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May 19, 2016



# 2016 Sustainability Update

WE CREATE **EVERYDAY  
ESSENTIALS** TO MAKE  
PEOPLE'S LIVES MORE  
LIVEABLE AND INSPIRING

Essential  
ingredients

Essential  
protection

Essential  
color

**AkzoNobel** 

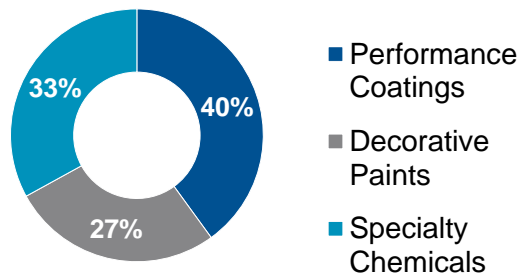
# Global paints, coatings and specialty chemicals company

AkzoNobel

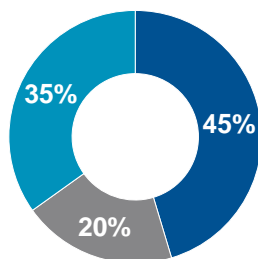
- ↗ €14.9 billion revenue (2015)
- ↗ €2.1 billion EBITDA (2015)
- ↗ 80+ countries
- ↗ 45,600 employees (2015)
- ↗ Leadership positions in many markets



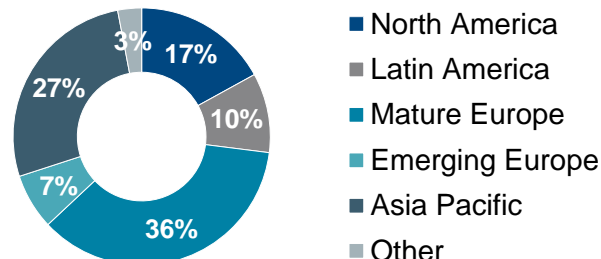
Revenue by Business Area



Operating income by Business Area



Revenue by geographic region





## Agenda



Integrated thinking



Integrated strategy



Integrated management cycle



Integrated reporting









Conclusion



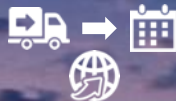
Questions

# Integrated thinking

	Integrated thinking
	Integrated strategy
	Integrated management cycle
	Integrated reporting
	Conclusion
	Questions

## The global urbanization challenge:

1 million



move to cities  
globally  
every week

6.3 billion  
people will be  
living in cities by  
**2050**

Over 65%  
of the World's  
population



Just one of the mega  
trends that we need to  
address



# Bringing energy and inspiration to urban areas

AkzoNobel

- Global challenge is how to create human, sustainable urban environments for people to live and work in
- Human cities program channels our three key strengths :



to help energize communities and make them more liveable and inspiring



# Creating more value from fewer resources

**AkzoNobel**

- ▶ Our ambition and imagination are unrestricted by limited world resources
- ▶ Radical resource efficiency enables us working with customers and suppliers to open up infinite possibilities in a finite world
- ▶ We are committed to finding opportunities even where there don't appear to be any





# Building and Infrastructure



95% of new building stock using zero net energy  
<6% buildings heated with fossil fuels

# Transportation



Reductions in carbon emissions  
80% reduction light duty vehicles

Customers expect long lasting, efficient products  
Recycling is integrated into business models



# Consumer Goods

4-10 fold improvement in eco-efficiency of  
resources and materials from year 2000



# Industrial



# Integrated strategy



Integrated thinking



Integrated strategy



Integrated management cycle



Integrated reporting



Conclusion



Questions

# Focus will shift towards continuous improvement and organic growth

AkzoNobel

Hardwire new organization model

Deliver continuous improvement culture

Build further operational excellence

Drive organic growth and innovation

Pursue value generating bolt-on acquisitions

Next steps

Culture

- Core principles and values
- Sustainability – Planet Possible
- Human Cities - Society





# Sustainability embedded into the company mindset and incentives

<b>Core principles:</b>  <b>Safety</b> <b>Integrity</b> <b>Sustainability</b>	<b>Customer Focus</b>	We build successful partnerships with our customers
	<b>Deliver on Commitments</b>	We do what we say we will do
	<b>Passion for Excellence</b>	We strive to be the best in everything we do, every day
	<b>Winning Together</b>	We develop, share and use our personal strengths to win as a team

STI Element	Metric
20%	Return on investment
20%	Operating income
30%	Operating cash flow
30%	Personal targets – partly related to strategic targets, which include sustainability

LTI Element	Metric
35%	Return on investment
35%	Total Shareholder Return
30%	Sustainability / RobecoSAM - DJSI



## Our Planet Possible strategy



**Sustainable  
business**



**Resource  
efficiency**



**Capable,  
engaged people**

# Strategy focuses on key financial and sustainability metrics

**AkzoNobel**

## Financial Guidance

**9-11%**

of return on sales  
(EBIT/revenue) 2016-2018

**13-16.5%**

of return on investment  
(EBIT/average 12 months  
invested capital) 2016-2018



## Sustainability Metrics

**20%**

of revenue by 2020 from products that are more sustainable for our customers than the products of our competitors

**25-30%**

more efficient resource and energy use across the entire value chain by 2020 (measured by carbon footprint reduction)

**REI** (Resource Efficiency Index)

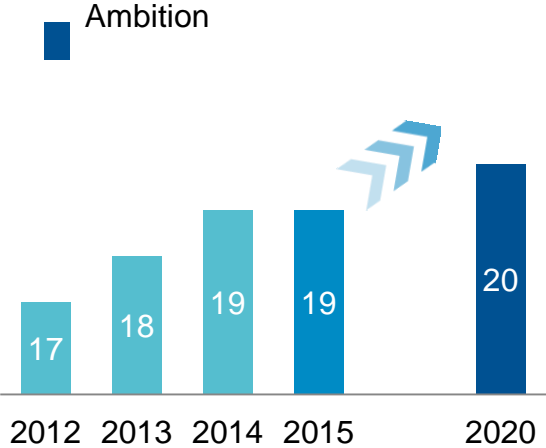
An indicator measuring how efficiently we generate value (expressed as gross margin divided by cradle-to-grave carbon footprint)



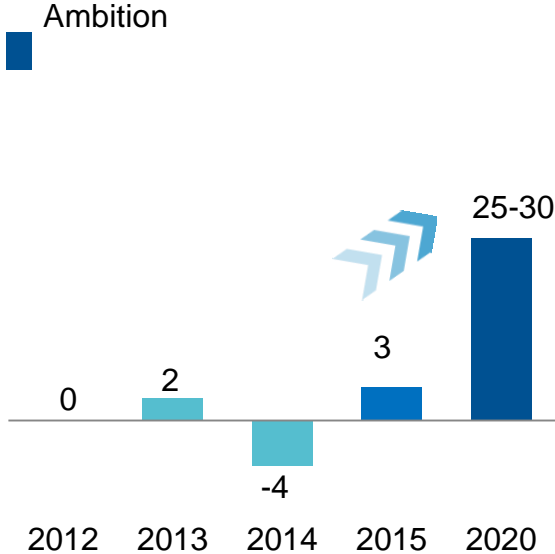


# Progress made towards the 2020 sustainability ambitions

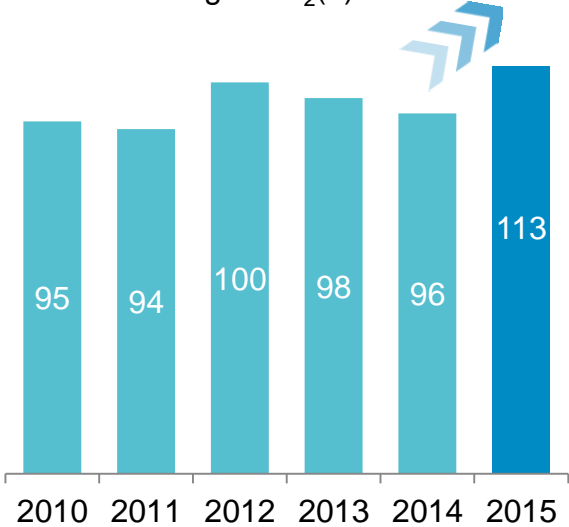
**Eco-premium solutions with downstream benefits**  
in % of revenue



**Cradle-to-Grave Carbon Footprint**  
% reduction CO<sub>2</sub>(e)  
per ton of sales from 2012

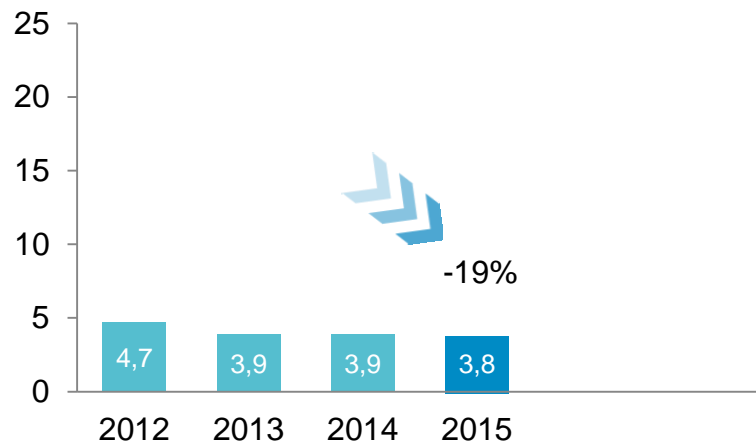


**REI**  
**Resource Efficiency Index**  
Gross margin/CO<sub>2</sub>(e) indexed

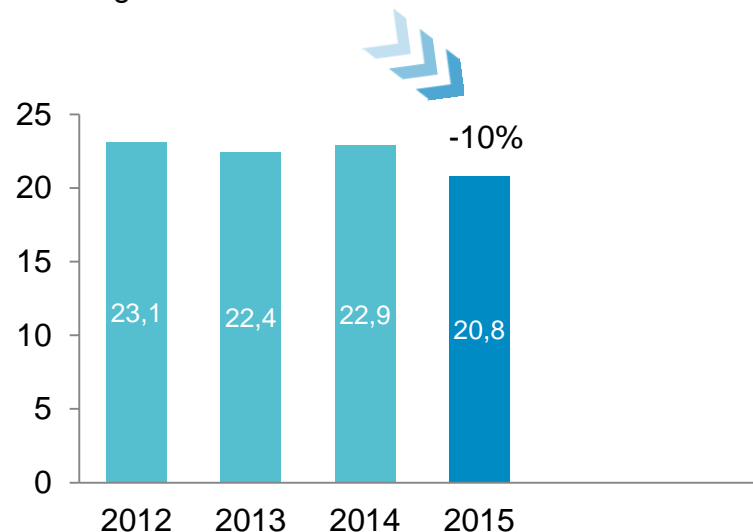


# Closing the carbon gap

## Own operations Carbon Footprint



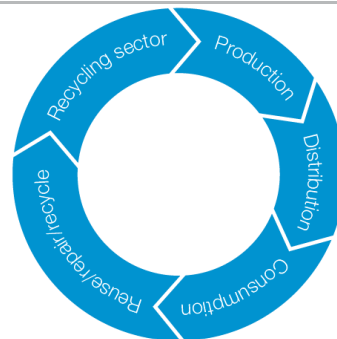
## Up- and downstream Carbon Footprint Including VOC emissions



# What does it mean to move to circular ?



- Product shipped to pulp customers
- Packaging crushed/ sent to landfill
- Left over paint stored in cans then landfilled
- Excess steam released into atmosphere
- Domestic/chemical waste sent to landfill



- Chemical Island Concept
- Recycled metal/ plastic material in packaging
- Left over paint reused
- Excess steam used at neighbour's plant
- Domestic waste incinerated to produce steam



# Doing more with less

## Material effectiveness

- Partnerships to develop renewable raw materials
- Partnerships to turn waste into energy/raw materials
- Renewable energy reducing fossil material use

## Material efficiency

- Thinner coatings with same properties/ protection
- Dulux ReColour – customer left over paint re-used

## Energy efficiency

- Rediset – low temperature asphalt paving reduces energy input
- HPMO – essential ingredient for energy efficient LED lighting
- Zero-gap technology – improves electrolysis efficiency



# We are leading in processes as well as “circular” partnerships

AkzoNobel

- Taken steps to increase share of renewables in our energy supplies and decrease our carbon footprint
  - Joined forces to invest in sustainable steam generation in Delfzijl, the Netherlands
  - Production records set in all three of the Nordic VindIn wind power parks
- Worked with new and existing partnerships on bio-based raw materials
  - Partnership with Photanol named Bio-Based Chemical Collaboration of the year at the 2015 World Bio Markets Bio Business Awards
  - Work with Solazyme targeting annual supply of up to 10,000 tons of renewable algal oils



# Opportunities for growth and increased profitability from Eco-premium solutions

**AkzoNobel**

- Deliver advantages to our direct customers or consumers
- Leading the market
- Assessment is always a comparison with other solutions – stretching us to go further than the competition
- 2/3<sup>rd</sup> of innovation spend is sustainability related



## Dulux Charm waterborne woodcare

### Key features

- ↗ Indoor woodcare paint
- ↗ Improved flexibility
- ↗ Balanced performance in chemical resistance and hardness
- ↗ Polyurethane Modified Acrylate (PUMA) latex

### Customer benefits

- ↗ Improved wellbeing: low odor
- ↗ Lower price
- ↗ Better in-can appearance
- ↗ Longer lasting

### Financial benefits

- ↗ Affordable for mass market
- ↗ Higher market share



New generation waterborne product is delivered with in-house PUMA latex at lower price

# Aquacote PP coil coating

## Key features

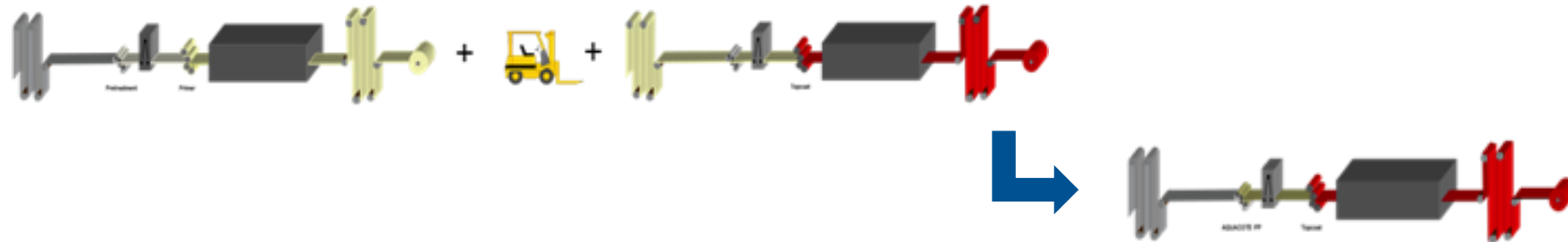
- ↗ Water-based primer
- ↗ Eliminates need for pre-treatment stage
- ↗ Cured at 80°C

## Customer benefits

- ↗ Two-coats paint system in a single pass
- ↗ Doubles line capacity
- ↗ Reduced materials handling
- ↗ Less energy consumption

## Financial benefits

- ↗ Reduced conversion costs
- ↗ More cost competitive



Primer technology with no pre-treatment significantly reduces conversion costs



# Berol® DR-B1 degreasing ingredient approved for direct release applications

**AkzoNobel**

## Key features

- High performance degreasing ingredient with low environmental impact
- Specifically developed for application where the cleaning agent is approved by the EPA for “direct release”

## Customer benefits

- High performing cleaner
- Approved for “direct release”
- “Safer Choice” approval

## Financial benefits

- Price premium



High performing degreasing surfactant blend with excellent environmental profile

# Integrated management cycle



**Integrated thinking**



**Integrated strategy**



**Integrated management cycle**



**Integrated reporting**











**Conclusion**









**Questions**

# Dashboards drive sustainable performance in businesses

- We measure our progress on sustainability KPI's using standardized dashboards
- Used in Operational Review Meetings (ORM's) to drive performance
- Regular review by Executive Committee
- Basis for external reporting

KPI	Unit	Baseline 2012	Results 2014	Results 2015	Milestone 2015	Target 2020	Status against 2020
<b>Sustainable business</b>							
KPI No. 1	GM/Kton	100	96	108	t.b.d	t.b.d.	
KPI No. 2	%	22	27	28	24	25	
<b>Resource efficiency</b>							
KPI No. 1	% reduction	1.94	0	4	3	12	
KPI No. 2	% reduction	5.84*	42.5	40.6	30	40	
KPI No. 3	% organic RM	10.8	9.2	8.5	N/A	TBC	
KPI No. 4	% reduction g/ltr	70	+5 (increase)	N/A	+3 (increase)	11	
<b>Engagement &amp; Capability</b>							
KPI No. 1	% of employees	19	22	21	20	25	
KPI No. 2	Std definition	N/A	91	93	93	XX	

# Sustainability also integrated in all functional processes

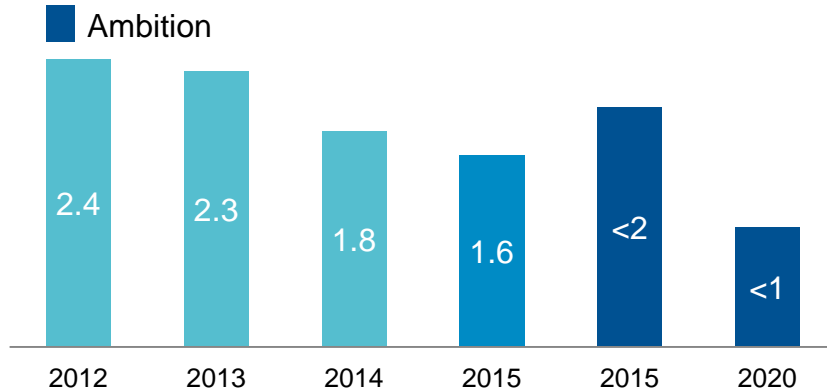
<b>Finance</b>		Capital Expenditure, materiality assessment
<b>RD&amp;I</b>		Funnel process
<b>Procurement</b>		Vendor policies, supplier visits
<b>Commercial Excellence</b>		Market segmentation
<b>HR</b>		Recruitment, training, remuneration
<b>Legal</b>		Code of conduct



# Progress on all key elements to safety

## People

- A common approach to behavior-based safety implemented at all sites
- Reached the 2015 target (<2) in total reportable injury rate a year early
- Continued focus to achieve the ambition of <1 by 2020



## Product

- Identify, review and score hazardous substances
- Higher score substances designated as priority
- Risk managed 100% priority substances
- 56 phased out and 148 restricted in use

## Process

- Process safety management (PSM) integral part of overall safety strategy
- PSM framework sets out minimum standards at all sites
- Implementation of framework is phased

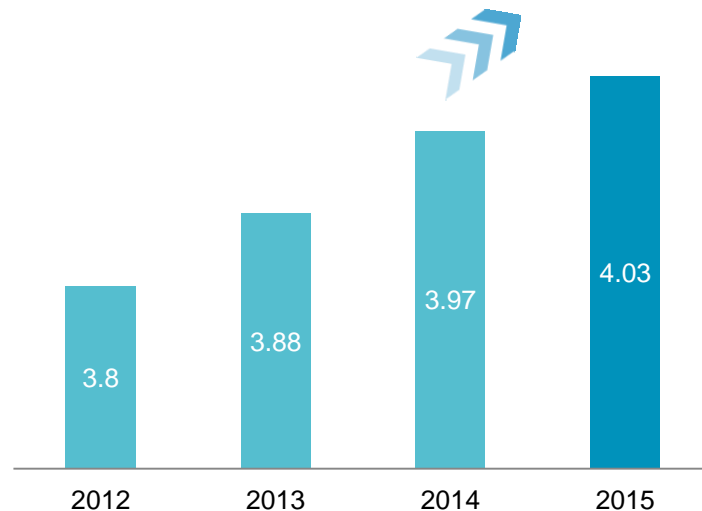




# Engagement increased during ongoing change

- Our people are the key to our success
- We aim for a high performance culture of engagement, feedback and trust
- Clear evidence that higher engagement drives business performance

**ViewPoint score employee engagement  
(1 to 5 scale)**

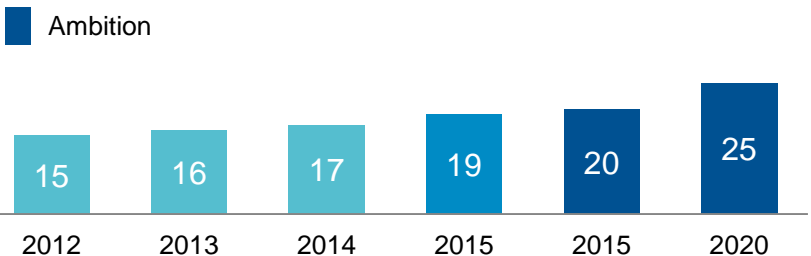


# Leadership changes providing clear direction and driving culture change

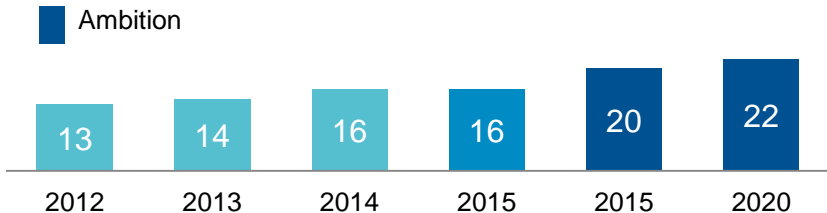
## Diversity is an important factor

- Reflects the societies where we do business
- Better insights into our customer and employee base
- Objective is to create a high performing culture where employees can contribute to the best of their ability

### Female executives in %



### High growth market executives in %



# Integrated reporting



**Integrated thinking**



**Integrated strategy**



**Integrated management cycle**



**Integrated reporting**



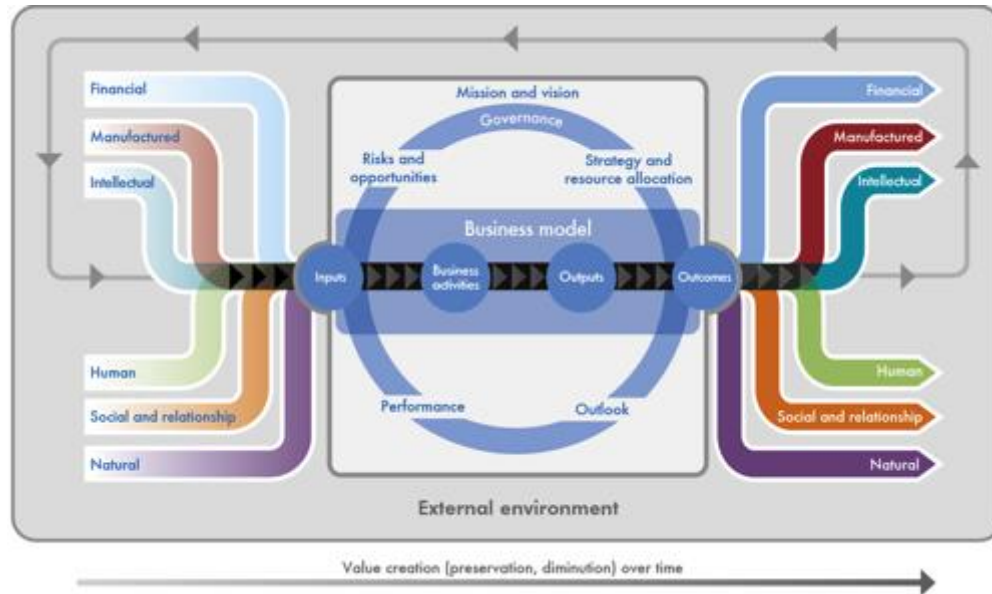
**Conclusion**



**Questions**

# Our integrated reporting journey

The International Integrated Reporting Council (IIRC) framework:



- Non-financial topics increasingly determine firm's value creation potential
- Integrated reporting requires “integrated thinking” an “integrated strategy” and an “integrated management cycle
- Implemented integrated reporting in 2008
- Front runner (IIRC pilot group) as of 2012
- Continuously work on Improvements

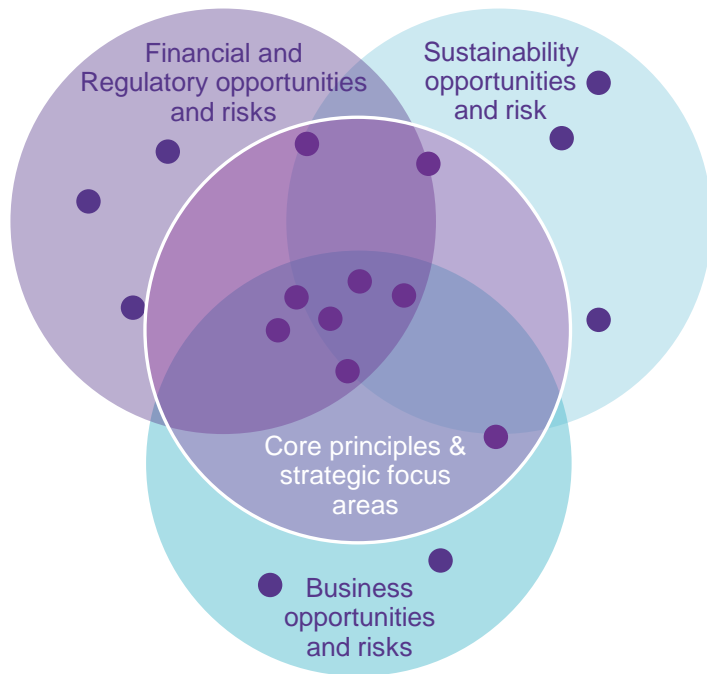
# Sustainability opportunities and risks evaluated and measured



- ↗ Updated materiality to assess current and important topics
- ↗ Prioritized and plotted in a matrix
- ↗ Most important topics
  - ↗ energy
  - ↗ resource use
  - ↗ carbon emissions throughout the value chain
  - ↗ people and process safety
  - ↗ Eco-premium solutions
- ↗ Most material issues are included in our company strategy and/ or sustainability KPIs.



# Consulted key stakeholder groups to develop integrated materiality matrix



- Key opportunities, issues and risks material to stakeholders grouped using bullets
- Items at centre are opportunities, issues and risks material to AkzoNobel's strategy
- Addressed by core principles and/or strategic focus areas

# Continued development of four-dimensional profit and loss

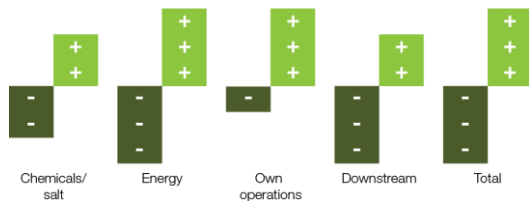
- Methodology represents value creation in multiple dimensions: financial, natural, human and social capital
- 2014: piloted at Pulp and Performance Chemicals business in Brazil
- Actions implemented during 2015 to reduce negative aspects and build on positive factors
- Widened scope to include Pulp and Performance Chemicals sites producing pulp bleaching chemicals in the US and Sweden



# Evaluation of results

## Financial and natural capital

■ Financial capital (positive) ■ Natural capital (negative)



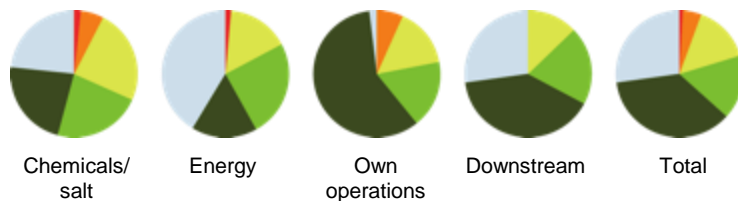
## Human capital

■ Human capital (positive)



## Social capital (risk in each part of the life cycle)

■ Very high ■ High ■ Medium ■ Low ■ Very low ■ No data



- Financial capital is positive: profits, salaries, taxes
- Human capital is mainly positive: people development
- Social capital has positive/negative risk aspects: health and safety/community investment/labor practices in the value chain
- There are some regional differences due to energy Sources, and in human and social aspects

# RobecoSAM / Dow Jones Sustainability Index is our primary external benchmark

**AkzoNobel**

- ▮ Industry group leader for fourth consecutive year
- ▮ Top three for last ten years
- ▮ Opportunity to drive continuous improvement
- ▮ Develop and monitor improvement plans annually on focus areas



**ROBECOSAM**  
Sustainability Award  
Industry Leader 2016



# Recognition and collaboration with other sustainability rating agencies

**AkzoNobel**



↗ 100 percent disclosure score in 2015



↗ Fourth year in a row, ranked among the industry leaders



↗ Oekom Prime status since 2012



↗ In ESG leader group

↗ Included in all their ethical indices





# Conclusion



Integrated thinking



Integrated strategy



Integrated management cycle



Integrated reporting



Conclusion



Questions

# Only way to be successful is to care about the future

- Sustained performance in the Dow Jones Sustainability Index provides reinforcement for our belief that sustainability is fundamental to business strategy
- Shows value of Planet Possible approach to resource efficiency
- Human Cities initiative has evolved, continues to grow and thrive
- Our ability to successfully commercialize innovation remains strong
- We can only create the right culture to deliver operational excellence when all employees are fully engaged

**AkzoNobel**



# Questions



Integrated thinking



Integrated strategy



Integrated management cycle



Integrated reporting



Conclusion



Questions

## Safe Harbor Statement

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*This presentation 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. For a more comprehensive discussion of the risk factors affecting our business please see our latest Annual Report, a copy of which can be found on the company's corporate website [www.akzonobel.com](http://www.akzonobel.com).*





## Eco-premium solutions - Definition

**A product qualifying for the list of AkzoNobel Eco-premium solutions must meet the following criteria when assessed against the competing mainstream products/solutions:**

1. It provides the same or better functionality for the customer application.
  2. When assessed along the full value chain against the following criteria:
    - Energy efficiency (consumption)
    - Use of natural resources/raw materials
    - Emissions and waste
    - Toxicity
    - Risks (for accidents during production, transportation etc.)
    - Land use
    - Health/wellbeing
- a. It is significantly better in at least one aspect (mind set 10% difference across the value chain).
  - b. There are no significant measurable or perceived adverse effects in any other of the criteria.