange for Akzo Nobel N.V. shares, remain outstanding at year-end (2008: 70,220).

Outstanding stock options¹

Year of issue	Exercise price in €	Outstanding per January 1, 2009	Exercised in 2009	Expired in 2009	Forfeited in 2009	Outstanding at December 31, 2009	Expiry date
Unconditional options:							
2001	46.75	51,322	–	–	–	51,322	April 30, 2011
2002	46.53	203,080	–	(196,040)	(7,040)	–	April 25, 2009
2002	46.53	107,250	–	–	–	107,250	April 25, 2012
2003	19.51	167,411	(71,380)	–	(4,280)	91,751	April 22, 2010
2004	31.45	303,600	(23,200)	–	(10,400)	270,000	April 25, 2011
2005	31.98	452,287	(41,993)	–	(3,807)	406,487	April 24, 2012
2006	46.46	463,960	–	–	(5,189)	458,771	April 26, 2013
		1,748,910	(136,573)	(196,040)	(30,716)	1,385,581	
Conditional options:							
2007	58.89	510,708	–	–	(9,449)	501,259	April 26, 2014
Total		2,259,618	(136,573)	(196,040)	(40,165)	1,886,840	

¹ Including the Board of Management.

Number and weighted average exercise price stock options

	Number of options	Weighted average exercise price in €
Balance at January 1, 2008	2,457,722	41.70
Forfeited during the period	(28,099)	39.49
Exercised during the period	(170,005)	33.11
Balance at December 31, 2008	2,259,618	42.37
Forfeited during the period	(40,165)	41.27
Expired	(196,040)	46.53
Exercised during the period	(136,573)	25.37
Balance at December 31, 2009	1,886,840	43.20
Exercisable at December 31, 2009	1,385,581	37.52

The stock options are equity-settled. 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 2009 for stock options was €2 million (2008: €4 million).

For stock options exercised during 2009, the weighted average of the actual share prices at date of exercise amounted to €38.59 (2008: €51.31).

Note 9 Intangible assets

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
Balance at January 1, 2008					
Acquisition cost	502	104	110	68	784
Cost of internally developed intangibles	–	–	–	12	12
Accumulated amortization/impairment	(39)	(3)	(40)	(45)	(127)
Carrying value	463	101	70	35	669
Movements in 2008					
Acquisitions through business combinations ¹	4,485	2,344	1,181	305	8,315
Other investments – including internally developed intangibles	10	–	2	43	55
Divestments	(3)	(6)	(3)	–	(12)
Amortization	–	(18)	(101)	(40)	(159)
Impairments	(1,215)	(79)	(2)	–	(1,296)
Changes in exchange rates	(176)	(195)	(33)	4	(400)
Total changes	3,101	2,046	1,044	312	6,503
Balance at December 31, 2008					
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 at year-end 2008	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	–	(16)	(106)	(37)	(159)
Impairments	–	–	–	(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 ²	(1,360)	(112)	(250)	(137)	(1,859)
Carrying value at year-end 2009	3,703	2,226	1,084	375	7,388

¹ Mainly ICI.² Accumulated amortization/impairment includes €1,275 million impairment recorded on ICI intangibles in 2008.

Amortization and impairment charges per cost category

In € millions	Amortization		Impairment		Total	
	2008	2009	2008	2009	2008	2009
Cost of sales	(7)	(6)	(21)	–	(28)	(6)
Selling expenses	(133)	(123)	–	(1)	(133)	(124)
Impairment of ICI intangibles	–	–	(1,275)	–	(1,275)	–
General and administrative expenses	(14)	(24)	–	–	(14)	(24)
Research and development expenses	(5)	(6)	–	–	(5)	(6)
Other operating income/(expenses)	–	–	–	(8)	–	(8)
Total	(159)	(159)	(1,296)	(9)	(1,455)	(168)

Goodwill and other intangibles per segment

In € millions	Goodwill		Brands with indefinite useful lives ¹		Other intangibles with finite useful lives	
	2008	2009	2008	2009	2008	2009
Decorative Paints	2,368	2,515	1,643	1,760	818	798
Performance Coatings	541	529	–	–	249	213
Specialty Chemicals	655	659	56	56	842	858
Total	3,564	3,703	1,699	1,816	1,909	1,869

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.

Other intangibles include licenses, know-how, intellectual property rights and development cost. Both at year-end 2009 and 2008, there were no purchase commitments for individual intangible assets. Neither were there any intangible assets 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 2009, no impairment was recorded for any business unit (2008: non-cash impairment charge of €1,275 million after tax).

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, except for the emerging markets.

Average revenue growth rates per forecast period per business area

In %/year	2010 – 2014		2015 – 2019	
Decorative Paints	5.6		3.9	
Performance Coatings	3.3		2.7	
Specialty Chemicals	4.6		3.0	

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 8.9 percent to 21.7 percent, with an average of 12.8 percent.

A significant amount of goodwill is allocated to the European businesses of Decorative Paints. 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.

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, 2008						
Cost of acquisition	1,597	4,194	616	181	48	6,636
Accumulated depreciation/impairment	(823)	(3,100)	(471)	–	(39)	(4,433)
Carrying value	774	1,094	145	181	9	2,203
Movements in 2008						
Acquisitions through business combinations ¹	569	683	75	72	1	1,400
Divestments	–	(21)	(9)	(6)	(1)	(37)
Capital expenditures	102	357	58	17	–	534
Transfer between categories	(5)	14	(11)	–	2	–
Depreciation	(81)	(320)	(51)	–	(1)	(453)
Impairment	(67)	(56)	(5)	(3)	(3)	(134)
Changes in exchange rates	(55)	(57)	(33)	(11)	–	(156)
Total changes	463	600	24	69	(2)	1,154
Balance at December 31, 2008						
Cost of acquisition	2,146	4,875	627	250	22	7,920
Accumulated depreciation/impairment	(909)	(3,181)	(458)	–	(15)	(4,563)
Carrying value at year-end 2008	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	65	400	46	22	1	534
Transfer between categories	13	9	(26)	–	4	–
Depreciation	(82)	(327)	(48)	–	(1)	(458)
Impairment	(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

¹ Mainly ICI.

In 2009, impairment charges have been recognized for an amount of €54 million (2008: €134 million). The impairment charges have been recognized in the cost of sales. The impairment charges related to restructuring activities in, among others, Sweden, Poland, Italy and China.

The carrying value of the property, plant and equipment financed by hire purchase and leasing and not legally owned by the company is €17 million (2008: €17 million), €10 million of which related to buildings and land, €3 million to plant equipment and machinery and €4 million to other equipment.

Purchase commitments for property, plant and equipment totaled €60 million (2008: €92 million).

Depreciation per cost category

In € millions	2008	2009
Cost of sales	(331)	(317)
Selling expenses	(58)	(72)
General and administrative expenses	(50)	(54)
Research and development expenses	(14)	(15)
Total	(453)	(458)

Note 11 Investments in associates and joint ventures

At year-end 2009, the carrying value of investments in associates amounted to €79 million (2008: €88 million) and in joint ventures €96 million (2008: €113 million).

Summary of financial information on a 100 percent basis

In € millions	Associates		Joint ventures	
	2008	2009	2008	2009
Information on the statement of income:				
- Revenue	304	95	668	600
- Income before tax	27	17	31	43
- Net income	17	6	23	32
Condensed balance sheet:				
- Current assets	156	185	148	60
- Non-current assets	67	25	237	205
Total assets	223	210	385	265
- Current liabilities	44	71	116	-
- Non-current liabilities	30	29	81	74
- Shareholders' equity	149	110	188	191
Total liabilities and equity	223	210	385	265

In 2009, the results from associates and joint ventures amounted to a profit of €22 million (2008: €25 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).

Note 12 Other financial non-current assets

In € millions	2008	2009
Loans and receivables	315	374
Interest rate derivatives	40	27
Other than financial instruments	402	414
Total	757	815

The loans and receivables include the subordinated loan of €90 million granted to the AkzoNobel Pension Fund (APF) in the Netherlands and the non-current part of an escrow account of the AkzoNobel UK pension fund amounting to €167 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 €219 million related to pension plans in an asset position (2008: €142 million).

Note 13 Inventories

In € millions	2008	2009
Raw materials and supplies	522	407
Work in progress	84	73
Finished products and goods for resale	1,172	957
Inventory prepayments	3	4
Total	1,781	1,441

Of the total carrying value of inventories at December 31, 2009, €83 million is measured at net realizable value (2008: €73 million). In 2009, €32 million was recognized in the statement of income for the write-down of inventories (2008: €22 million), while €10 million of write-downs was reversed (2008: €9 million). There are no inventories subject to retention of title clauses. During 2009, an amount of €8.3 billion including direct employee benefits, depreciation and amortization was recognized as costs of goods sold, out of finished goods (2008: €8.8 billion).

Note 14 Trade and other receivables

In € millions	2008	2009
Trade receivables	2,097	1,890
Prepaid expenses	133	130
Tax receivables other than income tax	107	116
Receivables from associates and joint ventures	38	36
Forward exchange and commodity contracts	29	28
Other receivables	548	382
	2,952	2,582
Discounted portion	(28)	(18)
Total	2,924	2,564

Trade receivables are presented net of an allowance for impairment of €133 million (2008: €137 million). In 2009, €46 million of impairment losses were recognized in the statement of income (2008: €40 million).

Ageing of trade receivables

In € millions	2008	2009
Performing accounts receivable	1,555	1,592
Past due accounts receivables and not impaired:		
< 3 months	442	262
3 – 6 months	24	19
6 – 9 months	7	6
9 – 12 months	3	2
> 12 months	6	6
Impaired accounts receivables	197	136
Allowance for impairment	(137)	(133)
Total trade receivables	2,097	1,890

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	2008	2009
Opening balance	99	137
Additions charged to income	40	46
Release of unused amounts	(9)	(17)
Utilization	(18)	(39)
Acquisitions/divestments	33	1
Currency exchange differences	(8)	5
Closing balance	137	133

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	2008	2009
Short-term investments	401	1,171
Cash on hand and in banks	1,194	957
Included under cash and cash equivalents in the balance sheet	1,595	2,128
Debt to credit institutions	(146)	(209)
Total per cash flow statement	1,449	1,919

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, 2009, an amount of €143 million in cash and cash equivalents was restricted, mainly due to restrictions in certain countries to transfer cash.

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 General Meeting of Shareholders has in 2009 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	464,507,266
Total	1,600,019,200	464,526,466

Outstanding common shares

Number of shares	2008	2009
Outstanding at January 1	262,322,775	231,664,187
Issued in connection to stock options exercised and performance shares granted	1,088,384	589,446
Share buyback program	(31,746,972)	–
Balance at year-end	231,664,187	232,253,633

In 2008, we completed a share repurchase program of €1.4 billion. Under the program, we repurchased and subsequently canceled 31.7 million shares (12 percent of the issued share capital). We held no common shares at year-end 2009 or 2008.

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	2008	2009
Issued common shares at January 1	262,322,775	231,664,187
Effect of:		
- Share buyback	(15,542,100)	–
- Issued common shares during the year	944,435	405,258
Shares for basic earnings per share for the year	247,725,110	232,069,445
Effect of dilutive shares:		
- For stock options	359,618	264,013
- For performance-related shares	1,168,391	2,484,787
Shares for diluted earnings per share	249,253,119	234,818,245

Of the shareholders' equity of €7.8 billion, an amount of €7.1 billion (2008: €6.8 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	2008	2009
Shareholders' equity at year-end	7,463	7,775
Subscribed share capital	(463)	(465)
Subsidiaries' restrictions to transfer funds	(156)	(152)
Statutory reserve due to capital reduction	(77)	(77)
Revaluation reserve for step acquisitions	–	(7)
Reserve for development costs	(3)	(8)
Unrestricted reserves	6,764	7,066

At the 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 €1 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 initial 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. In 2008, an amount of €551 million was transferred to goodwill, which related to hedging activities for the acquisition of ICI. Tax related to cash flow hedges: 5 million negative (2008: €17 million positive).

Note 17 Provisions

Movements in provisions

In € millions	Total	Pensions and other post-retirement benefits	Restructuring of activities	Environmental costs	Other
Balance at January 1, 2009	2,917	1,626	165	318	808
Additions made during the year	648	179	263	40	166
Utilization	(961)	(451)	(198)	(31)	(281)
Amounts reversed during the year	(64)	–	(12)	(24)	(28)
Unwind of discount	60	–	2	32	26
Acquisitions/divestments	6	1	–	–	5
Pension plans changing to net asset position	77	77	–	–	–
Changes in exchange rates	33	7	6	17	3
Balance at December 31, 2009	2,716	1,439	226	352	699
Non-current portion of provisions	1,919	1,200	40	280	399
Current portion of provisions	797	239	186	72	300
Total	2,716	1,439	226	352	699

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 €33 million negative (2008: €117 million positive).

Equity-settled transactions include the stock option program and the performance-related share plan whereby options or shares are granted to the Board of Management 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 will propose to pay a total dividend of €1.35 per share to the Annual General Meeting on April 28, 2010. An interim dividend of €0.30 per share was paid in November 2009. Our dividend policy is based on an annual pay-out ratio of at least 45 percent of net income before incidentals and fair value adjustments for the ICI acquisition. This proposed full-year dividend of €1.35 per share represents a 57 percent payment under our policy. In May 2009, we paid €1.40 as final dividend for 2008.

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 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 opposite 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-retirement benefit obligations

In € millions	Pensions		Other post-retirement benefits	
	2008	2009	2008	2009
Defined benefit obligation				
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
Defined benefit obligation at year-end	(11,468)	(13,688)	(441)	(393)
Plan assets				
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	–	–
Plan assets at year-end	10,480	11,821	–	–
Funded status	(988)	(1,867)	(441)	(393)
Unrecognized net loss/(gain)	35	1,065	(11)	(4)
Unrecognized past service costs	–	4	(13)	(20)
Restriction on asset recognition	(34) ¹	–	–	–
Medicare receivable	–	–	(32)	(5)
Net balance pension provisions	(987)	(798)	(497)	(422)
Recorded under:				
- Provisions for pensions and other post-retirement benefits	(1,129)	(1,017)	(497)	(422)
- Other financial non-current assets	142	219	–	–
Total	(987)	(798)	(497)	(422)

¹ 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
Total	11,468	13,688

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	-	-	-
Funded status	(1,914)	(1,818)	(1,126)	(508)	(292)	(286)

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)
Total	(197)	256	1,477	(1,703)	93	3	-	(7)

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	-	-
Total	(126)	(215)	(56)	10

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
Pension benefit obligation at December 31:				
- Discount rate	6.3	5.6	6.0	5.3
- Rate of compensation increase	3.5	4.6		
Net periodic pension costs:				
- 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
Currently aged 60		
Male	25.4	25.3
Female	27.5	27.8
Currently aged 45, at age 60		
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
Total	100	100	100

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
Assumed healthcare cost trend rates at December 31:		
- 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	Other post-retirement benefits	
	Pensions	
2010	929	34
2011	923	34
2012	915	34
2013	918	33
2014	924	33
2015 – 2019	4,723	152

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 2009, the provision for antitrust cases amounted to €188 million (2008: €289 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.

Note 18 Long-term borrowings

In € millions	2008	2009
Debt issued	2,245	3,276
Debt to credit institutions	12	7
Other borrowings	84	205
Total	2,341	3,488

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.

In March 2009 a bond was issued of €750 million, maturing in six years, with an interest rate of 7.25 percent. In April 2009, a bond was issued of £250 million, maturing in seven years, with an interest rate of 8.0 percent. In June 2009, new private debt was issued of €150 million. In December 2009, we redeemed €215 million of debt due in 2011 and issued new debt of €225 million, maturing in five years by means of extending our 7.25 percent bond issued in March 2009.

Debt issued

In € millions	2008	2009
4¼ % 2003/11 (€750/€539 million)	756	533
5⅝ % 2003/13 (\$500 million)	395	347
7¾ % 2008/14 (€1 billion)	997	993
7¼ % 2009/15 (€750 million)	–	746
7¼ % 2009/15 (€225 million)	–	259
8 % 2009/16 (£250 million)	–	278
Other	97	120
Total	2,245	3,276

During 2009, the average effective interest rate was 5.87 percent (2008: 5.13 percent).

Aggregate maturities of long-term borrowings

In € millions	2011 – 2014	After 2014
Debt issued	1,994	1,282
Debt to credit institutions	7	–
Other borrowings	174	31
Total	2,175	1,313

On December 31, 2009 and 2008, the total amount of long-term credit facilities arranged by AkzoNobel was €1.5 billion, maturing in 2013. Both at year-end 2009 and 2008, this facility had not been drawn. On December 31, 2009 and 2008, none of the borrowings was secured by collateral.

Finance lease liabilities are included in other borrowings and aggregated €14 million. An amount of €3 million will mature within one year and €11 million will mature in the period 2011 through 2014.

Note 19 Short-term borrowings

In € millions	2008	2009
Commercial paper	20	–
Debt to credit institutions	146	209
Borrowings from associates and joint ventures	28	61
Current portion of long-term borrowings	1,144	114
Total	1,338	384

In May 2009, bonds totaling €1.0 billion matured which were classified as short-term borrowings at year-end 2008.

AkzoNobel has a \$1.0 billion commercial paper program and a €1.5 billion euro commercial paper program. On December 31, 2009, the commercial paper programs were not used (2008: €20 million). 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	2008	2009
Suppliers	1,584	1,522
Amounts payable to employees	221	230
Derivatives	213	112
Taxes and social security contributions	183	209
Prepayments by customers	16	23
Dividends	8	17
Payable to related parties	8	3
Other liabilities	752	750
Total	2,985	2,866

Note 21 Contingent liabilities and commitments

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 at 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 €352 million on December 31, 2009 (December 31, 2008: €318 million). The provision has been discounted using an average pre-tax discount rate of 4.3 percent (2008: 5.5 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 involved in investigations by the antitrust authorities in the European Union into alleged violations of the respective antitrust laws for some products in these jurisdictions. We are fully cooperating with the authorities in these investigations. In addition, we are defending civil damage claims in relation to alleged antitrust violations in the European Union and the US.

In November 2009, Akzo Nobel was fined by the European Commission in the Heat Stabilizers investigation initiated in 2003 and we recognized a provision for this fine. The total provision for the various antitrust cases at December 31, 2009, amounted to €188 million (2008: €289 million).

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: soda ash (€10 million) and metacrylates (€91 million). Our appeal against the European Commission's decision to fine the company for violation of the European competition laws regarding monochloroacetic acid (€84 million) was dismissed by the EU Court of First Instance (EU CFI, now called the General Court) in 2009. We decided not to appeal this judgment. The European Court of Justice dismissed our appeal of the EU CFI's 2007 judgment in choline chloride (€21 million) and we paid the fine. Finally, we have withdrawn our appeal of the EU Commission's decision in hydrogen peroxide and also paid the corresponding fine of €25 million.

It should be understood that, in light of possible future developments, such as (a) the outcome of investigations by the various antitrust authorities, (b) potential additional lawsuits by (direct or indirect) purchasers, (c) possible future civil settlements, and (d) rulings or judgments in the pending investigations or in related civil suits, the antitrust cases are likely to 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 investigations 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 a result, Glidden was dismissed from most of the pending cases and is currently a defendant in only two pending lawsuits, *The City of New York v Lead Industries Association, Inc, et al* and *Smith v Lead Industries Association, Inc, et al* (filed in 1989 and 1999 respectively). Glidden is indemnified by the Seller against the City of New York lawsuit. Glidden believes that it has strong defenses to the two remaining cases and will continue to defend all such actions. We have determined that the risk of cash outflow is approaching zero and we have not recognized a provision for this case.

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 states that it continues to defend against a number of lead-based lawsuits although it asserts that the claims are without merit. On March 28, 2008, the seller filed suit against Glidden in New York Supreme Court seeking to establish the alleged indemnification obligation. Glidden, which has assumed all of the purchaser's rights and obligations under the sale agreement, believes that it has no such obligation to indemnify the Seller and is defending against the claim. We are unable to reliably estimate any possible loss.

From the early 1970s until 1999, ICI Americas Inc. ("ICIA") operated and maintained two manufacturing facilities on behalf of the US Army. Employees at each facility were employed by ICIA and were members of ICIA pension plans. The US Army reimbursed to ICIA the cost of contributions to each pension plan until such time as the plans had a surplus. Upon termination of

the contract in 1999, each of the schemes continued to carry a surplus. In September 2004, the US Army Contracting Officer issued a final determination holding that termination of the contract triggered a refund to the US Government of an amount equal to the value of the 1999 pension surplus. ICIA filed an appeal of the final determination to the Armed Services Board of Contract Appeals (“Appeals Board”) on January 26, 2005. April 22, 2005, the US Army re-issued its final determination, amended to include an additional theory of liability. ICIA filed an appeal of the new final determination on July 14, 2005. In a decision dated May 24, 2007, the Appeals Board ruled in favor of the US Army on liability. The Appeals Board has agreed to stay further proceedings while the parties discuss a settlement. The company has taken a provision with respect to this matter.

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 result of operations or cash flows in any one accounting period.

Commitments

Purchase commitments for property, plant and equipment aggregated €60 million on December 31, 2009 (2008: €92 million). In addition, we have purchase commitments for raw materials and supplies incident to the ordinary conduct of business, for a total of €1.2 billion (2008: €1.5 billion).

Long-term commitments contracted in respect of leasehold, rental, operational leases, research, etc. aggregated €572 million on December 31, 2009 (December 31, 2008: €566 million).

Maturity of long-term commitments

In € millions	2008	2009
Payments due within one year	166	169
Payments between one and five years	312	289
Payments due after more than five years	88	114
Total	566	572

Guarantees related to investments in associates and joint ventures totaled €12 million (December 31, 2008: €16 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.

Note 22 Related party transactions

We purchased and sold goods and services to various related parties in which we hold a 50 percent or less equity interest (investment in associates and joint ventures). Such transactions were conducted at arm’s length with terms comparable to transactions with third parties. In 2009, a significant related party transaction was a €218 million gas supply (2008: €258 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 2009, AkzoNobel had a loan to the AkzoNobel Pension Fund in the Netherlands of €90 million (2008: €89 million). In recognition of a funding deficit at the ICI Pension Fund in the UK, the company has agreed to make top-up contributions of £175 million in the years 2010 and 2011 and of £195 million in each year from 2012 to 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 €224 million and the remainder by means of letters of credit.
- In recognition of a funding deficit at the Akzo Nobel (CPS) Pension Scheme in the UK, the company has agreed to make top-up contributions of £60 million in the years 2010 and 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 at the ICI Specialty Chemicals Fund in the UK, the company has agreed to make top-up contributions of £11 million in the years 2010 and 2011 and of £5 million in each year from 2012 to 2017.

We consider 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 2009. 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 €9.2 (2008: €7.6 million), €5.7 relates to short term employee benefits (2008: €4.9 million), €1.0 million to post-employment benefits (2008: €1.1 million) and €2.5 million to share-based compensation (2008: €1.6 million).

Supervisory Board

In €	Total remuneration	Remuneration	Attendance fee	Committee allowance fee			Employer's charges	Total remuneration
				Audit committee	Remuneration committee	Nomination committee		
	2008 ¹							2009
Karel Vuursteen, Chairman ^{2,4}	82,300	93,300	5,000	–	–	15,000	2,200	115,500
Maarten van den Bergh ³	132,300	16,700	–	–	–	2,500	–	19,200
Uwe-Ernst Bufe, Deputy Chairman ^{2,5}	82,300	58,300	22,500	2,500	–	–	2,200	85,500
Virginia Bottomley ⁴	77,300	50,000	20,000	–	10,000	–	2,200	82,200
Dolf van den Brink	77,300	50,000	5,000	20,000	–	–	2,200	77,200
Peggy Bruzelius	69,800	50,000	20,000	12,500	–	–	2,200	84,700
Antony Burgmans ⁴	60,000	50,000	5,000	–	14,200	–	–	69,200
Peter Ellwood ⁴	42,300	50,000	20,000	–	8,300	–	2,200	80,500
Louis Hughes	92,300	50,000	50,000	15,000	–	–	2,200	117,200
Total	715,900	468,300	147,500	50,000	32,500	17,500	15,400	731,200

¹ Restated for employer's charges.

² As from March 5, 2009.

³ Until March 5, 2009.

⁴ Also member of the Nomination committee.

⁵ Until March 5, 2009 member of the Audit committee.

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 grant 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	2008	2009
	Karel Vuursteen	400
Virginia Bottomley	1,758	1,758
Peggy Bruzelius	500	500
Peter Ellwood	–	500

Former members of the Supervisory Board did not receive any remuneration.

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.

Overview of remuneration

The members of the Board of Management received the following remuneration:

Board remuneration

In €	Salary		Short-term incentives		Other short-term benefits		Post-employment benefits		Share-based compensation		Total remuneration	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Hans Wijers	760,000	760,000	700,000	464,000	4,500	4,100	565,600	458,400	647,400	777,600	2,677,500	2,464,100
Leif Darner	570,000	570,000	340,000	339,300	173,900	151,900	291,400	208,600	431,400	546,600	1,806,700	1,816,400
Rob Frohn	570,000	570,000	340,000	339,300	7,200	54,400	156,200	146,000	431,400	546,600	1,504,800	1,656,300
Tex Gunning ¹	–	380,000	–	226,200	–	2,700	–	88,900	–	277,600	–	975,400
Keith Nichols ²	380,000	570,000	226,700	339,300	82,100	171,400	57,600	124,700	156,300	400,700	902,700	1,606,100
Total	2,280,000	2,850,000	1,606,700	1,708,100	267,700	384,500	1,070,800	1,026,600	1,666,500	2,549,100	6,891,700	8,518,300

¹ As from May 1, 2009.

² As from May 1, 2008.

Short-term incentive

The Board of Management and the Supervisory Board have considered the company's 2009 results in light of the current economic climate and the need to find the right balance between short and long-term incentives. As a result, they have decided to strengthen the link between the remuneration of the Board of Management and the medium and long-term targets of the company. Therefore, Mr. Hans Wijers, CEO, will defer receipt of 50 percent of his short-term incentive for 2009. Receipt of this deferred payment will be subject to the company achieving its medium-term target of an EBITDA margin of 14 percent by the end of 2011. The remaining members of the Board of Management will defer receipt of 25 percent of their short-term incentive for 2009 subject to the same condition. During the course of 2010, the Remuneration Committee will reflect further on current policy and the balance between short and long-term compensation and the company's targets.

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 (€112,700) related to employer's contribution in the UK, including a subsequent payment for the year 2008 (€51,300).

A compensation for living expenses and home leave allowances was paid to Mr Darner (€147,800) and Mr. Nichols (€58,700). Mr. Frohn received a contractual salary payment for 25 years service with AkzoNobel.

Post-employment benefits

We pay the pension contributions to a pension insurance company. Investments are at participant's risk. Amounts stated are after deduction of any contributions made by members of the Board of Management.

Share-based compensation

The costs for share-based compensation are non-cash and mainly related to the performance-related share plan following IFRS 2.

Stock options

As from 2008, no conditional, performance-related stock options were granted to the members of the Board of Management. The aggregate numbers of (conditional) 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, 2009	Exercised in 2009	Expired in 2009	Outstanding at December 31, 2009	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 €)						1,853,300	
Leif Darner	2002	46.53	4,950	–	(4,950)	–	April 25, 2009
	2003	19.51	4,950	(4,950)	–	–	April 22, 2010
	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 €)						628,100	
Rob Frohn	2002	46.53	4,950	–	(4,950)	–	April 25, 2009
	2003	19.51	4,950	(4,950)	–	–	April 22, 2010
	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 €)						187,600	
Keith Nichols ¹	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 €)						48,500	

¹ As from May 1, 2008.

Performance-related shares

With regard to the performance-related shares granted to the members of the Board of Management in 2007, the final vesting percentage of the 2007 grant equaled 135 percent (series 2006 – 2008: 70 percent), including dividend shares 150.78 percent (series 2006 – 2008: 76.36 percent). The members of the Board of Management will retain the shares for a minimum period of five years.

Number of performance-related shares

	Series	Balance at January 1, 2009	Granted in 2009	Vested in 2009	Forfeited in 2009	Dividend in 2009 ¹	Balance at December 31, 2009	Vested on January 1, 2010
Hans Wijers	2006 – 2008	17,564	–	17,564	–	–	–	–
	2007 – 2009	24,444	8,050	–	–	2,186	34,680	34,680
	2008 – 2010	17,464	–	–	–	888	18,352	–
	2009 – 2011	–	36,600	–	–	1,863	38,463	–
Leif Darner	2006 – 2008	11,531	–	11,531	–	–	–	–
	2007 – 2009	16,048	5,285	–	–	1,435	22,768	22,768
	2008 – 2010	12,058	–	–	–	614	12,672	–
	2009 – 2011	–	27,400	–	–	1,395	28,795	–
Rob Frohn	2006 – 2008	11,531	–	11,531	–	–	–	–
	2007 – 2009	16,048	5,285	–	–	1,435	22,768	22,768
	2008 – 2010	12,058	–	–	–	614	12,672	–
	2009 – 2011	–	27,400	–	–	1,395	28,795	–
Tex Gunning ²	2008 – 2010	4,020	–	–	–	204	4,224	–
	2009 – 2011	–	27,400	–	–	1,395	28,795	–
Keith Nichols ³	2006 – 2008	3,055	–	3,055	–	–	–	–
	2007 – 2009	4,517	1,488	–	–	403	6,408	6,408
	2008 – 2010	9,078	–	–	–	462	9,540	–
	2009 – 2011	–	27,400	–	–	1,395	28,795	–

¹ Equivalent in shares related to accumulated dividend, which is included in the balances at year-end.

² As from May 1, 2009.

³ As from May 1, 2008.

The shares of the series 2006 – 2008 have vested in 2009 and were delivered to the individual Board members in 2009.

Shares held by the Board of Management

	Number of shares at year-end	
	2008	2009
Hans Wijers	49,578	58,234
Leif Darner	29,003	36,473
Rob Frohn	25,525	33,056
Keith Nichols	1,500	3,443

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.

Former members of the Board of Management

In 2009, charges for former members of the Board of Management of €66,600 (2008: €700,000), related to pension expenses.

Note 24 Financial risk management and financial instruments

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 execute 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.

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. It is our policy to fully hedge our transactional foreign exchange rate exposures 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 pound sterling bond. The hedge started at inception of the £250 million bond issued in April 2009. In 2009, both of the hedges were fully effective.

Foreign currency transaction risk

The table below presents a breakdown of the notional amounts of outstanding foreign currency contracts for entities with other functional currencies than the euro.

Hedged notional amounts at year-end

In € millions	Buy	Sell	Buy	Sell
		2008		2009
US dollar	58	1,201	241	1,474
Pound sterling	747	97	848	144
Swedish krona	101	36	270	91
Other	138	951	296	252
Total	1,044	2,285	1,655	1,961

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 December 31, 2009, 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 €6 million (2008: €9 million) lower/higher. At December 31, 2009, 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 €1 million (2008: €1 million) higher/lower.

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 2009, the notional amounts of these futures are 1.7 million dekatherms, spread over all 12 months of 2010 (2008: 1.6 million dekatherms, spread over all 12 months of 2009). The total fair value of these futures is € nil at year-end (2008: €2 million negative). 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. At year-end 2009, the notional amount of oil call options is 41,700 barrels per month until September 2010. Income volatility caused by energy prices of the unit in Denmark has been hedged by an electricity price swap, concluded for 16,133 MWh per month until December 2010. 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 2009 – 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 €12 million loss net of deferred taxes in equity (2008: €25 million deferred loss). In 2009, nothing was recorded in cost of goods sold due to ineffectiveness (2008: €2 million loss). The amounts deferred in equity at year-end are expected to affect operational cost within the next five years.

We hedge our agricultural commodities for our specialty food and industrial starch businesses with futures and options contracts purchased at the Chicago Mercantile Exchange. We apply cash flow hedge accounting to these contracts and have operated an effective hedging program throughout 2009. The futures and cash markets for agricultural commodities have experienced volatility in 2009. Price peaks occurred in the second and fourth quarters of 2009 when adverse weather delayed the planting and harvest of crops in the American Midwest. Our standard practice is to hedge a substantial portion of our 2009/2010 crop. The deferred loss on January 1, 2009 was €24 million. During the year, we deferred a gain of €3 million in equity and recognized a loss of €27 million in inventories. At year-end 2009, we deferred a gain of €6 million.

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.

On December 31, 2009, if a parallel adjustment of the price curve of natural gas by €14,000 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 €2 million (2008: €2 million) higher/lower. This is due to the fair value changes of natural gas derivatives.

On December 31, 2009, if the price of oil had weakened/strengthened by €5 per barrel (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, post-tax profit would have been € nil higher/lower (2008: € nil).

On December 31, 2009, if the forward price of electricity on the Nord Pool exchange had weakened/strengthened by €4 per MWh (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, equity would have been €8 million (2008: €9 million) higher/lower. This is due to the fair value changes of electricity futures which have been accounted for under cash flow hedge accounting.

On December 31, 2009, if the forward prices of agricultural commodities were 10 percent weaker/stronger than the market prices actually prevailing at that date, with all other variables held constant, equity would have been €2 million higher/lower. This is due to the fair value changes of agricultural derivatives 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 56 percent fixed at year-end 2008 to 85 percent fixed at year-end 2009. The large increase in fixed/floating percentage is mainly due to maturing bonds in 2009 which were classified as floating in 2008.

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 have classified these interest rate swaps as fair value hedges and record them at fair value.

We apply fair value hedge accounting to the above-mentioned interest rate swaps and fixed rate bonds. During 2009, an amount of €14 million has been accounted for in the statement of income for fair value changes of the interest rate swaps and an amount of €14 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. During 2009, these hedge relationships were fully effective.

The effective interest rate (excluding hedge results) over 2009 was 6.33 percent. Combined with the hedge result (interest rate swaps), the effective interest rate was 5.87 percent.

Sensitivity analysis

At December 31, 2009, 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 €6 million higher/lower (2008: €6 million lower/higher).

At December 31, 2009, 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 € 3 million lower/higher (2008: €4 million lower/higher) .

At December 31, 2009, 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 €2 million higher/lower (2008: €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. Due to the global credit crisis in 2009, both the acceptable counterparty credit ratings and credit limits have been closely monitored and revised 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 2009, the credit risk on consolidated level was €5.0 billion (2008: €4.7 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 €224 million at year-end 2009. 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 2009, we had €1.9 billion available as cash and cash equivalents (2008: €1.4 billion), see note 15. In addition, we have a €1.5 billion multi-currency revolving credit facility expiring in 2013. Both at year-end 2009 and 2008, this facility had not been drawn. We have a commercial paper program in the US, which at both year-end 2009 and 2008 had a maximum of \$1.0 billion and a euro commercial paper program, which at both year-end 2009 and 2008 had a maximum of €1.5 billion. At December 31, 2009, the commercial paper programs were not used (2008: €20 million). The commercial paper programs can only be used to the extent that the equivalent portion of the revolving credit facility is not used.

In May 2009, bonds with an amount of €1.0 billion matured. In March 2009, a bond was issued of €750 million, maturing in six years, with an interest rate of 7.25 percent. In April 2009, a pound sterling bond was issued for £250 million, maturing in seven years, with an interest rate of 8 percent. In June 2009, new private debt was issued for €150 million. In December 2009, we refinanced €215 million of debt which matures in 2011. New debt of €225 million was issued, maturing in five years by means of extending the existing 7.25 percent bond issued in March 2009.

The table below analyzes our cash outflows per maturity group based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
At December 31, 2008:			
Borrowings	1,338	1,296	1,028
Interest on borrowings	138	490	78
Finance lease liabilities	4	17	-
Trade and other payables	2,985	-	-
Forward foreign exchange contracts (hedges):			
- Outflow	2,147	653	-
- Inflow	(1,328)	(495)	-
Interest rate swaps:			
- Outflow	16	57	-
- Inflow	(20)	(90)	-
Other derivatives:			
- Outflow	31	50	-
- Inflow	(21)	-	-
Total	5,290	1,978	1,106
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

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 2009 was Baa1/BBB+ with a negative outlook (year-end 2008: A3/A- 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 2009 at year-end amounted to 0.23 (2008: 0.29). Funds from operations are based on net cash from operating activities, which is adjusted, among others, for the elimination of changes in working capital, additional payments for pensions and for the effects of the underfunding of pension and other post-retirement benefit obligations. Net borrowings is calculated as a total of long- and short-term borrowings less cash and cash equivalents, adding an after-tax amount for the underfunding of pension benefit obligations and lease commitments.

Fair value of financial instruments and IAS 39 categories

The carrying values and estimated fair values of financial instruments are as follows:

Fair value per financial instruments category

In € millions	Carrying amount	Out of scope of IFRS 7	Carrying value per IAS 39 category		Total carrying value	Fair value
			Loans and receivables/ other liabilities	At fair value through profit or loss		
2008 year-end:						
Other financial non-current assets	757	402	315	40	355	355
Trade and other receivables	2,924	240	2,655	29	2,684	2,684
Cash and cash equivalents	1,595	–	–	1,595	1,595	1,595
Total financial assets	5,276	642	2,970	1,664	4,634	4,634
Long-term borrowings	2,341	–	2,341	–	2,341	2,376
Short-term borrowings	1,338	–	1,338	–	1,338	1,286
Trade and other payables	2,985	1,188	1,584	213	1,797	1,797
Total financial liabilities	6,664	1,188	5,263	213	5,476	5,459
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

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. As from 2009, we have 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 inputs).

All fair values of financial instruments carried at fair value through profit or loss in the table above are level 2 valuation methods.

Company financial statements

Statement of income

In € millions			
	Note	2008	2009
Net income/(loss) from subsidiaries, associates and joint ventures	b	(992)	355
Other net income	b	(94)	(70)
Total net income		(1,086)	285

Balance sheet as of December 31, before allocation of profit

In € millions			
	Note	2008	2009
Assets			
Non-current assets			
Financial non-current assets	c	14,076	15,418
Loans to associates and joint ventures	c	19	11
Total non-current assets		14,095	15,429
Current assets			
Trade and other receivables	d	676	201
Cash and cash equivalents	e	452	775
Total current assets		1,128	976
Total assets		15,223	16,405
Equity and liabilities			
Equity			
Subscribed share capital		463	465
Additional paid-in capital		–	2
Change in fair value of derivatives		(49)	(6)
Revaluation reserve		–	7
Other statutory reserves		236	237
Cumulative translation reserves		(1,130)	(777)
Other reserves		9,122	7,632
Undistributed profit		(1,179)	215
Shareholders' equity		7,463	7,775
Non-current liabilities			
Provision for subsidiaries	c	444	481
Long-term borrowings	f	5,819	7,744
Total non-current liabilities		6,263	8,225
Current liabilities			
Other short-term debt	g	1,497	405
Total current liabilities		1,497	405
Total equity and liabilities		15,223	16,405

Movements in shareholders' equity

In € millions	Subscribed share capital	Additional paid-in capital	Statutory reserves					Undistributed result	Shareholders' equity
			Cash flow hedge reserve	Revaluation reserve	Other statutory reserves	Cumulative translation reserves	Other reserves		
Balance at January 1, 2008	525	363	(510)	–	189	(51)	1,291	9,225	11,032
Changes in fair value of derivatives	–	–	(90)	–	–	–	–	–	(90)
Reclassification into the balance sheet	–	–	551	–	–	–	–	–	551
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	–	(1,079)	–	–	(1,079)
Net income/(loss)	–	–	–	–	–	–	–	(1,086)	(1,086)
Comprehensive income	–	–	461	–	–	(1,079)	–	(1,086)	(1,704)
Dividend paid	–	–	–	–	–	–	–	(458)	(458)
Equity-settled transactions	–	–	–	–	–	–	23	–	23
Issue of common shares	2	5	–	–	–	–	–	–	7
Buyback of shares	(64)	(368)	–	–	–	–	(1,005)	–	(1,437)
Addition to other reserves	–	–	–	–	–	–	8,860	(8,860)	–
Changes in statutory reserves	–	–	–	–	47	–	(47)	–	–
Balance at December 31, 2008	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

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

In € millions	Subsidiaries				
	Total	Share in capital	Loans ¹	Other financial non-current assets	Loans to associates and joint ventures
Balance at January 1, 2008	7,200	2,777	4,314	89	20
Acquisitions/capital contributions	12,470	12,470	-	-	-
Divestments/capital repayments	(4,715)	(4,715)	-	-	-
Net income from subsidiaries, associates and joint ventures	(992)	(992)	-	-	-
Equity-settled transactions	23	23	-	-	-
Change in fair value of derivatives	(66)	(66)	-	-	-
Loans granted	2,015	-	2,015	-	-
Repayment of loans	(833)	-	(832)	-	(1)
Changes in exchange rates	(1,261)	(1,246)	(16)	1	-
Other changes	(190)	(190)	-	-	-
Transfer to provision for subsidiaries	444	444	-	-	-
Balance at December 31, 2008	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 ²	(47)	(47)	-	-	-
Change to provisions for subsidiaries ³	37	37	-	-	-
Balance at December 31, 2009	15,429	8,537	6,760	121	11

¹ Loans to these companies have no fixed repayment schedule.

² Including €7 million revaluation reserve for step acquisitions.

³ At year-end 2009, the provisions for subsidiaries amounted to €481 million.

Note d Trade and other receivables

In € millions	2008	2009
Receivables from subsidiaries	625	157
Other receivables	51	44
Total	676	201

Note e Cash and cash equivalents

In € millions	2008	2009
Short-term investments	136	704
Cash on hand and in banks	316	71
Total	452	775

Note f Long-term borrowings

In € millions	2008	2009
Debentures	756	1,842
Debt to subsidiaries	5,063	5,752
Other borrowings	–	150
Total	5,819	7,744

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	2008	2009
4¼% 2003/11 (€750/€539 million)	756	533
7¼% 2009/15 (€750 million)	–	746
7¼% 2009/15 (€225 million)	–	259
8% 2009/16 (£250 million)	–	278
Other	–	26
Total	756	1,842

At year-end 2009 and 2008, the total amount of long-term credit facilities arranged by AkzoNobel was €1.5 billion, maturing in 2013. Both at year-end 2009 and 2008, this facility had not been drawn. At year-end 2009 and 2008, none of the borrowings was secured by collateral. Borrowings from subsidiaries have no fixed repayment schedule. Interest charged on these borrowings averaged 1.0 percent in 2009 (2008: 4.5 percent).

Note g Short-term debt

In € millions	2008	2009
Current portion of long-term borrowings	1,114	64
Debt to subsidiaries	47	23
Borrowings from associates and joint ventures	30	62
Commercial paper	20	–
Short-term bank loans	7	5
Other liabilities	279	251
Total	1,497	405

Akzo Nobel N.V. has a euro commercial paper program, which at year-end 2009 and 2008 had a maximum of €1.5 billion. At December 31, 2009, the commercial paper program was not used (2008: €20 million).

Note h Financial instruments

At December 31, 2009, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.6 billion (December 31, 2008: €1.0 billion), while contracts to sell currencies totaled €1.6 billion (December 31, 2008: €2.3 billion). The contracts mainly related to US dollars, Swedish krona, Norwegian kronor, and Japanese yen, and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidiaries, and the fair value changes are recognized in the statement of income to offset the fair value changes on the contracts with the subsidiaries. For information on risk exposure and risk management, see note 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 (art. 403 of Book 2 of the Netherlands Civil Code). These debts, at December 31, 2009, aggregating €0.5 billion (2008: €0.4 billion), are included in the consolidated balance sheet. Additionally, at December 31, 2009, guarantees were issued on behalf of consolidated companies for an amount of €2.8 billion (2007: €1.7 billion).

The debts and liabilities of the consolidated companies underlying these guarantees are included in the consolidated balance sheet or in the amount of long-term liabilities 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 €12 million (2008: €16 million).

Note j Auditor's fees

In € millions	2008			2009		
	In the Netherlands	Network outside the Netherlands	Total	In the Netherlands	Network outside the Netherlands	Total
Audit	4.8	9.5	14.3	3.4	6.9	10.3
Audit-related	0.1	1.0	1.1	0.5	0.1	0.6
Tax	–	0.6	0.6	–	0.4	0.4
Other services	–	–	–	–	0.3	0.3
Total	4.9	11.1	16.0	3.9	7.7	11.6

Amsterdam, February 16, 2010

The Board of Management	The Supervisory Board	
Hans Wijers	Karel Vuursteen	Antony Burgmans
Leif Darner	Uwe-Ernst Bufe	Peter Ellwood
Rob Frohn	Virginia Bottomley	Louis Hughes
Tex Gunning	Dolf van den Brink	
Keith Nichols	Peggy Bruzelius	

Other information

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 2009 of Akzo Nobel N.V., Amsterdam as set out on pages 81 to 128. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2009, the company statement of income for the year then ended and the notes.

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 management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2009, 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, 2009, 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 requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report as set out on pages 2 to 80 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, February 16, 2010

KPMG ACCOUNTANTS N.V.

E.H.W. Weusten RA

Profit allocation and distributions, and subsequent events

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, €285 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 €314 million (to be increased by dividend on shares issued in 2010 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.35 per share of €2, of which €0.30 was paid earlier as an interim dividend. The final dividend of €1.05 will be made available from May 11, 2010.

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

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The Sustainability facts and figures sections (pages 131 to 151) of the 2009 Report is separate from and does not in any way form part of the company's annual financial report ("jaarlijkse financiële verslaggeving"), as defined in article 5:25c of the Dutch Financial Markets Supervision Act for 2009. These sustainability sections contain summarized Key Performance Indicators (KPIs) relating to sustainability performance.

Further information on AkzoNobel's sustainability strategy, activities and results can be found in the Sustainability section of our corporate website:
www.akzonobel.com/sustainability/

2009 key figures

- Eco-premium solutions: 20 percent of revenue (2008:18 percent)
- Employee¹ injury rate: down 20 percent
- CO₂ emissions: first measurement cradle to gate
- CO₂ emissions (own operations): up 11 percent per ton of production
- Total waste: down 3 percent per ton of production
- Fresh water use: 99 percent of assessments complete up 1 percent per ton of production
- VOC emissions: up 16 percent per ton of production
- Code of Conduct training: completed by approximately 95 percent of employees
- Management training programs: 3,235 participants across 32 countries
- Employee engagement: 80 percent positive, continuous upward trend
- Community Program: more than 1,100 projects since 2005

¹ Includes supervised contractors in 2009.

All comparisons are with 2008 data.

Refer to reporting principles for details on comparability of data.

Sustainability framework

Introduction

Sustainability topics and data have been integrated into all sections of AkzoNobel's 2009 Report. This summary focuses on sustainability processes and activities that span our businesses. A more comprehensive overview of AkzoNobel's sustainability strategy, activities and results can be found in the Sustainability section of our corporate website: www.akzonobel.com/sustainability/

Sustainability framework

The framework (opposite) maps out the sustainability topics covered in this report. See also the index on page 156.

The AkzoNobel framework has three levels. Each includes environmental, economic and social aspects, which together map out the journey towards sustainability.

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.** The 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 executed by trained, experienced employees; improvement actions are driven by objectives; and verification achieved through 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 regulation.
- **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.

Manage: integrate 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 & Innovation groups focusing on product design for eco-efficiency, applying clever chemistry

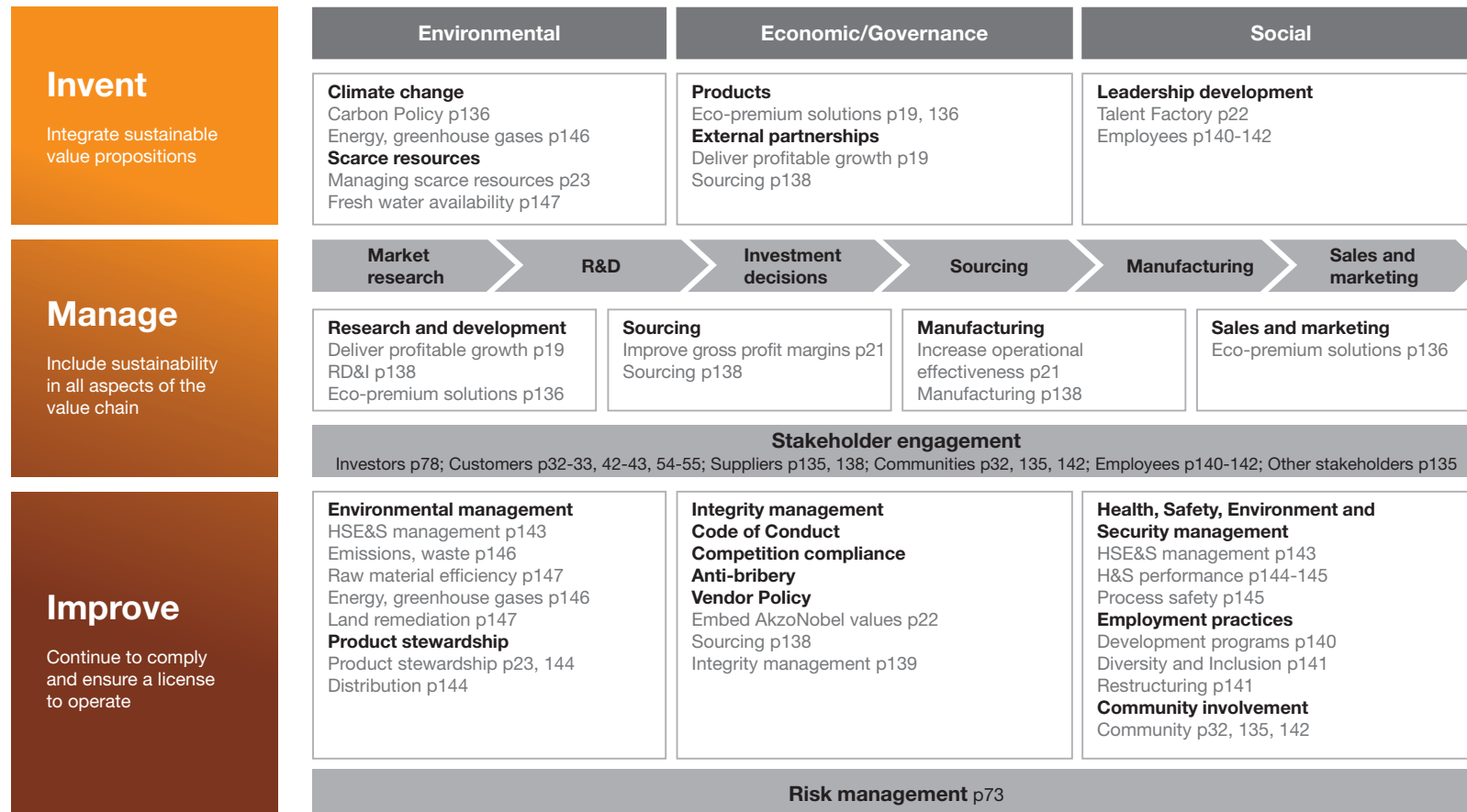
- Sourcing managers working in partnership with suppliers to control business integrity issues, and to help us deliver sustainable value to our customers
- Manufacturing sites optimizing processes, improving yields, improving energy efficiency
- Sales and marketing teams working with customers to develop eco-premium solutions.

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
- And increasingly working in partnership with a range of stakeholders to achieve transformational change.

Sustainability framework



Managing our values

Strategic focus

The importance of sustainability to running our business is firmly integrated into AkzoNobel's strategy. We have set 2015 targets for sustainable value creation in order to support our overall goals. Members of the Board of Management will monitor the company's financial and non-financial performance – using the strategic dashboard – on a quarterly basis.

Our specific sustainability objectives are:

- Remain in the top three of the Dow Jones Sustainability Index
- Achieve top quartile safety performance (against peer group)
- Deliver a step change in people development, in part through substantively improving the diversity of the company.

The dashboard specifies indicators, both leading and lagging, against each objective. Most key performance indicators have corporate improvement targets for 2015; other short and long-term targets are set at business level. Performance against the corporate targets is described in the following pages.

Sustainability framework

The way we manage sustainability continues to evolve. The focus has shifted away from an emphasis on risks – working on integrity, governance and compliance – towards creating opportunities for value creation through process excellence, innovation and talent development. We have developed a framework which demonstrates the essential relationship between all these elements (see page 132-133). It has three levels – each one including environmental, economic and social aspects – which together map out our sustainability journey.

- 1 **Improve:** continue to comply and ensure a license to operate – the foundations of how we operate as a company.
- 2 **Manage:** include sustainability in all aspects of the value chain.
- 3 **Invent:** integrate sustainable value propositions, providing long-term strategic value.

Management structure

We have established a Sustainability Council, which advises the Board of Management 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 Board of Management, Managing Directors from our businesses and Corporate Directors. The Corporate Director of Sustainability (including Health, Safety, Environment and Security) reports directly to the CEO and has a small central team.

The Managing Director of each business defines their respective non-financial targets and reports on progress every quarter. All businesses have also appointed a Sustainability Focal Point to support the embedding of sustainability throughout their operations. They bring together an appropriate team to develop and implement the sustainability agenda for the business. Focal Points from across the company have regular meetings to exchange best practices and identify opportunities for further development.

A Compliance Committee also exists to foster awareness of, and monitor compliance with, the Code of Conduct. Members include the General Counsel and Corporate Directors of Internal Audit, Control, Compliance and Human Resources. Each business has appointed a member of the management team to act as the Compliance Focal Point, 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 councils – such as HR, Sourcing and RD&I – comprising 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.

Implementation is monitored using:

- **Non-financial Letter of Representation.** At the end of the year, the Managing Director 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.
- **Corporate audits.** These include sustainability and compliance issues. The outcomes are shared with the Compliance Committee and Sustainability Council.

We strive to empower all employees to contribute and be accountable for the company's 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 on the Dow Jones Sustainability Index over a three-year period (see page 68).

Our processes for managing sustainability were again reviewed as part of our 2009 external assurance activity.

Objective	Metric	2015 target
Top three on DJSI	Position on DJSI	Top three
	Eco-premium solutions (percent of sales)	30%
	Cradle-to-gate carbon footprint (per ton of product)	Reduce 10% from 2009 Reduce 20 – 25% by 2020
	Sustainable fresh water (percent of sites)	100%
Top quartile safety performance	Total reportable injury rate	2.0
Step change in people development	Employee engagement	Improvement in employee survey index

Stakeholder activity

We have established engagement processes and activities with many stakeholder groups, which are described in other sections of this report: employees (pages 140-142); customers (business reports pages 32-33, 42-43, 54-55); suppliers (page 138); investors (page 78); communities (page 142).

Processes for engagement and collecting feedback from other external stakeholders will be improved in 2010. We currently engage in this dialog through a range of external projects and partnerships, which align with our sustainability ambitions for now and the future. This section highlights some examples covering different aspects of the sustainability agenda.

Sustainability in the supply chain

In November 2009, the Dutch Association of Investors for Sustainable Development (VBDO) recognized AkzoNobel for good sustainability practices in supply chain management. VBDO researched more than 40 Dutch companies as part of the study, which looks at areas such as transparency, to what extent sustainability has been embedded into daily business and how much effort is put into ensuring that suppliers follow sustainable behavior and practices. AkzoNobel was also commended for linking sustainability achievement to executive bonuses and merging sustainability reporting into its annual report.

Human rights

UN Global Compact project

AkzoNobel and nine participants in the UN Global Compact network in the Netherlands have taken part in a review of human rights practices within multinationals. This was in support of research into the implications of a report by Professor John Ruggie – the UN Secretary General's special representative on business and human rights. This research was adopted by the Human Rights Council in Geneva as an authoritative statement regarding the responsibilities of business with respect to human rights. As a follow-up to the research, the group in the Netherlands is focusing on sharing good practice implementation of various aspects, such as grievance procedures.

Suppliers and sustainable trade

The Accelerating Sustainable Trade conference – organized by the Dutch Sustainable Trade Initiative (IDH), the Dutch Association of Procurement Managers (NEVI) and AkzoNobel – attracted more than 600 participants. Our CEO, Hans Wijers, was a keynote speaker. This was the second conference of its type supported by AkzoNobel.

The 2009 event focused on sustainable sourcing and procurement from a range of perspectives – consumer demands, retail, traders and SMEs (small and medium enterprises). We were able to use this event to invite many suppliers, customers and other stakeholders, raising their awareness of sustainable sourcing issues.

Partnerships for malnutrition

The Amsterdam Initiative on Malnutrition aims to eradicate malnutrition in 100 million people in Africa by 2015. It was formed in May 2009 as a partnership between the Global Alliance for Improved Nutrition (GAIN), the Dutch Ministry of Foreign Affairs, Unilever, DSM, AkzoNobel and Wageningen University. The project focuses on reducing malnutrition among women and children in South Africa, Mozambique, Kenya and Tanzania. AkzoNobel is contributing technical expertise and training in products for combating iron deficiency.

This complements an agreement between AkzoNobel and the World Food Program to reduce iron deficiency by fortifying atta wheat flour in rural areas of the Betul district of Madhya Pradesh, India. AkzoNobel is supporting the WFP-run project by donating its bioavailable iron, Ferrazone (recommended by the World Health Organization as the only suitable iron for fortification of atta flour), as well as providing technical support. The two-year program is expected to reach more than 500,000 individuals in the district.

Eco-systems services

Working with the World Resources Institute and the World Business Council for Sustainable Development, AkzoNobel is piloting new tools to measure environmental impacts and opportunities for improvement.

Our involvement with the Eco-system Valuation Initiative started in 2008, when we took part in the WBCSD Future Leaders Team. That program explored how the Ecosystems Services Review (ESR) assessment tool could be incorporated into corporate decision-making processes. The objective of the ESR is to identify risk and opportunities by evaluating a business' dependence, and impact on, natural resources. The valuation initiative started in 2009 and will take this work further towards a quantitative economic valuation stage.

We have also taken part in developing the GHG Protocol Accounting and Reporting Guidelines for product lifecycles and corporate value chains (Scope 3) and will road test the drafts in 2010.

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, the World Resources Institute and Forum for the Future in the UK.

Invent

Integrate sustainable value propositions Eco-premium solutions

Eco-premium solutions help to create value for our business and our customers. They provide top line growth opportunities because of improved performance in areas such as raw material use, manufacturing processes and product innovation.

Our target is to increase the share of turnover 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 product in the market, which is a moving target.

One particular area of focus during 2009 was on developing desktop tools to help R&D and marketing groups develop solutions for customers which have excellent functionality, and which will also be eco-premium.

Our Marine and Protective Coatings business' Environmental Scorecard assesses products against nine parameters important to stakeholders in their markets. Decorative Paints also has an Environmental Impact Analyzer, developed in the UK with the NGO Forum for the Future, which is being extended ready for implementation across all regions.

Our businesses carry out an annual assessment of their portfolio. Total eco-premium sales are more than €2.5 billion. The proportion of eco-premium solutions has increased to 20 percent (2008:18 percent) against the interim milestone of 22 percent in 2009. This is divided between Specialty Chemicals (20 percent), Performance Coatings (18 percent) and Decorative Paints (22 percent). The 2009 analysis shows that sales growth in eco-premium solutions is ahead of the total product portfolio. For 60 percent of these solutions, the eco-efficiency benefit is realized by our customers as they use our products.

You can read about some of our eco-premium solutions in the Strategy sections (page 19) and Business performance (pages 43 and 54).

We also use this analysis to identify products that may not be sustainable in the longer term due to competitive or regulatory pressures. This is an important element of portfolio management, a topical example being the reduction of solvents in coatings products.

Cradle to Cradle studies

During 2009, we signed an umbrella contract with German professor Michael Braungart and his EPEA organization which allows all our businesses to explore the opportunities of the Cradle to Cradle (C2C) concept. The challenge is to design and produce chemicals or coatings that can be readily recovered as raw materials once a product's useful life has ended. Two businesses have identified opportunities which are being explored in detail. Five other "ideation" stage activities are in progress, during which businesses identify possible C2C product/market combinations.

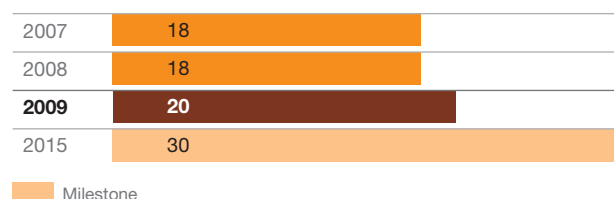
AkzoNobel Carbon Policy

Early in 2009, the Board of Management approved the company's Carbon Policy, including 2015 and 2020 improvement targets and ambition levels. This was the culmination of work initiated in 2008, which showed that the impact of carbon on

our business extends well beyond emissions from our own production processes. Our energy-intensive businesses have a track record of improving energy efficiency and adapting fuel mix to reduce greenhouse gas emissions and potential carbon costs. However, we recognized that managing carbon along the supply chain and during product application by our customers would provide even greater opportunities across the total business.

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. Our CEO, Hans Wijers, was asked to join the CNBC Carbon Council in November 2009. We are also signatories of the UN Global Compact's Caring for Climate platform, and communiqués from the Prince of Wales' Corporate Leaders Group on Climate, which urged action towards an international UN Climate Change treaty at the 2009 Copenhagen conference. We advocate the implementation of global cap-and-trade mechanisms on carbon emissions as a requirement to accelerate transition towards a low carbon economy. We will continue to press for this outcome.

Eco-premium solutions¹ in % of sales



¹ 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.

Cornerstones of 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 taken part in developing the GHG Protocol Accounting and Reporting Guidelines for product lifecycles and corporate value chains (Scope 3) and will road test the drafts in 2010. At country level, we are involved in various local initiatives. In the UK, for example, our Decorative Paints business worked with a large customer to pilot a new carbon footprinting standard.

Our framework for measuring the carbon footprint of products and facilities is based on the international Greenhouse Gas Protocol and lifecycle assessment. It was tested with the World Resources Institute and several Dutch NGOs. During 2009, our businesses identified and assessed the cradle-to-gate carbon footprint of key value chains representing between 68 and 100 percent of the production/sales of the business – 158 across AkzoNobel. The objective of this work was to understand the high carbon areas where improvements will deliver financial and environmental benefits. Customer use is a significant element of footprint for many of our coatings businesses. We have not yet set CO₂ reduction targets on the end-user application of our products, but we do measure key applications with customers to identify joint reduction opportunities.

We have assessed Scope 1 and 2 emissions for several years. However, the Scope 3 assessment is new. We have used current best practice methods – but there is more uncertainty in these figures.

This preliminary view of the company cradle-to-gate footprint indicates:

- More than 70 percent of the footprint is from raw materials extraction, processing and transport (Scope 3 upstream)
- The remaining 25 to 30 percent is from our own direct emissions and indirect emissions from energy use (Scope 1 and Scope 2).

The total cradle-to-gate footprint amounts to about 13.5 million tons CO₂ equivalent. The assessment will be further refined in 2010.

This confirms that the reduction of carbon footprint of our key raw materials is fundamental to achieving our objectives – an issue already reflected in our sourcing programs. Energy sourcing and related emissions are of particular importance for our Specialty Chemicals businesses.

Ambitions and targets

- 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 between 20 and 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 will be achieved through 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.

Scope 3 (upstream) includes GHG emissions from the extraction, production and transport of raw materials. Where possible, raw material data has been obtained from raw material suppliers, otherwise we have used recognized data sources and identified the best-fit proxy. The focus for 2010 will be to work with suppliers to refine the data for significant raw materials, and seek footprint improvements.

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. We have included upstream emissions from fuel extraction in Scope 2 rather than Scope 3.

The individual business footprint was calculated by extrapolating from these value chains, or from assessing the total raw material footprint from the main materials purchased, and total production and transport energy use.

Cradle-to-gate carbon footprint¹ in million tons of CO₂ (e)

Scope 3 upstream	9.7
Scope 1	1.3
Scope 2	2.5

¹ The carbon footprint of the six main greenhouse gases is measured from cradle-to-gate based on the international Greenhouse Gas (GHG) Protocol and Life Cycle Assessment ISO 14040-44. See Assessment method. Assessment excludes Chemicals Pakistan and National Starch. Additional footprint from new acquisition (approximately 0.5 million tons) will be reported next year.

Manage

Include sustainability in all aspects of the value chain

Including sustainability in all aspects of the value chain is making good progress – and increasingly the focus is on integrating this activity across the value chain.

Research, Development and Innovation

Sustainability and the reduction of our ecological footprint is a key driver for AkzoNobel's new strategy for Research, Development and Innovation (RD&I), as described in the Strategy section on page 19.

We use our eco-premium solutions metric – which considers the whole lifecycle – as the key performance indicator for our product sustainability performance (see page 136). Once again, two important focus areas have been VOC reduction and raw materials.

RD&I has set itself a zero VOC challenge. A cross-business group including R&D, marketing and product stewardship representatives is driving the work to achieve the current target of our combined coatings businesses of a 25 percent reduction of VOC in our products. They are also evaluating the feasibility of greater reductions and total elimination of VOCs.

Renewable raw materials are already used extensively throughout the company. A substantial proportion of our Surface Chemistry business' products is derived from natural materials, while the Decorative Paints and several Performance Coatings businesses are beginning to substitute renewable raw materials in their formulations. RD&I is working with the Sourcing group to identify areas for raw material rationalization and substitution, and to develop supplier partnerships. A cross-business group is looking for opportunities to replace petrochemical derived materials, ensuring we maintain product performance while achieving a cost-effective reduction in environmental footprint and continuity of supply. Decorative Paints is also implementing a new raw materials strategy to both reduce the number of raw materials it uses and help drive the move towards raw materials with lower ecological footprints.

We are continuing our efforts to reduce and eliminate specific materials of concern from our products. These include chromates for the protection of metal surfaces; biocides in marine antifouling coatings; isocyanates in polyurethane production; and cobalt as an auto-drier in decorative paints.

Manufacturing

For most businesses, the footprint of our direct activity is low compared with the impact of raw materials and use of our products. However, improving operational eco-efficiency is an important element of our manufacturing processes. We need to keep our focus on cost reduction, environmental protection and more effective use of raw materials, water and energy.

During the last few years of portfolio change, the operational efficiency performance of the overall company has essentially remained static. We have therefore developed expert groups for waste and waste water, energy and fresh water to accelerate this improvement activity. They provide support for site assessment and improvement activities, and provide a means of sharing good practice across the company.

This work operates on several levels:

- Incremental improvements focusing on reducing waste, energy, water or raw materials by more efficient operations. Engineers work with procurement professionals to find alternative uses for waste and waste water, for example as a raw material for another process, or to find more cost-effective disposal routes
- Process or product design improvements providing scope for eliminating waste at source and more energy-efficient operations
- Working to develop new, inherently low footprint technology.

During 2010, we will review more than 70 priority sites to form the basis of coherent improvement plans.

Waste improvements and energy opportunities

- Using the principles of reduce, reuse and recycle, our Packaging Coatings plant in Spain has reduced waste cleaning solvent use by 25 percent in one year and saved €64,000.
- One of our Surface Chemistry plants in Sweden has reduced the chemical oxygen demand of its waste water by 75 percent by installing a continuous monitor and improving employee awareness training.
- An Industrial Chemicals plant in the Netherlands has saved €0.6 million in product and reduced the chemical oxygen demand of its waste water by more than 50 percent by improving operating practices.
- Recent detailed energy efficiency diagnostics have identified improvement opportunities of between 30 and 35 percent over three years at a Specialty Chemicals plant in the US and a coatings plant in Germany.

Sourcing

AkzoNobel has been recognized for its sustainability practices in supply chain management by the Dutch Association of Investors for Sustainable Development (VBDO). See page 135.

Business Principles

Our Business Principles have been used in the company's Vendor Policy to set out the environmental and social standards expected of our suppliers. In the meantime, 85 percent of our product related suppliers have signed our Vendor Policy. The target for 2010 is 90 percent. This is complemented by support visits for suppliers in high growth countries. In 2009, AkzoNobel Sourcing identified 200 strategic suppliers who will be included in the company's supplier support visits (SSV). The number of SSVs will be expanded to 220 in 2010. The majority of these visits result in improvement plans with progress reviews as required. Most suppliers are enthusiastic about this approach, which has led to improved cooperation between our companies. A few have not been willing, or able to, live up to the responsibility criteria, so we have stopped our sourcing relationship.

In order to further develop SSVs, we have trained 150 procurement and HSE&S professionals in Asia Pacific and Latin America. In 2010, we will further standardize the reporting to improve shared learning and support the development of the second tier supplier assessments.

Examples of sustainability projects in sourcing

Carbon footprint

Sourcing has an important role to play in improving the eco-efficiency and carbon footprint of our products, since raw materials account for more than 70 percent of our cradle-to-gate footprint, and up to 95 percent in our coatings businesses. As part of the Carbon Policy roll-out, we have started working with suppliers to collect footprint information and to identify improvement opportunities – for example by using renewable raw materials. Product footprint information, the willingness to share data and to cooperate on improvements will play a major role in selecting future suppliers.

A new car lease policy (covering 9,000 cars) is being introduced which includes improved technical safety requirements and fuel efficiency and particulate standards. The target is a weighted average of 130g CO₂(e) per kilometer by 2013.

Improve

Key supplier management

In 2009, we developed a Key Supplier Management program. This involves cooperating with suppliers to work on value creation and innovation, focusing on sustainability issues such as enhancing eco-premium solutions for our customers. These programs – which involve multi-year agreements – are being set up with 15 global leading chemical players.

Talent management

The AkzoNobel Procurement Faculty provides standardized training for our worldwide procurement professionals. To date, we have trained more than 300 purchasers in Strategic Sourcing Methodology and Negotiations & Influencing in Sao Paulo, Shanghai, Chicago, London and Amsterdam. In 2009, we trained the Procurement Council – the business and corporate Sourcing leaders – on supplier relationship management, while in 2010 we plan to extend the negotiation and communications skills of this group.

Remuneration

Within Sourcing, the sustainability agenda is linked to individual remuneration. Every member of the Procurement Council and regional procurement councils has at least one sustainability target within their top five personal targets.

Continue to comply and ensure our license to operate

Integrity management

Integrity and responsibility in our actions is one of AkzoNobel's core values, embedded in our Code of Conduct and Business Principles.

We approach compliance issues by:

- 1 Assessing the main risks that could have an economic and/or reputational impact on our company
- 2 Developing clear norms and guidance
- 3 Providing support and training for those responsible for day-to-day compliance
- 4 Monitoring compliance with our norms.

Assessment and clear norms

AkzoNobel has worldwide standards and clear directives when it comes to compliance. Our Code of Conduct – which was updated in 2007 – incorporates fundamental principles on issues such as business integrity, labor relations, health, safety, environment and security and community involvement. It provides overall guidance on who we are and how we work.

We have also conducted a risk assessment specifically on compliance issues. The main risks identified were competition law and anti-bribery. For each of these, we have defined a clear norm and prepared a manual and training material for relevant

employees. For 2010, we will continue to focus on these main risks before extending guidance to the next priority risks.

Organizational structure on compliance

Compliance relies heavily on communication and having a network within the company which understands the importance of the topic. The structure is described in Managing our values on page 134.

Compliance systems

By the end of 2009, approximately 95 percent of employees had received Code of Conduct training. The Code will now be a specific element in all Performance and Development Dialog discussions. Additional courses on competition law and anti-bribery are available online for specific groups of employees. Legal Managers supplement this with face-to-face training for business management, sales, controllers and procurement teams. Employees who are most exposed to competition law issues (around 10,000 in 2009) are trained annually and sign a declaration to confirm adherence to the Competition Law Compliance Manual.

At business unit level, the annual non-financial Letter of Representation monitors compliance with the Code of Conduct and other corporate requirements. 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.

Supplier engagement

% of spend	2007	2008	2009	Target 2010
Raw material suppliers				
Vendor Policy signed	81	82	85	90
NPR ¹ business suppliers				
Vendor Policy signed				50
NPR ¹ centrally contracted suppliers				
Vendor Policy signed		80	89	100
Suppliers visited since 2007 (cumulative number)	100	152	185	220

¹ Non-product related.

Key Performance Indicators – integrity

	2008	2009	Target 2010
Code of Conduct incidents confirmed	84	198	
Code of Conduct trained (% employees)	31	~95	100
Competition law certification		10,000	

Compliance type

	2007	2008	2009
Business integrity: fraud/bribery, use/protection of assets	14	62	53
Misconduct			40
Equal and fair treatment	11	7	53
Conflict of interest	5	6	10
Health and safety	3	5	18
Free market competition	3	1	6
Other	0	3	18
Total	36	84	198

We launched a new whistle-blowing procedure in 2009 called Speak Up!, which is operated by a global, external organization. It encourages employees to voice any concerns to their manager or local HR management. If this is not possible, the employee may report the concern by telephone or via the internet. Each report is dealt with confidentially, with the results being fed back to the caller and reviewed by the Compliance Committee.

In total, 198 (2008: 84) alleged violations of the Code of Conduct were reported through a variety of channels. These resulted in 66 (2008: 61) contracts being terminated. The increase in the number of reported violations can be related to the emphasis on the new Speak Up! procedure. The outcome of all reports is analyzed and put in a broader perspective to determine what lessons can be learned.

Unfortunately, we were involved in two competition law cases, both of which related to the period prior to AkzoNobel's reinforced competition law compliance program introduced between 1999 and 2000. In November, the European Commission announced that AkzoNobel and (former) subsidiaries were among a number of companies it held responsible for alleged infringements from 1987 to 2000 in tin stabilizers; and 1991 to 2000 in ESBO/Esters and AkzoNobel was fined. In July, the European Commission announced its decision to fine nine companies for their involvement in a price-fixing cartel from 2004 to 2007 between several European producers of calcium carbide. AkzoNobel's subsidiary, Carbide Sweden AB, was involved in this cartel. The infringement was reported through our Speak Up! procedure.

We successfully applied for conditional immunity under the European Commission's Leniency Notice, with the Commission waiving the full amount of the fine. This case demonstrates the effectiveness of our competition law compliance program in identifying and adequately addressing such misbehavior.

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.

Feedback from employees continues to reinforce the importance of our Talent Factory ambition. Since 2006, our efforts have focused on the implementation of best practice programs and systems, while supporting the organization through times of significant change. These programs include our global performance and appraisal system – the Performance and Development Dialog; our leadership succession planning process Leadership Talent Review; harmonized compensation for executives and, more recently, the introduction of

standardized best practice global management development training programs for all AkzoNobel people managers.

In 2009, we refocused our efforts on two main areas – Talent Factory programs and HR capability.

Talent Factory programs

We have consolidated our targets and reporting into a Talent Factory Scorecard to track our operational progress and create transparency across all AkzoNobel businesses.

Performance and 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 have been integrated into the system and annual performance appraisal process.

In 2009, 72 percent (2008: 60 percent) of employees used the web-based process, with a paper system available for the remainder. The focus for 2010 will be on continuing to increase the number of online users, the timeliness of the process and the quality of the manager-employee dialog and development discussions.

Management development programs

Our standardized best practice global Management Essentials Program (MEP) is now fully operational in 32 countries. A total of 2,783 managers from across the globe have started the program,

Compliance source

	2007	2008	2009
Corporate complaints procedure	13	17	88
Internal BU investigation	17	46	94
Other sources	6	21	16
Total	36	84	198
Reports closed by December 31	31	71	167
Reports open on December 31	5	13	31
Number of dismissals	18	61	66

Refer to reporting principles for details on comparability of data

Key Performance Indicators – employees

Metric	2008	2009	Target 2010
Online P&D Dialog participation (%)	60 ¹	72	90
Women executives (%)	8	10	11.5
Non-western executives (%)	10	11	13
MEP training participation (cumulative)	527	2,783	3,500
AMP training participation (cumulative)	0	452	850
Employee engagement (% favorable)	78	80	80

¹ 2008 figures exclude former ICI employees.

Management development programs in cumulative participants

	Management Essentials Program		Advanced Management Program	
	2008	2009	2008	2009
Europe	182	914	0	199
Americas	117	913	0	80
Asia	228	956	0	173
Total	527	2,783	0	452

representing 32 percent of the total target population of first line managers. In total, 452 senior managers have participated in the Advanced Management Program (AMP), which represents 21 percent of the target population of senior managers.

Diversity and Inclusion

A workshop held at the end of 2008, which was attended by employees from across the company, led to recommendations for irreversible steps to improve our Diversity and Inclusion (D&I) performance. While not excluding other groups, our initial 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 the implementation of the recommended steps. Starting with executives, we analyzed key data on the make-up and demographics of our organization. We gathered feedback from our employees on D&I by including six new questions on the topic in our Global Employee Survey. More than 100 structured interviews were held with colleagues representing a cross-section of our company's demographics. We also launched an interactive, dialog-based internal website where employees are encouraged to take part in online discussions, to join a company-wide diversity Facebook and to engage with their colleagues on D&I related topics.

The data analysis and feedback from the survey and the structured interviews indicate that women and employees from high growth regions (our two initial focus areas) are treated fairly, with no obvious discrimination. We also noted that both of these groups are equally ambitious and that there is no significant difference in remuneration between female and male executives. Feedback from the structured interviews indicated that our people feel that AkzoNobel enables a good work-life balance.

Ten percent of our executive population is female. Even though we see a good representation of females in some senior functional and staff roles, we have identified opportunities to improve representation at all levels in the organization, in particular in senior commercial positions. The percentage of executives from non-western countries is 11 percent. There is a good representation of this group in some areas of the business, but we also need to make progress in further strengthening the leadership pipeline across these target areas.

Utilizing the data and feedback from employees, we developed a company-wide strategy, framework and phased approach to support our businesses to develop business-specific action plans to improve our D&I performance. A first wave of four of our global businesses is currently implementing these plans. We expect our other businesses to follow in 2010.

Restructuring

Driven by the economic climate, we carried out significant restructuring in 2009. 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.

HR capability

In 2009, we started a new drive to significantly increase HR capability, efficiency and effectiveness 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 business units operating in nine key countries, representing more than 70 percent of employees. The Netherlands organization was chosen to pilot this new approach. Learning will be transferred to other countries in 2010. The US and Sweden have also made notable progress.

HR IT and data systems

A change program to consolidate HR data and payroll systems, called OneView, will help us to increase data quality and reduce costs. In 2009, we selected our system supplier and piloted the tool in five countries. We will expand the geographical scope of our new global system in 2010 to encompass the remaining countries by the end of the year.

Executive diversity: female – male in %

GM/Sales	3
Support	18
Marketing	12
Manufacturing	10
R&D/Tech	7
Other	14
Total AkzoNobel	10

Female

Executive diversity: western – non-western in %

GM/Sales	19
Support	9
Marketing	8
Manufacturing	7
R&D/Tech	4
Other	5
Total AkzoNobel	11

Non-western

Employee Survey

The 2009 Employee Survey focused on delivery of our company values. We had planned a full survey, but instead surveyed a representative portion of our workforce (as we did in the previous two years), receiving feedback from more than 2,500 employees. The results reconfirmed the collaborative culture across AkzoNobel. Even in 2009's challenging economic climate, we saw a positive trend in engagement. We recorded particularly strong scores for Focusing on our customers' future first and Embracing entrepreneurial thinking. Furthermore, results related to Developing the talents of our people show improvement in support and resources and desire for more development opportunities.

During 2010 we plan to implement a full survey of all employees. We will start using the Gallup Q12 survey method and follow-up support to provide our managers with consistent detailed feedback of their own, and their team's performance. We envisage that a regular full global survey using this new method will support further engagement throughout the organization.

Community

AkzoNobel's main societal contributions fall into three areas:

- Societal programs that support community/social development through the company's Community Program and Education Fund
- Fighting malnutrition through our products and partnerships (see page 135)
- The social contribution of our overall business activities (employment, sourcing, taxation), particularly in high growth economies.

Community Program

AkzoNobel's Community Program encourages employees to engage in hands-on involvement in their local communities and provides them with the necessary financial support. This 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. It also provides opportunities for employees to develop team-building and leadership skills. Since the start of the program, more than 5,000 volunteers from 50 countries have worked on more than 1,000 projects, totaling more than €8 million. According to the NCDO Millennium Development Goal Scan methodology, these projects have impacted an estimated 350,000 people. Over the last three years, nearly 70 percent of projects have supported educational/employability and healthcare/well-being activities, with environmental and housing projects also well represented.

In 2009, 279 new projects were initiated. These were narrowed down to a shortlist of 16 and more than 1,800 employees around the world then voted for their favorite in our annual Community Program Best Practice competition. First prize went to Polymer Chemicals in Kyungju, South Korea, for their "Surrounding orphans with love" project. This involved creating a warm and comfortable family environment for children at the Dae-ja-won orphanage. Twelve employees worked on cleaning and gardening to help get the site in order. A roster is now in place for the team to visit each month, when they spend time with the children, as well as continuing to provide practical support.

Education Fund 15th anniversary

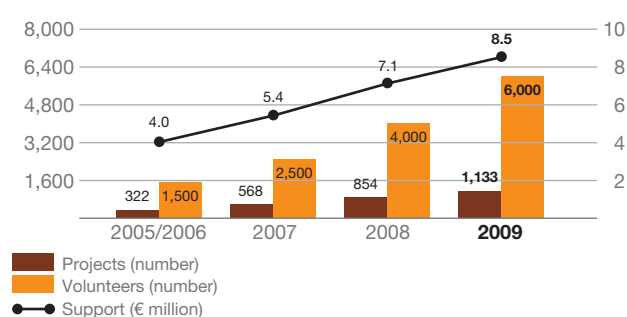
AkzoNobel set up the Education Fund '94 in partnership with Plan Nederland. The aim was to help children in developing countries fulfill their potential by improving the quality of their education. Around €2 million from company support and employee fundraising has been invested in around 65 projects in 15 countries. Projects have included improving school infrastructure, teacher training, promoting health and hygiene and dealing with issues such as bullying, harassment and corporal punishment.

Plan Nederland estimates that several thousand children aged from 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.

Global Employee Survey results 2009

	Favorable	Neutral	Unfavorable
Customers' future first	86	10	4
Integration	82	14	4
Entrepreneurial thinking	81	13	6
Engagement	80	15	5
HSE	76	18	6
Diversity and inclusion	74	17	9
Integrity and responsibility	73	19	8
Survey utilization	70	22	8
Courage and curiosity	67	23	10
Developing talents	56	27	17

Cumulative Community Program involvement



Health, Safety, Environment and Security Management

Managing Health, Safety, Environmental and Security (HSE&S) issues 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.

Our HSE&S management system drives improvement on underlying issues that are important for future success. At company level, we have HSE&S Key Performance Indicators included in the strategy dashboard, with improvement targets and reporting requirements. There are also additional HSE&S metrics to monitor performance. The individual businesses and sites are responsible for developing, executing and monitoring improvement objectives and programs to achieve the required performance.

Integration activities

Following the 2008 integration activities, in 2009 we focused on implementing and embedding the changes to standards and systems. The main areas have been:

- Implementing the new standards for process safety and occupational health
- Embedding new KPIs and reporting
- Piloting the new HSE&S audit process
- Strengthening safety leadership and crisis management processes
- Incident investigation and shared learning.

Crisis management

The crisis management processes have been strengthened and detailed guidance on notification and handling of potential crises have been implemented at our operating sites. Several simulation exercises, which tested the full response and communications chains from site to business unit to corporate level, have been chaired by a Board member.

Leadership training

We have developed a Safety Leadership Program targeted at senior business leaders. The first sessions, held in the Netherlands, involved all members of the Board of Management and the Corporate Directors. The program is being rolled out across business management teams.

Shared learning

Two regional HSE&S managers have been appointed in the Americas and Asia Pacific to improve cross-business learning and sharing of best practices. They have supported businesses in the setting up of regional/country networks and the organization of workshops to build HSE&S capability and improve awareness and compliance with HSE&S legal and internal requirements.

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. Where appropriate, they develop local language versions for onward transmission. A global incident reporting system will be rolled out during 2010.

HSE&S capability building and career development

Following a company-wide HSE&S risk assessment, we have started a project to strengthen and formalize our HSE&S capability standards and development processes. This will cover both HSE&S professionals and management roles with critical HSE&S functions, including production managers, responsible engineers and site managers. The competency framework will be built into the annual performance assessment and development planning activity during 2010.

Reliable operations

Operational management systems at our sites are integrated on 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 auditing department. During 2009, we carried out 60 corporate HSE&S audits and six re-assurance audits. The first group of audits was used to test, calibrate and fine-tune the new process. Sites and auditors have been positive about the depth of analysis available and the focus on priority improvement actions and follow-up. Based on the outcome of these audits, we have successfully calibrated and further improved our new auditing method. Improvements and adjustments have been made and internal auditor training is planned for the start of 2010. The new process will be fully implemented across all our sites.

Major warehouses and all manufacturing sites undergo periodic audit by multidisciplinary teams of HSE&S specialists. Larger sites also have external insurance audits. The HSE&S audit intervals are risk-based and are determined by the inherent hazards present on site and the outcome of the periodic audit. All sites are audited at least once every five years. During 2010 we will introduce a modified audit protocol for offices.

Serious Incidents

There were nine serious incidents (Level 3) during 2009. In order to improve management focus and learning from serious incidents, we have extended the corporate requirements for incident reporting. There are now three categories, ranging from

Management audits number of audits

2006	46
2007	64
2008	61
2009	66

Serious incidents number of incidents

2005	15
2006	3
2007	4
2008	2
2009	9

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 reputation damage.

local impact to serious incident. These incidents are investigated to identify root causes, take remedial action and share learning as appropriate across our other sites.

We regret that three contractors died while working for AkzoNobel during 2009. In May, an AkzoNobel contractor was among the fatalities in a terrorist bomb attack on a government building in Lahore (Pakistan). Two months later, a contract operator died as a result of an equipment incident at a plant in Tunisia, while in November, a contract painter suffered a fatal head injury at a customer site in Singapore when he was hit by falling debris from a wall being prepared for painting. Although not under our control, three incidents involved fatalities to truck drivers in Colombia, China and India, while they were distributing our products. Finally, three members of the public died in Equador, Egypt and Russia following motor vehicle incidents involving our employees. All these incidents have renewed our focus on contractor management and adequate equipment isolation.

Regulatory actions

We have defined three categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications (Level 3), and are reporting on these for the first time. There were three Level 3 incidents during 2009 – a waste water consent exceedance in Rotterdam; a cubic meter paint spill to the rain water sewer in Tiszaujvaros, Hungary; and a serious injury in Barcelona which resulted in a legal investigation.

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.

Our business travelers and employees in some parts of the world are subject to less controllable risks. Since 2009, we have been using an external provider to supply in-depth global information, real time updates on potential security threats and health risks, and expert support during any crisis situation.

Product stewardship

The overall aim of our product stewardship activity is to ensure that products are developed, produced and marketed in accordance with legal requirements, in a way which supports our approach to long-term sustainability.

During 2009, we formalized our product stewardship management under a Global Product Stewardship and Regulatory Affairs Council. This council will integrate good practice from across our businesses into a product stewardship framework, ensuring that resources, training and audits are optimized. Focus areas for 2010 will be developing the concept of categories of control, updating risk assessments, further use of lifecycle assessment for new products and a review of animal testing protocols and alternatives.

We continue to dedicate significant resources to meeting legal requirements for all substances and products in countries where we conduct business. In Europe, we are working in Substance Information Exchange Forums (SIEFs) and consortia towards the initial 2010 REACH registrations and the submission of our substance classifications to the European Chemicals Agency. In Asia, we are working towards implementing a range of new notification requirements, in addition to implementing the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) in the US, Japan, Europe and other areas around the world. We regard this as a powerful, though resource intensive, initiative to safeguard the correct use of chemicals across the globe.

We are also increasing our focus on the distribution aspect of product stewardship. There were 52 distribution incidents during 2009 involving the transport of our products by road (44), sea (7) and rail (1) (see also Serious incidents on page 143).

We are working with sourcing groups to improve the safety performance of contract distribution companies. Activities include contractual requirements, distribution contractor selection and improved contractor management.

Health and Safety performance

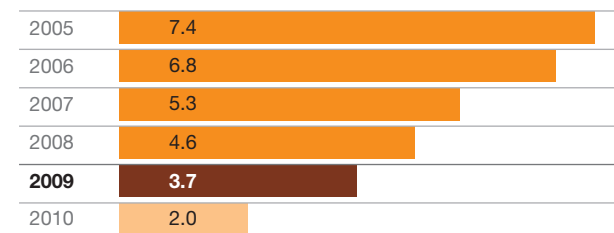
Occupational safety

The human factor remains an essential element in safety management. In 2006, we set an ambitious safety performance target for 2010 aimed at reducing the total reportable rate (TRR) for injuries to 2.0 per one million hours worked. Quarterly reports on business safety improvement programs and agreed targets are reviewed by the relevant member of the Board of Management.

Since 2009, we have reported the safety performance of employees together with our supervised contractors. The TRR for this group has improved to 3.7 injuries per million hours worked (2008: 4.6 for employees only). The rate for independent contractors is 2.8 per million hours (2008: 5.2 for all contractors).

Employees and supervised contractors total reportable rate of injuries

Injury rate



■ Milestone

Data for 2005 to 2008 for 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 1,000,000 hours worked.

There has been a steady reduction in TRR since 2005, with good progress towards the 2010 milestone rate of 2.0, as well as more consistency of performance across the businesses. In total, 70 percent of our units are performing at or better than the milestone, representing nearly half of the hours worked by our employees. The Lost Time Injury (LTI) rate, indicating the more serious cases, stands at 1.5 (2008: 1.9) for employees and supervised contractors against the 2010 milestone of 0.5.

Our ambition for 2015 is to be in the top quartile of our peer group in TRR performance. We have broadened the definition and set the milestone at 2.0 for employees and supervised contractors.

Behavior-based safety improvement processes – which involve employees and focus on reducing unsafe situations and unsafe behaviors – are in place at more than 50 percent of our sites worldwide. These are being supplemented by the leadership training described elsewhere in this section.

Safe driving

In 2009 we began monitoring vehicle incidents. There were 457 incidents during the year, 31 involving injury.

Independent contractors total reportable rate of injuries

Injury rate	
2005	–
2006	–
2007	–
2008	5.2
2009	2.8

Data for 2008 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 1,000,000 hours worked.

In addition to existing on-road safe or defensive driving training, we have run successful pilots of an e-learning program for employees in the US, which were extended worldwide for the Car Refinishes business. In 2010, we will develop a company-wide approach for training those who drive on company business, with the expectation of extending the opportunity for an e-learning package to all employees and their families.

Employee health

As well as ensuring a safe working environment, we also focus on employee health and managing illness absence. Businesses implemented a health management standard during the year. The Total Illness Absence Rate has remained stable at 2.0 percent (2008: 2.2 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 0.4 illnesses per million hours (2008: 0.3). From 2008, our reporting criteria were expanded in line with the CEFIC occupational illness categories. The results indicate that 57 percent of the illnesses are caused by physical agents (noise and back/limb disorders) and 39 percent by chemical agents causing skin diseases and other effects. This data has allowed sites to focus their efforts on eliminating the causes, supported with guidance and assistance from the corporate health group.

Following a number of pilots, our Wellness Check Point program has been identified as the company's occupational health tool of choice, with more than 3,000 employees currently using the system. This is a health initiative which allows employees and their families to prepare their own personal health risk assessments and health improvement plans. The aggregated, anonymous results will be used to shape local and business health management programs.

During early 2009, we were able to activate our Pandemic Preparedness Planning in response to the H1N1 influenza outbreak. Measures were rolled out per business and per country, focused on hygiene aspects and business continuity planning. We also issued a generic pandemic guidance note which will be applicable for other types of health threats to our employees.

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. A newly-formed global process safety network has developed additional guidance, training materials and a specialist audit protocol. Leading indicators to monitor implementation and support continuous improvement have also been identified. We are using "Loss of Containment" as the indicator for asset integrity management – four categories indicate the severity of the loss, from a small on-site spill to a major emission of toxic/hazardous materials (Level 4).

There was one serious loss of containment (Level 4) during 2009. In July, an ignition and 500 kg chlorine escape in Ibbenbüren (Germany) resulted in minor injuries to three operators. The incident was the result of a short power dip in the main power grid caused by a lightning strike. An emergency back-up system was in place but could not respond effectively.

In 2009, we introduced an improved hazard assessment methodology covering the full lifecycle of our assets – conceptual design, process design, project execution, project start-up and continued safe operations. Training for hazard study leaders and teams and other process safety specialists has already started, which means they are ready to support businesses in their management of process safety/asset integrity.

Environmental performance

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 on pages 136-137. 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.

In 2009, our energy and greenhouse gas emissions reporting was updated to more fully align with the Greenhouse Gas (GHG) Protocol, so 2008 and 2009 figures are not directly comparable. We include the six main greenhouse gases; CO₂ calculations and emission factors at site level; and have incorporated NO_x and SO_x factors.

- Total energy consumption has dropped by 15 percent to 97,000 TJ from 115,000 TJ in 2008, due to lower production rates
- Total CO₂ emissions per ton of production increased by 11 percent to 273 kg CO₂ per ton of production
- There is a shift from indirect to direct CO₂ emissions, mainly caused by the consolidation of the Combined Heat and Power unit in Industrial Chemicals.

Clean air around our plants

Our air monitoring is focused on Volatile Organic Compounds (VOC) emissions that may lead to local low level ozone creation, smog formation and associated health problems for people in surrounding areas, and NO_x and SO_x emissions which contribute to acidification. In 2009, we strengthened our NO_x and SO_x reporting to include the contribution from fuel burned across our operations.

NO_x and SO_x emissions in kilo tons

	2007 ¹	2008 ¹	2009
NO _x	0.9	1.1	2.1
SO _x	4.1	4.8	6.2

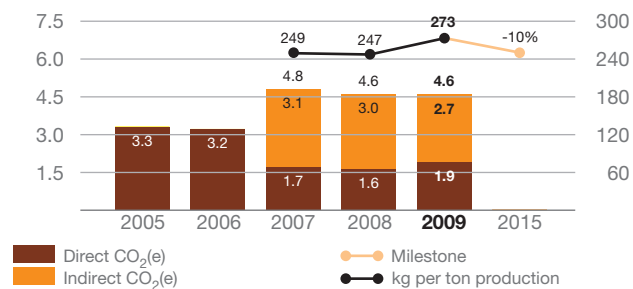
Emissions which may form acid rain that can lead to acidification. The gases are emissions from manufacturing and combustion of fuel that we burn.

¹ Main emissions only.

In line with market demands, the VOC reduction focus for our paints and coatings businesses has shifted from controlling VOCs in our operations to low/zero VOC product design. An expert working group has been established to identify ways of accelerating the reduction of VOCs in the product portfolio (see page 138). We will monitor progress using a new metric: solvent purchased per ton of production. Our Specialty Chemicals businesses will continue to manage VOC emissions from plants in line with regional legal requirements. In future, VOC targets will be set at BU level, but monitored at company level.

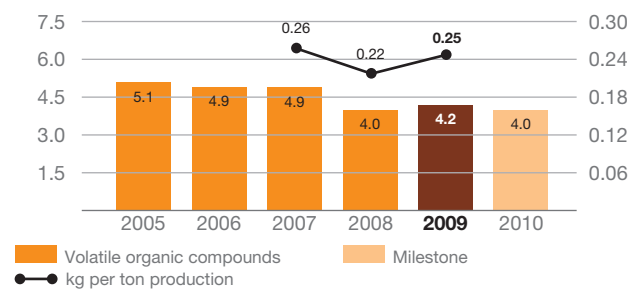
- Total VOC emissions were 4.22 kilotons (2008: 4.05 kilotons), up 4 percent on 2008 levels
- SO_x emissions from process emissions and energy used were up by 29 percent at 6.2 kilotons (2008: 4.8 kilotons) with the main contribution coming from three sulfur derivatives plants in Germany, the US and Argentina. The new reporting of emissions from fuel burned contributed this 1.6 kiloton increase
- NO_x emissions originating from our sites were 2.1 kilotons (2008: 1.1 kilotons). The additional emissions were from fuel burned on the sites reporting for the first time this year
- 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.

CO₂ emissions in million tons



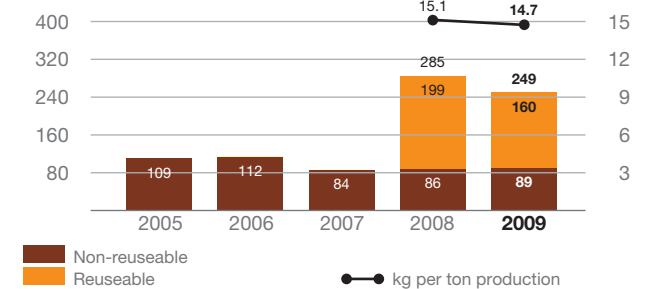
Direct CO₂ emissions from processes and combustion at our facilities and indirect CO₂ emissions from purchased energy.

Volatile organic compounds (VOC) emissions in kilo tons



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.

Total waste in kilo tons



Non-reusable waste is not used for resource recovery, recycling, reclamation, direct re-use, or alternative uses.

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.

- Total waste generated and leaving our sites has fallen 13 percent to 249 kilotons (2008: 285 kilotons). This is in part due to lower production levels, but is also a result of the operational excellence teams formed to identify and implement improvements on our sites (see page 138)
- Hazardous waste to landfill stands at 4.9 kilotons. This is the first year we have reported on this specific waste stream
- Non-reusable waste has increased by 4 percent and the hazardous portion is static at 33 percent. Improvements are expected in 2010 when the operational excellence teams become fully effective.

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, AkzoNobel makes provisions for environmental remediation costs when it is probable that liability will materialize and the cost can be reasonably estimated. We have set aside €352 million, which we believe is sufficient for the sites where we have ownership or responsibility.

Fresh water availability

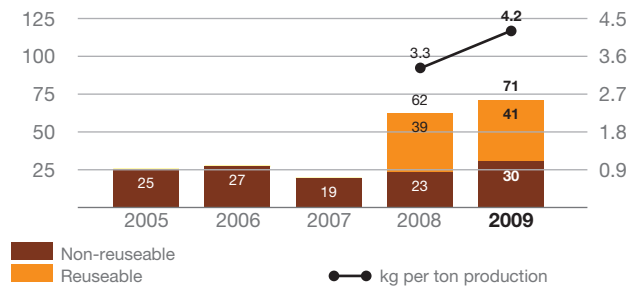
Sustainable fresh water supply is essential to life – and to the sustainability of our business. Our ambition is to achieve sustainable fresh water management at all our sites in 2015.

The AkzoNobel fresh water sustainability assessment takes into account both the societal impact and the business continuity aspects. During 2009, 99 percent (target 100 percent) of manufacturing sites completed the assessment – 38 percent already have sustainable fresh water management in place, while all remaining sites are developing improvement plans to achieve this status by 2015.

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 our fresh water consumption and the chemical oxygen demand (COD) of our effluent to surface water.

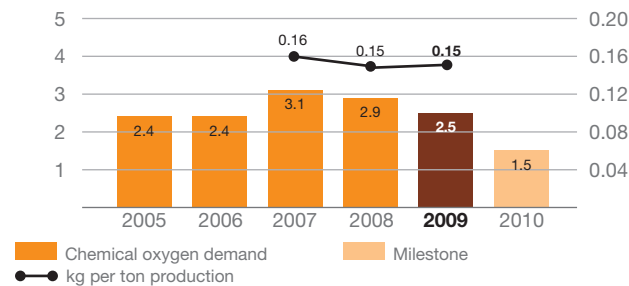
- Total fresh water use was 270 million m³, 9 percent lower than 2008 (297 million m³)
- Reductions in chemical oxygen demand in effluent are being achieved across the company. In 2009 we monitored a COD load of 2.46 kilotons to surface water, a 15 percent decrease on the 2008 (2.88 kilotons). Our Los Reyes site in Mexico achieved a major reduction by diverting the waste water to a treatment plant. However, some of this improvement was canceled out by poor performance at the Rotterdam waste water treatment unit.

Hazardous waste in kilo tons



Hazardous waste is defined by local/national legislation. Non-reusable waste is not used for resource recovery, recycling, reclamation, direct re-use, or alternative uses.

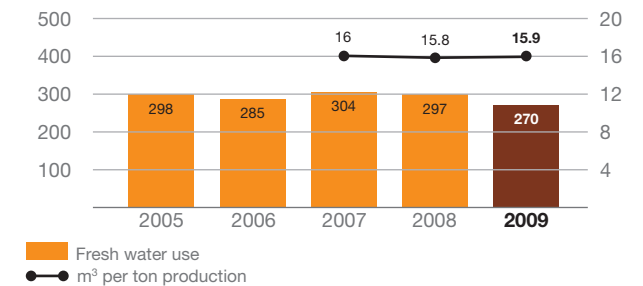
Chemical oxygen demand in kilo tons



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.

*2010 milestones were set in 2005, based on the AkzoNobel portfolio that year.

Fresh water use in million m³



Total fresh water used from surface, ground or potable water sources.

Reporting principles

We welcome an active dialog with our stakeholders and give their opinions the serious consideration they deserve. With this process in mind, we expect the clarity, consistency, and accuracy of our reporting to further improve over time. In particular, we seek ways of linking sustainability performance to business results in areas such as carbon emission reduction and eco-premium solutions.

We appreciate the work of the Global Reporting Initiative (GRI) and have used their Sustainability Reporting Guidelines as a guide. An index of all GRI indicators can be found on our corporate website (www.akzonobel.com).

Reporting scope

In this 2009 AkzoNobel Report we have focused on the sustainability aspects which form part of the AkzoNobel strategy formulated during 2008. This sets material sustainability metrics and performance firmly alongside financial elements. It is supplemented by issues raised by the annual risk management process.

We also use information from third party questionnaires, notably the influential Dow Jones Sustainability Indices, and feedback from various stakeholders consulted during the year. In particular we sought feedback from investment analysts on our first combined financial and sustainability 2008 AkzoNobel Report. They agreed that an integrated report was a progression towards integrating sustainability into the company strategy and operations, and suggested a few areas for improvement:

- Clear identification of the material sustainability issues. This is an area where we need to develop a more formal process
- Improved signposting so that sustainability analysts can find relevant sections. The 2009 AkzoNobel Report has an index of sustainability topics to guide readers. The online version makes better use of links
- Strengthened social reporting (to give better balance against environmental and health & safety). The 2009 AkzoNobel Report includes quantitative data on HR metrics, employees and diversity, development programs and the employee survey.

Reporting boundaries

The 2009 AkzoNobel 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 2009 and comparative data for 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. We report new acquisitions within a calendar year. The managing sustainability reviews, eco-premium solution assessments and upstream carbon footprint have not been carried out for National Starch or Chemicals Pakistan.

We introduced a revised set of HSE&S KPIs with detailed reporting guidance for 2009, and reviewed data at the end of Q2 and Q3 to identify inconsistencies. There are a number of definition, calculation and reporting differences which impact the comparability of data with 2007 and 2008: Total reportable rate, energy, CO₂, NO_x and SO_x emissions. We identify these in the text and footnotes. More details are available on our corporate website.

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 and 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, calculating data and estimating data.

Reporting process and assurance

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 can be found on page 149.

Independent assurance report

To the Board of Management of Akzo Nobel N.V.

As Akzo Nobel N.V. (AkzoNobel) describes on page 132, sustainability information is integrated into various sections of this 2009 Report. The management of AkzoNobel is responsible for reporting on sustainability in such a way that it provides an adequate view of the company's sustainability policies, measures and performance in 2009. 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.

We were engaged by the Board of Management of Akzo Nobel N.V. to provide assurance on the information in the section Sustainability facts and figures 2009 on pages 131 to 151 of the 2009 Report. Our responsibility is to issue an assurance report on this information based on the engagement outlined below.

Our engagement was designed to obtain:

- Reasonable assurance on whether:
 - The information in the paragraph Managing our values on page 134 is, in all material respects, an accurate and adequate representation of the policy and management with respect to sustainability during 2009 based on the Reporting principles on page 148
 - The 2009 data for the HSE Key Performance Indicators on pages 143 to 151 have been properly consolidated.
- Limited assurance on whether the information in Sustainability facts and figures on pages 131 to 151 is, in all material respects, presented in accordance with the Reporting principles on page 148. 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 its own internal criteria and guidelines for reporting on sustainability as described in the Reporting principles on page 148 which, where relevant, are based on the G3 reporting guidelines of the Global Reporting Initiative. 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 all 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 Sustainability facts and figures is supported by sufficient evidence.

In order to obtain reasonable assurance on the information in the paragraph Managing our values and the consolidation process for HSE Key Performance Indicators, we performed additional procedures, including:

- Testing the internal controls of the monitoring system for managing sustainability

- Assessing the reliability of the consolidation process for the HSE Key Performance Indicators by:
 - Testing, on a sample basis, the operation of internal controls aimed at the reliability of the consolidation process at corporate level
 - Assessing the quality of the data validation process at business unit level and reviewing the procedures undertaken by internal audit
 - Performing analytical procedures on the data from the reporting units and reviewing the site level data validation process.

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 on page 134 is, in all material respects, an accurate and adequate representation of the policy and management with respect to sustainability during 2009 based on the Reporting principles on page 148
- The 2009 data for the HSE Key Performance Indicators on pages 143 to 151 have been, in all material respects, properly consolidated.

Based on our procedures for limited assurance, as described above, nothing came to our attention to indicate that the information in Sustainability facts and figures 2009 on pages 131 to 151 is not, in all material respects, presented in accordance with the reporting principles on page 148.

Amsterdam, February 16, 2010

KPMG Sustainability

W.J. Bartels RA

Sustainability performance summary

Economic/Governance/Social

Area								Milestones	
			2005	2006	2007	2008	2009	2010	2015
Product	Eco-premium solutions	% sales			18	18	20	22 (2009)	30
Business integrity	Code of Conduct confirmed incidents	number			36	84	198		
	Code of Conduct trained	% employees				31	~95		
H&S ²	Fatalities employees	number			1	0	0		
	Total reportable injury rate employees/supervised contractors	/million hours	7.4	6.8	5.3	4.6	3.7	2,0 ³	2,0
	Lost time injury rate employees/supervised contractors	/million hours	2.3	2.2	1.9	1.9	1.5	0.5 ³	
	Occupational illness rate employees	/million hours	0.5	0.4	0.3	0.3	0.4	0.2 ³	
	Total illness absence rate employees	%	2.4	2.3	2.2 ¹	2.2 ¹	2.0		
	Fatalities contractors (supervised and independent)	number			1	0	3		
	Total reportable injury rate independent contractors	/million hours			-	5.2	2.8		
	Lost time injury incidents contractors	number	76	72	66	-	-		
	% sites with BBS program	%					56		100
	Distribution incidents	number					52		
	Motor vehicle incidents with injury	number					31		
Employees	Women executives	%				8	10	11.5	
	Non western executives	%				10	11	13	
	On-line P&D Dialog participation	%			53	60	72	90	
	Management development program participation	number				527	3,235		
	Employee engagement index	% favorable		72	76	78	80	80	
	Community Program investment	€ million		4	1.4	1.5	1.4		
Reliable operations	Management audits including reinsurance audits	number		46	64	61	66		
	Serious incidents – Level 3	number	15	3	4	2	9		
	Serious incidents – Level 1, 2	number					24		
	Serious loss of containment – Level 4	number					1		
	Regulatory actions – Level 3	number					3		
Sourcing	Vendor Policy signed by key suppliers	%			81	82	85	90	
	Vendor Policy signed by central NPR suppliers	%				80	89	100	
	Supportive supplier visits since 2007	number			100	152	185	220	

Environmental

Area								Milestones	
			2005	2006	2007	2008	2009	2010	2015
Raw material efficiency	Total waste ⁴	kiloton				285	249		
	per ton production	kg/ton				15.1	14.7		
	Total hazardous waste	kiloton				62	71		
	per ton production	kg/ton				3.3	4.2		
	Non-reusable waste ⁴	kiloton	109	112	84	86	89	75 ³	
	per ton production	kg/ton			4.4	4.5	5.2		
	Hazardous non-reusable waste ⁴	kiloton	25	27	19	23	30		
	per ton production	kg/ton			1	1.2	1.8		
	Hazardous waste to landfill	kiloton					4.9		
per ton production	kg/ton					0.3			
Maintain natural resources/fresh air	Fresh water use	million m ³	298	285	304	297	270		
	per ton production	m ³ /ton			16	15.8	15.9		
	COD emissions	kiloton	2.4	2.4	3.1	2.88	2.46	1.5 ³	
	per ton production	kg/ton			0.16	0.15	0.15		
	% sites with sustainable fresh water (2009 assessed)	%					99		100
	VOC emissions	kiloton	5.1	4.9	4.9	4.05	4.22	4.0 ³	
	per ton production	kg/ton			0.26	0.22	0.25		
	NO _x emissions	kiloton			0.9	1.1	2.1		
	per ton production	kg/ton					0.12		
	SO _x emissions	kiloton			4.1	4.8	6.2		
	per ton production	kg/ton					0.37		
	Raw material CO ₂ emissions (Scope 3) ⁵	million ton					9.71		-10%
	per ton production	kg/ton					573		
	Direct CO ₂ emissions (Scope 1)	million ton	3.3	3.2	1.7	1.6	1.87		-10%
	per ton production	kg/ton			87	85	110		
Indirect CO ₂ emissions (Scope 2)	million ton			3.1	3.0	2.75		-10%	
per ton production	kg/ton			161	161	162			
Total energy consumption	1000TJ			116	115	97			
per ton production	TJ/ton				6.1	5.7			

2005, 2006 data: former AkzoNobel businesses in those years.
2007 and 2008: current AkzoNobel business.

¹ Former AkzoNobel businesses only.

² HSE KPIs: in 2009 report Employees/supervised contractors (was Employees only) and Independent contractors (was all contractors).

³ Targets set in 2005, these will now be replaced by 2015 targets.

⁴ In addition to this figure, our soda ash facility in Pakistan generated on dry basis 515 ktons (2008: 510 ktons) of non-hazardous (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 Chemicals Pakistan and National Starch.

Regulatory action, Serious Incident, Loss of containment, see glossary.

Financial summary

Consolidated statement of income

In € millions	2000	2001	2002	2003 ¹	2004	2005 ²	2006	2007	2008	2009
Revenue	14,069	14,158	14,059	13,106	12,833	13,000	10,023	10,217	15,415	13,893
Operating income	1,440	1,162	1,390	1,146	1,588	1,492	887	778	(577)	870
Financing income and expenses	(198)	(221)	(232)	(248)	(205)	(162)	(134)	(151)	(232)	(409)
Income tax	(395)	(294)	(335)	(254)	(412)	(338)	(96)	(166)	(260)	(128)
Results from associates and joint ventures	143	55	30	7	10	6	87	(20)	25	22
Profit for the period from continuing operations	990	702	853	651	981	998	744	441	(1,044)	355
Minority interests attributable to minority shareholders	(43)	(31)	(35)	(49)	(36)	(37)	(29)	(31)	(65)	(77)
Discontinued operations	-	-	-	-	-	-	438	8,920	23	7
Net income, attributable to shareholders	947	671	818	602	945	961	1,153	9,330	(1,086)	285
Common shares, in millions at year-end	285.9	285.9	285.7	285.7	285.8	285.8	287.0	262.3	231.7	232.3
Dividend	343.0	343.0	343.0	343.0	343.0	343.0	344.0	472.0	417.0	325.2
Number of employees at year-end	68,400	66,300	67,900	64,600	61,400	61,300	42,700	42,600	60,000	57,100
Salaries, wages, and other employee benefits	3,285	3,416	3,552	3,505	3,216	3,221	2,158	2,215	3,022	2,944
Salaries, wages, and other employee benefits in percent of revenue	23.3	24.1	25.3	26.7	25.1	24.8	21.5	21.7	19.6	21.2
Ratios										
Operating income in percent of revenue	10.2	8.2	9.9	8.7	12.4	11.5	8.8	7.6	(3.7)	6.3
Operating income in percent of invested capital	16.2	12.5	15.4	13.6	20.8	19.4	16.3	14.6	- ³	6.5
Net income in percent of shareholders' equity	39.7	24.1	32.9	26.2	40.6	32.0	30.5	122.9	- ³	3.7
Interest coverage	7.3	5.3	6.0	4.6	7.7	9.2	6.6	5.2	- ³	2.1
EBITDA coverage	10.6	8.3	8.9	7.3	10.5	12.7	9.4	7.5	- ³	4.3
Per share information										
Net income	3.31	2.35	2.86	2.11	3.31	3.36	4.02	33.82	(4.38)	1.23
Dividend	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.80	1.80	1.35
Shareholders' equity	9.42	10.07	7.34	8.76	9.12	11.95	14.44	42.06	32.21	33.48
Highest share price during the year	59.15	57.85	54.50	32.44	33.79	40.18	49.41	65.56	57.11	46.52
Lowest share price during the year	37.30	33.73	27.25	16.00	24.87	30.82	38.30	44.41	22.85	26.01
Year-end share price	57.20	50.15	30.23	30.60	31.38	39.15	46.18	54.79	29.44	46.40

¹ The 2000 – 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. For the most part, the changed accounting is a matter of timing of the recognition of the assets, liabilities and related results.

² The 2000 – 2005 figures have not been restated for the Organon BioSciences divestment.

³ Not meaningful as operating income was a loss.

For definitions of certain financial ratios and concepts see page 157.

Consolidated balance sheet

In € millions, December 31

	2000	2001	2002	2003 ¹	2004	2005 ²	2006	2007	2008	2009
Intangible assets	388	508	629	590	448	488	682	669	7,172	7,388
Property, plant and equipment	4,501	4,568	4,402	3,967	3,535	3,432	3,346	2,203	3,357	3,474
Financial non-current assets	2,000	1,895	2,217	1,866	1,418	1,800	1,706	1,402	1,848	1,783
Total non-current assets	6,889	6,971	7,248	6,423	5,401	5,720	5,734	4,274	12,377	12,645
Inventories	2,267	2,270	2,206	2,133	1,978	1,987	2,042	1,177	1,781	1,441
Receivables	3,135	3,229	2,815	2,671	2,761	2,910	2,919	2,164	2,977	2,666
Cash and cash equivalents	416	455	520	727	1,811	1,486	1,871	11,628	1,595	2,128
Assets held for sale	–	–	–	–	–	322	219	–	4	–
Total current assets	5,818	5,954	5,541	5,531	6,550	6,705	7,051	14,969	6,357	6,235
Shareholders' equity	2,694	2,878	2,098	2,502	2,605	3,415	4,144	11,032	7,463	7,775
Minority interests	159	138	137	140	140	161	119	97	450	470
Total equity	2,853	3,016	2,235	2,642	2,745	3,576	4,263	11,129	7,913	8,245
Provisions	2,279	2,400	3,855	3,333	2,877	2,210	2,132	1,598	2,072	1,919
Long-term borrowings	2,729	2,235	2,797	2,717	2,392	2,702	2,551	1,954	2,341	3,641
Other non-current liabilities	518	560	513	590	200	183	181	133	715	674
Total non-current liabilities	5,526	5,195	7,165	6,640	5,469	5,095	4,864	3,685	5,128	6,234
Short-term borrowings	1,967	2,267	979	441	560	357	410	1,635	1,338	384
Current liabilities	2,361	2,447	2,410	2,231	2,677	2,571	2,652	2,276	3,510	3,220
Current portion of provisions	–	–	–	–	500	766	571	518	845	797
Liabilities held for sale	–	–	–	–	–	60	25	–	–	–
Total current liabilities	4,328	4,714	3,389	2,672	3,737	3,754	3,658	4,429	5,693	4,401
Invested capital:										
- Of consolidated companies	9,257	9,395	8,692	8,117	7,145	8,007	8,060	5,197	13,424	13,204
- Of investments in associates and joint ventures	673	575	491	353	318	301	177	142	201	175
Property, plant and equipment:										
- Capital expenditures	725	822	689	581	551	514	371	359	534	534
- Depreciation	631	635	622	599	540	528	349	330	453	458
Ratios:										
- Revenue/invested capital	1.58	1.52	1.55	1.56	1.68	1.68	1.85	1.91	1.07	1.04
- Gearing	1.50	1.34	1.46	0.92	0.42	0.44	0.26	– ³	0.26	0.21
- Equity/non-current assets	0.41	0.43	0.31	0.41	0.51	0.62	0.74	2.60	0.64	0.65
- Inventories and receivables/current liabilities	2.29	2.25	2.08	2.15	1.77	1.9	1.87	1.47	1.36	1.28

¹ The 2000 – 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 2000 – 2005 figures have not been restated for the Organon BioSciences divestment.

³ Not meaningful due to the temporary net cash position.

Business area statistics

In € millions	2007 ^{1,2}	2008 ²	2009
Decorative Paints			
Revenue	5,191	5,006	4,677
EBITDA ³	635	598	492
EBIT ³	418	401	302
Operating income	313	(669)	137
Invested capital ⁴	7,865	6,187	6,382
EBIT margin ³ (in %)	8.1	8.0	6.5
Capital expenditures	131	120	113
Average number of employees	25,100	24,600	23,200
Performance Coatings			
Revenue	4,609	4,575	4,038
EBITDA ³	586	566	587
EBIT ³	484	467	486
Operating income	449	444	427
Invested capital ⁴	2,131	2,004	1,958
EBIT margin ³ (in %)	10.5	10.2	12.0
Capital expenditures	113	89	61
Average number of employees	21,400	21,000	20,200
Specialty Chemicals			
Revenue	5,400	5,687	5,209
EBITDA ³	945	909	814
EBIT ³	621	605	509
Operating income	575	130	436
Invested capital ⁴	4,750	4,055	3,968
EBIT margin ³ (in %)	11.5	10.6	9.8
Capital expenditures	245	305	338
Average number of employees	13,200	12,900	13,400

¹ Pro forma and unaudited.² Restated for transferred businesses.³ Before incidentals.⁴ At year-end.

Regional statistics

For definitions of certain financial ratios and concepts see page 157.

In € millions	2006 ¹	2007	2008	2009	2006 ¹	2007	2008	2009
The Netherlands				US and Canada				
Revenue by destination	783	777	867	807	1,855	1,855	3,330	2,985
Revenue by origin	1,325	1,368	1,423	1,284	1,898	1,871	3,463	3,166
EBIT ²	(24)	103	18	(49)	151	136	154	82
Operating income	(19)	(6)	(45)	(69)	189	118	(608)	70
Capital expenditures	98	83	86	104	48	56	94	68
Invested capital ³	1,216	893	2,007	1,490	1,195	1,214	3,250	3,020
Number of employees ³	5,100	4,900	5,000	4,800	5,900	6,100	12,000	11,100
Germany				Latin America				
Revenue by destination	962	907	1,141	1,121	566	606	1,306	1,232
Revenue by origin	959	930	1,179	1,197	431	475	1,103	1,040
EBIT ²	73	66	115	100	64	58	135	128
Operating income	47	59	(34)	54	64	62	89	115
Capital expenditures	15	17	25	21	14	15	49	33
Invested capital ³	384	365	1,086	1,064	253	272	776	960
Number of employees ³	3,200	3,100	3,600	3,900	2,500	2,700	4,800	4,500
Sweden				China				
Revenue by destination	463	472	478	428	636	687	1,054	1,044
Revenue by origin	1,243	1,406	1,457	1,284	636	658	968	951
EBIT ²	93	156	157	124	115	110	144	163
Operating income	95	156	126	59	115	110	(98)	162
Capital expenditures	78	53	50	37	31	38	67	144
Invested capital ³	573	564	557	487	180	142	861	944
Number of employees ³	3,800	3,700	3,800	3,500	4,800	5,100	6,300	6,300
UK				Other Asian countries				
Revenue by destination	567	552	1,093	816	743	784	1,866	1,704
Revenue by origin	633	617	1,206	851	520	567	1,682	1,549
EBIT ²	(16)	14	153	87	79	85	199	254
Operating income	–	12	(48)	78	84	76	(110)	249
Capital expenditures	14	14	31	22	7	10	43	29
Invested capital ³	309	486	1,324	1,614	227	195	1,030	938
Number of employees ³	3,100	3,000	4,200	3,900	3,100	3,300	7,800	7,400
Other European countries				Other regions				
Revenue by destination	3,020	3,147	3,666	3,174	428	430	614	582
Revenue by origin	2,101	2,068	2,582	2,211	277	257	352	360
EBIT ²	195	186	195	216	31	33	45	46
Operating income	289	163	113	115	23	28	38	37
Capital expenditures	61	66	81	70	5	7	8	6
Invested capital ³	1,034	950	2,359	2,541	133	116	174	143
Number of employees ³	9,500	9,000	10,100	9,400	1,700	1,700	2,400	2,300

¹ Excluding Organon BioSciences, divested in 2007.² Before incidentals.³ At year-end.

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Glossary

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.

Carbon footprint

The carbon footprint of a product or organization is the total amount of greenhouse gas (GHG) emissions caused during a defined period, or across the total or part of a product lifecycle. It is expressed in terms of the amount of carbon dioxide equivalents emitted.

Code of Conduct

Our Code of Conduct defines our company values and how we work. It incorporates fundamental principles on issues such as business integrity, labor relations, health, safety, environment and security and community involvement.

Community Program

AkzoNobel's global Community Program encourages and gives financial support for employees to get involved, hands-on, in their local communities.

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

EBIT margin is operating income or EBIT as percentage of revenue and can refer to margins both before and after incidentals.

EBITDA

EBITDA is 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 margin is 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.

Emissions and waste

We report emissions to air, land and water for those substances which may have an impact on people or the environment: CO₂, NO_x and SO_x, 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)

EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital.

Gearing

Net interest-bearing borrowings divided by equity.

High growth markets

We classify high growth markets as all countries apart from: Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK and the US.

Incidentals

Incidentals are transformation costs, special charges and benefits, results on divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases. EBIT and EBITDA before incidentals and EBIT before incidentals and amortization and depreciation of fair value adjustments 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 the sum of financing income and expenses.

Invested capital

Invested capital is total assets (excluding cash and cash equivalents, investments in associates, assets held for sale) less current income tax payable and less 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.

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 income

Net income attributable to shareholders of Akzo Nobel N.V.

Net income before incidentals

The sum of net income and incidental charges after tax; or net income less incidental gains after tax.

Net interest-bearing borrowings

Long-term borrowings plus short-term borrowings less cash and cash equivalents.

Non-western

We classify non-western as all countries apart from: Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK and the US.

Operating income

Operating income is defined in accordance with IFRS and includes the relevant incidental charges.

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

Performance & Development Dialog (P&D Dialog) is AkzoNobel's global performance and appraisal system for employees.

Pay-out ratio

Dividend divided by net income before incidentals.

Profit for the period

The sum of net income attributable to shareholders of Akzo Nobel N.V. and the income attributable to minority interests.

Regulatory action

We have defined three categories of regulatory action from Level 1 – a self-reported issue, to Level 3 – a formal legal notification.

Revenue

Revenue consists of income from the sale of goods, services and royalties.

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

The total reportable rate is the number of injuries per 1,000,000 hours worked. Full definitions are in the Sustainability facts and figures section.

Transformation costs

Transformation costs are acquisition-related costs, cost related to divesting businesses as agreed with the European and Canadian authorities, and costs for the new corporate identity.

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.

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 “Segment 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.

2009 Report including Sustainability Report

The company's annual financial report has this year been combined with the sustainability report into one 2009 Report. 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.

2009 Report – 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

In this Report, reference is made to brands and trademarks owned by, or licensed to, AkzoNobel. Unauthorized use of these is strictly prohibited.

Pro forma financial outcomes

Where relevant, pro forma financial outcomes were used for 2007. These reflect the AkzoNobel outcomes as if it acquired ICI at January 1, 2007, and include the effects of the purchase price allocation. The main impact of the purchase price allocation on the statement of income is higher amortization of intangibles, higher depreciation of property, plant and equipment, and higher cost of sales. The latter is due to the fair value of inventories recognized on acquisition date which results in higher cost of sales as inventories are sold, mainly in the first quarter.

Financial calendar

Q1 2010

**Report for the 4th quarter
and the year 2009**

February 18, 2010

Q2 2010

**Report for the
1st quarter 2010**

April 23, 2010

**Annual General
Meeting 2010**

April 28, 2010

**Ex-dividend date of 2009
final dividend**

April 30, 2010

**Record date of 2009
final dividend**

May 4, 2010

**Payment date of 2009
final dividend**

May 11, 2010

Q3 2010

**Report for the
2nd quarter 2010**

July 23, 2010

Q4 2010

**Report for the
3rd quarter 2010**

October 21, 2010

Q1 2011

**Report for the 4th quarter
and the year 2010**

February 17, 2011

Concept, design and realisation

Dart | Brand guidance & Design, Amsterdam, the Netherlands
AkzoNobel Corporate Communications

Photography

Portraits Board of Management and Business unit managers by photographer Pim Vuijk
Portrait Hans Wijers by photographer Tessa Posthuma de Boer
Bay bridge – Caltrans
Powder – Nord Stream, photographer Klaus Grabowski
Trainwash – iStockphoto, photographer Sandis Vagners
Knauf – Marketing department Knauf
Getty Images
Shutterstock

Lithography and printing

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AkzoNobel

Tomorrow's Answers Today

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We're the largest global paints and coatings company and a major producer of specialty chemicals. We supply industries worldwide with quality ingredients for life's essentials. We think about the future, but act in the present. We're passionate about developing sustainable answers for our customers. Based in Amsterdam, the Netherlands, we have 57,000 employees working in more than 80 countries – all committed to excellence and delivering Tomorrow's Answers Today™.

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