AkzoNobel

Report 2015

OCHRE GOLD

Color of the Year 2016

www.akzonobel.com/colorfutures

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AkzoNobel creates everyday essentials to make people's lives more liveable and inspiring. As a leading global paints and coatings company and a major producer of specialty chemicals, we supply essential ingredients, essential protection and essential color to industries and consumers worldwide. Backed by a pioneering heritage, our innovative products and sustainable technologies are designed to meet the growing demands of our fast-changing planet, while making life easier. Headquartered in Amsterdam, the Netherlands, we have approximately 45,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as a leader in sustainability, we are dedicated to energizing cities and communities while creating a protected, colorful world where life is improved by what we do.

Report 2015

AkzoNobel in 2015 at a glance

Key regions (by revenue)

North America
17%

Mature Europe
36%

Emerging Europe
7%

Latin America
10%

Other countries
3%

€14.9 billion revenue

€2.1 billion EBITDA

€1.6 billion operating income

€3.95 earnings per share

80+ countries

45,600 employees

Our businesses

Decorative Paints

Whether our customers are professional decorators or keen DIY-ers, they want great paint that gives a great finish. We supply a large variety of quality products for every situation and surface, including paints, lacquers and varnishes. We also offer a range of mixing machines, color concepts and training courses for the building and renovation industry, while our specialty coatings for metal, wood and other critical building materials lead the market.

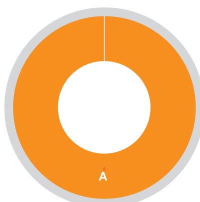
Main business operations:

- Decorative Paints Europe, Middle East and Africa
- Decorative Paints Asia
- Decorative Paints Latin America

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

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

Decorative Paints 2015 revenue breakdown by end-user segment in %



A	Buildings and Infrastructure	100
B	Transportation	0
C	Consumer Goods	0
D	Industrial	0

Performance Coatings

We're a leading supplier of performance coatings with strong product technologies and brands. Our high quality products are used by customers across the world to protect and enhance everything from ships, cars, aircraft, yachts and architectural components (structural steel, building products, flooring) to consumer goods (mobile devices, appliances, beverage cans, furniture) and oil and gas facilities.

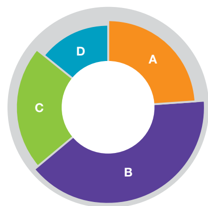
Main business operations:

- Automotive and Specialty Coatings
- Marine and Protective Coatings
- Industrial and Powder Coatings

Brands include Awlgrip, International, Interpon and Sikkens.

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

Performance Coatings 2015 revenue breakdown by end-user segment in %



A	Buildings and Infrastructure	24
B	Transportation	40
C	Consumer Goods	22
D	Industrial	14

Specialty Chemicals

As a major producer of specialty chemicals with leadership positions in many markets, we make sure that industries worldwide are supplied with high quality ingredients and process aids for the manufacture of life's essentials.

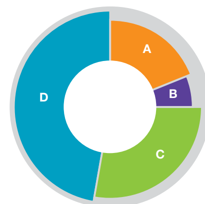
Main business operations:

- Functional Chemicals (including Ethylene and Sulfur Derivatives and Polymer Chemistry)
- Industrial Chemicals
- Pulp and Performance Chemicals
- Surface Chemistry

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

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

Specialty Chemicals 2015 revenue breakdown by end-user segment in %



A	Buildings and Infrastructure	19
B	Transportation	6
C	Consumer Goods	28
D	Industrial	47

Featured content

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

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Essential ingredients
Essential protection
Essential color

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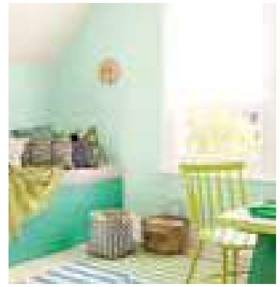

Making the planet more sustainable

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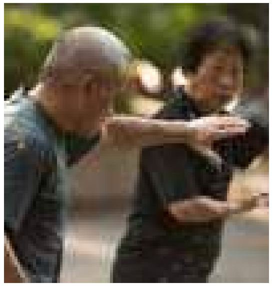


Bringing energy and inspiration to urban areas

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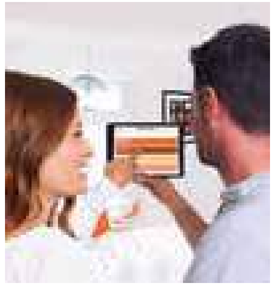
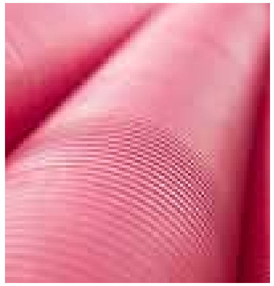

Using creativity and invention to meet life's challenges

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How AkzoNobel performed in 2015

Financial targets

9.0%

Return on sales (ROS)
Achieve return on sales (operating income/revenue) of 9.0 percent by 2015

14.0%

Return on investment (ROI)
Achieve return on investment (operating income/average invested capital) of 14.0 percent by 2015

<2.0

Net debt/EBITDA
Maintain net debt/EBITDA lower than 2.0 by 2015

Financial progress 2015

10.6%

15.0%

0.6

Planet Possible™

Sustainability targets

20%	25-30%	
Eco-premium solutions Increase revenue from downstream eco-premium solutions to 20 percent of revenue by 2020	**Carbon emissions** Reduce our carbon emissions across the value chain by 25 to 30 percent per ton by 2020 (2012 base)	**Resource Efficiency Index** Monitor gross margin divided by carbon emissions across the value chain, as an indicator for resource efficiency

Sustainability progress 2015

Eco-premium solutions	Carbon emissions	Resource Efficiency Index
19%	3%	113

How AkzoNobel created value in 2015

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth and achieve our strategic vision of leading market positions delivering leading performance.

We are actively working to reduce our carbon footprint across the value chain – to improve our resource efficiency and reduce our environmental footprint – as well as creating social value by developing our employees and being active in the communities where we operate. And by continuing to innovate in order to supply more sustainable products and solutions for our customers, we create economic, environmental and social value.

All these initiatives contribute to our financial performance and ultimately lead to more economic value for our investors.

Economic value: Input

€7.0 billion
group equity

€2.6 billion
borrowings

€347 million
research and development expenses

Organization

€14.9 billion
revenue

€1,573 million
operating income

€1,136 million
cash flow from operations

€651 million
capital expenditures

€9.8 billion
invested capital at year-end

We invested in 2015 to keep our facilities in good shape, as well as expanding our manufacturing capability.

Environmental value: Input

38%
renewable energy

11%
renewable raw materials as % of organic materials

9.7 million tons
upstream CO_2(e) emissions

95,000 TJ
energy use

€0.7 billion
energy spend

Social value: Input

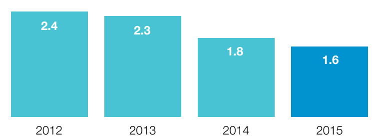
45,600
employees at year-end 2015

16,400
number of volunteers for Community Program projects (cumulative since 2005)

Organization

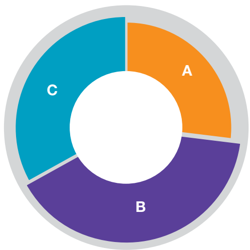
1.6
total reportable rate of injuries

Employee and supervised contractors total reportable rate of injuries
Target: <2.0 (2015)



Outcomes

Revenue breakdown by Business Area
in %



A Decorative Paints	27
B Performance Coatings	40
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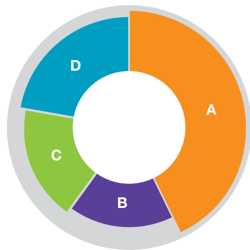
Revenue breakdown by end-user segment
in %



A Buildings and Infrastructure	43
B Transportation	17
C Consumer Goods	18
D Industrial	22

€261 million
income tax paid

€281 million
dividend paid

RD&I investments have resulted in 19 percent of revenue derived from eco-premium solutions with customer benefits.

10.6% ROS

15.0% ROI

0.6 net debt /EBITDA

19%
of revenue from eco-premium solutions with customer benefits

Organization

3.8 million tons
CO_2(e) emissions own operations

155 kilotons
total waste own operations

23%
reduction in operational eco-efficiency footprint (since 2009)

Outcomes

24.6 million tons
CO_2(e) emissions cradle-to-grave

11.1 million tons
downstream CO_2(e) emissions

3%
decrease CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

113 REI
in Resource Efficiency Index

Outcomes

19%
female executives

16%
high growth markets executives

€2.7 billion
employee benefits

4.03
employee engagement score

2,385
Community Program projects (cumulative since 2005)


"I TAKE GREAT PRIDE IN THE FACT WE CONTINUED TO BE SUCCESSFUL DOING WHAT WE DO BEST"
ar
Scan and explore

CEO statement

As I look back on 2015, I take great pride in the fact we continued to be successful doing what we do best – creating everyday essentials to make people’s lives more liveable and inspiring. This is the purpose that drives us. It sparks our creativity, gives us energy, enables us to deliver for our customers and, ultimately, generates value for our business. We’re using our key strengths – essential ingredients, essential protection and essential color – to help build a solid foundation for the next phase of the company’s strategy.

Although conditions were challenging during the year – with many markets and regions experiencing varying degrees of volatility and uncertainty – we made significant progress towards our vision of leading market positions delivering leading performance. We are now a stronger, leaner, more agile company. We have new operating models in place; we’ve refined our portfolio; our factory footprint has been optimized; a continuous improvement culture is being initiated and there’s continued focus on operational excellence. In addition, our ability to successfully commercialize innovation remains strong, we continue to lead the way in terms of sustainability and our Human Cities initiative has evolved and continues to grow and thrive.

All of this contributed to our performance, which saw us successfully achieve our 2015 financial targets. We continued our strong track record of performance improvement, with higher return on sales and return on investment. The increase in the dividend is also a clear sign we are more confident about our cash flow generation. We now plan to accelerate our efforts to fully accomplish our vision, which remains critical to the next phase of our strategy. We aim to build on the foundations we have created and grow in line with, or faster than, our market segments. New financial guidance for 2016-2018 has also been communicated (see the Strategic performance section).

“WE’RE **STRONGER** AND **MORE AGILE**”

We have been relatively cautious with regard to acquisitions in recent years, choosing to concentrate on performance improvement through operational excellence. However, we are now at a stage where we will focus on organic growth and innovation and, where applicable, will consider value-generating bolt-on acquisitions, in line with our focus on market leading and profitable positions.

On an organizational level, we made further improvements. Support functions such as Human Resources, Information Management, Finance and non-product related Procurement have been simplified and operate under a Global Business Services model (as of January 1, 2016), which will continue to develop over time. We’re also enhancing our Integrated Supply Chain activities through the AkzoNobel Leading Performance System (ALPS), a continuous improvement program designed to further build operational excellence.

Our innovation also continued to prosper, especially our digital tools. For example, our Visualizer app has been downloaded over eight million times to date. Launched in 2014, the pioneering decorating app won several major awards in 2015 and its functionality is being regularly updated. In addition, our International brand launched Intertrac Vision, the shipping industry’s first consultancy tool to provide accurate and transparent predictions on the fuel and CO_2 savings potential of fouling control coatings, prior to application.

We also made progress on our strategic sustainability targets. As well as maintaining our revenue from eco-premium solutions, we reduced our CO_2 footprint (across the value chain) and improved our Resource Efficiency Index. A major highlight was being ranked top of our industry group in the Dow Jones Sustainability Index for the fourth year running. This sustained performance provides reinforcement for our belief that sustainability is fundamental to our business strategy. It also shows the value of our Planet Possible approach to resource efficiency. A key development was the agreement to buy sustainably generated steam from Dutch energy provider Eneco at our Delfzijl site. It will help reduce our CO_2 emissions by over 100,000 tons a year.

After launching in 2014, our global Human Cities initiative continued to progress. Designed to help cities adapt to rapid urbanization, we’re using our key strengths – essential ingredients, essential protection and essential color – to energize, inspire and sustain communities for generations to come. During 2015, we launched the first project linked to our partnership with The Rockefeller Foundation’s 100 Resilient Cities program. It involved restoring and safeguarding the heritage of one of Singapore’s most historically significant buildings. Meanwhile in Brazil, we’ve added a sense of identity and helped to revitalize a favela community in Santa Marta, Rio de Janeiro, as well as training local people to become painters.

All our achievements were made possible by our employees. I thank all of you for your passion and hard work. So it was pleasing to see our ViewPoint survey results, which showed engagement levels have risen every year since we started the survey in 2010. Allied to this, our safety performance further improved. Our aim continues to be zero incidents.

We expect the volatility experienced in 2015 to continue during 2016, so we anticipate limited support from our markets. Having built a foundation for the future, we will continue to drive operational performance and are confident the next phase of our strategy will enable us to make further progress towards our vision, while creating everyday essentials to make people’s lives more liveable and inspiring.

Ton Büchner
CEO and Chairman of the Board of Management and Executive Committee

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

Scan and explore


Essential ingredients
Essential protection
Essential color

Essential ingredients

WE'RE ALL AROUND YOU AND YOU'RE PROBABLY NOT AWARE OF IT

We are the essential ingredient in everything from mobile devices and varnishes to paper and plastics. You'll often find we have a positive impact on various aspects of your daily life.

We're all around you, even when you least expect it. We're in the food you eat, the roads you drive on and your favorite personal care products. Essential ingredients can't always be seen, but ice cream, shampoo, sun lotion and building products would be very different without us.

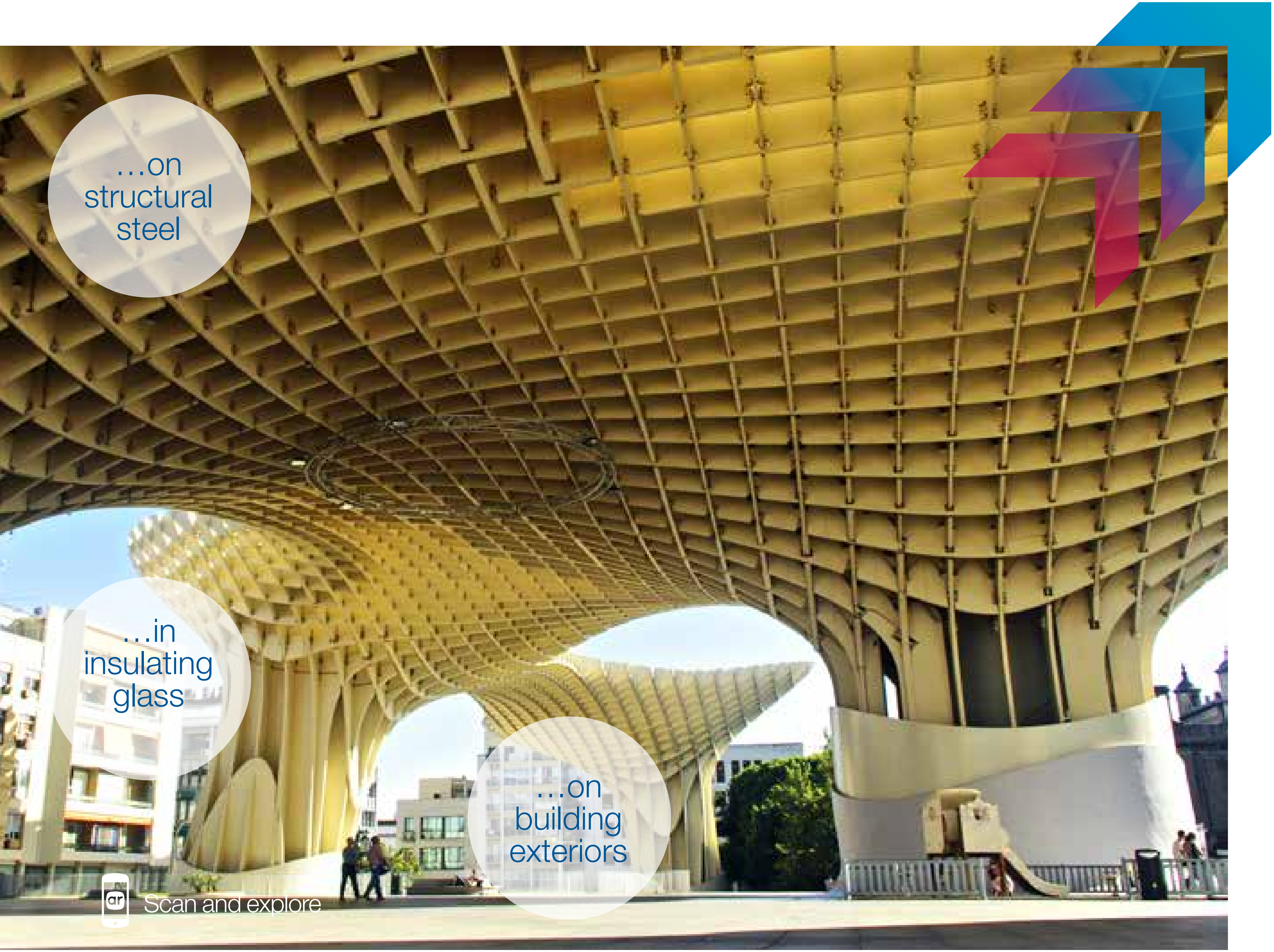

…in paper
…on wood furniture
…on electronic devices
Scan and explore

Essential protection

WE PROTECT THE THINGS YOU SEE, TOUCH AND RELY ON EACH AND EVERY DAY

We care about you and what's important to you. Whether you're conserving and treasuring the past or building the world of tomorrow, we're always there to offer safety and protection.

We protect the things you see, touch and rely on each and every day. From buildings to boats, and from fridges to bridges, our products provide strength and durability. Essential protection comes in all shapes and sizes, from the colorful coating on consumer goods to fire protection coatings on a skyscraper.


…on structural steel
…in insulating glass
…on building exteriors
Scan and explore

Essential color

WE BELIEVE IN A MORE COLORFUL WORLD FULL OF ENERGY AND INSPIRATION

We believe in a more colorful world full of energy and inspiration. We have centuries of color expertise. It helps to brighten up homes and communities and stops the world from becoming dull and dreary.

Bringing color to people's lives also helps to build a stronger sense of community and makes cities more vibrant. Essential color means we don't have to live in a joyless, black and white world lacking inspiration.


…in paint
…on wood and metal
…on concrete floors
Scan and explore

Making the planet more sustainable

When talking about sustainability, one statistic seems to dominate. It's the likelihood that by 2050, the world's population will reach nine billion. The question is, what are we all doing to meet the challenges this will create?

At AkzoNobel, we made a conscious decision to be bold and start thinking differently. We quickly realized that if we wanted to bring about the change that's needed, we'd have to reinvent how we use the world's resources.

The result was Planet Possible, an approach to sustainability which is focused on creating more value from fewer resources across the whole value chain. Putting our customers at its core, it's about increasing our resource efficiency and working together with both customers and suppliers to develop leading solutions for the challenges people face every day.

Sustainability in itself is nothing new to AkzoNobel. We've been ranked top of the Dow Jones Sustainability Index in our industry group for the last four years and have been in the top three for a decade. More than anything, this sustained top performance provides reinforcement for our belief that sustainability should sit at the heart of our business strategy.

Planet Possible is our commitment to discovering opportunities where there don't appear to be any. We're finding more innovative solutions; we're using more renewable energy and materials and less fossil-based; we're focusing more on our entire value chain; we are actively enhancing lives in the many communities in which we operate, as well as inspiring and equipping our employees to recognize new possibilities.

We're also continuing to accelerate our development of eco-premium products. Recent examples include a range of solvent-free concrete flooring paints; highly efficient and fully biodegradable micronutrients for agro applications; and UV clearcoats that help vehicle bodyshops to reduce their energy costs.

We believe that the only way to be successful in the future is to care about the future. So for us, sustainability is also about many other things, such as investing in science to accelerate new ideas; investing in our capabilities to ensure we deliver for our customers on time, every time; and creating a sustainable business for shareholders.

Ultimately, we believe that by opening up infinite possibilities in a finite world, we can create a sustainable planet capable of comfortably supporting the nine billion people who will soon call it home.

Planet Possible™

Improving air quality
We're developing more products that improve the air quality both inside and outside of buildings. Dulux Guardian, for example, can help absorb interior air pollutants such as formaldehyde, while Sikkens Alpha Aeroxane can neutralize smog-inducing nitrous oxides.

DOING MORE WITH LESS

Community RePaint
We've launched a remanufacturing project with Community RePaint in the UK. It will divert around three million liters of waste paint from landfill each year, which will be recycled and re-used by local communities.

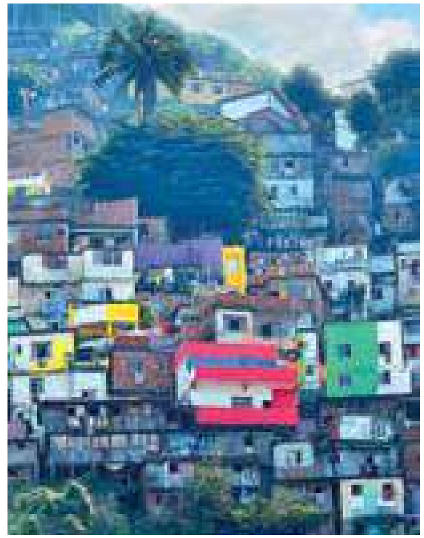
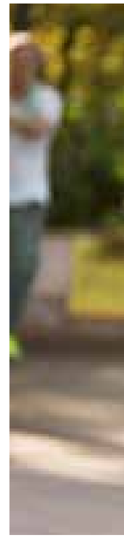
AkzoNobel Center
Amsterdam, The Netherlands
Making extensive use of the company's own products, the new building has an "Excellent" BREEAM rating.

Scan and explore



MAKING CITIES MORE HUMAN



Bringing color to the world
Our “Let’s Colour” initiative is making a difference to people and communities all over the world. As well as revitalizing urban areas with color, we also train local people to become painters.

Scan and explore

Bringing energy and inspiration to urban areas

In 1800, only 2 percent of the world's population lived in cities. Now it's 50 percent (3.5 billion people). By 2050, estimates suggest that number of city dwellers will rise to more than 65 percent (6.3 billion). Meanwhile, the number of people living in slums will have reached around 1.5 billion by 2020, double the figure in 1990.

This rapid urbanization presents huge challenges: land insecurity, poor housing, flooding, shortage of public space, as well as inadequate supply of clean drinking water and sanitation services, health and education facilities. The responsibility for coping with all of this, for making cities and human settlements sustainable for all inhabitants, lies with policymakers, businesses and society itself.

AkzoNobel is at the core of the change that's taking place in every city in the world. We're in schools, hospitals, roads and vehicles – we're in the engine room of city design. But we also have to look beyond these purely physical aspects. In order to grow and prosper, cities and their communities need a purpose, an identity and a heartbeat that creates, sustains and mobilizes this collective to achieve great things.

That's why we established our Human Cities program. It channels our three key strengths – essential ingredients, essential protection, essential color – to help energize communities and make them more liveable and inspiring. We believe our products and expertise can help cities to deliver a stronger sense of community purpose, pride and happiness. It's a more human approach which will help to reduce crime, boost competitiveness and enable cities to grow faster and be more successful.

A lot of work has already been done. We've partnered with The Rockefeller Foundation's 100 Resilient Cities program, for example, and launched two game-changing projects in 2015. In Brazil, we donated hundreds of liters of paint to help revitalize the Santa Marta favela in Rio de Janeiro. We also trained members of the community to become painters. Meanwhile in Singapore, we are restoring Burkill Hall, believed to be South East Asia's last surviving example of an Anglo-Malayan plantation-style house. Further projects are planned in the United States, India, China and the Netherlands.

We have also set up the Human Cities Coalition. This aims to deploy a unique public-private partnership approach to encourage sustainable and inclusive development for citizens in fast-growing urban areas. Focus areas will include land rights, public space, drinking water, sanitation, drainage, housing and healthcare facilities. It aims to stimulate a positive contribution to the post-2015 Sustainable Development Goals (SDGs), which include a specific reference to inclusive and sustainable urban development. The Coalition is currently scoping its unique approach in two cities – Accra, Ghana, and Mumbai, India.

Using creativity and invention to meet life's challenges

Innovation sits at the heart of what we do. Whether we're developing new products or services, we're focused on making life easier for our customers, as well as contributing to their success.

We're extremely proud of our 400 years of invention. It's a pioneering heritage which continues to influence scientific breakthroughs that make life safer, healthier and more inspiring. We have 4,000 scientists around the world and they work closely with customers to develop sustainable solutions for the challenges people face every day.

The majority of our innovation is focused on products, but we also put a lot of emphasis on process and digital innovation. One of our biggest recent success stories is the pioneering Visualizer app launched by our Decorative Paints business. First introduced in 2014, the free app enables users to see in real time what a room will look like in a range of colors before any paint is applied to the wall.

Having won a number of top awards in 2015, the Visualizer has been updated with extra functionality and will continue to be enhanced with new features. It now includes extended photo capability – allowing users to visualize their home (including the exterior) whenever and wherever they want. The app has been downloaded more than eight million times to date in over 40 markets, under 13 different brands.

Another digital tool to have been well received is the Automatchic Vision color matching device launched in 2015 by our Performance Coatings business. The hand-held device – the smallest of its kind – allows vehicle bodyshops to precisely measure and match first time the existing color on any area of a vehicle. The software ensures optimum color match while minimizing paint use, reducing waste and saving valuable time.

Helping customers is fundamental to all our innovation, although the results can sometimes remain hidden from view. For example, our Specialty Chemicals business has developed patented technology which speeds up PVC production and makes it more sustainable. Known as Continuous Initiator Dosing (CiD), it not only enhances productivity by up to 30 percent, but also offers safety improvements, energy and cost reductions and better PVC quality.

This commitment to innovation and the desire to help our customers stems from a thriving global culture of invention which continues to grow throughout the company. Ultimately, it's all about making people's lives more liveable and inspiring.

Weathershield Powerflexx
During the year, we rolled out Dulux Weathershield Powerflexx across the world. It's an exterior paint which offers high levels of rain protection and – due to its reflective properties – can reduce exterior temperatures by as much as 5°C, keeping homes cooler (below).

INNOVATION SITS AT THE HEART OF WHAT WE DO

Continuous Initiator Dosing (CiD)
PVC manufacturers using our new CiD technology benefit from improved reactor output, product quality and operational safety (top left).

Automatchic Vision
Our digital system allows bodyshops to precisely measure and match the existing color on any area of a vehicle (top middle).

Visualizer app
Picture it before you paint it with our pioneering app, which makes it easier than ever to experiment with color in your home (top right).

Bolikel® XP
In 2015, we also launched a novel, highly efficient micronutrient which helps to produce a full, healthy color of crop (below).

Making life more comfortable

There are few everyday essentials more common than plastic and we supply some of the key ingredients that go into making all kinds of plastic products (many of which we also coat). You'll often find us where you least expect to.

Strategic performance

In 2013, AkzoNobel announced a new vision, three-year targets, core principles and values, and strategy. Although market conditions have been challenging, we achieved our 2015 ambitions and have built a solid foundation for the next phase of the company's strategy.

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Our strategy

As we continue to create everyday essentials to make people's lives more liveable and inspiring, we are proud to have achieved the financial targets that we set ourselves for 2015. Our return on sales came in at 10.6 percent (target: 9 percent), while our return on investment was 15.0 percent (target: 14 percent).

Achieving our targets represents significant progress for the company. However, we know we must continue to improve to achieve our vision of leading performance in all the markets in which we operate. So we are maintaining that same vision for the next phase of our strategy development, which includes new financial guidance. For the period 2016-2018, our guidance is:

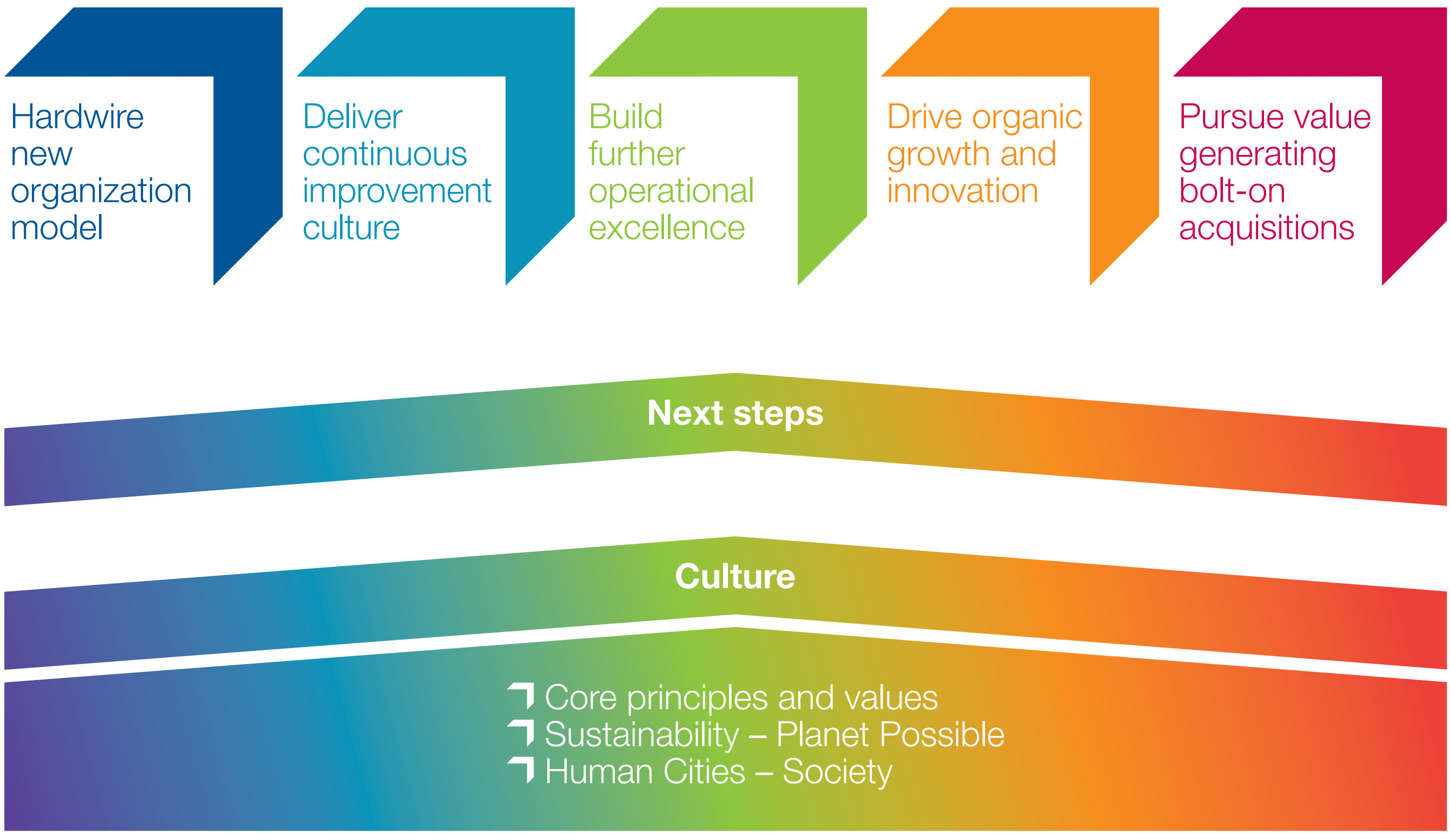
- Return on sales between 9 and 11 percent
- Return on investment between 13 and 16.5 percent
- Clear aim to build on the foundation we have created and grow in line with, or faster than, our relevant market segments

In addition, we remain committed to our strategy, including our core principles and values, strategic focus areas and core processes. In the next phase of our strategy, our action focus will switch to a greater emphasis on organic growth and innovation. The next steps we have identified are:

- Hardwire new organization model
- Deliver continuous improvement culture
- Build further operational excellence
- Drive organic growth and innovation
- Pursue value generating bolt-on acquisitions

The strategy framework for the next phase of our development is shown below and on the right. More detailed information on these next steps is provided later in this section.

Our vision remains: Leading market positions delivering leading performance


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

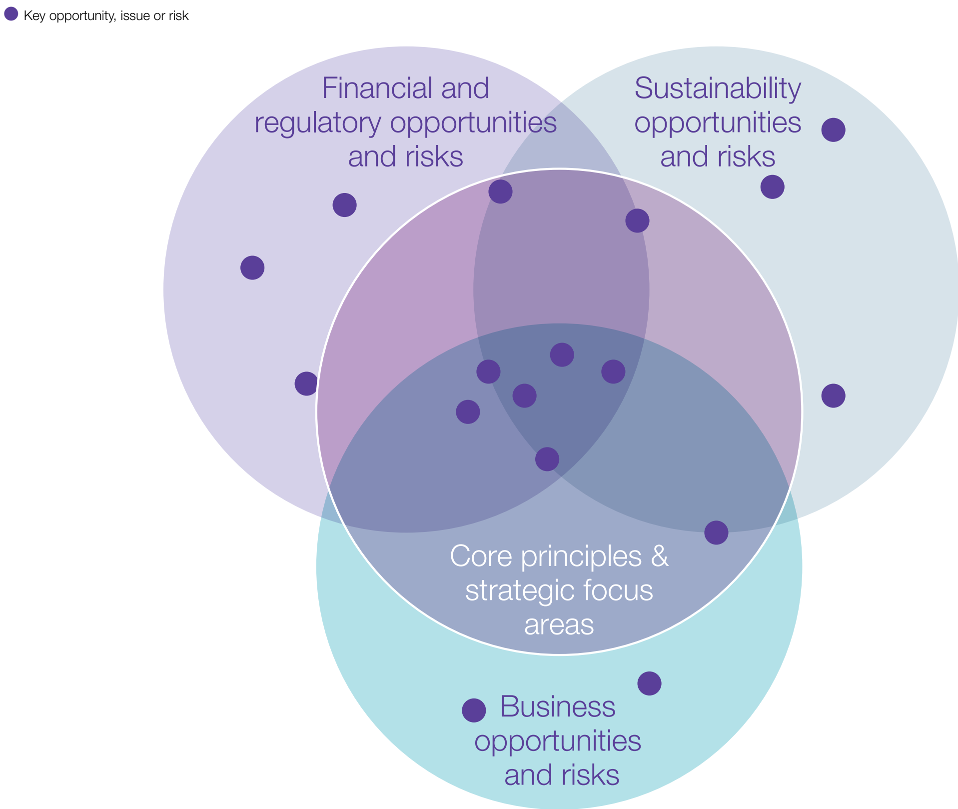
Defining what is essential in the next phase of strategy development

To define the detailed initiatives and actions we will undertake during the next phase of our journey towards leading performance, we started by consulting key stakeholder groups about the opportunities, issues and risks that we face as a company.

This evaluation not only incorporated insight from our customers, shareholders and employees, but also from other key stakeholders such as financial and regulatory bodies, relevant non-governmental organizations (NGOs) and leaders in the communities in which we operate.

We have also analyzed which topics will most likely provide us with a substantive opportunity to achieve our vision of leading performance. We then made sure to include initiatives and actions in our next steps that will either capitalize on significant opportunities, or mitigate the significant risks. We call the outcome of this filtering process our Integrated materiality diagram (see opposite). Key opportunities, issues and risks material to stakeholders are grouped into this framework using bullets. Items at the center are opportunities, issues and risks that we believe are also material to AkzoNobel's strategy and, therefore, are addressed by our core principles and/or strategic focus areas.

Integrated materiality diagram



The remainder of this Strategic perfomance section covers our core principles and strategic focus areas, as well as our processes, strategy next steps and outlook for our customer end-user segments. For more information on how business opportunities and risks are addressed by our strategy, see the Risk management section. For more details about how sustainability opportunities and risks are addressed by our strategy, see Note 2 of the Sustainability statements. Information about financial and regulatory opportunities and risks can be found in the Other information section of the Financial statements.

For further information please see Sustainability on www.akzonobel.com

Core principles and values

Our Code of Conduct brings our core principles to life

Our core principles and values underpin everything we want to achieve. We have four company values, which were introduced in 2014 – Customer focused, Deliver on commitments, Passion for excellence and Winning together. These values form an integral part of our employee performance evaluation, which in turn helps them to become fully embedded into the organization.

We followed this up in 2015 by rolling out our updated Code of Conduct, which is based on our core principles of Safety, Integrity and Sustainability. The Code of Conduct explains what we stand for as a company, what we value and how we run our business. It sets out the behavior we expect from everyone, regardless of their position in the company or the role they play.

Given the importance of the Code of Conduct, we work hard to properly train our employees and our contractors. They receive detailed instructions regarding what we expect from them. This includes a mandatory e-learning program, which was launched company-wide to help ensure a basic understanding. We are also in the process of carrying out "dilemma workshops" designed to help both employees and contractors develop more complete knowledge and appreciation. This is achieved through a series of interactive discussions about the kinds of dilemmas they might face with regard to our core principles and the Code of Conduct in their day-to-day work. These workshops help to create a feedback culture where dilemmas are openly discussed. Because the principles and the Code of Conduct apply to all employees, the first workshop was held with the Executive Committee and we have since been cascading them throughout the organization.

We are not, however, limiting the application of our core principles to our company boundaries. We have also developed, and are in the process of rolling out, a Business Partner Code of Conduct, which clarifies what we expect from our business partners in terms of our Safety, Integrity and Sustainability core principles.

THE CODE OF CONDUCT EXPLAINS WHAT WE STAND FOR AS A COMPANY, WHAT WE VALUE AND HOW WE RUN OUR BUSINESS

Strategic focus areas

We continue to pursue initiatives and actions in line with five clear areas of focus

During 2012-2013, we defined five focus areas in terms of strategic initiatives and actions. Our recent materiality analysis indicated that these five areas remain relevant and we will continue to focus on them. A brief summary of key activities in each of these five strategic focus areas follows.

Care for the customer

In almost every market in which we compete, we have a leadership position. If we are to maintain these positions and deliver against our aim of growing in line with, or faster than, our relevant market segments, care for the customer remains fundamental.

In 2015, we continued to build the foundations for care for the customer via our three commercial excellence programs. These programs incorporate processes and tools designed to help us better understand customer and consumer segments, develop appropriate go-to-market value propositions and enhance salesforce efficiency and effectiveness, all tailored for the individual demands of our three Business Areas. More specific information about the various programs can be found in the Business performance section. Where it makes sense, we work across Business Areas, for example in the development and implementation of customer satisfaction metrics, an area in which we made substantial progress in 2015.

Reduction of product and process complexity

Although our performance levels have improved significantly since we began to implement our strategy during 2012-2013, we still have more to do to achieve our vision of leading performance. To deliver this, we will continue to standardize and simplify throughout the organization. This starts with products and supporting raw material slates, but also means standardization and continuous improvement in our manufacturing, selling and support processes.

For example, we are continuing to implement our AkzoNobel Leading Performance System (ALPS), a fundamental change to the way we work in our Integrated Supply Chain. ALPS incorporates standard and integrated work processes with clear goals and metrics, as well as enablers in terms of capability development, information technology (IT) systems, organization model, definition of roles and responsibilities and cultural change consistent with our AkzoNobel values.

We use a consistent approach to ALPS implementation. In all cases, ALPS programs support our core principles. ALPS also helps to improve people, product and process safety and energy/material efficiency across the value chain, and contributes to higher productivity levels. Additional objectives are adapted to the different strategic requirements of the relevant business. For example, in our Performance Coatings Business Area, customer service improvements through higher on-time in-full (OTIF) levels are a key priority and ALPS is helping to facilitate this.

In support functions – Human Resources (HR), Information Management (IM), Finance and non-product related Procurement – we continue to make progress towards a Global Business Services (GBS) approach. In all four functions, we are moving away from a decentralized approach to a more cohesive, centralized approach allowing far greater consistency and synergies across the company.

Cash and return on investment

Since we developed our strategy in 2012, we have improved in two areas that we had identified as issues – our return on investment and our free cash flow. We will continue to focus on these areas in order to meet our financial expectations. This will involve offsetting inflation and other cost increases through continuous improvement.

Careful capital allocation and management is a key strategic priority, so we aim to continue our strong track record with regard to operating working capital management. We are also taking a disciplined approach to capital expenditure management. During 2015, we introduced a new approach to investment assessment and approval to help ensure this discipline. In line with our core principles, safety and sustainability implications are also evaluated, as well as financial consequences.

Embedded safety and sustainability

Our performance with regard to the core principles of Safety and Sustainability continues to improve. This is a challenging area which we will continue to prioritize for action going forward. Our efforts are widely recognized externally. In 2015, we were ranked number one in the Materials industry group on the Dow Jones Sustainability Index for the fourth year in a row. We have now been ranked in the top three in our sector for the last decade.

We also continue to implement our Planet Possible sustainability agenda, focusing on radical resource efficiency throughout our entire value chain. This strategy is based on three main pillars:

Sustainable business

We work together with our value chain partners to develop leading solutions that create more value from fewer resources. In particular, we focus on developing and marketing solutions that deliver environmental or social benefits for our customers when compared with competitive products, as well as generating revenue for the business. We call these products eco-premium solutions with downstream benefits. During 2015, we again achieved 19 percent of our revenue from these products, up from 17 percent in 2012.

WE WORK HARD TO INCREASE EMPLOYEE ENGAGEMENT AND PROVIDE CONTINUOUS LEARNING AND DEVELOPMENT OPPORTUNITIES

Resource efficiency

We continually strive to increase our resource efficiency and reduce carbon emissions in our own operations in order to deliver environmental benefits and generate cost improvements. During 2015, our carbon emissions fell to 3.8 million tons, down from 4.7 million tons in 2012. But we do not limit our philosophy of more value from fewer resources to our own operations. We also work with suppliers and customers to reduce carbon emissions throughout the value chain. This is a challenge which we will continue to prioritize for action going forward.

Capable, engaged people

We are focused on developing our employees and forming partnerships with key suppliers along the value chain to help create more value from fewer resources. In 2014, we made significant and visible steps in terms of forging external partnerships through our Human Cities initiative and our cooperation with The Rockefeller Foundation's 100 Resilient Cities program. We further built on this in 2015 by setting up the Human Cities Coalition. More details about this can be found in earlier pages of this Report 2015.

The three pillars of our Planet Possible agenda build on our sustainability foundations. From a people safety perspective, we continue to implement our behavior-based safety (BBS) programs across the company. A key area of focus for 2015 was extending BBS beyond our manufacturing sites to offices and laboratories. Our efforts have resulted in a substantial improvement in the total reportable rate of injuries per million hours worked, which has decreased from 2.4 in 2012 to 1.6 in 2015. This exceeds the target of 2.0 which we set for 2015 a number of years ago. Continuing to drive this number down will always be a key priority for the company and we have set a new target of 1.0 for 2020. We also continue to deploy process and product safety procedures and are making good progress in these areas as well.

Diverse and inclusive talent development

If we are to deliver on our financial expectations and overall vision, we need to have a strong, motivated and diverse workforce. To help achieve this, we work hard to increase employee engagement and provide continuous learning and development opportunities. Our objective is to create a high performing culture where employees can contribute to the best of their ability, and where our management teams reflect the diversity of our overall workforce.

A valuable measure of our progress is the annual ViewPoint employee engagement survey. The latest results show further improvement and identify opportunities for making additional progress next year. In 2015, we focused on improving feedback throughout the organization while creating development plans for higher potential employees through a consistent, global approach to "assessment centers" as part of our Talent management process. This process is intended to bring increased objectivity to talent identification, as well as a more targeted approach to the development of leadership potential and increased process transparency.

We continue to make progress in terms of gender and geographic diversity in our executive workforce, working towards our 2015 ambition of 20 percent. We ended 2015 with 19 percent female executives (up from 15 percent in 2012) and 16 percent of executives from Asia Pacific, Latin America and emerging Europe (up from 13 percent in 2012).

Processes

We continue to implement our six company-wide processes to support our next steps

When we defined our strategy and focus areas during 2012, we also identified six processes that required a consistent approach across the company. During 2013-2014, our focus was on codifying these company-wide processes and including them in our corporate directives to ensure appropriate governance. In 2015, we focused on deploying these processes throughout the organization. A brief update on these processes follows.

People, product and process safety

As indicated throughout this strategic performance section, Safety is a core principle which engages and unites all of AkzoNobel. The people safety process is aimed at increasing awareness of behaviors that put us at risk. In 2015, we focused on reducing slips, trips and falls across the company (including offices and laboratories) and on-site manager safety leadership via a program called Hearts & Minds. The CEO and senior leaders coached 80 site managers in 2015 as part of this program.

The aim of our process safety program is to identify and control hazards in our operations by avoiding unwanted events at manufacturing sites that result in injuries, waste or harm. We measure our performance on this through a disciplined audit process and are continually improving in our audit outcomes. Product safety incorporates the traditional approach of reactive regulatory compliance and even goes beyond this, enabling us to take the lead in sustainable product stewardship.

Operational Control Cycle

The Operational Control Cycle, which has been in place since 2012, forms the heartbeat of our operational performance management system. We do this through a cycle of regular, sequenced and staged operational meetings, which incorporate structured and standardized operational discussions. By employing this process, we review past performance, but more importantly we focus on a realistic three-month rolling forecast, as well as mid to longer term planning.

Continuous improvement

As mentioned earlier in this section, implementation of the AkzoNobel Leading Performance System (ALPS) is already well underway in our Integrated Supply Chain, with clear signs of progress in terms of deployment within the "Make" and "Plan" processes. Within the Integrated Supply Chain, our next focus will be on "Source" and "Deliver" processes. In 2016, we will also begin to deploy our continuous improvement toolkit, including Lean and Six Sigma fundamentals, in our support functions through our Global Business Services (GBS) organization.

Innovation

We have now restructured our Research, Development and Innovation (RD&I) group. As part of the restructuring process, we implemented new RD&I organizations within our three Business Areas, strengthening strategic research capabilities across the company. To support these organizations, we are developing and deploying a standard innovation process which includes best practice stage gate and portfolio management sub-processes. The 2016 focus will be on developing and deploying improved front-end processes, such as idea generation and management and enhancing our innovation metrics. This will give us greater visibility on our portfolio health, stage gate success rate and the strength of our innovation. Coupled with a strong RD&I culture, this will help to stimulate a resilient portfolio of organic growth projects. (More detailed information about our work in RD&I can be found in the Sustainability statements, Note 4).

Procurement

There are three primary components of our Procurement process – strategic sourcing, supplier management and purchase-to-pay. Strategic sourcing forms the backbone of the supplier selection and commercial process. After selection and contracting, a high level of supplier performance is ensured by a strong supplier management process. This process is focused on creating value beyond commercial conditions, including innovation, sustainability, cost, quality and on-time delivery improvements.

We are implementing a more robust purchase-to-pay process and automating this where appropriate. The Procurement organization is also able to keep our businesses well informed of expected movements in the supply market by closely monitoring the market developments of purchased raw materials, enabling appropriate commercial adjustments.

Talent management

In 2013, we developed our Talent management process based on five steps – plan; attract, acquire and on-board; assess performance and potential; develop and retain; deploy. In 2014, we developed a set of tools to support this process and implemented these tools throughout 2015. Our engagement and diversity levels have improved as a result (as described earlier in this section) and we expect to continue making progress on these metrics. Going forward, we will focus on utilizing this process to further develop a high performance culture. This incorporates active talent management and development of leadership and people management capability.

STRATEGIC SOURCING FORMS THE BACKBONE OF THE SUPPLIER SELECTION AND COMMERCIAL PROCESS

Actions

In the next phase of strategy development, our action focus will shift towards continuous improvement and organic growth

So far, we have built a foundation for achieving our leading performance vision by beginning a cultural transformation based on our core principles and values, our Planet Possible sustainability agenda and our Human Cities initiative. We have implemented new organizational models in all three Business Areas and in all functions, and have defined and are deploying company-wide processes as described. Further momentum will also be provided by our new company purpose, which will help to fully align the organization, drive employee engagement and create a more unified and cohesive business. Our first three next steps in terms of actions are to:

Hardwire new organization model

We have made some significant changes to our organization model, including reorganizing and restructuring in all three Business Areas and all functions. As already indicated, in early 2016 we went live with our full Global Business Services organizational model for the support functions. We need to ensure that all the change we have undergone is embedded and that the new models work, become the new norm and deliver against expectations.

Deliver continuous improvement culture

Our financial expectations for 2016-2018 don't just rely on maintaining current performance levels. They are based on continued performance improvement as a cultural norm. We now have a robust continuous improvement process, which we call the AkzoNobel Leading Performance System (ALPS). We have started to implement this process in our Integrated Supply Chain and will begin to introduce it into our Global Business Services (GBS) organization in 2016. Furthermore, we have developed continuous improvement training programs for all levels of the organization, which have been incorporated into our AkzoNobel Academy learning platform. Our focus now is on developing a culture where we do things a little bit better every day.

Build further operational excellence

By creating a continuous improvement culture, we will be able to progress towards operational excellence in all aspects of the company. This includes the Integrated Supply Chain and the support functions through GBS, as outlined above. It also includes continuous improvement to achieve operational excellence in our Marketing and Sales functions. We will address these functions through our commercial excellence programs, which are focused on improving commercial processes, systems, tools, remuneration and behavior.

In the next phase of strategy implementation, we will put greater emphasis on growth and innovation, resulting in our final two action steps:

Drive organic growth and innovation

We have leading market positions in many of the sectors and/or regions in which we compete. To maintain these market positions, our ambition is to grow in line with, or faster than, our relevant market segments. To achieve this, as well as developing more robust operational excellence models in commercial functions, we will continue to build on our track record of successfully commercializing innovation, with a significant emphasis on sustainability.

Pursue value generating bolt-on acquisitions

Over the last few years, we have pruned our portfolio to focus on our market leading positions. Going forward, we have a strong financial and operational foundation on which to build via bolt-on acquisitions. We will consider any acquisition that generates value in terms of market, geography or technology synergies. We will be very disciplined in evaluating these acquisitions, with a strong focus on acquisitions that offer a good return on investment in the medium term.

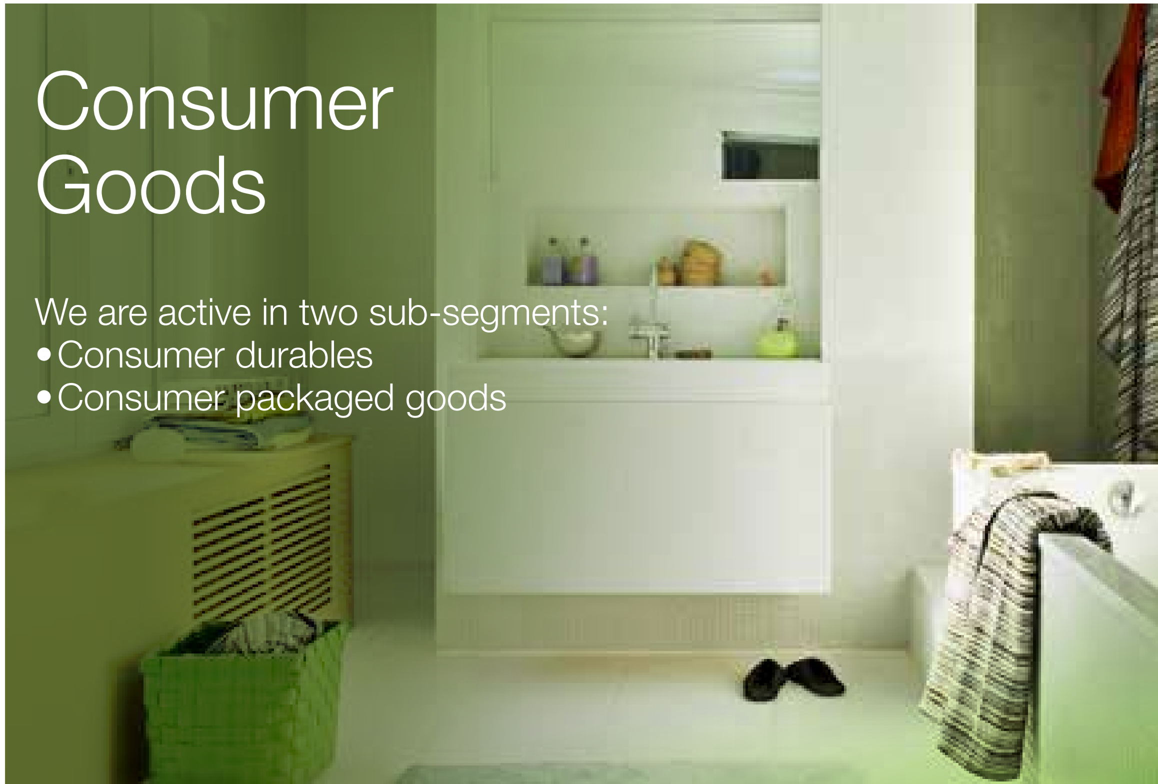
End-user segments

We are present in a wide variety of markets, which brings resilience and stability to our company. Analyzing these end-user segment trends is a fundamental driver for our strategy. We are present in four main end-user segments and outlook profiles for each of them are provided on the following pages.

Buildings and Infrastructure

We are active in three sub-segments:

- New build projects
- Maintenance, renovation and repair
- Building products and components



Consumer Goods

We are active in two sub-segments:

- Consumer durables
- Consumer packaged goods

43%
of revenue

Transportation

We are active in three sub-segments:
- Automotive repair
- Automotive OEM, parts and assembly
- Marine and air transport

17%
of revenue

18%
of revenue

Industrial

We are active in two sub-segments:
- Natural resource and energy industries
- Process industries

22%
of revenue

Buildings and Infrastructure

We provide specialty chemicals used in the manufacture of building and infrastructure materials, as well as paints and coatings that are applied to building interiors and exteriors. The Maintenance, renovation and repair sub-segment is particularly important to our Decorative Paints Business Area.

Trends

Much of this end-user segment has a very strong regional component and the regional outlook has been changing. The downward adjustment is particularly apparent in the Chinese New build projects sub-segment; in some parts of this market, we are even seeing contraction. This is important because Chinese new build is proportionately larger than European new build and much larger than in North American new build. Growth expectations for the Chinese Maintenance, renovation and repair sub-segment have also been adjusted downwards, but the European and North American regions are much larger in this sub-segment due to the size of the installed base.

Growth rates are increasing somewhat in Europe, where the market has been flat or even contracting over the last few years. Growth rates are expected to increase in some countries where the market has been flat or decreasing in size, such as France, Italy and Germany. On the other hand, in the UK – where the market has been recovering from the 2008-2009 recession and growth rates have been above GDP levels – the expectation is that growth rates going forward will moderate. We are therefore forecasting some growth in Buildings and Infrastructure overall in Europe.

Outside of China and Europe, analysts expect a return to growth in markets that have faced more recent macro-economic difficulties such as Russia and Brazil. We see limited evidence of such rapid recovery. The two regions where growth rates are expected to remain stronger are North America and India. However, our benefit from this will be limited, as we do not sell decorative paints in North America.

Future sustainability developments

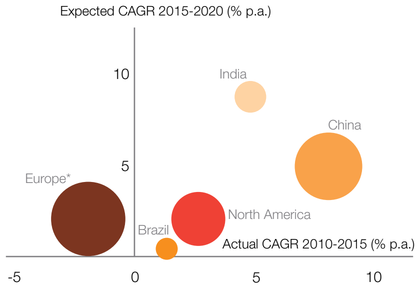
According to the World Business Council for Sustainable Development's (WBCSD) Vision 2050, 70 percent of the world's population will live in urban areas and 95 percent of new building stock will use zero net energy by 2050. The proportion of buildings heated by fossil fuels will also fall below 6 percent. Sustainability issues beyond energy use and carbon emissions, such as indoor air quality, will also have a significant impact on product and service demand.

Implications for strategy and actions

Although growth rates in China are expected to be lower than in the past, the market is large and there is still significant growth potential. We will therefore continue to build our brands and capability in this important region. We will also make use of product and margin management approaches to achieve appropriate profitability levels. In Europe, North America and India, we will capitalize on organic growth opportunities as they arise. In Brazil and Russia, we need to ensure flexibility and agility to capture the benefits of a return to growth when it occurs.

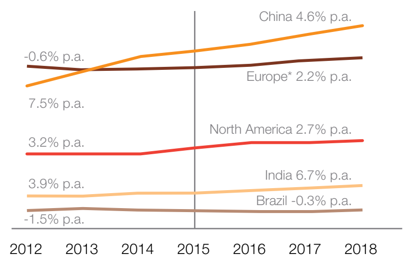
Total construction [1]

Bubble size based on 2015 output



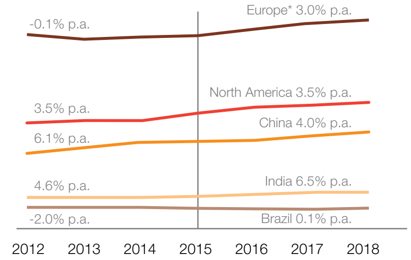
Total market new build construction [2]

Real 2010 $ billion, output



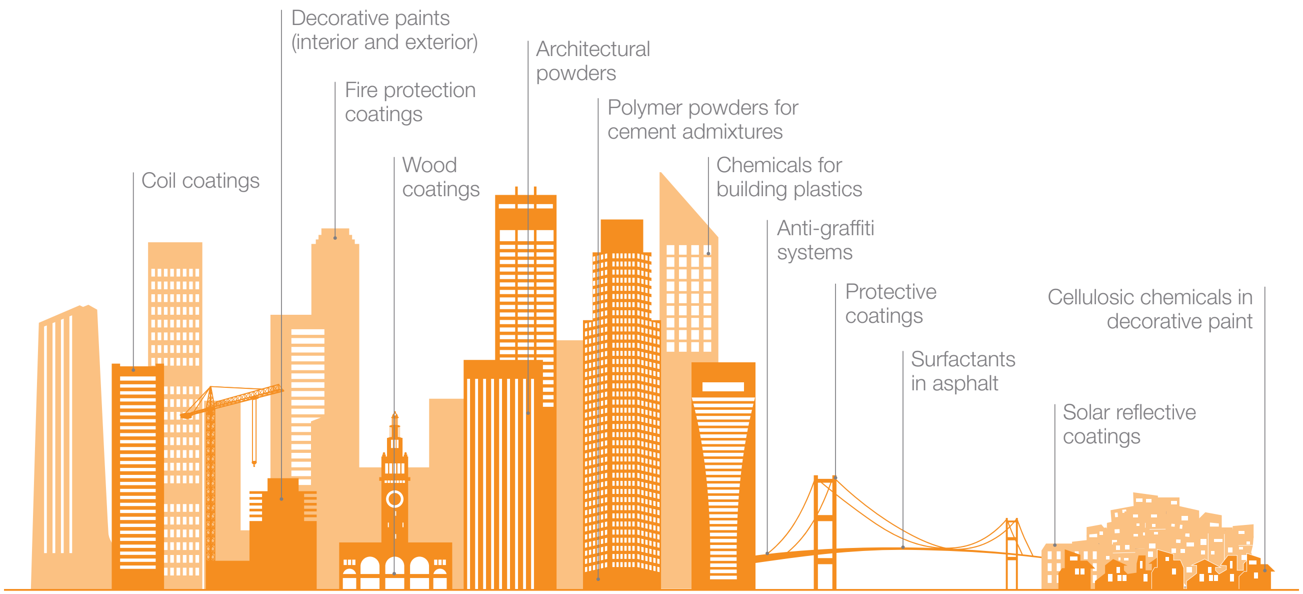
Maintenance, renovation and repair [2, **]

Real 2010 $ billion, output



[1] Source: IHS.
[2] Source: IHS/Construction IC.
* Europe includes Turkey and Russia.

** Excluding infrastructure and industrial construction



Transportation

The Transportation end-user segment is particularly important for our Performance Coatings Business Area. We supply a comprehensive range of advanced coatings and color technologies for virtually every type of transport, including cars, commercial vehicles, ships, yachts and airplanes. We also produce specialty chemicals used in the production of automotive systems and components, with particular emphasis on automotive plastics. In addition, we supply surfactants for automotive fuels and lubricants.

Trends

The outlook for the Automotive OEM parts and assembly sub-segment remains reasonably strong globally, although our benefit from this is limited as we do not compete in the mainstream automotive OEM coatings business. Growth rate expectations are particularly high in China, which is now the largest region for automotive production. Expectations for growth are more modest in Europe, where some recovery is required in order to reach pre-recession production levels. North America is an exception to the positive growth outlook, with production having returned to pre-recession levels. Growth going forward is therefore expected to be lower than overall North American GDP growth. The trend towards smaller, lighter weight cars is supporting the continued conversion to plastics, so the outlook for automotive plastics is disproportionately strong, which is important for AkzoNobel, as we are a leader in automotive plastic coatings.

Growth expectations in the Automotive repair sub-segment are less robust, although the market is more stable and less cyclical than in the other automotive sub-segment. Key drivers for growth are the number of vehicles on the road, the insurance rate and the repair rate. Higher growth is therefore expected in countries such as Brazil, Russia, India and China, where growth rates in these key drivers are expected to be higher.

In the Marine and air transport end-user segment, we see some evidence that the bottom of the cycle has been reached in marine new build, as production is now very modestly increasing. However, we are not expecting a sustained recovery because new contracts are declining and the order book is falling as a result. Furthermore, the marine maintenance market is continuing to grow slowly as freight rates have still not recovered significantly, dampening demand for maintenance activities. Aerospace is a much smaller market than marine for AkzoNobel, but we do expect continued robust demand growth.

Future sustainability developments

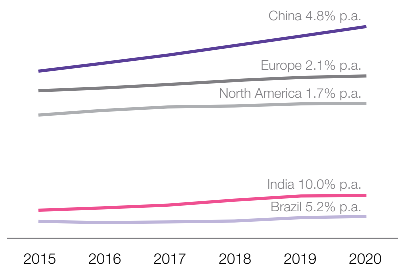
Based on the WBCSD Vision 2050, by 2050 there will be an 80 percent reduction in energy use by light duty vehicles. In addition, the WBCSD is expecting a 50 percent drop in energy use in freight transportation.

Implications for strategy and actions

As products with sustainability and/or cost benefits in production and in use continue to grow disproportionately, we will continue to innovate and provide products that lead to reduced carbon use and lower costs. Aesthetics will also remain important and we will therefore continue to innovate in terms of products and services that support differentiated color and finish. In addition, we will ensure that we are well-positioned geographically as the vehicle car park continues to increase outside of mature markets.

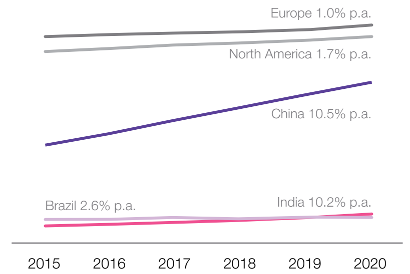
Light vehicle production [1]

Passenger cars and light vehicles (units)



Vehicle car park [1]

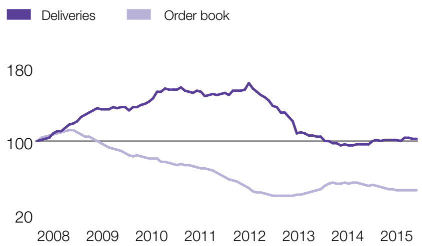
Passenger cars and light vehicles (units)



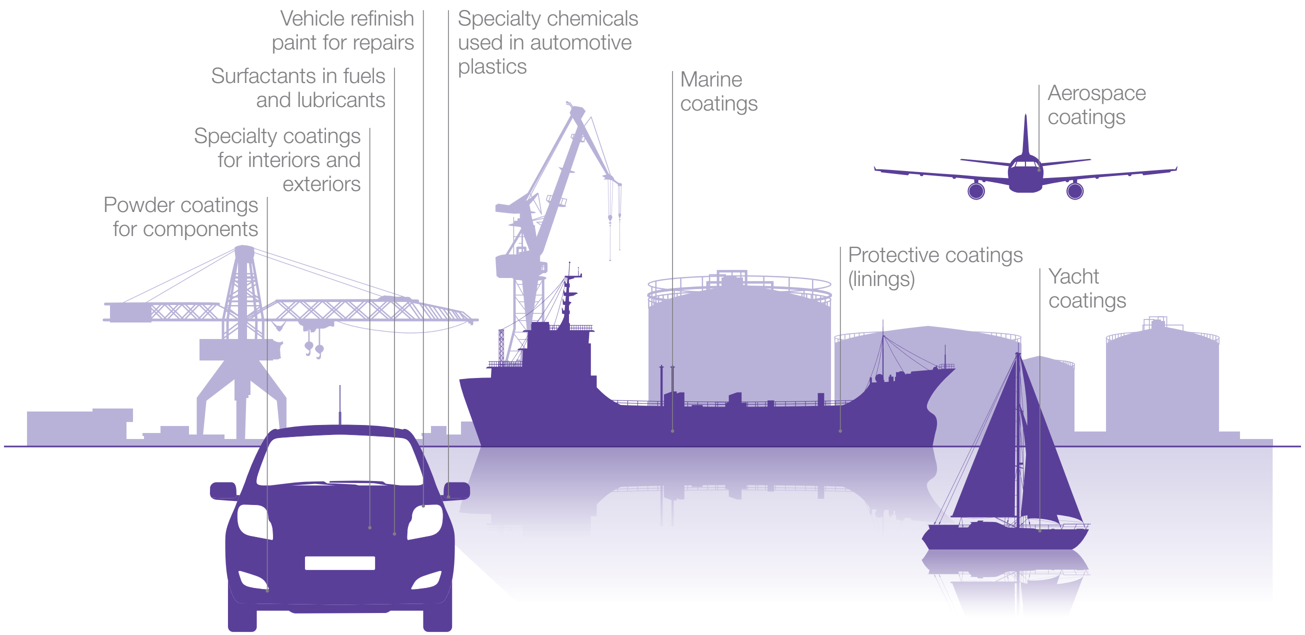
[1] Source: IHS.

Marine new build [2]

Compensated gross tonnage, indexed to January 2008



[2] Source: Clarkson Research Services Limited.



Consumer Goods

The Consumer Goods end-user segment is important for both our Performance Coatings and Specialty Chemicals Business Areas. We supply liquid and powder coatings that play both an aesthetic and protective function in producing furniture, consumer electronics, domestic appliances and packaging for food and beverage. Our specialty chemicals are either vital to the production process or are key functional ingredients in a wide variety of consumer durables and in consumer packaged goods for cleaning, dishwashing, personal care and pharmaceutical products.

Trends

As a general rule, expected growth in Consumer Goods roughly follows GDP growth. Currently, this translates into above average growth in North America, balanced by more moderate growth in Europe. In China, growth rates have fallen from the high rates experienced in the recent past, but we still expect growth due to a combination of domestic demand and exports to North America, where growth rates are reasonable.

There have been some shifts in outlook in the Consumer durables sub-segment. For example, the growth outlook has improved in mature market durables related to the Buildings and Infrastructure end-user segment, such as furniture. Currently, external analysts are predicting higher growth rates for furniture than for domestic appliances, which was not the case in the recent past. In the more technology-oriented parts of this sub-segment, trends differ significantly by type of product. For example, double digit growth is expected in tablets, but growth in other areas is more limited.

In terms of production, there is an ongoing shift in many sectors to the emerging markets. Looking at domestic appliances, for example, there is now more production in Brazil, Russia, India and China than there is in North America and Western Europe. Expected growth rates are also higher outside of mature markets. However, it is worth noting that in many cases, design and decision-making processes are still based in North America or Western Europe.

In the Consumer packaged goods sub-segment, we expect growth slightly below regional GDP growth rates in both emerging and mature geographies. This sub-segment tends to be more stable and less cyclical over time.

Future sustainability developments

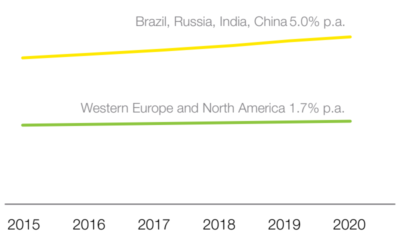
Based on the WBCSD Vision 2050, consumer durables are expected to last longer and recycling of packaging will increasingly be built into business models. By 2050, the WBCSD forecasts that people will only use five tons of non-renewable materials each, down from today's 85 tons (US).

Implications for strategy and actions

As demand growth and production in many parts of the Consumer Goods end-user segment shifts geographically, we will ensure we have the right production, sales and technical service organizations in the right geographic locations. These organizations will also work effectively across regions in terms of design and key account management, where appropriate. To capture organic growth opportunities, we will continue to utilize differentiated business models with appropriate value and cost trade-offs to serve both premium and mass markets. Finally, we will ensure that our products provide new or better functionality, particularly with regard to sustainability levels.

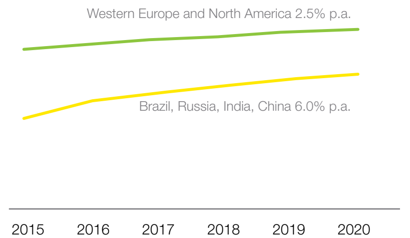
Domestic appliance production [1]

Real 2010 $ billion, value added



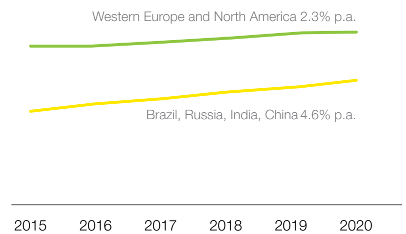
Furniture production [1]

Real 2010 $ billion, value added

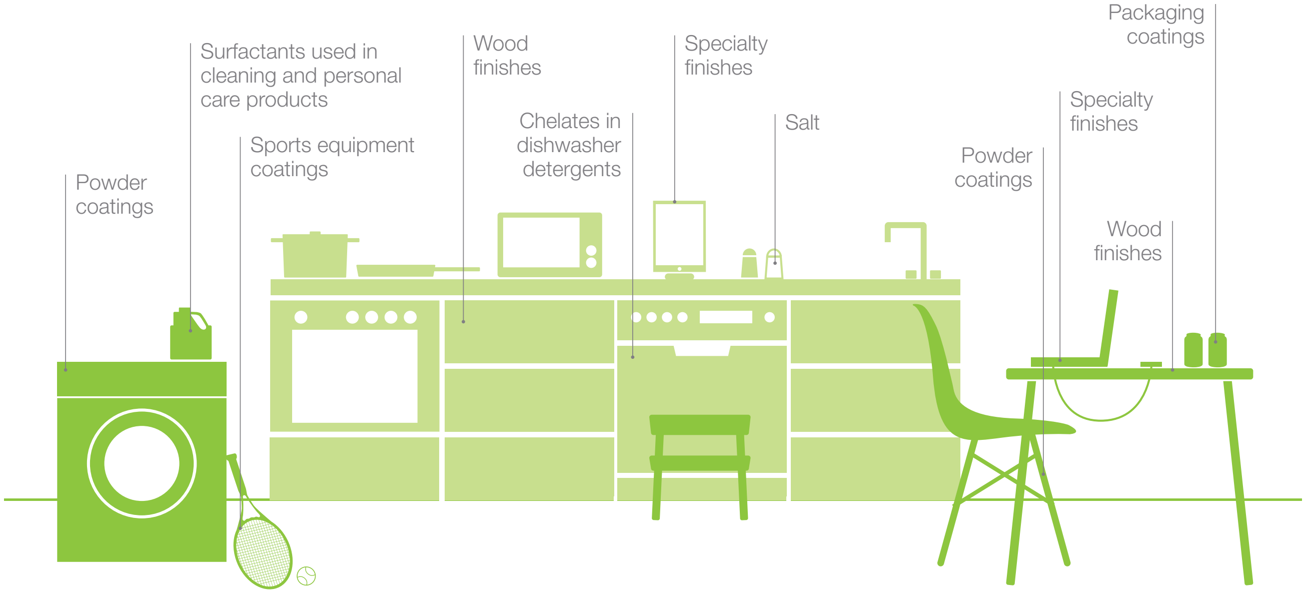


Food and beverage production [1]

Real 2010 $ billion, value added



[1] Source: Oxford Economics.



Industrial

The Industrial end-user segment is the largest segment for our Specialty Chemicals Business Area. We sell chemicals into a wide variety of applications, including metals and mining, agrochemicals, plastics (polymers) and pulp, where they play an important functional role during production or in the end product. We also sell liquid and powder coatings into the oil and gas, metals and mining and power industries. These coatings are largely used for their functional benefits, such as fire and corrosion protection.

Trends

Lower oil prices are having a significant short to medium term impact on the outlook for the Industrial end-user segment. For example, in oil and gas new construction, we are seeing drastically reduced upstream investment. Meanwhile, some upstream businesses are not profitable and we are seeing a shutdown of high cost production units.

Lower oil and gas prices also have an impact on chemicals. In the Middle East, downstream chemical investments are being postponed or even cancelled. In North America, there has been a reduction in the cost advantage in terms of shale gas-based ethylene feedstocks and this is moderating regional chemical growth rates.

Longer term, we expect disproportionately high growth in regions with access to low cost oil, gas and chemical feedstocks, such as the Middle East (due to oil) and North America (due to shale gas). However, there are currently record trade surpluses in chemicals in Europe and we expect this to continue, particularly in the chemical sectors relevant to AkzoNobel. Due to local demand, we also expect continued growth in the large and important Chinese market, albeit with lower growth rates than we have seen in the recent past.

From a sub-segment perspective, we continue to expect above GDP growth in many polymer markets, where there is continued demand growth as global wealth increases and products continue to be converted to plastics for a variety of reasons, including weight reduction.

Beyond plastics, there are differences in expected growth rates for various Process industries sectors relevant to AkzoNobel. We expect GDP-level growth in segments such as agrochemicals, with significant regional differences in terms of growth rates, as well as substantial year-to-year volatility. While global growth in bleached chemical pulp is below GDP and the market is expected to contract in North America, we expect continued growth in South America in pulp due to the cost competitiveness of the region.

Future sustainability developments

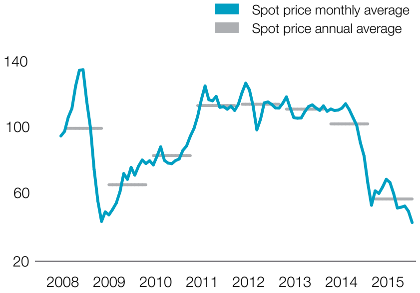
The WBCSD Vision 2050 indicates that we should expect a four to ten-fold improvement in the eco-efficiency of resources and materials by 2050. Waste to landfill will increasingly reduce as closed loop processes become more common.

Implications for strategy and actions

Where appropriate, while low oil and gas prices continue, we will ensure that we focus our organic growth efforts on higher growth areas, such as mining, power and pulp from a sector perspective and North America from a regional perspective. We will also optimize our cost position in Europe and China, where the cost position is less competitive in the long term. While we do this, we will continue to improve sustainability levels throughout the value chain.

Brent crude oil price [1]

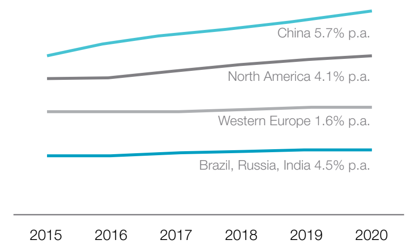
$ per barrel, freight-on-board North Sea



[1] Source: IHS.

Chemical production [2]

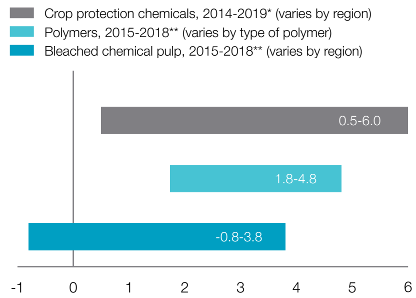
Real 2010 $ billion, value added



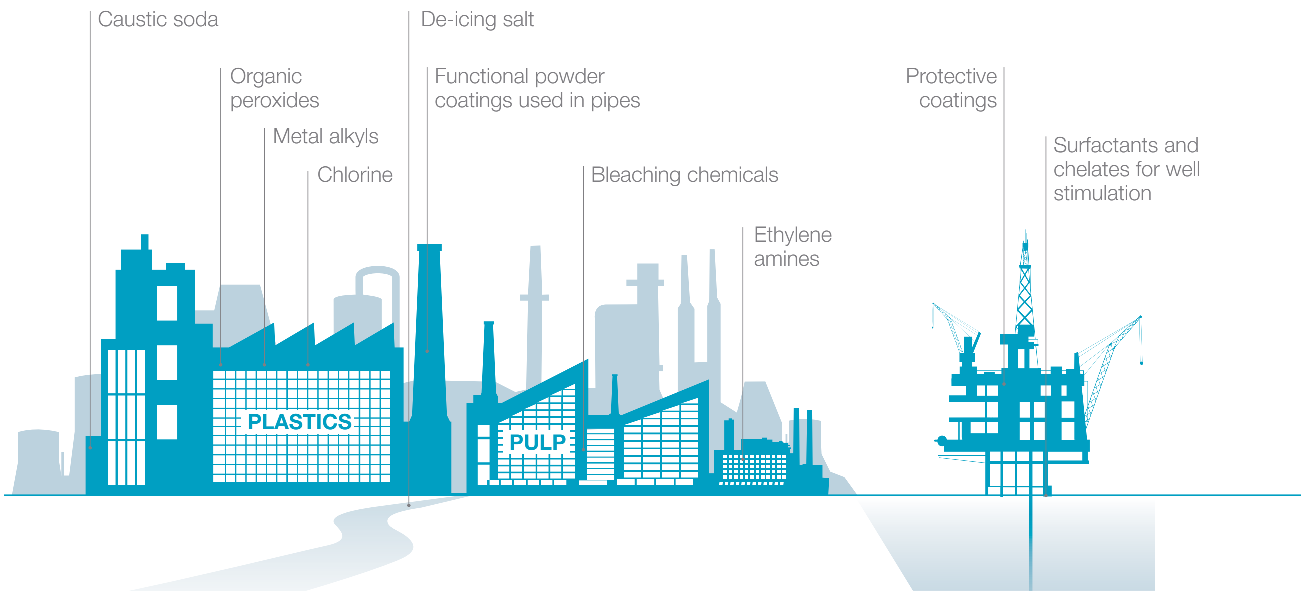
[2] Source: Oxford Economics.

Key industrial sectors [3]

growth rate % p.a.



[3] Sources: PhillipsMcDougall for crop protection; ICIS supply & demand database for polymers; RISI for bleached chemical pulp (BCP).
* Based on 2014 real US$.
** Based on volume.



Strategic targets: 2015 financial performance

Return on sales (ROS)

We use return on sales (ROS) as a performance indicator to reflect profitability relative to revenue. ROS as a target will focus management on delivery and quality of profits. ROS is defined as operating income as percentage of revenue.

Exceeded our 2015 target

- Positive impact of process optimization
- Lower costs
- Reduced restructuring expenses as we move into a stronger emphasis on continuous improvement

Return on investment (ROI)

We use return on investment (ROI) as a performance indicator to reflect profit relative to invested capital. ROI as a target will focus management on delivering value through returns in excess of our cost of capital. ROI is defined as operating income divided by average invested capital.

Exceeded our 2015 target

- Improved profitability as described in the ROS section
- Average invested capital increased compared with 2014 due to currency effects and temporary and planned inventory increase as part of the scheduled footprint optimization

Net debt/EBITDA

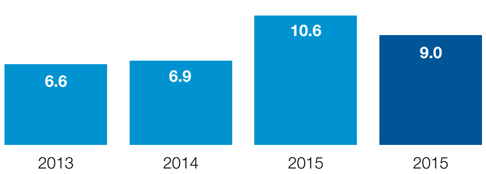
Net debt/EBITDA reflects our strategy to maintain a strong investment grade rating (or credit rating).

Exceeded our 2015 target

- EBITDA increased significantly as a result of process optimization, lower costs, reduced restructuring expenses and favorable currency developments
- Net debt decreased due to positive free cash flow

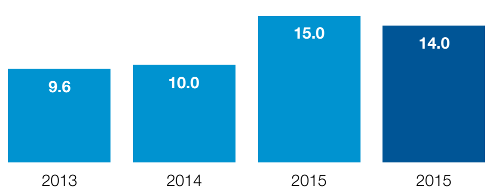
Target 9.0%

Return on sales (ROS) development
Operating income in % of revenue
■ Target



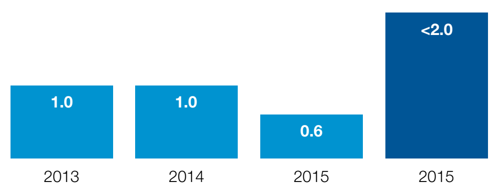
14.0%

Return on investment (ROI) development
Operating income/average invested capital in %
■ Target



<2.0

Net debt/EBITDA
Ratio
■ Target



Strategic targets: 2015 sustainability performance

Eco-premium solutions with customer benefits

Our 2020 target is to achieve 20 percent of revenue from products and services which provide customers and consumers in our downstream value chain with a significant sustainability advantage compared with the most commonly available equivalent commercial products or industrial processes.

Continued progress towards our 2020 target

- Percentage of revenue from eco-premium solutions with downstream benefits remained stable at 19 percent
- Revenue increased from sales growth from new and existing eco-premium solutions in all Business Areas
- This was offset by "mainstreaming" of a few of our coatings products and revenue growth from products which are not eco-premium

Cradle-to-grave carbon footprint

Our ambition is to reduce our cradle-to-grave carbon footprint by 25-30 percent per ton of sales between 2012 and 2020.

Some progress towards our 2020 target

- Carbon footprint per ton of sold product has decreased 3 percent since 2012. Absolute footprint is down 10 percent
- Solid improvements due to lower footprint energy sources, including renewables, efficiency gains at our energy intensive facilities, and increased sales of lower carbon footprint coatings products
- Our 2020 target remains a challenge as we continue to focus on working together with suppliers and customers to deliver improvements across the value chain

Resource Efficiency Index (REI)

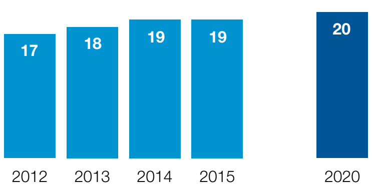
The Resource Efficiency Index is defined as gross margin divided by cradle-to-grave carbon footprint – reported as an index. We are monitoring this index, and our aim is to use it to drive further improvements in resource efficiency across the value chain.

Improvement achieved

- REI increased to 113 from 2012 base of 100, though trend is variable
- Margin increases across the Business Areas from sales of higher added value products and positive currency effects
- Some improvement in carbon footprint performance due to energy sourcing and efficiency gains, and sales of lower footprint products

Target 20%

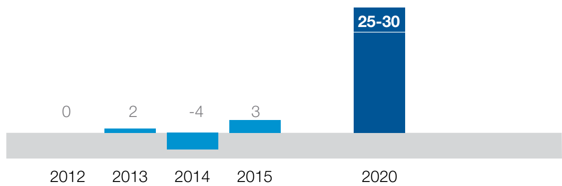
Eco-premium solutions with customer benefits
in % of revenue
■ Target



For more details see Sustainability statements Note 4.

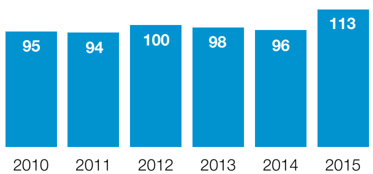
25-30%

Cradle-to-grave carbon footprint
% reduction CO_2(e) per ton of sales from 2012
■ Target



For more details see Sustainability statements Note 5.

Resource Efficiency Index
gross margin/CO_2(e) indexed



For more details see Sustainability statements Note 4.

How we created value in 2015

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth and achieve our strategic vision of leading market positions delivering leading performance.

Economic value

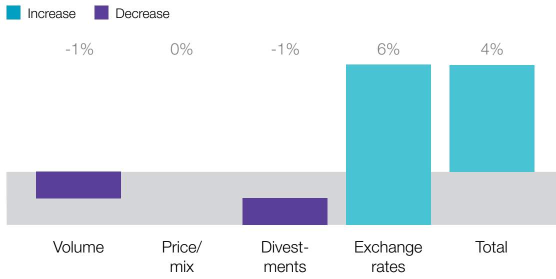
Financial overview

We delivered on our 2015 targets. Revenue was up 4 percent, due to 6 percent favorable currency effects, partly offset by divestments and lower volume. Operating income was up 59 percent at €1,573 million, reflecting the positive effects of process optimization, lower costs, reduced restructuring expenses, favorable currency developments and the impact of incidental items. ROS increased to 10.6 percent (2014: 6.9 percent). ROI increased to 15.0 percent (2014: 10.0 percent).

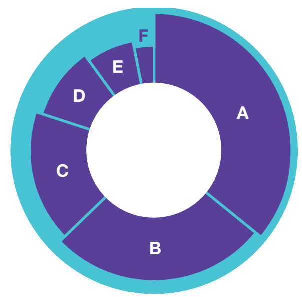
Summary of financial outcomes

In € millions	2014	2015	Δ%
Revenue	14,296	14,859	4
Operating income	987	1,573	59
Operating income excluding incidental items	1,072	1,462	36
ROS (in %)	6.9	10.6	
ROS excluding incidental items (in %)	7.5	9.8	
Average invested capital	9,871	10,475	
Moving average ROI (in %)	10.0	15.0	
Moving average ROI excluding incidentals (in %)	10.9	14.0	
EBITDA	1,690	2,088	24
Capital expenditures	588	651	
Net cash from operating activities	811	1,136	40
Net debt	1,606	1,226	
Net income attributable to shareholders	546	979	79
Earnings per share from total operations (in €)	2.23	3.95	
Adjusted earnings per share (in €)	2.81	4.02	43
Number of employees	47,200	45,600	

Revenue development in % versus 2014

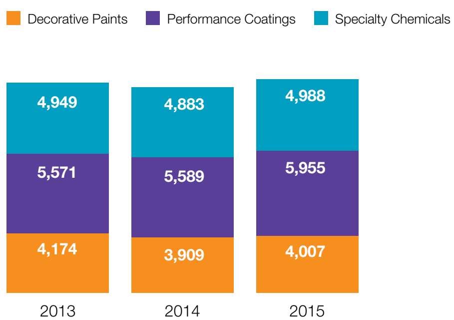


Revenue by destination in %



A	Mature Europe	36
B	Asia Pacific	27
C	North America	17
D	Latin America	10
E	Emerging Europe	7
F	Other regions	3

Revenue in € millions



Revenue

Revenue was up 4 percent, due to 6 percent favorable currency effects, partly offset by divestments and lower volumes.

- Revenue in Decorative Paints was up 3 percent. Revenue was up in Asia, flat in Europe and down in Latin America. Volumes were down 1 percent overall for the full-year, with positive developments in Asia offset by Latin America and Europe
- In Performance Coatings, revenue was up 7 percent, driven by favorable price/mix and currencies. Volumes were down 2 percent across the segments, impacted by market developments in Brazil and ongoing spending declines in the global oil and gas industry
- In Specialty Chemicals, revenue was up 2 percent due to favorable currency effects, partly offset by divestments and adverse price effects. Overall volumes were flat. Growth in some segments compensated for lower demand in oil drilling segments, impacting Surface Chemistry and Functional Chemicals. Growth in China was subdued and demand remained stable in Europe

Divestments

The divestment of the Paper Chemicals business was completed in Q2 2015 and accounts for the divestment impact in Specialty Chemicals.

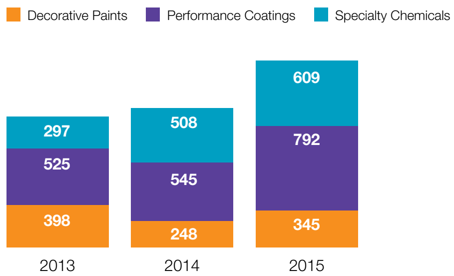
Operating income

Operating income increased 59 percent to €1,573 million, reflecting the positive effects of process optimization, lower costs, reduced restructuring expenses, favorable currency developments and the impact of incidental items.

- In Decorative Paints, operating income increased by 39 percent as a result of the new operating model, lower costs, reduced restructuring expenses and currency developments
- In Performance Coatings, operating income increased 45 percent due to performance improvement initiatives, management delayering, lower costs, reduced restructuring expenses and currencies
- In Specialty Chemicals, operating income increased by 20 percent, with significant savings from continuous improvement programs, and incidental items

Raw material prices were lower, although in certain regions foreign currency effects adversely impacted raw material costs in local currencies.

Operating income in € millions



Cash flows and net debt

Operating activities in 2015 resulted in cash inflows of €1,136 million (2014: €811 million). The change was mainly due to higher profit for the period and improved working capital, partly offset by higher cash outflow from restructuring programs.

Net debt at year-end 2015 was lower at €1,226 million compared with year-end 2014 (€1,606 million).

In 2015, a €621 million bond was repaid from existing resources.

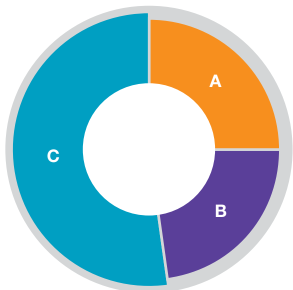
Invested capital

Invested capital at year-end 2015 totaled €9.8 billion, slightly down on year-end 2014, mainly as a result of lower operating working capital, driven by improvements in inventories.

In 2015, we invested €651 million in property, plant and equipment.

Allocation of 2015 capital expenditures of €651 million in %
(4.4 percent of revenue)

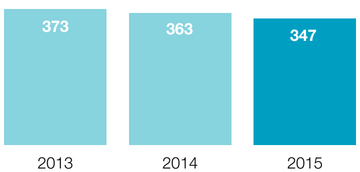
A Decorative Paints	25
B Performance Coatings	23
C Specialty Chemicals	52



Innovation

We continue to invest in research, development and innovation to fulfill future customer needs and fuel our targeted growth in revenue share of eco-premium solutions with customer benefits.

Innovation investments
research and development expenses in € millions

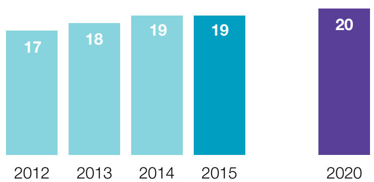


Eco-premium solutions

Revenue from eco-premium solutions with downstream benefits remained stable at 19 percent of sales. Revenue increased from sales growth of new and existing eco-premium solutions in all Business Areas. This was offset by "mainstreaming" of a few of our coatings products and revenue growth from products which are not eco-premium.

We maintain our intention to lead by example by improving the environmental/social performance of our products and processes, which we measure through our development of eco-premium solutions. They are a fundamental driver of our Planet Possible agenda for creating more value from fewer resources and minimizing the environmental footprint of the products we sell and the processes we use to manufacture them. For more details see Sustainability statements Note 4.

Eco-premium solutions with customer benefits
in % of revenue
■ Target

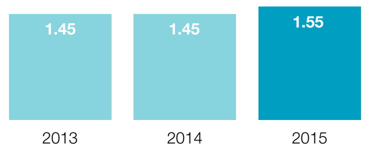


We may appear to be close to realizing our 2020 target, however, we measure our performance across the whole value chain, against solutions available in the marketplace. Our year-on-year progress is impacted not only by our own innovation drive, but also by competitor activity and legislation changes.

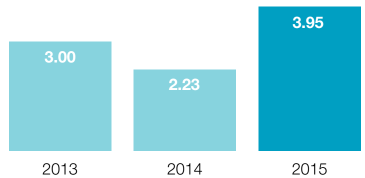
Dividend

Our dividend policy is to pay a stable to rising dividend. We will propose a 2015 final dividend of €1.20 per share, which would make a total 2015 dividend of €1.55 (2014: €1.45) per share, up 7 percent. There will be a stock dividend option with cash dividend as default.

Dividend in €



Earnings per share total operations in €



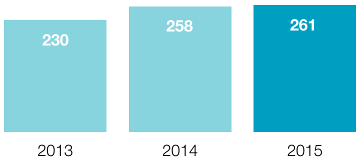
Interest

Net financing expenses decreased, mainly due to lower interest expenses on net debt as a result of repayment of high interest bonds and lower interest on provisions.

Income tax

The full-year effective tax rate was 28 percent (2014: 30 percent). The tax rate was lower as a result of non-taxable income such as the gain on the divestment of the Paper Chemicals business and prior year adjustments.

Income tax paid in € millions



Outlook

We expect 2016 to be a challenging year. Difficult market conditions continue in Brazil, China and Russia. No significant improvement is anticipated in Europe, particularly in the Buildings and Infrastructure segment. Deflationary pressures continue and currency tailwinds are moderating.

Environmental value

Cradle-to-grave carbon footprint

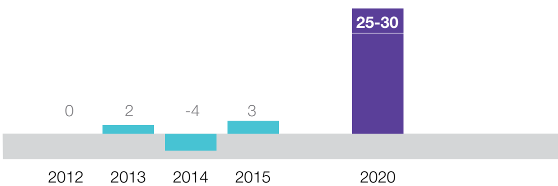
Cradle-to-grave carbon footprint is our prime measure of resource efficiency. Carbon footprint per ton of sold product has decreased 3 percent since 2012. Absolute footprint is down 10 percent. We achieved solid improvements due to lower footprint energy sources, including renewables, efficiency gains at our energy intensive facilities, and increased sales of lower carbon footprint coatings products.

Our 2020 ambition – to reduce our cradle-to-grave carbon footprint by 25-30 percent per ton of sales between 2012 and 2020 – remains a challenge, although we continue to focus on working with suppliers and customers to deliver improvements across the value chain. For more details see Sustainability statements Note 5.

Cradle-to-grave carbon footprint

% reduction CO_2(e) per ton of sales from 2012

■ Target

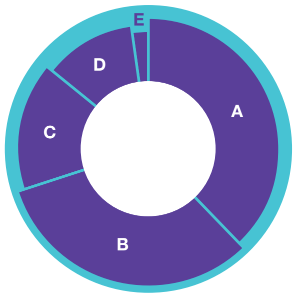


Energy

Renewable energy is an important aspect of the improvements required to achieve our 2020 strategic carbon footprint ambition. The proportion of renewable energy in our operations increased to 38 percent (2014: 34 percent).

Our renewable energy supply strategy has three focus areas: protecting our current renewable share, participating in cost-effective, large energy ventures, and exploring commercially feasible on-site renewable energy generation. In 2015, we took steps to increase the share of renewables in our energy supplies. This included a significant contract for renewable steam in the Netherlands; record production at the Nordic Vindln wind parks in which AkzoNobel participates; and a contract for wind energy at 14 of our sites in the Netherlands, including the new AkzoNobel Center in Amsterdam, which has 100 percent green energy. For more details see Sustainability statements Notes 5 and 15.

Total energy in % by source



A Renewable energy	38
B Natural gas	32
C Coal	16
D Nuclear	12
E Other fossil fuels	2

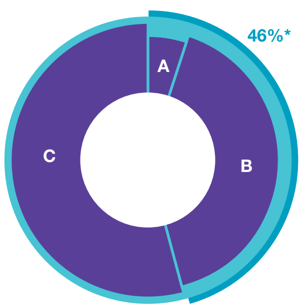
Raw materials

Bio-based (renewable) materials also contribute to our sustainability agenda. A considerable share of AkzoNobel's environmental footprint is embodied in the raw materials we buy, and most bio-based materials exhibit lower footprints.

In 2015, 11 percent of all our organic raw materials came from bio-based (renewable) sources (2014: 13 percent). This is 5 percent (2014: 7 percent) of the total volume of raw materials purchased, including other raw materials such as salt, minerals and clays. The decrease was mainly the result of divestments in our Specialty Chemicals businesses.

We also made progress with our existing partnerships to tap into alternative feedstock sources which are coming on line, as well as announcing additional collaborations involving a number of our key raw materials. For more details see Sustainability statements Note 5.

Total volume of raw materials
in % per source



*11 percent of organic raw materials are from renewable sources.

A Renewable raw materials (bio-based)	5
B Fossil-derived materials (petrochemicals)	41
C Inorganic materials (e.g. salt, minerals, clays)	54

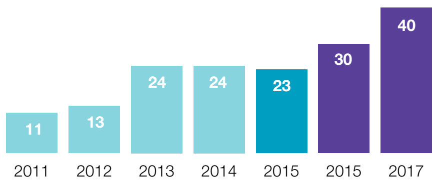
Operational eco-efficiency program

The focus of the operational eco-efficiency (OEE) agenda is to increase raw material efficiency, reduce consumption of energy, decrease emissions and production of waste. Our company indicator combines energy, water, waste and air emissions, as well as cost elements.

In 2015, we achieved a footprint measure improvement of 23 percent (since 2009). Many of our businesses achieved eco-efficiency footprint improvements. However, due to product mix changes and the consolidation of a joint venture, the results are lower compared with the previous year for the first time since we started monitoring performance. Additional programs are being put in place to accelerate progress towards our 40 percent ambition.

Improvements include many small site contributions, upgrading of existing processes, rationalization of the manufacturing footprint and application of best available technology for new investments. For more details see Sustainability statements Notes 15-19.

OEE footprint improvement
% reduction from 2009
Ambition



The OEE footprint is calculated from the weighted average of nine footprint parameters and production volume.

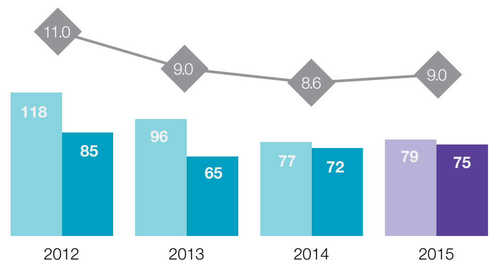
Waste

Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both our environmental footprint and costs.

Total waste per ton of production generated and leaving our sites was up by 5 percent to 9.0 kg/ton. The total waste volume increased to 155 kilotons, an increase of 4 percent. The focus on waste over recent years has resulted in a reduction in waste at the majority of our sites. In 2015, incidental activities at some sites led to a one-off waste increase of 6 kilotons. For more details see Sustainability statements Note 18.

Total waste
in kilotons

Reusable
Non-reusable
Total kg per ton of production



Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard. Reusable waste is waste which is used e.g. for resource recovery, recycling, reclamation, direct re-use or alternative uses for example composting. All other waste is non-reusable waste.

Social value

At year-end 2015, our workforce totaled 45,600 employees (year-end 2014: 47,200 employees). The reduction was mainly due to divestments and continuing restructuring activities. We also added to the headcount, mainly through new hires in high growth markets.

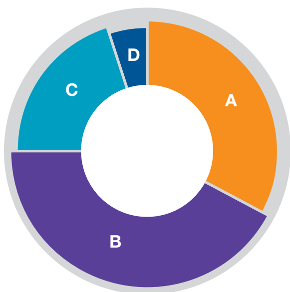
We will continue to centralize and outsource back office activities throughout the world. For more details see Consolidated financial statements Note 4.

Employees

45,600 at year-end 2015

Employees by Business Area in%

A Decorative Paints	33
B Performance Coatings	42
C Specialty Chemicals	20
D Other	5



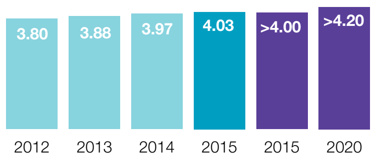
Employee engagement

One of our key measures of progress in the area of culture is employee engagement, which we measure through an annual employee engagement survey. We've seen an increase in engagement score every year since we started the survey in 2010. In 2015 we exceeded our ambition of a 4.00 engagement score. In the context of our ongoing change and restructuring, this is a positive signal. For more details see Sustainability statements Note 12.

ViewPoint score employee engagement

1 to 5 scale

Ambition

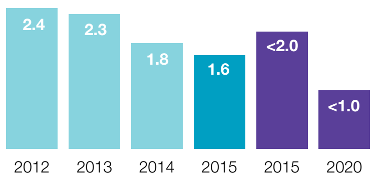


Safety

The overall total reportable rate (TTR) for employees and supervised contractors decreased to 1.6 (2014: 1.8). We achieved our 2015 target a year early and performance continues to improve. This improvement in the number of injuries also extends to independent contractors and coincides with continued implementation of our people safety programs. For more details see Sustainability statements Note 8.

Employee and supervised contractors total reportable injuries frequency rate

Ambition

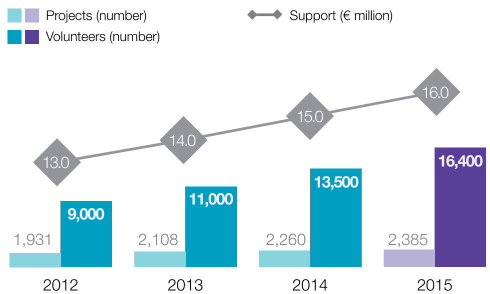


Community involvement

Our Community Program encourages sites and individuals to take part in projects where our products/resources and the skills and knowledge of employees can benefit the wider community on a sustainable basis. In the past ten years, the program has become firmly embedded in our worldwide organization. For more details see Sustainability statements Note 14.

Cumulative Community Program involvement

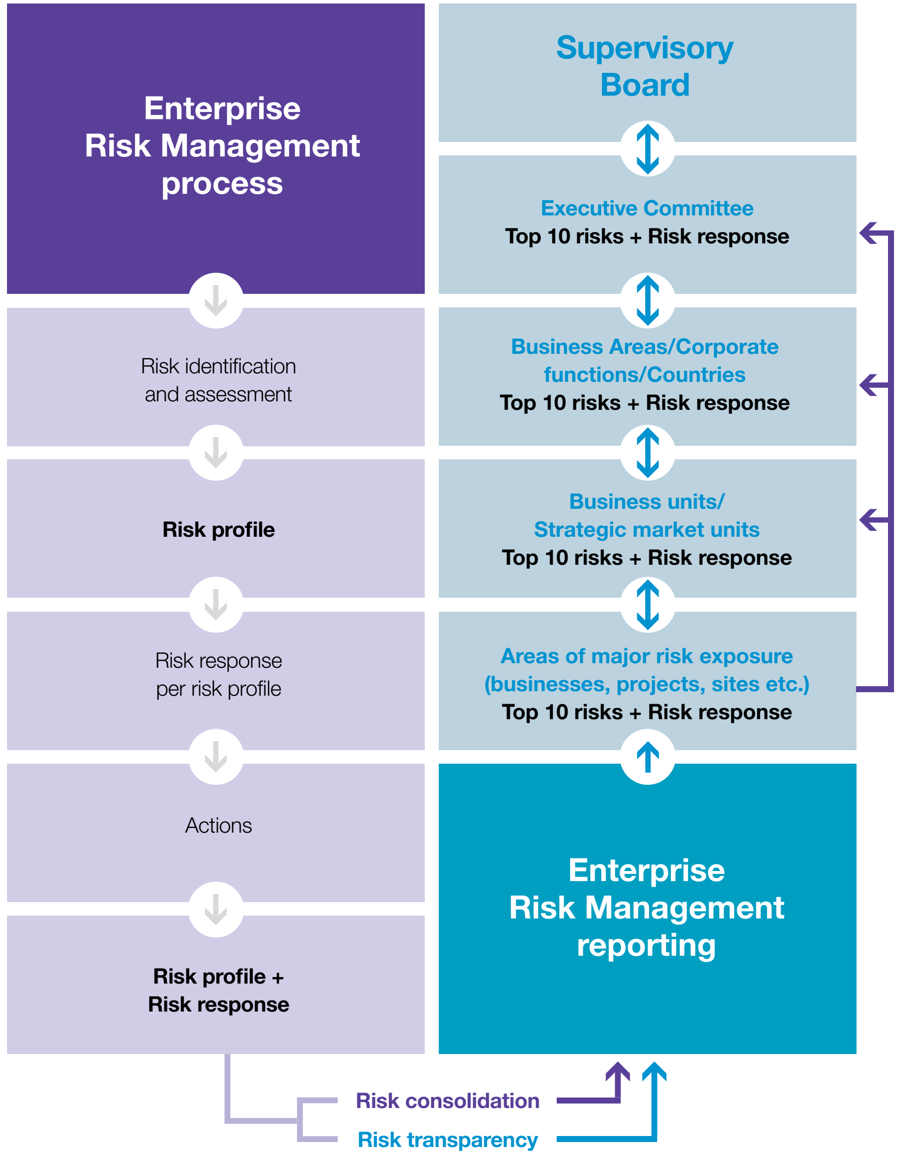
cumulative since 2005



Risk management

Doing business inherently involves taking risks. By taking balanced risks we strive to be a successful and respected company. Risk management is an essential element of our corporate governance and strategy development.

We continuously strive to foster a high awareness of business risks and internal control, geared towards preserving our risk appetite and providing transparency in our operations. The Executive Committee is responsible for managing the risks associated with our activities and, in turn, for the establishment and adequate functioning of appropriate risk management and control systems (see Statement of the Board of Management in the Leadership section).



Our risk management framework

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

Risk appetite

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

- Strategic: In pursuing our strategic ambitions, we are prepared to take considerable risk related to achieving our performance, innovation and sustainability objectives. Returns on investment in the development of innovative products and sustainable solutions are never certain. Yet considerable funds and effort are spent on research, development and innovation, even in less certain economic circumstances
- Operational: With respect to operational risks, we seek to minimize the downside risk from the impact of unforeseen operational failures within our businesses
- Financial: With respect to financial risks, we have a prudent financing strategy and a strict cash management policy and are committed to maintaining strong investment grade credit ratings. Our financial risk management and risk appetite are explained in more detail in Note 22 of the Consolidated financial statements
- Compliance: We do not permit our employees to take any compliance risk and we take appropriate measures in the event of any breach of our Code of Conduct. See the Governance and compliance section for more details

Risk management in 2015

Enterprise Risk Management is a company-wide activity under the responsibility of the Executive Committee. It includes a bottom-up process which aims to provide full coverage of the organization and ensure that we focus on the areas of major risk exposure. The scoping of our 2015 risk management activities was performed by the Executive Committee, business management and corporate directors, in association with the risk management function. In addition to focusing on the coverage of our organization, emphasis is put on key strategic projects and those parts of the company that are most affected by change.

During the year, we facilitated 89 Enterprise Risk Management workshops. In these workshops, more than 1,800 unique risk scenarios were identified and prioritized by the responsible management teams and functional experts. All major risks were responded to by the unit that identified them. The outcomes of all risk analyses are included in risk profiling and trend analysis and made available to higher management. Risk profiles and trends were shared by managers across the company. In the bottom-up consolidation process, the risks were taken to the next management level, where they were re-assessed, either because of the materiality of the risk exposure and/or because of the accumulated effect.

As reported in last year's annual report, during the fourth quarter of 2014, one of the company's subsidiaries in the US was the target of an external fraud. Immediate actions were taken. The investigation found that customary and appropriate controls were in place, but those controls were breached, and that this was an isolated event not linked to the operations of the company or its businesses. We successfully reduced the financial impact of the fraud in 2015 and launched an extensive fraud awareness campaign. We will continue to make fraud awareness a standard part of our regular training programs globally.

Our initial focus is on those major risks that may impact the achievement of our strategy in the next three to five years (medium-term risks). In addition, we recognize that there are also relevant risk factors beyond the five-year time horizon which could impact our strategy (long-term risks). Both risk categories are included in this chapter with the understanding that these are not exhaustive lists. 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, at a later stage, could develop into a material impact. Our risk management systems endeavor to ensure the timely identification and actioning of risk trends.

Medium-term risks

The table below summarizes the major risk factors for the company in the next three to five years. The symbols represent management's assessment of how these risks are expected to develop compared with the previous year.

Risk	Assessment
External – Strategic	
• Worsening of economic conditions	▲
• International operations	■
Internal – Strategic	
• Innovation and identification of major transforming technologies	■
External – Operational	
• Sourcing of raw materials and energy	■
• Product liability	■
• Environmental risks and liabilities	■
• Information Technology	▲
Internal – Operational	
• Attraction and retention of talent	▲
• Production process risks	■
• Management of change	■
External – Financial	
• Post-retirement benefits	▼
• Access to funding	▼
• Fluctuations in exchange rates	▲
• Decline of asset values	▼
External – Compliance	
• Complying with laws and regulations	▲

▲ Risk has been assessed to increase

▼ Risk has been assessed to decrease

■ Risk has been assessed to remain fairly stable

External - Strategic

Worsening of economic conditions

The global economy remains fragile and it continues to be difficult to predict customer demand and raw material costs. AkzoNobel is susceptible to decreased growth rates within high growth markets and/or continued economic and market downturn in mature markets. The effects could lead to a decline in demand and deteriorating financial results, which in turn could result in the company not realizing its financial targets.

Mitigating actions

- Continue our strategy to bring down our operational cost base and reduce complexity
- Leverage our Global Business Services to further standardize core functional processes in all regions across the organization
- Further deploy the commercial excellence programs and more sustainable product solutions to capture organic growth and offset the effects of decreased economic growth rates
- Have contingency plans prepared for a selected number of scenarios, dealing with geographical or segment slowdowns

External - Strategic

International operations

We are a global business with operations in more than 80 countries. We are therefore exposed to a variety of risks, many of them beyond our control. Unfavorable geo-political, social or economic developments and developments in laws, regulations and standards could adversely affect our business and results of operations. Our ambition to grow the business in a balanced way across the globe will further expose us to these risks.

Mitigating actions

- Strategically spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability
- Carefully monitor the political, economic and legislative conditions across the company
- All significant investments, and the countries and industry segments in which AkzoNobel conducts its business, are decided on by the Executive Committee
- A combination of country organizations and service centers is in place in order to address country-specific and local business risks

External - Operational

Sourcing of raw materials and energy

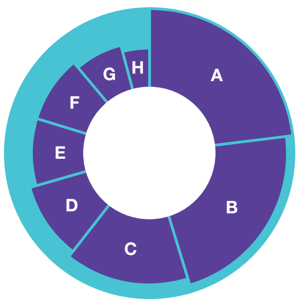
Prices of key raw materials and energy can be volatile and are affected by economic conditions and regulations. This can limit our ability to protect our margins. The chart below shows our relative spend on these key raw materials, excluding energy. The risk may further increase as a result of the non-level playing field for energy and raw materials on a global level (for example shale gas, national policies, subsidies) and emission trading rights, which affect the competitive position of businesses and our customers.

Mitigating actions

- AkzoNobel's Procurement sourcing processes (ALPS, Source) and organization are designed to actively leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers. This includes managing the risks related to single sourced materials, the forecasting of price trends and governance to ensure the supply base provides the best terms and conditions
- Our supplier sustainability program, focused on sustainable raw materials and carbon reduction, includes internal programs for key suppliers and critical suppliers and participation in the Industry group with external assessments and audits

Breakdown of total raw material spend in %

A Resins	24
B Chemicals & intermediates	22
C Additives	15
D Packaging	10
E Solvents	9
F Coatings specialties	9
G Titanium dioxide	7
H Pigments	4



External - Operational

Product liability

Product liability claims could adversely affect our company's business and results of operations. Claims with high impact on our organization, while unlikely, could follow from the use of former, current or new technologies and compounds.

Mitigating actions

- Quality improvement programs are in place in our different Business Areas
- Product stewardship is embedded in the company's HSE and sustainability agenda. Product stewardship is also integrated into product slate decisions
- We have a central policy to optimize insurance coverage, which relates to specific insurance programs covering product liability

External - Operational

Environmental risks and liabilities

We use, and have used in the past, organic and inorganic compounds (some of which are hazardous to the environment) in product development programs and manufacturing processes. We have been, and may still be, exposed to risks of contamination and associated substantial costs related to compliance with environmental laws and regulations, and claims relating to property damage and personal injury.

The trend that with time, regulations and standards are becoming increasingly stringent, continues and is in part a reflection of growing public concern about human health and the environment in general.

Mitigating actions

- Conduct all our activities in the safest and most responsible manner
- Contingency plans and assignment arrangements are in place to mitigate known material operational risks and monitor progress
- A dedicated group of experts assesses, manages and resolves environmental liabilities. Sites with a higher environmental risk profile are subject to management review periodically
- Mandatory annual environmental liability reviews are conducted to review risks, monitor progress in resolving our liabilities and assess changes in company exposure
- Corporate directives are issued for recurring risk categories such as manufacturing sites that are closing
- Accrue and charge environmental clean-up costs or indemnifications against earnings when it is probable that a potential liability has materialized and an amount can be reliably estimated (see Note 19 of the Consolidated financial statements)

External - Operational

Information Technology

One effect of the company's longer term Information Technology strategy is increased reliance on fewer, consolidated, critical applications, including our industrial process control systems. The amount of digital exchanges of business transactions with customers, suppliers and other stakeholders is increasing. Non-availability of our critical IT systems, or unauthorized access through cybercrime or other events, can have a direct impact on our production processes, our competitive position and the reputation of our company.

Mitigating actions

- Continuously test and update the systems used for information security
- Further implement measures such as redundant design, back-up processes, virus protection, anti-spoofing and forensic scans
- Centrally monitor access control processes to our key IT systems
- Launch training on IT security via e-learning
- Roll-out of the new IM security standard for industrial control systems to our manufacturing locations

External - Financial

Post-retirement benefits

Our current policy is to contribute to defined contribution schemes wherever possible, although we still have a number of defined benefit pension and healthcare schemes from the past. Generally, these schemes have been funded through external trusts or foundations, where AkzoNobel faces the potential risk of funding shortfalls.

Mitigating actions

- Our policy is to offer defined contribution schemes to new employees and, where appropriate, to existing employees. The most significant defined benefit schemes are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK. Both are closed to new entrants. They are managed and controlled by independent trustees. The funded status of these schemes is affected by the trustees' investment decisions, market conditions, demographic experience and any regulatory actions. This may require additional funding from the former employing entities and may adversely impact our business and results
- We practice proactive pension risk management and continuously review options to reduce the financial risks associated with all of our defined benefit plans (see Note 14 of the Consolidated financial statements)

External - Financial

Access to funding

The fragility of the global economy and the financial systems could have an impact on free cash flow generation and may limit our access to funding, thereby reducing our strategic degrees of freedom.

Mitigating actions

- Maintain a strong investment grade credit rating: our long-term senior unsecured debt rating is BBB+ by Standard & Poor's and Baa1 by Moody's
- Focus on cash management is stressed in our monthly Operational Control Cycle meetings and relevant metrics are included in our remuneration policies
- Engage in restructuring of underperforming parts of our portfolio if deemed strategically appropriate
- We have a prudent financing strategy and a strict cash management policy, which are governed by our centralized treasury function

External - Financial

Fluctuations in exchange rates

Exchange rate fluctuations can have a positive and negative impact on our financial results. We have operations in more than 80 countries and report in euros. We are particularly sensitive to movements in the US dollar, pound sterling, Swedish krona and Latin American and Asian currencies.

Mitigating actions

- A centralized treasury function and hedging policy is in place for certain currency exchange rate risks (see Note 22 of the Consolidated financial statements)
- At a more operational level, risks are reduced by the prevalence of local-for-local production
- Reduce as much as possible the impact of transactional exposure on the results of our businesses by striving for natural hedges in our main currencies

External - Financial

Decline of asset values

Impairments and book losses could adversely affect our financial results.

Mitigating actions

- Perform impairment tests for intangibles with indefinite lives (goodwill, some brands) every year and whenever an impairment trigger exists. For tangibles and other fixed assets, impairment tests are only carried out whenever an impairment trigger exists (see Notes 7 and 8 of the Consolidated financial statements)
- Continuous monitoring of acquisition and divestment opportunities, and the management of assets held for sale, are performed by the Executive Committee

External - Compliance

Complying with laws and regulations

Our international footprint exposes us to continuously expanding laws and regulations. We may be held responsible for any liabilities arising out of non-compliance with these laws and regulations.

Mitigating actions

- Monitor and adapt to significant changes in the legal systems, regulatory controls, customs and practices in the countries in which we operate
- Remain dedicated to minimizing AkzoNobel's compliance risk by fostering an open and transparent culture, continuously educating our employees worldwide and increasing awareness
- Monitor overall compliance through our comprehensive annual non-financial letter of representation process, as well as our annual competition law compliance declaration
- Embed company-wide standard setting and compliance awareness through activities and training programs, including training on the new Code of Conduct

Internal - Strategic

Innovation and identification of major transforming technologies

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

Mitigating actions

- Advance our technology road maps and innovation strategies with appropriate research and development spend. In 2015, this amounted to 2.3 percent (€347 million) of total revenue
- Bring to market suitable new technologies using innovation core processes to assess market needs and relevant know-how
- Enhance our global open innovation capability to identify, assess and acquire the most recent promising technologies
- When applicable and appropriate, invest in venture funds

Internal - Operational

Attraction and retention of talent

We face the challenge of ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce. This is an increasingly complex process as the labor market poses different challenges across disciplines and regions. Having the right people, with the right capabilities, experience and background will, to a large extent, determine the success of our organization and requires the development of an increasingly longer term view on future talent needs.

Mitigating actions

- Strengthen AkzoNobel Employee Value Proposition based on revised company purpose and stronger company brand strategy
- Further improve talent and succession action planning and follow up
- Roll-out new leadership behaviors with impactful leadership assessment and development curriculum and integration into our Performance and Development Dialog
- Further build and develop the AkzoNobel Academy with strong functional competency frameworks and well-defined development curriculum and career planning

Internal - Operational

Production process risks

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

Mitigating actions

- The AkzoNobel Leading Performance System (ALPS) is being implemented to reduce complexity and drive continuous improvement
- Continue the implementation of the Safety Common Platform introduced in 2013 and the Process Safety Management (PSM) framework, which was introduced in 2014. The framework provides a set of common, state-of-the-art safety requirements for all our manufacturing sites
- Carry on with business continuity planning and make sure there are appropriate risk transfer arrangements in place

Internal - Operational

Management of change

In order to achieve our overall strategy, we have implemented – and continue to implement – numerous changes in our operating model across all functions and businesses in order to further enhance cost efficiency and quality of services.

Mitigating actions

- Ongoing focus on core principles and values intended to set the desired behavioral changes in motion. The values and behaviors have been included in the performance management process
- Senior management is involved in all critical projects that have been prioritized and are supervised by the Executive Committee to ensure an aligned and integrated vision for the company's change agenda
- Project management and change management are both included in the curriculum of the AkzoNobel Academy
- Consolidate change management by streamlining and aligning the work of a range of supporting processes under the umbrella of Global Business Services

Long-term risks

Long-term risks are risks that could impact AkzoNobel beyond the five-year time horizon. We monitor the development of these risks as part of our risk management process and include them in our overall strategic assessment. We define long-term as being risks that are currently not material, but could develop into major concerns, and existing risks associated with current trends that are anticipated to increase.

The most significant long-term risks we observe are:

- The accumulation of strategic moves in relevant value chains (horizontally and/or vertically) may impact our competitive position and/or increase the vulnerability of operations
- Emerging technologies transforming our markets and the application of our products
- Public concern over specific substances and their environmental impact (such as plastics/synthetic polymers, fossil fuels), could result in major changes in our markets
- Meeting the economic challenges associated with an ambitious sustainability strategy, while operating in markets with different levels of maturity
- The continued development of digital technology, which will create risks in business continuity, privacy, legal and regulatory requirements, market and customer intelligence and supply chain security. This is especially the case given the acceleration in speed and growing complexity that characterize the process of digitization
- Increased instability due to a rise in national sentiment, increased geo-political tensions and failure of national and supranational governance, having a negative impact on our business

Taking care of you in the air

If you've ever caught a plane, chances are it featured our paint. We're a global leader in the manufacture, development and supply of essential coatings for the commercial airline and general aviation markets.

Business performance

The following section gives a detailed summary of how each of our Business Areas performed during 2015. Information on market characteristics is also provided.

Decorative Paints	62
Performance Coatings	74
Specialty Chemicals	86

"WE MADE SIGNIFICANT PROGRESS AND HAVE THE RIGHT STRATEGY IN PLACE TO CONTINUE THE MOMENTUM WE HAVE BUILT UP"

Ruud Joosten
Member of the Executive Committee responsible for Decorative Paints

Decorative Paints

We performed in line with our expected outcomes during 2015 and were able to remain on track despite difficult market circumstances.

In Europe, we introduced a new operating model at the end of 2014, which gave more focus to marketing and sales and enabled cost reductions, increasing efficiency and generating economy of scale. In 2015, we began to benefit from this new approach. Markets remained volatile, however, and growth was limited. China in particular experienced challenging conditions, while there was turbulence in Russia, Turkey and Brazil. It remains difficult to predict what will happen in these markets in the longer term. There was more positive news in South East Asia, where we achieved growth in India, Vietnam and, to a lesser extent, Indonesia. Argentina also performed well in difficult circumstances.

Having remodeled the business in recent years, our scale and diversification – along with our resilience to local shocks – provides us with the flexibility to shift our focus to regions where we see opportunities for profitable growth. This increased agility will make us more competitive and will help drive our new strategy, which is focused on winning locally while leveraging our scale.

So on an operational level, 2015 was very much about continuous improvement and preparing for growth – although the markets offered no assistance. As we move forward, we will continue to look for further efficiency improvements on an ongoing basis.

Looking at some of the other developments during the year, it was pleasing to see our innovation pipeline continue to deliver a series of new products. One of the big successes was Dulux Easycare, a paint which allows you to easily clean common household stains and spills off your wall, without having to worry about damaging the surface. It proved to be particularly popular in Poland, where it reached its full-year targets in just three months.

The Visualizer app launched in 2014 also enjoyed further success. Having won multiple awards, it has been downloaded more than eight million times to date and is available in over 40 markets. An update for the app was released towards the end of the year, but this is just the beginning, because we are making a big effort to explore more digital possibilities and develop exciting new ways to deliver essential color to our customers.

Sustainability is another key focus area, with our percentage of revenue from eco-premium solutions with downstream benefits increasing to 28 percent. We are focusing in particular on moving to more waterborne solutions globally. A notable highlight with regard to becoming more sustainable took place in the UK, where we launched a new paint recycling scheme. The initiative involves remanufacturing waste paint and using it to inject color into local communities. Our ambition is to increase the amount of waste paint collected for reuse in the UK ten-fold – to three million liters – by 2020. Our safety performance was another pleasing aspect of 2015. Our total reportable injury rate (TRR) was 1.2, well in line with the company's 2015 target of less than 2.0.

2015 outcomes

ROS 8.6%

ROI 11.7%

Overall, we made significant progress in 2015 and have the right strategy in place to continue the momentum we have built up over the last few years. We've transformed the business and believe we are well positioned to achieve our vision of becoming the leading global decorative paints company in size and performance.

Decorative Paints strategy

Having improved considerably since 2012, we continued to make progress in 2015. Both our return on sales of 8.6 percent and return on investment of 11.7 percent were in line with our expected outcomes (7.5 percent and 12 percent respectively). As a result, we are much closer to our vision of becoming the leading global decorative paints company in size and performance.

This improvement in performance was mainly achieved by addressing the two key market challenges of fixing Europe while growing profitably outside of Europe. Within Europe, we reduced operating costs, while outside of Europe we grew volumes, adjusted pricing where appropriate and controlled costs. As our performance level is now substantially higher than it was in 2012, we have updated our strategy to better reflect our current strategic challenges. The updated strategy is based on winning locally, supported by select initiatives to leverage our scale.

Actions

Winning locally

We have a unique portfolio of businesses in that we are one of only three very large players in decorative paints and the only one that serves a geographically diverse portfolio of countries with a substantial proportion of our business outside of mature markets. Our portfolio, therefore, has the potential for higher growth levels, while allowing for diversification of individual country risk. It also means we have to compete successfully and win in markets that are very different in terms of value chain, competitive environment and customer and consumer behavior.

In order to win in each of these local markets, we will continue to develop relevant and specific local plans. Of particular importance to our overall success at Business Area level are the local plans.

Listed below is a snapshot from four countries:

- The UK is one of the largest markets in Europe and we are the market leader. Growing at a modest rate, the region is benefiting from sustained economic recovery and improved consumer confidence. Our focus in the UK is on increasing the overall market size by improving the painting experience. One way we are achieving this is through the launch of the Dulux Amazing Paint service. We are also continuing our strong focus on innovation, introducing new products with clear customer benefits in terms of energy savings and well-being
- China is a large market where the growth rate has been very high in the recent past. It is now moderating to a level only slightly above mature country levels. We have a strong number two position in China and are growing our business in traditional trade through strong Dulux brand color leadership and our highly successful Easy Paint Service
- Brazil is a major market – roughly the same size as the UK – where we have joint leadership. Although the market has been shrinking due to local macro-economic conditions, most analysts are predicting a return to growth. If this occurs, the likelihood is for above GDP growth due to market recovery. We will continue to build and leverage our very strong brand awareness, built in part through activities such as the largest ever “Let’s Colour” event, which was staged in Rio de Janeiro’s famous Santa Marta favela as part of the city’s 450th anniversary celebrations
- Indonesia is the largest market in South East Asia and the growth potential is good. We are the market leader and have been significantly improving our market share over the last few years. However, the level of competition has been increasing, so we will continue to focus on reinforcing our strong position

Leveraging our scale

We are one of only three large players within decorative paints globally. Our size provides us with a considerable strategic advantage. It allows us to make the kind of investments in brands, innovation and sustainability that smaller players would find difficult to emulate. We carefully select initiatives where scale advantage exists and focus our efforts on activities that support our approach of winning locally. We have defined eight areas where leveraging our scale makes sense. Examples are:

Innovation

Our global innovation agenda is focused on addressing key end-user, consumer and/or customer needs, including mass market growth, increased need for well-being, regulatory compliance, differentiation in large-scale outlets, energy efficient solutions and differentiation in color. These needs translate into an innovation agenda which has a very strong sustainability orientation.

Many examples of successful product innovations consistent with this agenda are already on the market. For example, in China we recently launched a solvent-free concrete floor paint with excellent wear, impact and chemical resistance properties. This is an important part of our country strategy to improve our position in the projects market, while also being highly sustainable. We have already enjoyed success with this product, which was selected for the prestigious Vanke Daming Palace project in Xi'an.

Digital

With investments across multiple digital platforms, the star performer in our global digital agenda is our award-winning Visualizer app. First launched in June 2014, it has been downloaded more than eight million times to date, in over 40 markets. Towards the end of 2015, we launched version 2.0, which includes additional features such as the ability to use the Visualizer on exterior walls. It also has enhanced photo functionality (allowing users to share ideas on social media), scrapbook registration and improved color visualization.

Painters

We have considerable experience of successfully selling to professional painters around the world. Given their importance to our business, we make it a top priority to better understand painters while also providing support and inspiration. A good example of this commitment can be seen in Brazil, where enhancing our relationship with professional painters forms a key part of our plan to win locally. Our painter program includes producing so-called "hero" products, which have strong attributes relevant to painters. Two such products are:

- Coral Rende Muito – a value-for-money proposition which leads the standard walls segment in Brazil
- Coral Acrílico Total – a premium walls proposition delivering superior opacity, resistance and washability when compared with other Brazilian premium wall paints

To support conversion to these products, we provide significant training and support, while e-enabled loyalty programs reinforce the relationship – our "Clube de Cor" program has 45,000 active members and is the largest in Brazil. We also place particular emphasis on making an emotional connection with painters and building pride and a sense of purpose.

Supply chain

Our Integrated Supply Chain agenda has been linked to our strategic agenda for some time. Having completed a major footprint rationalization, our focus is now shifting towards operational excellence based on the company-wide AkzoNobel Leading Performance System (ALPS).

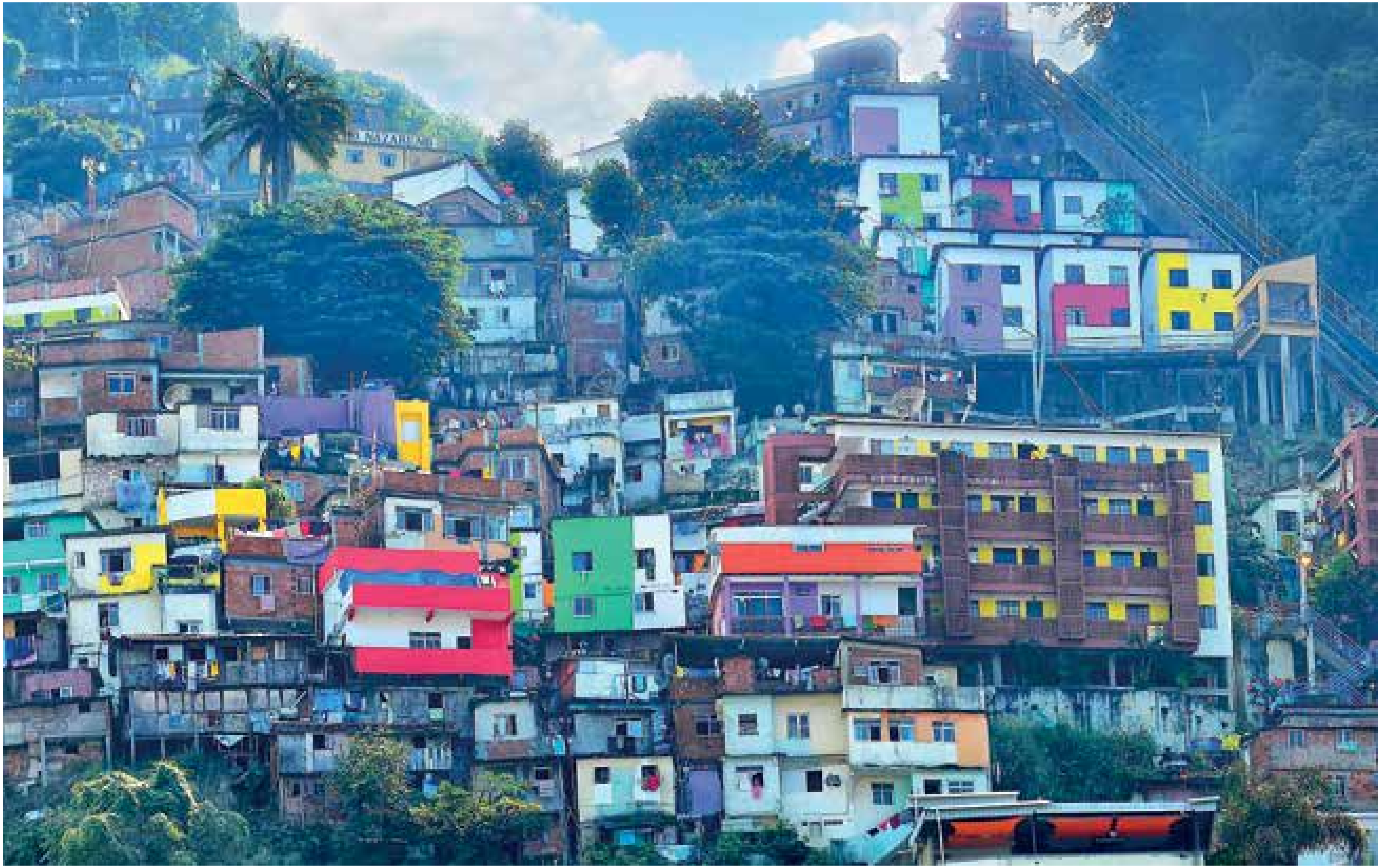
Brands

We continue to drive the "flourish" brand. At the same time, we are continuing to build and strengthen our regional professional brands, while also ensuring full alignment across brands, businesses and initiatives. For example, all of our "Let's Colour" activities are fully aligned with, and supportive of, the company's Human Cities initiative. We are also fully in line with, and actively promote, the Planet Possible sustainability agenda.

Sustainability

We are recognized around the world for our commitment to sustainability, which is a key driver in all our plans to win locally as part of the overall AkzoNobel Planet Possible agenda. This recognition is based on a very strong product portfolio from a sustainability perspective. In China, for example, PCHouse (the number one vertical website) has indicated that our "non-additive" products are ranked by Chinese consumers as the most preferred paint products. However, this recognition also goes beyond products. In the UK this year, we were awarded the Carbon Trust Triple Standard, becoming one of the first companies to be recertified for all three Carbon Trust Standards for reductions in greenhouse gas emissions, waste and water usage.

We continue to reduce the environmental impact of our own operations and products and are increasingly working with our suppliers to do the same. We are focusing in particular on reducing our carbon footprint (including VOCs), identifying opportunities to promote waterborne paints where possible, and offering products with additional sustainability benefits.



Our largest ever "Let's Colour" event was staged in Rio de Janeiro's Santa Marta favela as part of the city's 450th anniversary celebrations.

End-user segment outlook

All revenue generated by our Decorative Paints Business Area comes from either the New build projects or Maintenance, renovation and repair sub-segments of the Buildings and Infrastructure end-user segment. The latter sub-segment is more important than the former for AkzoNobel, given the large size of the installed base in mature markets and the higher growth rate outlook in maintenance in key countries such as China and Brazil. We estimate that roughly 75 percent of our revenue comes from maintenance and 25 percent from new build.

Consumer confidence is an important driver of the Buildings and Infrastructure end-user segment and trends in consumer confidence are changing. Specifically, although consumers are still pessimistic in most European countries, consumer confidence has been increasing over the last year or so. At the same time, although consumers are optimistic in most high growth countries, consumer confidence has been decreasing over the same period in most of these regions, apart from India. Due in part to these changes, we are seeing shifts in the construction outlook, with higher growth expected in mature geographies and lower growth in China.

Similar shifts are taking place in the Maintenance, renovation and repair sub-segment. Expected growth rates are somewhat higher than in New build for all geographies of importance to AkzoNobel. Overall, maintenance growth rates are expected to be higher than they have been in Europe, which indicates positive momentum for our business. However, it is worth noting that the main reason for expected higher growth rates is significant improvement in countries such as Italy and Spain. Growth in the UK is expected to continue, but at a lower pace.

In all countries, higher growth rates are expected for products that provide functional benefits, such as helping to keep buildings cool in hot climates, or making interiors feel brighter and more spacious.

The market

According to figures published by Orr & Boss in a report commissioned by the International Paints and Printing Inks Council (IPPIC), the global market for decorative paints is 42 percent of the roughly €100 billion global paints and coatings market. This share has decreased somewhat over the last few years due to the increased importance of emerging markets (where performance coatings tend to be more important), as well as issues in the European Buildings and Infrastructure end-user segment. In general, regional Buildings and Infrastructure growth rates have a high correlation with paints growth rates, although other factors also play a part.

AkzoNobel market positions

Decorative Paints Europe, Middle East and Africa

1st	**Eastern and Southern Europe and Africa**
1st	**North and West Europe**
1st	**UK, Ireland and Middle East**

Decorative Paints Latin America

1st	**South America**

Decorative Paints Asia

2nd	China and North Asia
2nd	South East and South Asia

Decorative Paints value creation summary 2015

As a leading global supplier of decorative paints, our brands are crucial to our success. Our Decorative Paints activities are fully focused on the Buildings and Infrastructure end-user segment, serving the do-it-yourself market and professional painters. In order to create more economic, social and environmental value, our innovation is geared towards reducing our upstream and downstream supply chain impact by changing formulations to waterborne technology.

Many of our brands are household names and we work closely with local communities via a series of national and international initiatives, some of which involve volunteer support from our employees. This benefits the creation of more social value.

All these initiatives will contribute to our financial performance and ultimately lead to more economic value for our investors.

Economic value: Organization

€4.0 billion
revenue

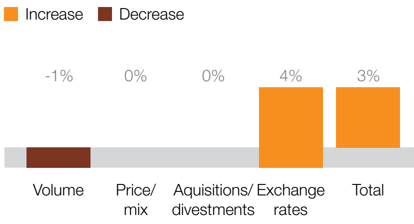
€345 million
operating income

€2.6 billion
invested capital

€158 million
capital expenditures

During 2015, we invested in growth markets and in creating efficiency in Europe through optimization of our production footprint.

Revenue development in % versus 2014



Environmental value: Input

2.4 million tons
upstream CO_2(e) emissions

1,800 TJ
energy use

Organization

We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

Social value: Input

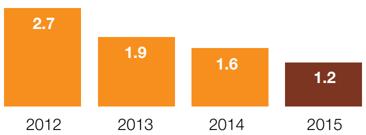
14,900
employees at year-end 2015

Organization

1.2
total reportable rate of injuries

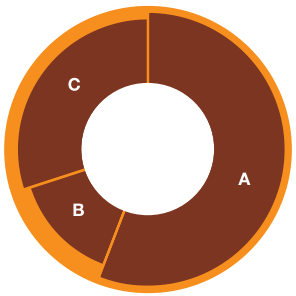
Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents.

Total reportable rate of injuries
per million hours worked



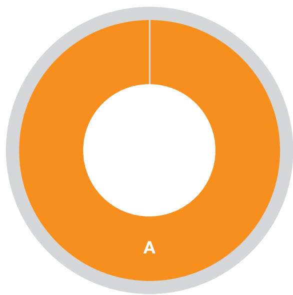
Outcomes

Revenue breakdown by business unit
in %



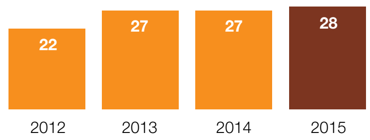
A Decorative Paints Europe, Middle East and Africa	56
B Decorative Paints Latin America	14
C Decorative Paints Asia	30

Revenue breakdown by end-user segment
in %



A Buildings and Infrastructure	100
B Transportation	0
C Consumer Goods	0
D Industrial	0

Eco-premium solutions with customer benefits
% of revenue



8.6% ROS

11.7% ROI

28%
of revenue from eco-premium solutions

RD&I investments have resulted in 28 percent of revenue derived from eco-premium solutions with customer benefits.

Outcomes

0.1 million tons
CO_2(e) emissions own operations

34 kilotons
total waste

1.1 million tons
downstream CO_2(e) emissions

3.6 million tons
CO_2(e) emissions cradle-to-grave

4%
decrease CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

Outcomes

€692 million
employee benefits

4.13
employee engagement score

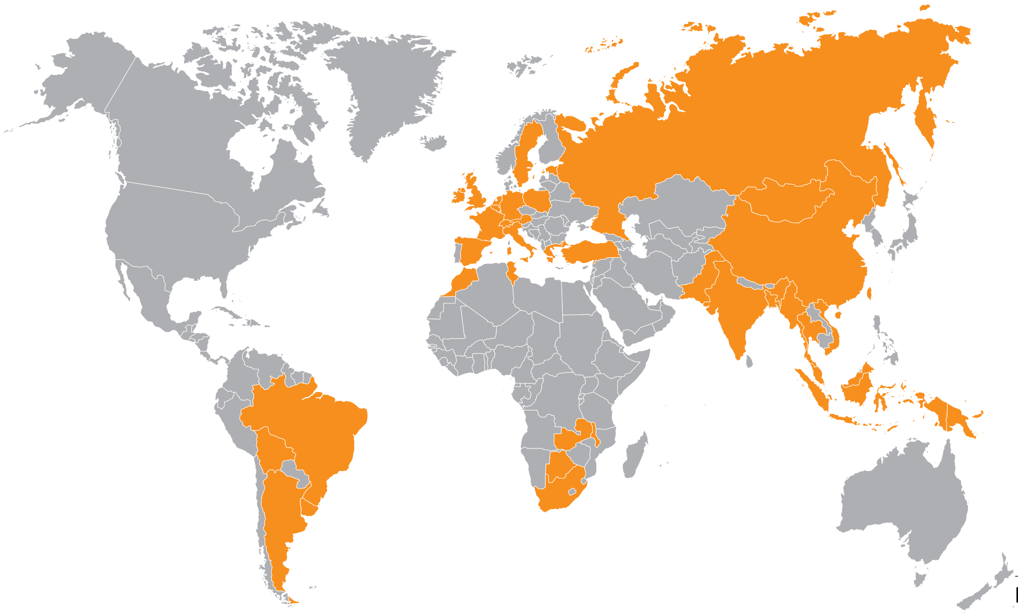
We highly value, and actively work on improving, employee engagement. We're investing in training and development and continue to work on achieving a more diverse workforce.

5 million
lives positively impacted by our "Let's Colour" program

4,250
people trained as painters

We participate in community programs and local sponsorships.

Key business developments



Decorative Paints **Europe, Middle East and Africa**

- We continued to be negatively impacted by the housing market slowdown and euro crisis
- We changed our operating model in EMEA to drive improved performance and agility, making us better positioned to achieve profitable growth
- The UK and Ireland invested in a complete rebrand of Dulux Trade and launched Armstead Trade – its first new brand in 20 years. In consumer, we invested in a new integrated Dulux marketing campaign: “Change Your Story”
- We started the roll-out of the Sikkens 5051 color collection. Together with its service packages, it emphasizes the brand’s professional dedication to color
- There was also a successful launch of the Fit by Marshall mid-tier brand in Turkey, while the performance and protection sub-brand Expert was introduced in Benelux

Some of our customers

- B&Q
- Bricomarche
- Leroy Merlin
- OBI

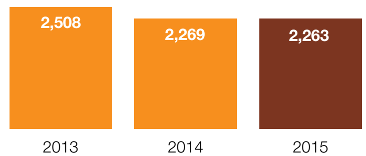
Top raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

Key cost drivers

- Oil price
- Energy prices
- Steel prices

Revenue in € millions



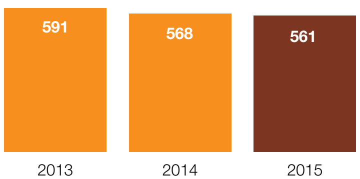
Key brands

Bruguer, Dulux, Flexa, Marshall, Sadolin, Levis, Nordsjö, Herbol, sikkens

Decorative Paints **Latin America**

- Despite macro-economic headwinds in the region, our performance was solid in both Brazil and Argentina
- A new proposition for exterior walls was successfully launched in Brazil. The new product, Coral Acrílico Total, reinforced Coral's position in the premium segment
- In Argentina, the Alba brand defied the crisis and achieved a good performance
- We have staged 1,250 "Tudo de Cor" events ("Let's Colour") in Brazil to date, including a major event at the Santa Marta favela in Rio de Janeiro, which positively impacted thousands of people. "Tudo de Cor" is now also gaining traction in Argentina

Revenue in € millions

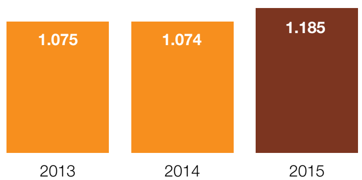


Key brands

Decorative Paints **Asia**

- The region achieved solid growth this year
- Dulux Weathershield Powerflexx was launched across South East Asia
- Dulux Superclean won Product of the Year in India. It features stain-beading technology which offers the key performance benefit of stain repellency
- Our Dulux websites were relaunched across the region – bringing a richer, inspirational experience to consumers – while the Dulux Easy Paint Service continued to grow in the redecoration market in China
- A new plant is being built in Chengdu, China. Due to open in 2016, full operation is expected by 2017

Revenue in € millions



Key brands

Now you can **wash your worries away**

As life gets busier and more hectic, it's a relief to free yourself from the worry that everyday living could damage the look of your home. A simple stain or spill and all that hard work you put in could be ruined.

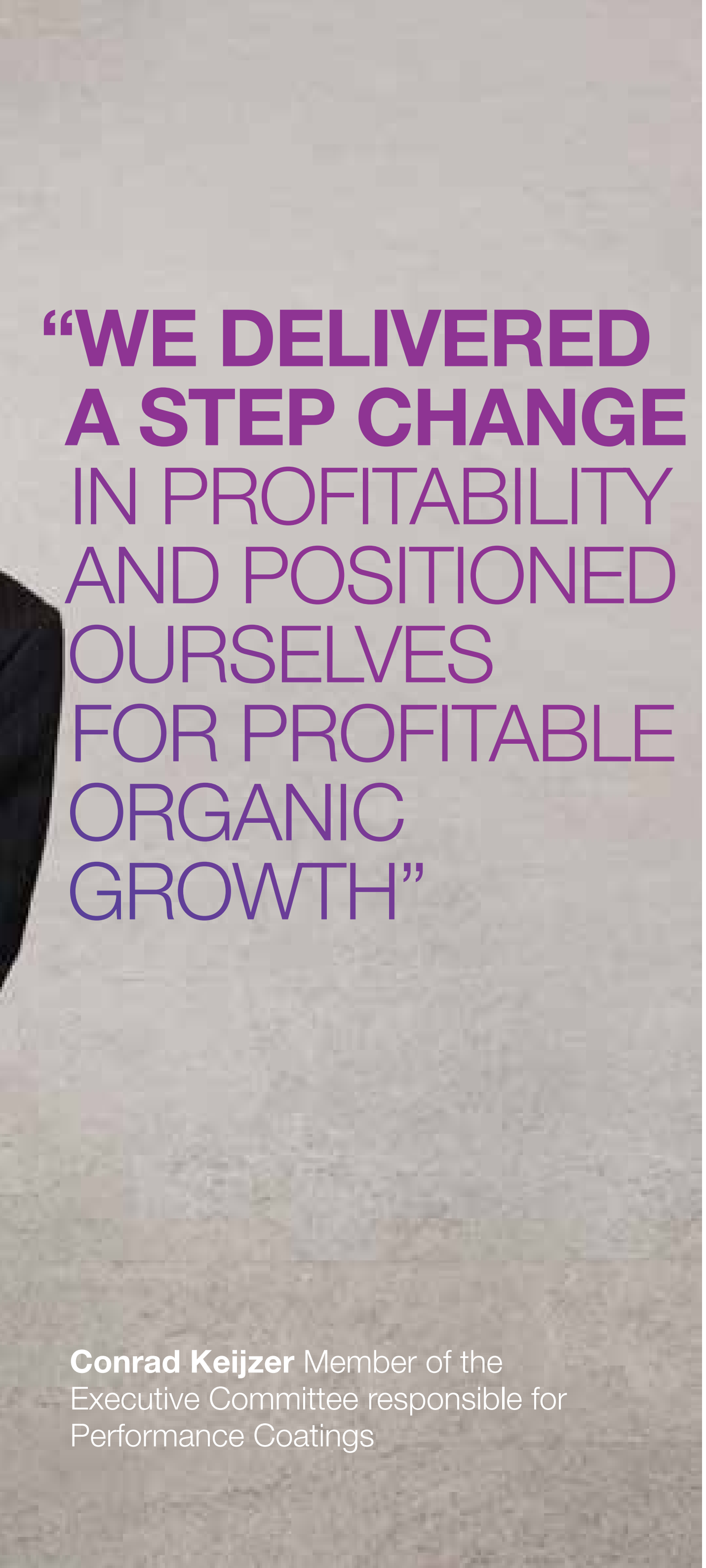
That's why we don't just focus on color and quality when we develop new paint products. We also look to introduce new benefits for consumers that make life easier or better for them.

A great example of one of our more recent innovations is Dulux Easycare. Featuring stain repellent technology, it's an interior paint which enables you to easily clean common household stains off your walls without worrying about damaging the surface. Ten times tougher than conventional paint, it's scrubbable, splash resistant and repels stains to keep walls beautiful for longer.

Initially launched in Ireland and Asia, the product recently enjoyed much success when it was introduced in Poland during 2015. Within just three months it was available in 1,156 stores, beat its full-year sales targets and gained double-digit market share in the premium segment.

Easycare also highlights how we are continuing to meet growing demand from consumers for more sustainable solutions. Like many of our decorative paint offerings, Easycare is low odor and low VOC and is another example of how we are trying to move the industry away from solvent-based products.


10x
tougher
more durable, scrubbable, splash resistant and repels stains
Scan and explore



"WE DELIVERED A STEP CHANGE IN PROFITABILITY AND POSITIONED OURSELVES FOR PROFITABLE ORGANIC GROWTH"

Conrad Keijzer Member of the Executive Committee responsible for Performance Coatings

Performance Coatings

We had a record year in 2015, achieving a significant improvement in our results while exceeding our expected outcomes for ROS and ROI. We put a clear focus on market strategies and operational initiatives and are delivering on our vision of leading market positions delivering leading performance.

We streamlined our organization with fewer management layers and a much stronger customer focus. The rationalization of our global manufacturing network has reduced the number of sites from 102 to 84 since 2012.

While we benefited from cost management, lower raw material prices and currency tailwinds, our volumes were challenged by headwinds in some of our key end-user segments. In the global oil and gas industry, ongoing capital spending declines and the slower growth in some markets – notably Brazil and China – affected our business. We offset some of these challenges by repositioning ourselves towards growing segments and delivering on our productivity improvements.

Examples of where we are repositioning to offset market challenges are in our Protective and Marine Coatings businesses. In Protective Coatings, we are increasing our focus on downstream oil and gas and in power generation. A particular area of focus is in offshore wind farms. In Marine Coatings, we launched the second generation of Intersleek coatings, which reduce fuel consumption and emissions. This was supported by our carbon credits initiative which allows our customers to collect carbon credits from switching to our biocide-free Intersleek coatings

Our strong customer relationships and clear market strategies are helping us to gain new business. For example, in 2015 we became one of the approved suppliers of vehicle refinishes to Daimler dealerships and approved bodyshops worldwide. We extended our supplier relationship with McLaren Racing and McLaren Automotive.

We continued to invest in growth markets and announced a multi-business manufacturing site in Thailand. In China, construction is well underway on a large and efficient powder coatings plant.

Meanwhile, in North America, we opened a new research, development and innovation (RD&I) center in Strongsville, Ohio, and announced an investment in our RD&I capabilities in Houston, Texas. We also opened a new technical application center in Malmö, Sweden, which allows us to simulate customer specific conditions and deliver market leading solutions.

Our safety performance continued at the improved level of 2014, which was a record best year. The total rate of reportable injuries was 1.8. We will continue to rigorously embed the AkzoNobel Safety Common Platform for people and safety processes on our journey to zero injuries at work.

2015 outcomes

ROS 13.3%
ROI 29.4%

Going forward, we will continue to create value by delivering essential color and protection in all the markets we serve. Having exceeded our expected financial outcomes for 2015, we are now shifting our focus towards profitable, organic growth and continuous improvement. Our aim is to build on the strong foundation and achieve leading performance in all of our markets.

Performance Coatings strategy

In 2015, we delivered return on sales of 13.3 percent and return on investment of 29.4 percent, surpassing our expected 2015 outcomes of 12 percent and 25 percent, respectively. We are continuing to progress towards our vision of leading market positions delivering leading performance.

Our simplified organization model has been a significant enabler for performance improvement. We have now streamlined the organization into seven strategic market units (SMUs) operating in six defined regions. Management layers have also been reduced from an average of nine to six. This new set-up has already had a substantial impact in terms of cost reduction. Going forward, we expect the benefits to be much more comprehensive, resulting from higher levels of customer proximity and collaboration, more rapid decision-making and clearer lines of accountability.

Our three overarching performance initiatives have also contributed to profitability improvement, as explained elsewhere on this page. Given the scope of the change we are undergoing, we have established a dedicated transformation office to lead our change process.

Actions

Pursue differentiated growth strategies

Having completed our major restructuring activities, the next step in delivering our leading performance vision is to deliver profitable organic growth and continuous improvement. We are focusing and prioritizing our growth activities by pursuing differentiated growth strategies. In roughly half of our businesses, our strategy is to outgrow the market. These sectors, with examples of growth priorities, are listed below:

- Marine Coatings: Continuing to invest in fouling control, sustainable innovation and enhanced services
- Protective Coatings: Continuing to build our business beyond upstream oil and gas
- Powder Coatings: Continuing to take a segmented approach and look for opportunities to provide an integrated liquid and powder offering

In other parts of our Performance Coatings portfolio – where our position is often strong, but the headroom for growth more limited – we want to grow with our markets while driving operational excellence and controlling costs.

Drive overarching performance improvement initiatives

Reduce external spend

Procured raw materials make up a significant percentage of our Performance Coatings cost base, so appropriate management is a fundamental component of performance improvement in this Business Area.

Improve our operations

Although operations comprise a smaller percentage of our cost base, there is still room for improvement. Over the last few years, our focus has been on footprint optimization. Between 2012 and the end of 2015, we reduced the number of manufacturing plants from 102 to 87. During the same period, we have also commissioned new, state-of-the-art plants to respond to changes in geographic demand. Throughout this time of major changes, we have maintained our commitment to safety and have stabilized our performance.

We are now focusing on achieving operational excellence through continuous improvement, based on the AkzoNobel Leading Performance System (ALPS). A top priority is to further improve customer service and we are already seeing the benefits of this program.

Drive commercial excellence

The focus has been on salesforce efficiency and margin management to support our improvement in bottom line performance. Going forward, our common processes and tools are increasingly oriented towards salesforce effectiveness.

Deliver business-specific innovation plans

Continued success in Performance Coatings is fundamentally based on our ability to innovate. Our innovation program is aimed at developing products, services, processes and tools that address four strategic drivers:

- Customer operational efficiency (a higher production rate through product design or application process)
- Customer benefits in terms of sensory perception, substrate protection and coating functionality
- Global future trends such as sustainability, carbon footprint and scarcity of natural resources
- Internal AkzoNobel efficiency

These strategic drivers provide a framework for innovation across the whole Business Area, while we also work across AkzoNobel to optimize efficiency and effectiveness. There is an opportunity to leverage our scale by working across sectors.

Examples of innovations we have already introduced include:

- Intertrac Vision: A tool which accurately predicts the potential fuel and CO_2 savings that fouling control can offer to the marine industry

- Interplan: A mobile-enabled survey tool which delivers corrosion information directly to customers of our protective coatings to help them predict their maintenance requirements
- Automatchic Vision: A lightweight device (the smallest of its kind) which provides a fast and reliable color match to bodyshops, saving time and paint consumption in the vehicle repair process
- We are well positioned for the continued global market conversion to high performance packaging coatings that avoid the use of bisphenol A-based epoxies, addressing a key consumer and customer demand
- We continue to deliver lower temperature curing for our powder coatings, which help to improve energy efficiency and reduce customer production costs, as well as improving finish effects
- In our Aerospace business, we continue to introduce products that provide our customers with increased productivity and resource efficiency. For example, we have recently introduced a basecoat/clear coat system. In addition to reducing drying time, this system also provides protection against weathering and fading
- Sikkens Autoclear UV: A new eco-premium solution within Vehicle Refinishes. Sikkens Autoclear UV is a UV curable high gloss clearcoat which meets the needs of the fast track/stationary repair trend and reduces energy consumption and material usage
- Interpon ReFlex: A reflective powder coating which increases the effective output of commercial lighting. Because the product is solvent-free (like all powder coatings), it has a lower environmental impact than competing materials used in the lighting market
- Chartek 8E: A new Chartek® passive fire protection product aimed at the offshore oil and gas industry. Chartek 8E provides a significant reduction in applied weight, addressing a key customer need

End-user segment outlook

Our Performance Coatings Business Area serves all four of our end-user segments. Although there are relevant end-user segment trends that remain positive, our outlook remains cautious.

Transportation

Transportation is the largest end-user segment for Performance Coatings. Around two-thirds of our Transportation revenue is derived from the two automotive sub-segments – Automotive OEM, parts and assembly and Automotive repair. We see continued growth in Automotive OEM, particularly in China, although this is of less benefit to AkzoNobel as our position in this sub-segment is quite limited. We expect much lower growth rates in the Automotive repair sub-segment, but the growth is more stable and less cyclical. Growth rates in Automotive repair will continue to be higher outside of Europe and North America as the car park and rate of insurance coverage continue to grow.

Our remaining revenue in Transportation comes from the Marine and air transport sub-segment, into which we sell both marine and aerospace coatings. The long-term outlook for marine remains quite positive, as wealth and international trade should continue to increase. There is also evidence that the bottom of the cycle has been reached in marine new build, although the market takes longer than expected to recover. In fact, new contracting dropped significantly in 2015. Meanwhile, the maintenance market continues to grow at a moderate rate, mainly because the growth in the global merchant fleet is offset by declining freight rates – which have not yet recovered significantly – dampening demand for maintenance activities. Aerospace is a much smaller market than marine, but we do expect continued robust growth.

Demand in the Transportation end-user segment also relates to sustainability. Therefore, products sold into this segment that help utilize less energy and other resources will grow disproportionately.

Consumer Goods

We sell powder coatings, wood finishes and adhesives and specialty finishes into the Consumer durables end-user sub-segment, mainly contributing to the manufacture of furniture, domestic appliances and consumer electronics. We also sell packaging coatings into the Consumer packaged goods sub-segment, for use in food and beverage packaging.

Growth rates in the Consumer durables sub-segment are largely expected to be at, or somewhat above, regional GDP growth rates overall. Some shifts in outlook have been evident, however, as domestic market growth rates in China have reduced. External analysts are currently predicting a stronger growth outlook for furniture than for domestic appliances. We expect continued reasonable growth overall in the more technology-driven aspects of the Consumer durables sub-segment, although it is important to note that trends differ significantly by type of product.

In the Consumer packaged goods sub-segment, we e xpect growth to be slightly below regional GDP growth rates in both high growth and mature geographies. This sub-segment tends to be more stable and less cyclical over time.

Buildings and Infrastructure

The Buildings and Infrastructure end-user segment is undergoing considerable change. Growth rates have reduced significantly in China, especially in the New build projects sub-segment, which is important for the performance coatings market. On the other hand, we are seeing evidence of a modest return to growth in Europe. Growth is higher in North America.

Similar shifts are taking place in the maintenance, renovation and repair sub-segment. Maintenance growth rates are expected to be somewhat higher than they have been in Europe and growth rates are decreasing in China.

Industrial

In the Industrial end-user segment we sell protective and powder coatings for industrial uses, primarily for the oil and gas industry. This industry has come under significant pressure due to lower oil prices, resulting in delays and cancellations of capital spend. In new construction, we are seeing drastically reduced investment in oil and gas upstream, with downstream projects remaining more solid. With regard to maintenance, some upstream businesses are no longer profitable for our customers and we are therefore seeing a shutdown of high cost production units, disproportionately affecting North America and land rigs.

The Kelpies in Scotland – the largest horse sculptures in the world – feature around 10,000 liters of our protective coatings. Photograph by The Helix.

AkzoNobel market positions

1st	**Coil coatings**
	Marine coatings
	Powder coatings
	Protective coatings
	Specialty plastic coatings
	Wood finishes
	Yacht coatings
1st/2nd	**Aerospace coatings**
2nd	Packaging coatings
3rd/4th	Vehicle refinishes

Performance Coatings value creation summary 2015

Our Performance Coatings businesses serve all four end-user segments, supplying high performance coatings primarily to business-to-business customers. We are increasingly incorporating low energy processes and working to reduce our carbon footprint across the value chain. Innovation is also key to our product development, which is often highly technical in order to meet strict customer specifications.

Particular emphasis is placed on supplying products that offer environmental benefits for our customers. These initiatives will help us to create economic, social and environmental value. We continue to be committed to safety, as well as our talent development programs and our contribution to various community activities.

All these initiatives will contribute to our financial performance and ultimately lead to more economic value for our investors.

Economic value: Organization

€6.0 billion
revenue

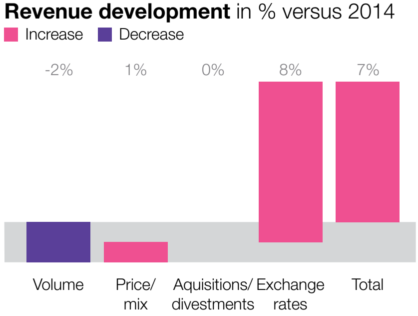
€792 million
operating income

€2.5 billion
invested capital

€147 million
capital expenditures

During 2015, we invested in both RD&I facilities and production facilities in mature and growth markets, to increase capacity and to improve efficiency.

Revenue development in % versus 2014



Environmental value: Input

4.0 million tons
upstream CO_2(e) emissions

4,500 TJ
energy use

Organization

We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

Social value: Input

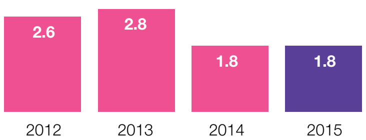
19,300
employees at year-end 2015

Organization

1.8
total reportable rate of injuries

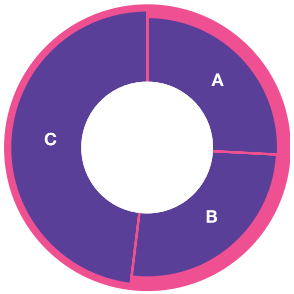
Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents.

Total reportable rate of injuries
per million hours worked



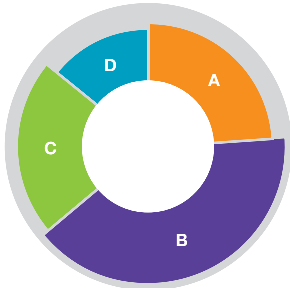
Outcomes

Revenue breakdown by business unit
in %



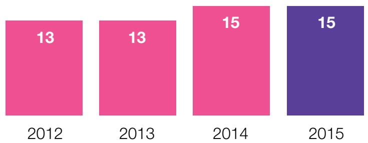
A Marine and Protective Coatings	26
B Automotive and Specialty Coatings	26
C Industrial and Powder Coatings	48

Revenue breakdown by end-user segment
in %



A Buildings and Infrastructure	24
B Transportation	40
C Consumer Goods	22
D Industrial	14

Eco-premium solutions with customer benefits
% of revenue



13.3% ROS

29.4% ROI

15%
of revenue from eco-premium solutions

RD&I investments have resulted in 15 percent of revenue derived from eco-premium solutions with customer benefits.

Outcomes

0.3 million tons
CO_2(e) emissions own operations

54 kilotons
total waste

8.0 million tons
downstream CO_2(e) emissions

12.3 million tons
CO_2(e) emissions cradle-to-grave

2%
increase CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

Outcomes

€1.1 billion
employee benefits

We highly value, and actively work on improving, employee engagement. We're investing in training and development and continue to work on achieving a more diverse workforce.

3.91
employee engagement score

We participate in community programs and local sponsorships.

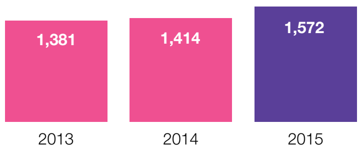
Key business developments

Marine and Protective Coatings

- Revenue was up 11 percent, driven by favorable price/mix, a recovery of the marine new construction market in China and favorable exchange rates
- Marine Coatings delivered strong growth in the new build market, despite challenging market conditions
- We were awarded 223,000 carbon credits from the Gold Standard as part of our award-winning program related to sales of our Intersleek foul release coatings
- Intertrac Vision was launched, the industry's first consultancy tool to provide ship operators with predictions on the fuel and CO_2 savings potential of fouling control coatings
- In Protective Coatings, we expanded our position in the area of power generation
- We launched a new high temperature resistant coating for the protection of subsea equipment
- We also introduced, under the Intertherm brand, a water-based insulation system which protects workers from burns

Key brands

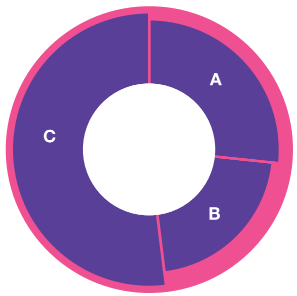
Revenue in € millions



Some of our customers

- APM Maersk
- Bechtel
- Brunswick
- ExxonMobil
- GE
- Hapag Lloyd
- Hyundai Heavy Industries
- Rio Tinto
- Sandvik
- Shell
- Siemens

Geo-mix revenue by destination in %



A	EMEA	28
B	Americas	22
C	Asia Pacific	50

Top raw materials

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

Key cost drivers

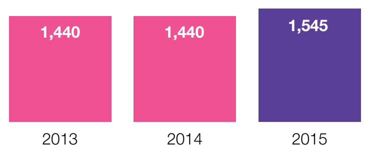
- Oil feedstock chain
- Metals, base chemical prices

Automotive and Specialty Coatings

- Revenue was up 7 percent, driven by favorable price/mix, with currencies also offsetting lower volumes
- In Vehicle Refinishes, we launched Automatchic Vision, an innovative color measurement device which improves right-first-time color matching
- We established strong partnerships with leading bodyshop groups across the globe to expand our position in this growing segment
- Our UV curing product proposition was completed, enhancing our position in terms of rapid repair and energy efficiency
- In Specialty Coatings, our Aerodur technology was selected as the exclusive basecoat/clear coat by one of the world's largest aircraft manufacturers
- Specialty Coatings' champagne gold was selected by a major computer technology manufacturer to enhance the aesthetics of their products
- We won business with a large airline with our chrome-free paint system for commercial fleet maintenance

Key brands

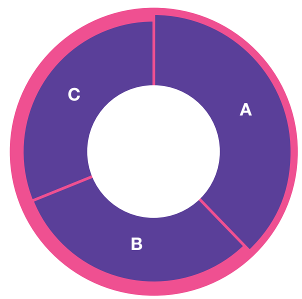
Revenue in € millions



Some of our customers

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

Geo-mix revenue by destination in %



A	EMEA	38
B	Americas	31
C	Asia Pacific	31

Top raw materials

- Pigments
- Acrylic resins
- Acrylic dispersions

Key cost drivers

- Metals, base chemicals prices
- Oil, energy prices

Industrial and Powder Coatings

- Revenue was up 4 percent, due to favorable currencies and price/mix development, which helped to offset lower volumes
- In Wood Coatings, we sustained growth in North America and Asia due to the strong housing and construction market and the growth of imports
- Our innovative waterborne wood finish Aquasilk was launched on to the furniture market in China, supporting the regulatory momentum in leading cities such as Beijing
- In Packaging Coatings, we are growing our volume in Europe and are well positioned to convert to BPA-free products globally
- In Powder Coatings, we saw strong regional growth in North America across all sectors
- We are in the process of building a large powder coatings production plant to support our growth ambitions in China
- Our presence in the Middle East and Africa is continuing to grow, with a new plant opened in Dubai

Key brands

AkzoNobel, Sikkens, Interpon, Cromadex, Resicoat

Some of our customers

- Arcelor Mittal
- Armstrong
- Ardagh
- Ball/Rexam
- Bluescope Steel
- Bosch
- Crown
- Ikea
- Lacquer Craft Furniture
- Masterbrand Cabinets, Inc.
- Mercedes-Benz
- Philips
- TATA
- Whirlpool

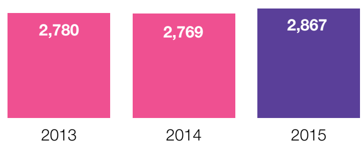
Top raw materials

- Polyester and epoxy resins
- Glycol, ether and aromatic solvents
- Titanium dioxide
- Latex resins
- Nitrocellulose
- Methanol, urea
- Butyl acetate, acetone and xylene solvents

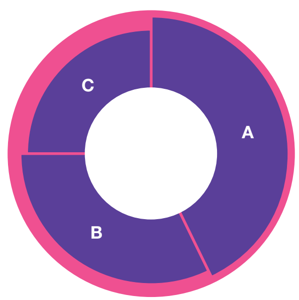
Key cost drivers

- Basic feedstock prices
- Oil and natural gas prices
- Propylene and VAM
- Agrochemical feedstocks (urea)
- Cotton

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	43
B Americas	32
C Asia Pacific	25

Adding color expertise to **high performance**

When you think of performance coatings, it’s their functional benefits that usually spring to mind. Whatever the surface, they offer essential protection for everything from fridges to bridges and buildings to boats.

But performance coatings aren’t just about durability and making things last longer. They also provide essential color and aesthetics (just take a look at your laptop or mobile phone).

We’ve been in love with color for centuries. Our expertise and understanding has been shaped and defined by countless influences and experiences. We use this wide-ranging knowledge when developing all our products, be they for use on metal, wood or plastic.

Most of our color know-how for the Performance Coatings business is channeled through our Global Design Team, which works out of dedicated centers located in Germany, the US, China and South Korea.

Every year, they produce a design trends guide for the automotive and consumer electronics market. It offers a comprehensive overview of what is happening in color and design and defines the consumer trends that will influence our color and material choices for the coming year. As well as offering a glimpse at the design direction for cars, smartphones and tablet computers, it also includes the company’s color of the year for those markets (identified as My Gold for 2016).

A great example of what we offer in terms of color expertise is our Automatchic Vision tool for the automotive repair market. With more than 250,000 colors in existence (and more than a million different shades) getting the right color match is becoming increasingly difficult. But thanks to the latest digital technology, Automatchic Vision guarantees precise and reliable measurements of color, even on curved parts of a vehicle, which are traditionally difficult to read.

“We want to inspire our industrial customers and together develop the colors, effects and textures for the products of the future,” explains Stephie Sijssens, Color Design Manager for AkzoNobel Performance Coatings. “We work closely with our customers to help them interpret their design brief into the technologies we can provide. We try to develop a special relationship with each and every customer to make certain that the result is something special.”

70+

color effects and textures, eight palettes and four key trends for 2016

Scan and explore

"OUR COMMITMENT TO DELIVERING ESSENTIAL INGREDIENTS HELPED DRIVE PERFORMANCE AND ENHANCED OUR CUSTOMER FOCUS"

Werner Fuhrmann Member of the Executive Committee responsible for Specialty Chemicals

Specialty Chemicals

For Specialty Chemicals, 2015 was a year where we achieved a significant improvement in our results. However, although we felt a strong tailwind from currencies and, to a lesser extent, raw materials, overall we were operating in a low to no growth environment.

The slowdown was most noticeable in China and other South East Asian countries, while the economies in Russia and Brazil fell into recession. There was some recovery in Europe and a few bright spots in the US. Our portfolio proved to be resilient, even under volatile market conditions. We made major improvements in terms of performance and enhancing the quality of the business, achieved mainly through operational excellence and our focus on continuous improvement.

Looking at 2015 in more detail, the Industrial Chemicals business benefited from higher availability of assets – including the newly converted Frankfurt chlorine plant – which came fully on stream in the second quarter. Pulp and Performance Chemicals also took advantage of high asset utilization and continued to perform well.

At the end of 2014, we restructured Functional Chemicals into two business units. The newly-created Ethylene and Sulfur Derivatives business had a good first year. Headquartered in Shanghai, we've worked hard to optimize the ethylene oxide value chain, which helped improve results. Polymer Chemistry, based in Chicago, was more or less stable. Thankfully, no Polymer Chemistry employees were hurt due to the Tianjin port disaster, but the business was significantly impacted by constraints put in place by the authorities during Q4. Surface Chemistry, meanwhile, was hampered by lower activities in oil and gas.

Early in the year, we completed the divestment of our Paper Chemicals business to Kemira. This included maintaining a strong supply relationship with the buyer through toll manufacturing agreements and a strong partnership for the supply of colloidal silica. We also started a joint venture with Evonik Industries to build and operate a membrane electrolysis facility for potassium hydroxide solution and chlorine at our site in Ibbenbüren, Germany. The site will secure the long-term supply of chlorine and hydrogen, as well as improve our environmental profile and operational efficiency.

Another highlight was the multi-year agreement to purchase sustainably generated steam from Dutch energy provider Eneco. The partnership will help to reduce our CO_2 emissions by over 100,000 tons a year. It's a major deal which underlines our ongoing commitment to the company's Planet Possible approach of doing more with less. In fact, 70 percent of our innovations over the last five years have been eco-premium solutions and this trend is expected to continue.

Our safety performance improved further in 2015 and we met our internal target. Our process safety performance also continues to be encouraging. Specialty Chemicals received an award from the American Chemistry Council for product safety, while AkzoNobel as a whole was recognized by the European Chemicals Industry Association (Cefic) for product stewardship.

2015 outcomes

ROS 12.2%
ROI 17.2%

We are now focusing on profitable, organic growth. We have identified three specific areas that we will be concentrating on alongside our continued productivity improvements: growing with our customers through commercial excellence, leveraging geographical opportunities and delivering growth through product and process innovation. We have a clear vision on how to achieve leading performance through our focus on organic growth and operational excellence.

Specialty Chemicals strategy

We have met our 2015 financial expectations, with return on sales of 12.2 percent (expected outcome 12 percent) and return on investment of 17.2 percent (expected outcome 15 percent). As a result, we are closer to our vision of delivering leading performance, based on strong chemical platforms driving profitable growth in selected markets. We will continue working towards this vision until we are satisfied that it has been fully achieved.

Our 2015 return on sales level is within our future performance range (11.5 to 13 percent). However, we expect continued improvement in return on investment at a minimum of 16 percent going forward. We are also including financial guidance on our growth rate. Specifically, we have a clear aim to build on the foundations we have created and grow in line with, or faster than, our relevant market segments. We will deliver on these financial expectations by continuing with our five strategic actions.

Actions

Build on our strong chemical platforms to deliver profitable growth in selected markets

To ensure that we maintain our current return on sales and investment levels, we will prioritize resources and investment capital against the most attractive opportunity areas.

There are two main platforms where we have strong competitive positions in growing markets – the Bleaching Chemicals and Surfactants platforms. In these businesses, we are investing to outgrow the market.

- Our Bleaching Chemicals platform is expected to benefit from continued growth in chemically bleached pulp in South America. Although there are challenges in many sectors of the Brazilian economy, growth of chemically-bleached pulp production in Brazil is expected to continue. Given our Chemical Island business model, we have a strong position in this business from both a cost and sustainability perspective. In Europe (where growth is also expected) and North America (where the market is contracting), we will defend and protect our solid market positions
- We are also investing selectively in growth in the Surfactants platform. In 2015, low oil prices led to a sharp decline in the oil and gas drilling sector. However, we remain convinced of the long-term growth potential in this sector. There are also other sectors where growth continues to be robust. We have a strong position in specialty surfactants and, in particular, in nitrogen derivatives. Because our surfactants are centered on a few key technology platforms, we can effectively and efficiently leverage our production capacity for use across all segments as we focus on growth

In our other three main platforms, our focus is on growing with the market from a volume perspective while improving bottom line performance through enhanced operational excellence.

- As market growth is limited in the North Western Europe Salt-Chlorine chain and our competitive position is strong, our main strategic focus is on efficient capital expenditure, successful plant utilization and operational excellence. We are also taking action where opportunities exist to reinforce our position, particularly where we can utilize our process technology know-how while conserving our capital. A recent example is a cooperation with ICL for salt, which has allowed us to maintain our leadership position in chemical transformation salt, while also offering specialty salt growth opportunities. The deal has an excellent sustainability profile, as it draws on salt-based waste streams. The second example is a 50/50 joint venture we formed with Evonik Industries to convert our Ibbenbüren plant in Gemany from mercury to membrane technology for the production of potassium hydroxide, chlorine and hydrogen
- We also have a strong position in our Polymer Chemistry platform. Given our strong share in this market, our plan is to grow with the market, improving our performance by focusing on specific niches and leveraging our global reputation for safety. For example, we are continuing to gain traction in the market with our Continuous Initiator Dosing (CiD) technology. Designed to reduce energy use and deliver higher PVC quality, it also helps to increase the capital productivity of our customers by up to 30 percent while improving safety levels. To maintain our position, we are investing in a large dicumyl peroxide (DCP) site (which we operate in Ningbo, China) which supplies the global market for chemicals that cross-link plastics and rubbers
- In the Ethylene Oxide Network, our emphasis is primarily on increasing the operational leverage of our existing assets to further improve our performance levels. We are also investing in growth in specific applications, such as specialty chelates and certain cellulosic products

Drive functional excellence

In order to further improve our return on sales and our return on investment, we will continually improve our productivity levels, both in terms of supply chain and operations and commercial excellence. A strong talent management approach utilizing our AkzoNobel process will help us to achieve this productivity improvement.

- Supply chain and operations. Specialty Chemicals continues to implement the AkzoNobel Leading Performance System (ALPS). This operational excellence program continues to drive targeted improvements in financial performance, customer satisfaction and safety
- Commercial excellence. Our commercial excellence program supports our enhanced organic growth focus. We have four main objectives – increase customer retention, win with key accounts, invest in higher growth regions and sectors and open channels to (new) customers
- Talent management. Having built a flatter organization, we are improving the levels of professionalism and diversity. We are focusing on recruitment and engagement of high quality individuals; continued development of a strong and diverse pipeline; creation of appropriate learning and development programs and performance management

Reduce organizational complexity

On a portfolio level, in 2015 we divested our Paper Chemicals business to Kemira. On a more operational level, our performance improvement was the result of various actions, such as rationalizing our manufacturing footprint, standardizing work processes in all functions and ERP consolidation across the whole Business Area. Going forward, a key area of focus will be the reduction of raw material and product complexity.

Strengthen product and process innovation

We have identified a number of end-user requirements/trends that will drive our product and process innovation agenda. These include resource preservation, increasing end-use demands, accelerated technology development and changing demographics and spending patterns.

Our innovation agenda is robust. We have overarching technology programs around process technology, shared applications and bio-based chemicals, as well as specific development programs supporting our platforms as appropriate. This approach has a major sustainability focus, in line with our Planet Possible agenda.

- Product innovation. In our Surfactants platform, examples of successful recent innovations include improved agricultural adjuvants that enhance the effectiveness of crop protection, delivering customer value by reducing the amounts required and offering improved eco-profiles
- Process innovation. In our Salt-Chlorine chain platform, an example of process improvements we are pursuing can be seen in our MCA business, where we have carried out significant de-bottlenecking. This resulted in better product quality and reduced energy consumption as well as capacity expansion

Capitalize on industry changes

We continue to adjust our strategy and footprint to respond to industry changes including:

- Reduction in oil prices. On a macro-economic level, oil price reduction is creating more disposable income for consumers, driving GDP growth. On a regional level, the oil price reduction is providing temporary relief for China and Europe in terms of raw material input costs. However, in some sectors – such as surfactants for oilfield applications – the downturn has had a negative impact on demand
- Reduced chemicals growth rates in China. Although growth rates are lower than they have been, China is still growing at levels higher than global GDP growth. We are responding to changes in growth rates by focusing on serving local markets, leveraging our existing local production capacity
- Growth in pulp production in Brazil. We are continuing to respond to this by constructing closed loop, highly sustainable, local production capacity
- Requirement to reduce carbon footprint, consistent with our Planet Possible sustainability agenda. We continue to make progress on reducing carbon emissions through a combination of improved energy efficiency, higher use of renewable energy and higher use of bio-based raw materials. As an example of the type of improvements we are making, we have increased renewable energy use by nearly 20 percent since 2013
- Human Cities. Chemicals make an important contribution to society, helping to make cities more liveable and inspiring. Engaging with stakeholders on this topic provides us with additional impetus for organic growth

End-user segment outlook

Industrial

Accounting for around 50 percent of our revenue, the Industrial end-user segment is by far the largest for the Specialty Chemicals Business Area and is served by all of our chemical platforms. We generate significant revenue from the sale of chemical intermediates, such as salt, chlorine, caustic soda, organic peroxides, metal alkyls and ethylene-based products into the plastics (polymer) industry and other chemical industries. We also sell surfactants and ethylene-derived products into the oil and gas, metals and mining and agrochemical industries. In addition, we sell bleaching chemicals (primarily sodium chlorate) for use in the production of pulp.

We expect that in the long term, market development in chemicals will be disproportionately strong in the Middle East (due to access to low cost raw materials) and in the US (due to shale gas). In the short to medium term, the regional outlook is less clear due to lower oil prices. In the Middle East, downstream investments are being postponed or even cancelled. In North America, there has been a reduction in the cost advantage in terms of shale gas-based ethylene feedstocks and this is moderating regional chemical growth rates somewhat.

Although growth rates are expected to be lower in Europe than they are in other regions, Europe is currently continuing to post record trade surpluses in chemicals and we expect this to continue, particularly in the chemical sectors relevant to AkzoNobel. Due to local demand, we also expect continued growth in the large and important Chinese market, albeit at a lower level than we have seen in the recent past.

From a sub-segment perspective, we continue to expect above GDP growth in polymer markets, where there is continued demand growth as global wealth increases and products continue to be converted to plastics for a variety of reasons, including weight reduction. We expect GDP-level growth in segments such as agrochemicals. While overall growth in chemically-bleached pulp is below GDP, we

Examples of successfull recent innovations in our Surfactants platform include improved agricultural adjuvants that enhance the effectiveness of crop protection.

expect, continued strong growth in Brazil, due to the cost competitiveness of the region.

Buildings and Infrastructure

Our main involvement in the Buildings and Infrastructure end-user segment is through the Salt-Chlorine Chain and Polymer Chemistry platforms. We produce salt, chlor-alkali products, organic peroxides, metal alkyls and various other products used to manufacture plastics that are, in turn, used to manufacture plastics for a wide variety of construction components. We also supply products for more direct use, such as cellulosic products for paints and redispersible polymer powders (RPP) for concrete admixtures.

As our Salt-Chlorine Chain platform is almost entirely based in Europe, and a substantial proportion of our RPP and cellulosic business is also in Europe – where building regulations are more stringent – the European outlook is very important. Most analysts are predicting continued modest construction recovery, which should have a positive impact on the growth outlook for the markets in which we compete. However, this is mitigated somewhat by lower than historical growth levels in China, which is another area of regional strength for our business.

Consumer Goods

We sell a wide variety of surfactants and ethylene-based products for consumer goods applications such as cleaning, dishwashing and pharmaceutical products. We also sell chlor-alkali products, organic peroxides and metal alkyls for the production of plastics (polymers) that are used in packaging, as well as consumer durables such as toys and furniture. We also sell consumer salt.

As a general rule, expected growth in Consumer Goods roughly follows GDP growth. Currently, this translates into above average growth in North America, balanced by more moderate growth in Europe. In China, growth rates have fallen off from the high rates experienced in the recent past. Growth is still expected, however, fueled by increased domestic demand as wealth levels continue to rise, as well as exports to North America, where growth rates are also robust.

Transportation

The Transportation end-user segment is the smallest for our Business Area. Similar to other end-user segments, we sell a wide variety of products, generally from our Salt-Chlorine Chain and Polymer Chemistry platforms. For example, our products are used in plastics (polymers) for the manufacture of cars and other forms of transportation. These markets have almost entirely recovered from the 2008-2009 recession and are, in general, growing at or above GDP growth levels. The trend towards smaller, lighter weight cars supports the continued conversion to plastics, so growth in these businesses is disproportionately high.

The market

The global chemicals industry is very large (more than €3.5 trillion globally) and diverse. China has become the global leader in terms of chemical production. Market development is also disproportionately strong in the Middle East (due to access to low cost raw materials) and in the US (due to shale gas). Europe continues to post record trade surpluses in chemicals in all major regions and we expect this to continue, particularly in the chemical sectors relevant to AkzoNobel. Growth rates in Europe are expected to be substantially lower than in other regions, though, due to a combination of limited local demand growth (as described in the end-user segment analysis above) and a higher local raw material and energy cost base.

AkzoNobel market leadership positions

Functional Chemicals

1st	**Chelates and micronutrients**
	Organic peroxides

Industrial Chemicals

1st	**Chlorine merchant (Europe)**
	Monochloroacetic acid (MCA)

Pulp and Performance Chemicals

1st	**Bleaching chemicals**
	Colloidal silica dispersions

Surface Chemistry

1st	**Industrial applications**
	Agricultural applications

Specialty Chemicals value creation summary 2015

We are a major producer of specialty chemicals, supplying key products to business-to-business customers in all four of our end-user segments. We utilize inherently high energy processes and focus strongly on reducing carbon footprint and energy use, while saving costs in our own operations.

Developing close relationships with our customers – and helping them to create value – is key to our ongoing success, along with efficient processes, an increased focus on eco-premium solutions and renewable energy and a high level of innovation. These initiatives will create economic, social and environmental value. Social value is increased by our continued focus on safety, as well as our talent development programs and our contribution to various community activities.

All these initiatives will contribute to our financial performance and ultimately lead to more economic value for our investors.

Economic value: Organization

€5.0 billion
revenue

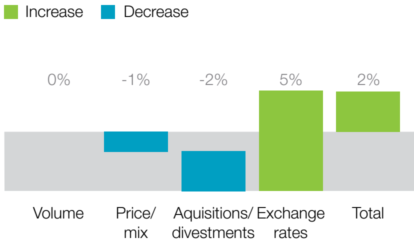
€609 million
operating income

€3.4 billion
invested capital

€331 million
capital expenditures

During 2015, several asset integrity and efficiency improvement projects, as well as growth projects for specific segments, were carried out.

Revenue development in % versus 2014



Environmental value: Input

3.3 million tons
upstream CO_2(e) emissions

89,200 TJ
energy use

Organization

We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to improve the environmental footprint of our operations by focusing on operational eco-efficiency.

Social value: Input

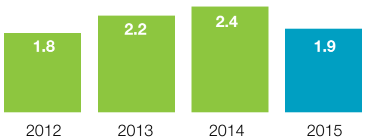
9,100
employees at year-end 2015

Organization

1.9
total reportable rate of injuries

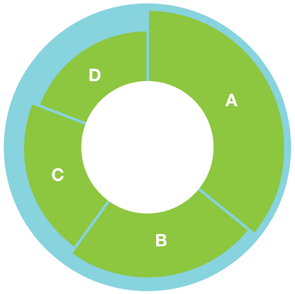
Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents.

Total reportable rate of injuries
per million hours worked



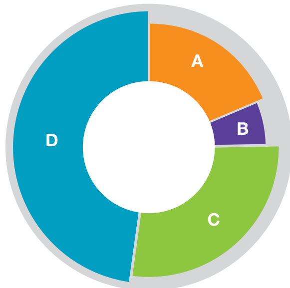
Outcomes

Revenue breakdown by business unit
in %



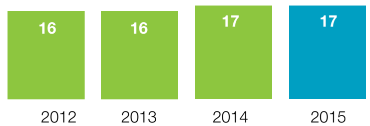
A Functional Chemicals	36
B Industrial Chemicals	24
C Surface Chemistry	21
D Pulp and Performance Chemicals	19

Revenue breakdown by end-user segment
in %



A Buildings and Infrastructure	19
B Transportation	6
C Consumer Goods	28
D Industrial	47

Eco-premium solutions with customer benefits
% of revenue



12.2% ROS

17.2% ROI

17%
of revenue from eco-premium solutions

RD&I investments have resulted in 17 percent of revenue derived from eco-premium solutions with customer benefits.

Outcomes

3.4 million tons
CO_2(e) emissions own operations

66 kilotons
total waste

1.9 million tons
downstream CO_2(e) emissions

8.6 million tons
CO_2(e) emissions cradle-to-grave

6%
decrease CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

Outcomes

€780 million
employee benefits

We highly value, and actively work on improving, employee engagement. We're investing in training and development and continue to work on achieving a more diverse workforce.

4.12
employee engagement score

We participate in community programs and local sponsorships.

Key business developments

Functional Chemicals

- Revenue was up 4 percent due to positive currency effects; while volumes overall were slightly negative
- Volumes in the oil drilling segments decreased due to low demand, while in China, volumes were down primarily due to the incident at the port of Tianjin
- Construction of our dicumyl peroxide plant at Ningbo, China is on schedule for completion by the end of 2016. The plant will serve the global market for the crosslinking of plastics and rubbers
- Production levels for our performance additives plant in Ningbo further increased, supported by higher captive sales to AkzoNobel Decorative Paints
- Our sites in Mons (Belgium), Los Reyes (Mexico), Pasadena and Battleground (US) were modernized and expanded
- Continuous Initiator Dosing (CiD) technology, an innovation which offers a safer and more cost-efficient initiator system for PVC production, continues to gain traction with customers globally
- Our Ethylene and Sulfur Derivatives business commercialized six new products, including Bolikel XP and offerings in our Bermocoll and ELOTEX lines

Key brands

bolikel XP, Butanox, BERMOCOLL, Ferrazone, AKUCELL, ELOTEX, Dissolvine, Thioplast

Chemical platforms

Polymer Chemistry and Ethylene Oxide Network

Some of our customers

- Air Products
- Fenzi
- FMC Corporation
- Formosa
- Henkel
- Procter and Gamble (P&G)
- Sabic (OP)
- Yara

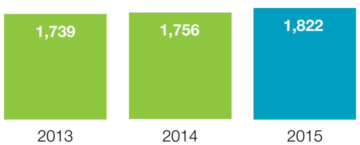
Top raw materials

- Ethylene
- Acid chlorides, chloroformates
- Polymer emulsions
- Ammonia, HCN
- Sulfur

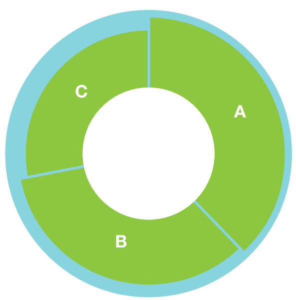
Key cost drivers

- Ethylene
- Energy
- Sulfur
- Salt

Revenue in € millions



Geo-mix revenue by destination in %



A EMEA	38
B Americas	34
C Asia Pacific	28

Industrial Chemicals

- Revenue was down 2 percent, mainly due to tough conditions in our main markets combined with the impact of interruptions in the manufacturing and supply chain in Rotterdam, the Netherlands. Overall volumes were slightly negative
- Following the successful conversion of the Frankfurt plant in Germany during the second quarter, our chlor-alkali and chloromethane results were robust
- We formed a 50/50 joint venture with Evonik Industries to convert our Ibbenbüren plant in Germany from mercury to membrane technology for the production of potassium hydroxide, chlorine and hydrogen
- Salt continued its solid performance, benefiting from technology and market leadership positions
- We established a cooperation with ICL in Spain to convert a sodium chloride by-product stream from its potassium mine into high quality vacuum salt
- We continued to reduce the use of fossil fuels and improve our carbon footprint by investing in the production of steam generated from waste wood in Delfzijl, the Netherlands

Key brands

AkzoNobel, JOZO SALT

Chemical platform

Salt-Chlorine Chain

Some of our customers

- Covestro
- Huntsman
- Shin-Etsu

Top raw materials

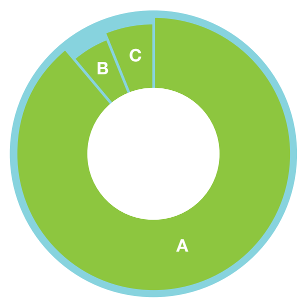
- Fuels (for cogeneration)
- Power
- Acetic acid

Key cost drivers

- Oil, gas and coal
- Methanol

Revenue in € millions

Geo-mix revenue by destination in %



A EMEA	89
B Americas	5
C Asia Pacific	6

Pulp and Performance Chemicals

- Revenue was down 2 percent, due to the divestment of our Paper Chemicals business to Kemira in May. This was partly offset by favorable currencies and higher volumes in growth segments
- Overall volumes were higher than 2014, excluding the divestment effect. Core growth segments continued to deliver volume increases in line with our plans
- Innovations in differentiated applications and technologies in colloidal silica and expandable microspheres fueled growth
- Investments in growth areas allowed us to meet customer demands in a more efficient way
- We rolled out our four-dimensional profit & loss (4D P&L) reporting methodology to a number of additional businesses. Introduced last year, this model is aimed at measuring environmental, human, social and financial impact across the whole value chain

Key brands

eka
Expancel
Kromasil
Levasil Colloidal Silica

Chemical platform

Bleaching Chemicals

Some of our customers

- Cabot
- Diam
- Domtar
- Fibria
- Fujimi
- Georgia Pacific
- Kemira
- Sanofi
- SCA
- StoraEnso
- Suzano

Top raw materials

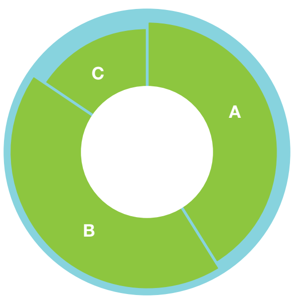
- Energy
- Salt
- Sodium silicate

Key cost drivers

- Energy
- Logistic costs

Revenue in € millions

Geo-mix revenue by destination in %



A EMEA	37
B Americas	49
C Asia Pacific	14

Surface Chemistry

- Revenue was up 5 percent, mainly due to positive currency effects, partly offset by lower volumes and price pressure
- Volumes were down in the oil drilling segments, partly offset by stronger performance in agro, lubes/fuels, mining and higher growth in Europe
- The lower demand in the oil drilling segments significantly affected the North American business
- Sales in Europe were strong and we made good progress in China
- Significant investment in supply chain and key sites helped improve supply reliability
- Twenty new products were launched, including Armohib CI-5150, an effective, eco-friendly corrosion inhibitor for the oilfield market, as well as new offerings in personal care, cleaning and agro formulations

Key brands

ARMOCLEAN
Biostyle
ARMOVIS
WITBREAK
BEROL
AMPHOMER

Chemical platform

Surfactants

Some of our customers

- Baker Hughes
- BYK Additives
- Lubrizol
- Monsanto
- Procter & Gamble
- Ferrexpo Poltava Mining

Top raw materials

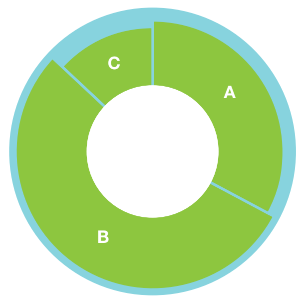
- Animal fats
- Vegetable oils
- Starch (corn, potato, tapioca)

Key cost drivers

- Natural oils and fat
- Ethylene
- Oil and gas

Revenue in € millions

Geo-mix revenue by destination in %



A EMEA	33
B Americas	54
C Asia Pacific	13

Changing the energy landscape

Over the last five years, around 70 percent of the innovations developed by our Specialty Chemicals business have been eco-premium solutions.

While this trend is set to continue, we are also looking to step up our innovation in other areas, where we can also benefit from a more sustainable approach to our activities.

During 2015, we signed a 12-year agreement to purchase sustainably generated steam from Dutch energy provider Eneco. This will involve piping steam from Eneco's biomass facility in Delfzijl, the Netherlands, to AkzoNobel's nearby production facility.

In addition, we will supply steam to neighboring customers, with Groningen Seaports providing the necessary infrastructure, such as a steam distribution pipeline that will also be accessible to other interested parties. The partnership will help to reduce our CO_2 emissions by more than 100,000 tons a year – equivalent to what is produced annually by 12,500 households.

It's a development which clearly illustrates a deliberate shift in the energy landscape. As reliance on fossil fuels continues to dwindle, there has been a gradual move from coal to gas and now renewable energy. Although this is nothing new for AkzoNobel, we've been focusing on alternative forms of energy for many years.

For example, our Hengelo site in the Netherlands already takes sustainable steam from one of its neighbors, while we've long operated a woodchip-fired boiler at our salt production site in Mariager, Denmark. More recently, our chlorine plant in Frankfurt, Germany, was converted to membrane electrolysis technology. In fact, 38 percent of the company's total energy use globally comes from renewable resources.

The supply of sustainably generated steam in Delfzijl is expected to begin in December 2016.


Our Delfzijl site will reduce its CO_2 emissions by more than
100,000
tons/year
That's the same as
12,500 households
produce each year
ar
Scan and explore

Keeping the wheels turning

Roads – we wouldn't get far without them. Did you know we've been serving the road industry since the 1940s? We supply a wide variety of advanced products that are essential to keeping us all connected and on the move.

Leadership

In this section we introduce our Board of Management and Executive Committee, as well as our Supervisory Board. We also present the Report of the Supervisory Board and provide detailed overviews of their activities during 2015.

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Statement of the Board of Management	102
Our Supervisory Board	103
Supervisory Board Chairman's statement	104
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Our Board of Management and Executive Committee

Ruud Joosten
Member of the Executive Committee responsible for Decorative Paints
(1964, Dutch)
After graduating from Amsterdam Free University with a Masters in Economics, Ruud Joosten joined AkzoNobel in 1996 as International Marketing Manager for Decorative Paints. Since then, he has held various management positions within Decorative Paints and Specialty Chemicals, including BU Manager for Decorative Paints North and Eastern Europe and Managing Director of Pulp and Performance Chemicals.

Werner Fuhrmann
Member of the Executive Committee responsible for Specialty Chemicals
(1953, German)
Werner Fuhrmann was appointed to his current role in 2012. He was previously Managing Director of the company's Industrial Chemicals business, a position he first took up in 2005. He was Chairman of the Dutch Association of the Chemicals Industry (VNCI) from 2010 until 2015. Currently he is a Board member of both the European Chemicals Association (Cefic) and American Chemistry Council.

Marten Booisma
Member of the Executive Committee responsible for Human Resources
(1966, Dutch)
Marten Booisma joined AkzoNobel as Chief Human Resources Officer in 2013. He spent the previous six years in this position at Royal Ahold. Having graduated from the University of Amsterdam with a Master of Science in Politics, he started his career in HR at Shell and Unilever. He then moved on to assume various senior management positions at Ahold.

Maëlys Castella
CFO and Member of the Board of Management and the Executive Committee
(1966, French)
Maëlys Castella was Group Deputy CFO at Air Liquide before joining AkzoNobel in 2014. She gained an Engineering degree at Ecole Centrale Paris. She also has a Master's degree in Energy Management & Policy from the University of Pennsylvania and the French Institute of Petroleum. Her early career included finance roles in the oil and gas industry.

Ton Büchner
CEO and Chairman of the Board of Management and the Executive Committee
(1965, Dutch)
Prior to joining AkzoNobel, Ton Büchner was President and CEO of Sulzer Corporation. An engineer by training, he gained a Master of Science in Civil Engineering at Delft University of Technology in the Netherlands, and a Master in Business Administration from IMD in Lausanne. His early career in the oil and gas construction industry involved roles at Allseas Engineering and AkerKvaerner.

Sven Dumoulin
General Counsel and Member of the Executive Committee
(1970, Dutch)
Sven Dumoulin joined AkzoNobel as General Counsel in 2010 and holds a PhD in Law from the University of Groningen. Previously he was Group Secretary at Unilever. Outside AkzoNobel, he is a member of various legal professional associations in both the Netherlands and abroad. From 2003 to 2007, he held professorships in company law at the Universities of Groningen and Tilburg.

Conrad Keijzer
Member of the Executive Committee responsible for Performance Coatings
(1968, Dutch)
Conrad Keijzer joined AkzoNobel in 1994 as Market Development Manager for Industrial Chemicals. Since then, he has held a variety of management positions within Performance Coatings and Specialty Chemicals. These include being appointed Global Director for Automotive Plastic Coatings and serving as Managing Director for both the Packaging Coatings and Industrial Coatings businesses.

For further information please see About us > Management on akzonobel.com

From left to right:
Ruud Joosten; Werner Fuhrmann; (next to the couch) Maëlys Castella; Sven Dumoulin; (behind the couch) Marten Booisma; Ton Büchner and Conrad Keijzer (on the couch).

Statement of the Board of Management

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

We have prepared the Report 2015, and the undertakings included in the consolidation taken as a whole, in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and additional Dutch disclosure requirements for annual reports.

To the best of our knowledge:
- The financial statements in this Report 2015 give a true and fair view of our assets and liabilities; our financial position at December 31, 2015; and the result of our consolidated operations for the financial year 2015
- The management report in this Report 2015 includes a fair review of the development and performance of our businesses and the position of AkzoNobel, as well as 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 a system of governance, risk management and internal controls in our company. Consequently, the Board of Management has implemented a broad range of processes and procedures designed to provide control by the Board of Management over the company's operations. These processes and procedures include measures regarding the general control environment, such as a Code of Conduct – including business principles and a corporate complaints procedure (SpeakUp!) – corporate directives and authority schedules, as well as specific measures, such as a risk management system, a system of controls and a system of letters of representation by responsible management at various levels within our company.

All these processes and procedures are aimed at providing 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 supporting and monitoring of compliance with laws and regulations – including our Code of Conduct – a Compliance Committee has been established. The Internal Control function maintains AkzoNobel's Internal Control Framework, monitors the compliance and includes updates regarding the emergence of new risks. They support the annual review of the effectiveness of the system of governance, risk management and internal controls of the Board of Management. Internal Audit provides reasonable assurance to the Board of Management, as well as the Supervisory Board, that our system of risk management and internal controls, 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 with regards to financial reporting risks, the internal risk management and control systems:

- Provide a reasonable level of assurance that the financial reporting in this Report 2015 does not contain any errors of material importance
- Have worked properly during the year 2015

For a detailed description of the risk management system and the principal risks identified, reference is made to the Risk management chapter in the Strategic performance section, as well as the Compliance and integrity management chapter of the Governance and compliance section. We have discussed the above opinion and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

Outlook

We expect 2016 to be a challenging year. Difficult market conditions continue in Brazil, China and Russia. No significant improvement is anticipated in Europe, particularly in the Buildings and Infrastructure segment. Deflationary pressures continue and currency tailwinds are moderating.

Amsterdam, February 9, 2016
The Board of Management
Ton Büchner
Maëlys Castella

Our Supervisory Board

Antony Burgmans
(1947, Dutch)
Chairman
Initial appointment: 2006
Current term of office: 2014-2018

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 Jumbo Group Holding B.V.;
Chairman of the Supervisory Board of TNT Express N.V.

- Chairman of the Nomination Committee as of May 1, 2014
- Member of the Remuneration Committee

Sari Baldauf
(1955, Finnish)
Initial appointment: 2012
Current term of office: 2012-2016

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

- Chairman of the Remuneration Committee as of May 1, 2014
- Member of the Nomination Committee

Peggy Bruzelius
(1949, Swedish)
Initial appointment: 2007
Current term of office: 2015-2019

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

- Member of the Audit Committee

Byron E. Grote
(1948, American and British)
Initial appointment: 2014
Current term of office: 2014-2018

Non-executive Director of Tesco plc.;
Non-executive Director of Anglo-American plc.;
Non-executive Director of Standard Chartered plc.;
Former Board member BP plc.;
Former non-executive Director of Unilever N.V. and plc.

- Chairman of the Audit Committee as of April 22, 2015

Louis Hughes
(1949, American)
Initial appointment: 2006
Current term of office: 2014-2018

Former President and COO of Lockheed Martin;
Former Executive Vice-President of General Motors;
Chairman of InZeroSystems LLC;
Member of the Board of Directors of ABB group and Alcatel-Lucent SA;
Executive Advisor of Wind Point Partners.

- Member of the Audit Committee

Dick Sluimers
(1953, Dutch)
Initial appointment: 2015
Current term of office: 2015-2019

Extraordinary Councillor of State;
Member of the Supervisory Board of Atradius N.V. and NIBC Bank N.V.;
Trustee of the IFRS Foundation and Erasmus University Trust;
Board member of the Amsterdam Concert Hall Fund.

- Member of the Audit Committee

Ben Verwaayen
(1952, Dutch)
Initial appointment: 2012
Current term of office: 2012-2016

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

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

Supervisory Board Chairman's statement

The company successfully generated operational efficiencies during 2015 and made solid progress with its continuous improvement program, despite challenging market conditions. This contributed towards AkzoNobel delivering on its 2015 targets and moving closer to achieving its vision of leading market positions delivering leading performance. A notable highlight was being ranked top of our industry group on the Dow Jones Sustainability Index for the fourth year in a row.

For 2016 and beyond, the focus will shift towards hardwiring the culture of continuous improvement, continued operational excellence and organic growth.

During the year, the Supervisory Board continued to monitor and review the company's operational performance, its risk management processes and its strategic direction. Business Area performance updates were received at each Supervisory Board meeting, along with information on the most significant risks facing the businesses and corresponding mitigation measures. Specific updates from individual functions were also received throughout the year. In addition, the Supervisory Board held a full strategy day dedicated to a corporate level review, which included Business Area by Business Area analyses and a five-year forward looking outlook.

A particular strategic achievement has been the implementation of the company's Global Business Services (GBS) model, officially launched on January 1, 2016. The intention is to combine the shared activities for Human Resources, Information Management, Finance and non-product related (NPR) Procurement under one GBS organization. GBS will span Europe, North America, Latin America, North East Asia, India and South East Asia. The Supervisory Board is confident that the Executive Committee's approach in this regard will move AkzoNobel closer to its vision of operational and functional excellence and continuous improvement.

As a Supervisory Board, we are committed to the company's focus on sustainability and discussed and reviewed the sustainability performance and objectives in detail during 2015. The number one DJSI ranking in the Materials industry group for the fourth consecutive year was a major success. It was also the tenth consecutive year that AkzoNobel has been ranked in the top three. We would like to congratulate all our employees for this decade of achievement. The Supervisory Board continues to believe that a sustainable business ensures increased value for all our stakeholders, while complementing our objective of long-term success.

In October, an interim dividend of €0.35 was approved. This distribution represents an increase of 6 percent over the previous year's interim dividend. The proposed final dividend of €1.20 for the financial year 2015 represents an increase of 7 percent on last year and is a clear indication of the company's strategic success. Further details relating to the dividend are available in the Report of the Supervisory Board.

It was a year which also saw AkzoNobel implement its new Code of Conduct, which continues to reflect the company's core principles of Safety, Integrity and Sustainability. These core principles affirm what AkzoNobel stands for as a company. Evidence of how these principles have been successfully embedded can be seen across the company's performance indicators and throughout this Report 2015.

Another area of attention involved further enhancing the company's controls and processes, through the roll-out of Directives, Rules, Manuals and Guidelines via the company's Directives framework. The Supervisory Board appreciates the management's active encouragement for the use of the company's SpeakUp! procedure for reporting any (potential) compliance or conduct issues.

Fundamentally, the achievement of AkzoNobel's operational performance and objectives, including its core principles of Safety, Integrity and Sustainability, are underpinned by sound corporate governance. The Supervisory Board recognizes its own role in the company's corporate governance structure, with members receiving adequate updates, information and training to fulfill their roles. In particular, during 2015, the Supervisory Board undertook ongoing compliance training to maintain its awareness and effectiveness in ensuring compliance. You can find full details about the company's corporate governance framework, Remuneration Policy, compliance codes and systems, integrity management and details on shareholder relations in the Governance and compliance section of this Report 2015. This year the Supervisory Board and its committees also underwent a thorough independent external evaluation of their performance and effectiveness. More information on the external evaluation can be found in the Report of the Supervisory Board.

At the Annual General Meeting of shareholders held in April 2015, the Supervisory Board thanked Dr. Uwe-Ernst Bufe for his 12 years of service after he reached the end of his tenure. At the same meeting, Mr. Dick Sluimers was welcomed as a newly appointed Supervisory Board member. Mr. Sluimers was nominated following a rigorous and targeted search for candidates, undertaken via an external search agency. Mr. Sluimers brings a wealth of experience in both public and commercial enterprise, including finance and reporting expertise. He is a trustee of the International Financial Reporting Standards (IFRS) Foundation and has valuable experience as the CEO of a major pension and investment management company. Accordingly, and in recognition of his profile, the Supervisory Board has appointed Mr. Sluimers as a member of the company's Audit Committee.

Looking forward to the 2016 AGM, in accordance with the Supervisory Board's (re)appointment scheme, discussions have taken place regarding the forthcoming end of terms for Ms. Sari Baldauf and Mr. Ben Verwaayen, also against the background of the Supervisory Board's profile, the Corporate Governance Code and legal provision regarding a balanced composition of the Supervisory Board. The commitment and contributions of Ms. Baldauf and Mr. Verwaayen continue to provide significant value to the Supervisory Board and its Nomination and Remuneration Committees. Accordingly, the Supervisory Board will make a recommendation for the reappointment of Ms. Baldauf and Mr. Verwaayen.

During 2015, the Supervisory Board assessed the performance of the company's CEO, Mr. Ton Büchner, and discussed his proposed reappointment at the 2016 AGM. The Supervisory Board has been pleased with the performance of the CEO to date. Mr. Büchner continues to lead the company's Board of Management and Executive Committee in its promotion of operational and functional excellence. In light of this performance, the Supervisory Board has proposed to reappoint Mr. Büchner for an additional four-year term. Further details can be found in the report of the Nomination Committee.

Discussions on the reappointment of the CEO formed part of a strong focus on succession planning and talent management during 2015. The Supervisory Board is working to construct a diverse executive talent pool for future development and succession planning at the Board of Management, Executive Committee and top management level. More details can be found in the Report of the Supervisory Board.

In addition to executive succession planning, executive remuneration has been a topic of discussion. In 2015, the Remuneration Committee reviewed and proposed revisions to the company's Remuneration Policy. These proposals have been reviewed and supported by the Supervisory Board and will be submitted for approval at the 2016 AGM. Further information can be found in the report of the Remuneration Committee, and in the Remuneration report.

I would like to conclude by expressing my gratitude to my fellow Supervisory Board members for their commitment and diligence during 2015. Together, we would also like to thank the company's CEO, Ton Büchner, CFO, Maëlys Castella, the other members of the Executive Committee and all employees for their dedication and hard work in achieving a successful 2015.

Antony Burgmans
Chairman of the Supervisory Board

Report of the Supervisory Board

Meetings

The Supervisory Board held nine meetings during 2015. Six were plenary sessions with the full Executive Committee present for all or part of the meetings. Three meetings were held without the full Executive Committee present; the Board of Management attended seven of the nine meetings. Almost all plenary sessions of the Supervisory Board were preceded or succeeded by an executive session of the Supervisory Board, with the CEO in attendance. An attendance overview of the meetings of the Supervisory Board and its committees can be seen on this page.

Supervisory Board attendance record

The table on the right provides an overview of the attendance record of the individual members of the Supervisory Board. The Supervisory Board attaches great value to the attendance of its meetings by each Supervisory Board member. However, if Supervisory Board members are unable to attend a Supervisory Board or committee meeting, they inform the relevant Chairman, stating the reason. They also have the opportunity to discuss any agenda items with the relevant Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend.

Supervisory Board attendance record

	SB	AC	RC	NC
Antony Burgmans	9/9	–	4/4	3/3
Sari Baldauf	9/9	–	4/4	3/3
Peggy Bruzelius	9/9	6/6	–	–
Uwe-Ernst Bufe	3/3	1/2	–	–
Byron E. Grote	8/9	6/6	–	–
Louis Hughes	9/9	6/6	–	–
Dick Sliumers	6/6	4/4		
Ben Verwaayen	9/9	–	4/4	3/3

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

Supervisory Board activities 2015

Q1

- Financial statements & profit allocation
- Final dividend 2014
- Business Area reviews
- Remuneration target setting
- Strategy reviews: RD&I, Sourcing
- Risk management: Initial outcomes
- Nomination Supervisory Board candidate Mr. Sluimers
- Supervisory Board evaluation
- CEO, CFO & Executive Committee evaluation

Q2

- Review Q1 2015 financials and performance
- Business Area reviews
- Annual General Meeting 2015
- Talent management & succession planning
- Strategy reviews: Human Resources, Legal
- Strategy Day 2015: project analyses and BA strategy updates
- Review forward planning and five-year outlook
- Sustainability strategy
- Competitor analysis

Q3

- Review Q2 2015 financials and performance
- Business Area reviews
- Review dividend policy
- Country visit to Northern France including customer sessions and site visit
- Competitor analysis
- Risk management: implementation of risk mitigating measures
- New Code of Conduct and Business Partner Code
- Company strategy and Capital Markets Day

Q4

- Review Q3 2015 financials and performance
- Business Area reviews
- Interim dividend proposal 2015
- Remuneration Policy review
- Performance and budget planning
- Supervisory Board and executive succession planning
- Strategy reviews: Supply Chain, Global Business Services
- Compliance training
- Budget and operational plan 2016

Performance and budget planning

A primary aspect of the Supervisory Board's ongoing work is assessing management's performance in the pursuit of the company's targets and objectives. During the year, the Supervisory Board's work in performance assessment included the review and discussion of the company's performance at each Supervisory Board meeting. These meetings also undertook in-depth Business Area by Business Area performance reviews and received updates on forward-looking targets.

In 2015, the Supervisory Board took particular note of the company's improved performance and successes to date, including its focus on cost reductions through operational excellence and continuous improvement. Accordingly, the Supervisory Board resolved to propose an increased dividend for the year 2015. Further details on the 2015 dividend proposal are provided in the "Financial statements and profit allocation" paragraph.

The Supervisory Board's ongoing assessment of the company's performance during the year provided a basis for its discussions on the forward-looking budget and operational plan. Both the proposed budget and operational plan for 2016 were provided by the Board of Management for Supervisory Board's review and analysis during the final quarter of the year. The budget and plans were assessed in the light of the company's performance to date and in the context of the five-year outlook, which was discussed as part of the Supervisory Board's strategic reviews. Following in-depth discussions, the Supervisory Board has approved the proposed budget and operational plan for 2016.

Strategy reviews

Throughout the year, the Supervisory Board reviewed the company's strategy and risks, as well as its implementation and embedding of operational and functional excellence. In doing so, the Supervisory Board undertook a high level review of operational and commercial strategy, including the company's five-year outlook. It supplemented these high level discussions with detailed functional reviews and Business Area action plan updates and analyses. Throughout the year, the Supervisory Board's strategy reviews included a full Strategy Day, analysis of potential project options under management consideration, and functional discussions on Research, Development and Innovation, Integrated Supply Chain, Legal, Human Resources, Global Business Services and Sustainability. Furthermore, the three Executive Committee members with Business Area responsibilities provided regular updates to inform the Supervisory Board on health, safety and environmental matters, in-depth competitor analyses, ongoing projects and year-to-date financials.

The Supervisory Board would like to draw particular attention to the company's Global Business Services (GBS) implementation. Since 2013, the Supervisory Board has been monitoring the company's implementation of process and tool standardization, and alignment of the organization towards shared service centers, centers of expertise and business partners. The Supervisory Board has recognized the success of this initiative in reducing general and administrative costs.

In 2015, these programs culminated in the company's announcement that it will transfer shared service activities to Global Business Services as of January 2016. This transfer will combine the shared activities for Human Resources, Information Management, Finance and non-product related (NPR) Procurement under one organization. GBS will span Europe, North America, Latin America, North East Asia, India and South East Asia. The Supervisory Board is confident that the Executive Committee's approach in this regard will move AkzoNobel closer to the vision of operational and functional excellence and a platform for continuous improvement.

Sustainability strategy

The Supervisory Board lends particular importance to sustainability in its discussions on strategy and performance. Sustainability continues to represent a core principle of the business, a guideline for how the company conducts itself and an indicator of what AkzoNobel stands for. The company has a Sustainability Council which is led by the CEO and advises the Executive Committee on sustainability developments. More information can be found in the Governance and compliance and Sustainability statements sections of this Report 2015. The Supervisory Board reviews sustainability performance and seeks to ensure that both the Business Areas the functional management – teams such as Procurement, Supply Chain, and Research, Development and Innovation – have objectives that complement, support and engrain the sustainability principles. AkzoNobel's sustainability strategy is therefore a cross-Business Area, cross-functional program, taking into account the most important sustainability trends in the company's four key end-user segments and touching on all aspects of its business. During 2015, the Supervisory Board reviewed the company's performance indicators for safety performance, eco-efficiency and employee engagement, including diversity, inclusion and talent management. We focus on these performance indicators because the company's current sustainability strategy is based on identifying opportunities for value creation through resource efficiency, innovation, employee engagement and the continued integration of sustainability at all stages of the value chain.

This approach has been paramount in AkzoNobel's achievement of its status as an industry leader in sustainability and the Supervisory Board wishes to acknowledge the company's success in maintaining its number one position for the fourth consecutive year in the Materials industry group on the Dow Jones Sustainability Index. This is the tenth year in which AkzoNobel has been ranked in the top three and represents a decade of achievement in implementation of its sustainability initiatives. The Supervisory Board supports the continuation of these achievements through the 2020 sustainability strategy and the Planet Possible agenda, which is fully focused on creating more value from fewer resources and ultimately, the achievement of long-term sustainable business.

Risk management

In addition to reviewing and discussing the strategic direction of the company, the Supervisory Board takes steps to assure itself of the appropriate awareness of risks facing the company and to assess the adequacy of the controls in place to mitigate those risks. The company maintains a risk management framework and a system of internal controls under the auspices of the Board of Management and Executive Committee. In 2015, the company's enterprise risk management function undertook enterprise risk management workshops, the results of which were prioritized and presented to the Supervisory Board as scenarios. The Supervisory Board uses these scenarios to assess the company's risk environment and to contribute to the definition of appropriate control and mitigating measures for the top risks facing the company. Subsequently, feedback on the progress of risk mitigating actions that result from these discussions is also provided to the Supervisory Board at subsequent Supervisory Board meetings. Further details are included in the Risk management chapter in the Strategic performance section.

Country visit

The Supervisory Board continues to supplement its analyses and discussions with in-depth operational and Business Area reviews. In September, the Supervisory Board, accompanied by the Executive Committee, undertook its annual visit to one of AkzoNobel's international locations. This year the decision was taken to visit AkzoNobel's operations in France. The agenda for the visit included visits to key customers in the region, relevant Decorative Paints stores, and the Decorative Paints site in Montataire. The visit was an opportunity to address and discuss some of the issues faced by the business directly with the local and regional management and employees. In addition, updates from the Performance Coatings and the Specialty Chemicals Business Areas in the region were presented. Broader topics such as industry developments, forecasts and the macro-economic outlook for the region were addressed as well.

Talent management and succession planning

Talent management has been a strong focus for the Supervisory Board in 2015. Throughout the year, the Supervisory Board discussed and undertook detailed analysis of executive succession planning. A talent pool was defined for the purposes of senior level talent development and executive level succession. This talent pool will be monitored and taken forward in the future work of the Nomination Committee, and of the full Supervisory Board.

During 2015, the reappointment of the CEO, Mr. Büchner, was discussed. Mr. Büchner's current four-year term of office will expire in 2016. The Supervisory Board reviewed and discussed Mr. Büchner's continued performance in leading the Board of Management and Executive Committee, the company's management and performance in the pursuit of its defined strategic objectives. The Supervisory Board is satisfied with Mr. Büchner's performance as CEO and feels that the company's current strategy of pursuing operational and functional excellence should be maintained. As a result, the Supervisory Board, following the recommendation of the Nomination Committee, has proposed that Mr. Büchner be nominated for reappointment as CEO at the forthcoming 2016 AGM.

In 2015, the Supervisory Board discussed its composition and succession to ensure appropriate candidates were nominated for appointment and succession at the AGM. These discussions were oriented around recommendations made by the Nomination Committee.

The work of the Nomination Committee led to the identification and recommendation of Mr. Grote for appointment as Audit Committee chairman during the year and the nomination of Mr. Sluimers as a candidate for Supervisory Board membership. Mr. Sluimers' profile is one of senior management and leadership in (among other industries) public and private sector finance and his appointment was approved by the AGM in April. His experience in financial reporting led the Supervisory Board to appoint Mr. Sluimers as an Audit Committee member.

Mr. Sluimers has participated in a tailored induction program covering AkzoNobel's governance, compliance and businesses. This included one-on-one meetings with the CEO, CFO and all other Executive Committee members and governance-related corporate functional directors. The Supervisory Board continued to engage in its own ongoing training during the year.

Supervisory Board evaluation

Each year, the Supervisory Board undertakes an assessment of its effectiveness. This is normally done through an internal evaluation of its performance, those of its individual members, its Audit Committee, its Remuneration Committee and its Nomination Committee. Once every three years, instead of an internal evaluation, the Supervisory Board undergoes an independent external assessment facilitated by a specialist.

In 2015, the Supervisory Board underwent this external assessment of performance with regard to the year 2014. The approach to the assessment was two-fold: all members of the Supervisory Board were asked to complete a questionnaire; subsequently, a personal interview was conducted with each individual by an external consultant, using the results of the questionnaire as a platform for a more in-depth discussion regarding the effectiveness and performance of the Board, its committees, the Chairman and the chairmen of the relevant committees.

Items addressed during the evaluation were overall performance and composition of the Supervisory Board, the Audit Committee, the Nomination and Remuneration Committees, strategic issues and key areas for 2015. Other points discussed were the nature and impact of discussions, meeting processes and procedures, strategy review and oversight, risk management and internal control, talent management and succession planning.

Following the evaluation process, the Supervisory Board discussed the results of the evaluation and the functioning of the Supervisory Board, the Board of Management, the

Executive Committee and the performance of their individual members. The Supervisory Board invited the Board of Management to join part of the evaluation discussion. These discussions were led by the independent external consultant and recorded. Conclusions and actions were discussed and approved.

We are pleased to confirm that our external evaluation concluded that the Supervisory Board and its committees operate effectively. In particular, the evaluation found that the Supervisory Board composition, and that of its committees, consists of a good mix of competencies and experienced professionals who deal with key areas of supervision in an appropriate manner. The evaluation was positive about the competence and capabilities of the Supervisory Board Chairman and those of the committees' chairmen. Certain areas for improvement were identified. These improvement areas will be taken forward in 2016.

Financial statements and profit allocation

The financial statements of Akzo Nobel N.V. for the financial year 2015 were audited by KPMG Accountants N.V. The Board of Management submitted the report and financial statements, including the report of the Board of Management, and the management letter of the external auditor to the Supervisory Board for review and approval.

The financial statements, the report and management letter of the external auditor were discussed by the Audit Committee extensively with the external auditors, in the presence of the CEO and CFO, and by the full Supervisory Board with the Board of Management and the General Counsel. Based on these discussions, the Supervisory Board is of the opinion that the 2015 financial statements of Akzo Nobel N.V. form a good basis to account for the supervision provided (see the Financial information section). The Audit Committee monitors the follow-up by management of the recommendations reported by the external auditor.

The Supervisory Board recommends that the AGM adopts the financial statements as presented in this Report 2015 and, as proposed by the Board of Management, approve the proposed total dividend for 2015 of €1.55 per common share outstanding. This represents an increase of 7 percent over the previous year and demonstrates our commitment to the company's aim of providing a stable to rising dividend. It is proposed that this amount, less the interim dividend of €0.35 per common share – which was paid in November 2015 – be made payable on May 19, 2016. The dividend will, at the shareholders' discretion, be paid either in cash or in shares. In addition, we request that the AGM discharges the members of the Board of Management from their responsibility for the conduct of business in 2015 and the members of the Supervisory Board for their supervision in 2015.

Audit Committee

Mr. Hughes operated as Audit Committee chairman ad-interim until the appointment of Mr. Grote as permanent Audit Committee chairman during 2015. The other members of the Audit Committee during the year were Mrs. Bruzelius and, following his appointment to the Supervisory Board at the AGM in April, Mr. Sluimers. All members of the Audit Committee have extensive accounting and financial management expertise. The Audit Committee held six meetings during 2015. The attendance record of the members can be seen in the previous attendance chart. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings. Occasionally, the Chairman of the Supervisory Board and other Supervisory Board members upon their request, attended Audit Committee meetings as well.

Review of Audit Committee charter

As part of its annual review of the Audit Committee charter, the Audit Committee proposed an amendment to expressly formalize the Audit Committee's involvement in supervising the activities of the Board of Management with respect to information and communication technologies in use by the company. The amendments were proposed and approved by the full Supervisory Board.

Results and financial statements

Before each publication of the quarterly results and the annual financial statements, the Audit Committee reviewed the financial results. In addition, the Audit Committee was consulted on the reports and press releases to be published, along with those issues reviewed by the company's Disclosure Committee. Based on these discussions, advice was provided by the Audit Committee to the Supervisory Board in regard to the publications and disclosures. Approval of the full Supervisory Board is required ahead of any quarterly or annual release of financial results.

Audit Committee activities 2015

Q1	Q2	Q3	Q4
• Review Q4 financial statements and annual results • Review annual report and accounts • External audit report • Review governance risk management and internal control • Final dividend 2014 • Sustainability and HSE audit findings • Review of Audit Committee charter • Audit Committee evaluation • Review full-year compliance report	• Review Q1 2015 financial statements • Engagement of external auditor • Appoint Audit Committee Chairman • Review compliance report • Review year-to-date audit findings • Strategy reviews Treasury and Tax • External audit plan 2015 • Transition plan for handover audit work of KPMG to PWC	• Review Q2 2015 financial statements • Post CAPEX project reviews • Review updates to IFRS and corporate governance standards • Review compliance cases to date • Strategy review for Information Management function • Review cyber security • Review intangible assets	• Review Q3 2015 financial statements • Post CAPEX project reviews • Review compliance cases year-to-date • Hardclose report of the external auditor • Review 2015 outlook and budget 2016 • Review audit findings year-to-date • Internal audit plan 2016 • Dividend direction review • Introduction PwC lead and key partner

In order to ensure its effectiveness and expertise, the Audit Committee is provided regular updates on IFRS developments and the anticipated impact of these developments on the financial statements. In addition, the Audit Committee was briefed on management assertions made in regard to relevant accounting treatments.

Governance, risk management and internal control systems

The Audit Committee reviewed AkzoNobel's overall approach to governance, risk management and internal control systems, its processes, outcomes and disclosures.
It reflected on the uncertain market conditions in Europe, the slowdown in emerging markets, the impact of restructuring and discussed contingency planning.

In addition, the Audit Committee reviewed the annual operational plan (including budget) and AkzoNobel's dividend proposals. On fulfilling its oversight responsibilities in relation to governance, risk management and internal control systems, the Audit Committee met regularly with senior executives. The General Counsel reported regularly to the Audit Committee on the company's compliance framework and compliance matters and activities, and on major litigation and liability exposure. The Internal Auditor reported to the Audit Committee on their assessment of the status of the system of governance, risk management and internal controls throughout 2015.

Internal audit plan

The Internal Auditor reports to the CEO, but also directly to the Audit Committee and presents all main audit findings. The Audit Committee reviewed the internal audit plan, risk assessment and strategy and agreed upon its budget and resource requirements. The evaluation of the performance and quality of the Internal Audit function by the external auditor was discussed, with members being satisfied with the effectiveness of the function. The Audit Committee met independently with the Internal Auditor during the year and discussed the results of the audits performed.

External audit report

KPMG Accountants N.V., AkzoNobel's external auditor, reported in-depth to the Audit Committee on the scope and outcome of the annual audit of the financial statements, including the consolidated financial statements and the company financial statements.

The Audit Committee held independent meetings with the external auditor during the year and reviewed and challenged the external auditor's approach to auditing the company, engagement letter, fees, risk assessment and audit plan. Other topics discussed included:

- The hard close which was discussed with the intention of improving efficiency of the year-end process and to highlight important issues for the annual financial statements. AkzoNobel performed a hard close as of October 31, 2015. Aligned with this, the external auditor performed certain procedures in respect of the financial outcomes as of the same date
- The quality of external audit
- Impact of new accounting rules

The Audit Committee performed the annual review of the services of the external auditor, and continues to closely monitor international discussions on auditor independence. Despite the 2015 revision by the European Union allowing for a longer period prior to the mandatory first rotation year, the April 2014 AGM's decision to appoint PWC as external auditor as of the review of the 2016 financial statements will be maintained. Further details on the external auditor can be found in the Governance and compliance section.

Audit Committee evaluation

Every year the Audit Committee undergoes an annual evaluation of its effectiveness and performance. In general, this process involves the Audit Committee undertaking a self-evaluation of its performance in conjunction with the Supervisory Board. Once every three years, the Audit Committee instead undergoes an independent external assessment of its effectiveness and performance facilitated by a specialist.

In 2015, the Audit Committee underwent this external evaluation of its effectiveness and performance with regard to the year 2014. As with the process adopted for the Supervisory Board as a whole, the evaluation consisted of a questionnaire completed by Audit Committee members with a subsequent personal interview between each member and an external consultant. Results of the evaluation were subsequently reviewed by the Audit Committee and the Supervisory Board.

The Audit Committee is pleased to confirm that the results of the evaluation were such that the Audit Committee was found to be operating effectively. The evaluation determined that Audit Committee discussions are appropriately focused and that the Audit Committee's composition provides a good framework for new impetus and discussion. The reporting of matters by the Audit Committee to the Supervisory Board was similarly found to be clear and adequate.

Remuneration Committee

The Remuneration Committee consists of three members and is chaired by Ms. Baldauf. The other members of the Remuneration Committee are Mr. Verwaayen and the Chairman of the Supervisory Board, Mr. Burgmans. The Remuneration Committee held four meetings in 2015. The attendance record of the members can be seen in the previous attendance chart.

Review management performance 2014

One of the key tasks of the Remuneration Committee in the first quarter of the year is the performance review of the Board of Management members and other members of the Executive Committee. The Remuneration Committee performed a thorough performance review of the CEO and, together with the CEO, of the CFO and the other Executive Committee members for the year 2014.

Review management base salaries 2015

The Remuneration Committee reviewed the base salaries and the establishment of relevant forward-looking target ranges for variable remuneration for Board of Management members and other members of the Executive Committee. Proposals for the remuneration of Executive Committee members were reviewed and discussed with the CEO. Information on the remuneration of the Board of Management and the Supervisory Board can be found in the Remuneration report and in Note 21 of the Consolidated financial statements.

Remuneration Policy review

In 2015, the Remuneration Committee reviewed the Remuneration Policy to assess whether it was still aligned with the external market and the objectives of the company. Following these discussions, the Remuneration Committee's recommendations have been provided to the Supervisory Board.

For further details, reference is made to the Remuneration Report.

Remuneration Committee evaluation

The Remuneration Committee's evaluation of performance and effectiveness undertaken during 2015 forms part of the overall Supervisory Board evaluation. Once every three years, this takes the form of an independent external assessment of the Remuneration Committee's effectiveness and performance facilitated by a specialist.

In 2015, the Remuneration Committee underwent this external evaluation of its effectiveness and performance with regard to the year 2014. As with the process that was adopted for the Supervisory Board as a whole, the evaluation consisted of a questionnaire, followed by a personal interview with an external consultant. Results of the evaluation were subsequently reviewed by the Remuneration Committee and the Supervisory Board.

The 2015 evaluation of the performance and effectiveness of the Remuneration Committee found that the Remuneration Committee is operating effectively and highlighted certain areas for improvement which will be taken forward in 2016.

Remuneration Committee main 2015 activities

Q1	Q2 & Q3	Q4
• Review of management performance 2014 • Target setting 2015 • Review of management base salaries for 2015 • 2014 Remuneration report • Remuneration Committee evaluation	• Review remuneration strategy (including LTI and STI plans) • Remuneration Policy review	• Forward-looking 2016 target-setting • Detailed scenario analysis • Remuneration Policy review

Nomination Committee

The Nomination Committee consists of three members and is chaired by Mr. Burgmans. The other two members are Ms. Baldauf and Mr. Verwaayen. The Nomination Committee held three meetings in 2015. The attendance record of the members of the Nomination Committee can be seen in the previous attendance chart.

Talent management and executive succession

During the year, the Nomination Committee took time to address the structure and composition of the Board of Management. 2016 will see the end of the current term of office for the company's CEO, Mr. Büchner, and accordingly the Nomination Committee has reviewed, assessed and discussed the performance of Mr. Büchner and the adequacy of his nomination for reappointment for a further four-year term as CEO at the AGM 2016.

To facilitate its discussions on the topic of executive succession planning generally, the Nomination Committee was presented with talent management updates from Human Resources. In 2015, the Supervisory Board and the Nomination Committee worked to define and identify a talent pool which can be called upon for the purposes of executive succession planning in the future and this will continue in 2016.

Supervisory Board succession

An additional aspect of the Nomination Committee's work is reviewing the appointment schedule for the Supervisory Board itself and making relevant recommendations accordingly.

Early in 2015, the Nomination Committee discussed the size, structure and composition of the Supervisory Board in order to determine appropriate criteria for the selection of candidates for Supervisory Board membership. An external search agency was engaged for the fielding of candidates for succession and nomination to the Supervisory Board. The agency employed a rigorous search process after first gaining a thorough understanding of the culture of AkzoNobel, its strategic ambitions, the specific leadership roles and competencies needed to meet those ambitions. Based on the results of these Nomination Committee discussions and the work of the external search agency, the Nomination Committee was able to recommend to the Supervisory Board the nomination of Mrs. Bruzelius for reappointment at the AGM 2015 and the nomination of Mr. Sluimers as a new Supervisory Board member at the same meeting.

During 2015, the Nomination Committee addressed the forthcoming end of the terms of office for both Ms. Baldauf and Mr. Verwaayen. For both Ms. Baldauf and Mr. Verwaayen this will be the end of their first term. In accordance with the Supervisory Board's Rules of Procedure, both Ms. Baldauf and Mr. Verwaayen are eligible to be reappointed. It is felt that Ms. Baldauf and Mr. Verwaayen continue to contribute their expertise constructively to the work of the Supervisory Board. Accordingly, the Nomination Committee has addressed relevant recommendations to the Supervisory Board.

Nomination Committee evaluation

As with the Remuneration Committee, the Nomination Committee undergoes an annual evaluation of its effectiveness and performance as part of the Supervisory Board evaluation. Once every three years, this takes the form of an independent external assessment of the Nomination Committee's effectiveness and performance facilitated by a specialist.

In 2015, the Nomination Committee underwent this external evaluation of its effectiveness and performance with regard to the year 2014. As with the process that was adopted for the Supervisory Board as a whole, the evaluation consisted of a questionnaire, followed by a personal interview with an external consultant. Results of the evaluation were subsequently reviewed by the Nomination Committee and the Supervisory Board.

This evaluation found that the Nomination Committee continues to operate effectively and highlighted certain areas for improvement which will be taken forward in 2016.

Nomination Committee main 2015 activities

Q1	Q2 & Q3	Q4
• Supervisory Board profile review • Supervisory Board succession: Identification and nomination of Mr. Sluimers for appointment to the Supervisory Board • Nomination Committee evaluation	• Nomination of Mrs. Bruzelius for reappointment at the AGM 2015 • Board of Management succession planning • Review talent management • Development of talent pool	• Review Supervisory Board (re)appointment scheme • Recommendation of Ms. Baldauf for reappointment at the AGM 2016 • Recommentation of Mr. Verwaayen for reappointment at the AGM 2016 • Executive succession: Recommendation of CEO Mr. Büchner for reappointment

Additional remarks

All members of the Supervisory Board would like to express their gratitude to the Executive Committee, as well as to all employees around the world, for their dedication and hard work for the company in 2015.

Amsterdam, February 9, 2016
The Supervisory Board

Millions of satisfied customers

Today's busy lifestyles often mean we have to eat and drink on the go. Good thing we're a leading global supplier of coatings and inks for the essential protection and decoration of beverage, food, aerosol and general line cans.

Governance and compliance

In this section, we outline our corporate governance structure and explain the remuneration of our Board of Management. Information about compliance and integrity management and AkzoNobel on the capital markets is also included.

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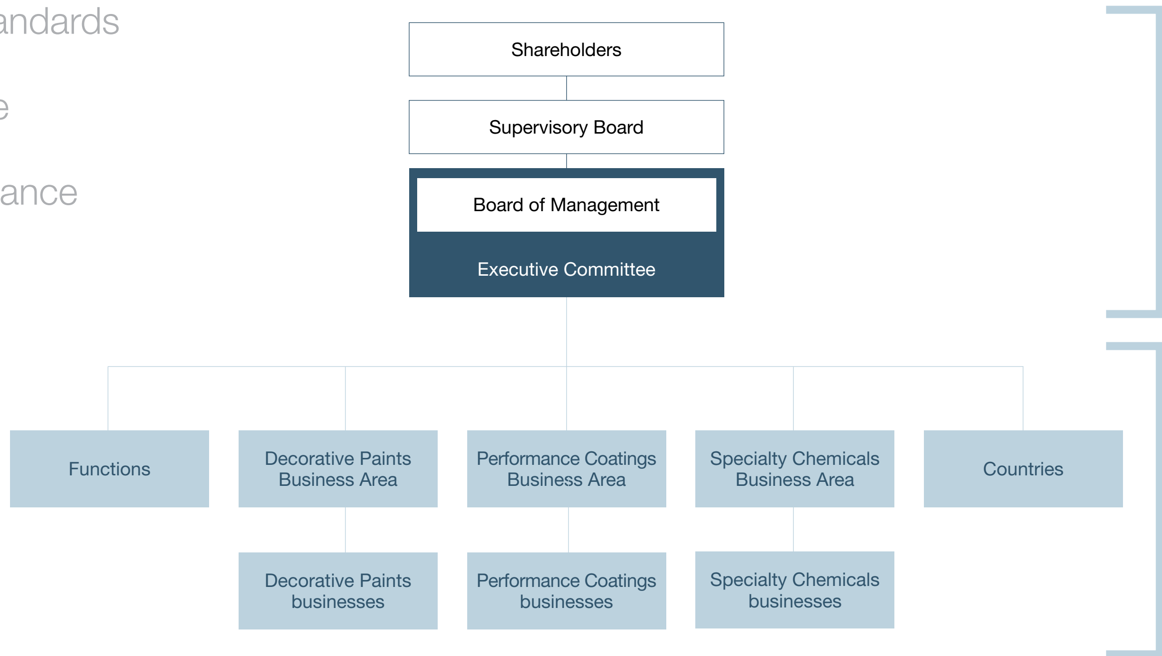
Corporate governance statement

AkzoNobel aspires to the highest standards of corporate governance and seeks to consistently enhance and improve corporate governance performance, emphasizing transparency in accordance with applicable laws, regulations and codes.



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

The company's management and supervision is organized under Dutch law in a so-called two-tier system, comprising a combined Board of Management and Executive Committee, solely composed of executive members, and a Supervisory Board, solely composed of non-executive directors. The Supervisory Board supervises the Board of Management and Executive Committee, and ensures a strong external presence in the governance of the company. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders (AGM) for the performance of their functions.

Our corporate governance framework is based on the company's Articles of Association, the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code (the Code), and all applicable laws and regulations, including securities laws. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code are explained in accordance with the Code's "apply or explain" principle. With the exception of those aspects of our governance which can only be amended with the approval of the AGM, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied, if this is considered to be in the interests of the company. If adjustments are made, they will be reported and explained in the annual report for the relevant year.

The Board of Management and Executive Committee have established a Code of Conduct, directives, rules, guidelines and manuals incorporated in the company's Directives Framework, in order to drive governance, consistency and functional excellence throughout the company.

Board of Management and Executive Committee

General

The Board of Management is entrusted with the management of the company. It operates in the context of an Executive Committee. The Executive Committee comprises the members of the Board of Management, (currently the Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), the leaders of each Business Area and leaders with functional expertise, allowing both the functions and the Business Areas to be represented at the highest level in the organization. The functions currently represented in the Executive Committee directly are Finance, Human Resources and Legal.

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

The members of the Board of Management remain jointly and individually accountable for all decisions made by the Executive Committee. All Executive Committee decisions require a majority of the members of the Board of Management. The Board of Management can at all times decide to reserve decisions for the Board of Management.

The Board of Management is accountable for its performance to the Supervisory Board. The Board of Management is also answerable to the shareholders of the company at the AGM. The Executive Committee members who are not also a member of the Board of Management report to the CEO.

The Supervisory Board has regular direct interaction with all members of the Executive Committee and all Executive Committee members attend a major part of most Supervisory Board meetings.

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

The tasks and responsibilities and internal procedures of the Board of Management and Executive Committee are set out in the Rules of Procedure for the Board of Management and Executive Committee. These rules have been approved by the Supervisory Board and are available on the company's website.

Authority to represent the company is vested in the two members of the Board of Management acting jointly. This includes the signing of documents. The Board of Management has also delegated a level of authority to corporate agents, including the other members of the Executive Committee. The list of authorized signatories is filed with the public registry and is available on request from the Dutch Chamber of Commerce (Kamer van Koophandel).

The managing directors of our businesses, the corporate functional directors in charge of the different functions and the country directors report to individual Executive Committee members with specific responsibility for their activities and performance.

Appointment

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

Members of the Board of Management are appointed for four-year terms (or less), with the possibility of reappointment.

As described later in this section, 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. However, as the company subscribes to the principles of the Code in general, members of the Supervisory Board and the Board of Management are (with the exception of those circumstances described later in this section), appointed on the basis of non-binding nominations by the Supervisory Board. In such cases, resolutions to appoint a member of the Supervisory Board or the Board of Management will require a simple majority of the votes cast by shareholders.

In addition, under certain conditions specified in the Articles of Association, shareholders may also be entitled to nominate Supervisory Board or Board of Management members for appointment. Such nominations require a two-thirds majority, representing at least 50 percent of the outstanding share capital in order to be adopted at a General Meeting.

Outside directorships

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

Conflicts of interest

Members of the Board of Management and the other members of the Executive Committee shall not participate in the discussions and decision-making on a subject or transaction in relation to which they have a conflict of interest with the company. Decisions to enter into transactions under which members have conflicts of interest that are of material significance to the company – and to the relevant Board of Management or Executive Committee members – require the approval of the Supervisory Board. Any such decisions involving members of the Board of Management will be recorded in the annual report for the relevant year, with reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. During 2015, no transactions were reported under which a member of the Board of Management or Executive Committee had a conflict of interest that was of material significance to the company.

Remuneration

In line with the remuneration policy adopted by the AGM, the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. The Supervisory Board decides on the remuneration of the other members of the Executive Committee on the proposal of the CEO. The composition of the remuneration of Board of Management members, as well as the remuneration policy itself, are described in the Remuneration report and the Consolidated financial statements (see Note 21). The service contracts of the members of the Board of Management do not contain change of control provisions and are compliant with the Code. The main elements of these contracts are available on our corporate website.

Operational Control Cycle

To facilitate efficient management and oversight of operations, the Board of Management and Executive Committee have established an Operational Control Cycle, which is conducted once per month. For each Business Area, the Operational Control Cycle consists of Operational Review Meetings comprising of the CEO, the CFO, the General Counsel and the relevant Business Area's leadership. These meetings provide a forum for operational review and decision-making on subjects relevant to the Business Areas. The functional agendas of Sustainability and HSE, Human Resources, Commercial Excellence, Integrated Supply Chain and Research, Development and Innovation are discussed twice per year in these meetings. In addition, Functional and Country Review Meetings are held monthly to review upcoming proposals and progress on the functional and country agendas.

Executive Committee meetings are usually held once per month following the Operational Review Meetings and Functional and Country Review Meetings, while additional meetings are held to discuss strategic and specific other topics.

The Executive Committee has delegated authorities to those Executive Committee members responsible for each Business Area, to the Operational Review Meetings of each Business Area and to certain committees.

Committees

Sustainability Council

The Executive Committee has established a Sustainability Council to advise on sustainability developments. The council monitors the integration of sustainability into management processes and oversees the company's sustainability targets and overall sustainability performance. The council is chaired by the CEO and includes members of the Executive Committee, Managing Directors from our businesses and Corporate Directors of Strategy, Human Resources, Sustainability and HSE, Integrated Supply Chain/ Research, Development and Innovation, Procurement, and Communications.

Progress regarding sustainability objectives, development, target-setting and implementation is reviewed quarterly by the Executive Committee, semi-annually by the Supervisory Board, and is verified annually by KPMG Sustainability (part of KPMG Advisory N.V.). The Audit Committee takes an active role in assessing the quality and reliability of sustainability performance reporting. Our sustainability framework is further explained in the Sustainability statements.

Corporate Compliance Committee

The company has a Compliance Committee to support the Executive Committee with its responsibility in assuring and managing compliance, and with its reporting to the Supervisory Board. The Corporate Compliance Committee systematically identifies material compliance risks, assists in assurance of compliance with laws, regulations and ethical standards, monitors compliance and reports findings and recommendations to the Executive Committee. The Corporate Compliance Committee consists of the General Counsel (chair), Corporate Secretary, and Corporate Directors of Internal Audit, Control, Compliance, Human Resources (HR) and Sustainability and HSE. Other members may be added to the Committee at the discretion of the Executive Committee.

AkzoNobel has a company-wide compliance monitoring tool in place to discuss and monitor progress with respect to compliance-related issues. More detail on the compliance and integrity management system, including the so-called Non-financial letter of representation process, is available in the Compliance and integrity management chapter.

Executive Committee Pensions

The Executive Committee Pensions oversees the general pension policies of the various pension plans of the company and their financial consequences for the company. The committee is chaired by the CFO and includes the Executive Committee member responsible for HR, the General Counsel, the Treasury function, and Rewards.

Supervisory Board

General

This section provides an overview of the responsibilities and governance of the Supervisory Board of AkzoNobel. For an understanding of the activities of the Supervisory Board over the past year, please refer to the Chairman's statement and the Report of the Supervisory Board. The responsibility of the Supervisory Board is to supervise the policies adopted by the Board of Management and the Executive Committee and to oversee the general conduct of the business of the company. In practice, this means supervising the corporate strategy, the achievement of the company's operational and financial objectives, the design and effectiveness of the internal risk management and control systems, the main financial parameters, compliance with applicable laws and regulations and risk factors. The Supervisory Board advises the Board of Management and Executive Committee, while taking into account the interests of AkzoNobel and its stakeholders. Major investments, acquisitions and functional initiatives are subject to Supervisory Board approval.

The Chairman of the Supervisory Board determines the agenda, chairs Supervisory Board meetings and the Annual General Meeting of shareholders, monitors the proper functioning of the Supervisory Board and its committees, arranges for the adequate provision of information to its members and acts on behalf of the Supervisory Board as the main contact for the Board of Management and Executive Committee. He initiates the evaluation of the functioning of the Supervisory Board, its committees, its individual members and the functioning of the Board of Management. Throughout the year, the Chairman of the Supervisory Board ensures that regular updates on AkzoNobel's businesses, legal matters, social and corporate governance, environmental, accounting, investor relations, compliance, risk management and internal controls are provided to the Supervisory Board.

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

Composition

The list of Supervisory Board members, including their biographies, can be found in the Leadership section. The Supervisory Board is constituted in a balanced manner to reflect the nature and variety of the company's businesses, their international spread and expertise in fields such as finance, economic, Information Technology (IT), societal, environmental and legal aspects of business, government and public administration. Consequently, the current members have a diverse and appropriate mix of expertise and experience of the markets in which AkzoNobel operates, as well as knowledge of different markets and non-operational areas.

According to the Dutch Civil Code, a supervisory board of a large Dutch public company has a balanced composition if it consists of at least 30 percent female and at least 30 percent male members. The current composition of the Supervisory Board is such that two of its seven members are female, resulting in a composition of 28.6 percent female members. However, in compliance with provision III.3.1 of the Code, the Supervisory Board's composition reflects both society at large and the markets in which the company operates – by ensuring that at least three members meet the diversity criteria of either gender (female) and/or nationality (outside of the European Union). AkzoNobel acknowledges that gender is one part of diversity and Supervisory Board members will continue to be selected on the basis of their wide-ranging experience, background, skills, knowledge and insight. Our Supervisory Board represents five nationalities, all of whom bring experience from a diverse range of international business, professional and non-profit organization backgrounds. When nominating and selecting new candidates for the Supervisory Board in future, the requirements of the Act on Management and Supervision, as well as provision III 3.1 of the Code, will continue to be taken into account.

Appointment

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures identical to those previously outlined for the members of the Board of Management. In accordance with the Code, members of the Supervisory Board are eligible for re-election only twice, each time for a period not exceeding four years. Terms of appointment are based on a rotation schedule, available on our corporate website. In 2015, one appointment and one reappointment to the Supervisory Board were proposed to and approved by the AGM. For 2016, two reappointments are currently scheduled for proposal to the AGM. Reference is made to the Notice of meeting.

Induction and training

Following appointment to the Supervisory Board, new members receive a comprehensive induction tailored to their individual needs. This includes extensive briefings about all major business and functional aspects of the company and its corporate governance and compliance requirements. The induction includes meetings with the CEO, the CFO, all other Executive Committee members and relevant members of staff. This enables new Supervisory Board members to build up an understanding of AkzoNobel's businesses and strategy, as well as the key risks and issues the company faces. In addition, the Chairman ensures the Supervisory Board is provided with regular updates and that the Supervisory Board undertakes training, for example in the area of compliance and ethics.

Independence of the Supervisory Board

Supervisory Board members are required to act critically and independently of one another, the Board of Management and the Executive Committee and the company's stakeholders. Each member of the Supervisory Board meets the independence requirements as stated in the Code provisions III.2.1 and III.2.2 and has completed the annual independence questionnaire addressing the relevant requirements for independence.

To this end, the company takes steps to verify that:

- There are no cross ties between Supervisory Board members and members of the Board of Management
- There have been no employment relationships between Supervisory Board members and AkzoNobel during the five years preceding their last appointment
- No personal financial compensation has been paid, other than in relation to work as a Supervisory Board member
- No Supervisory Board member has had important business relationships with the company in the year prior to their last appointment
- There are no significant shareholding ties (amounting to more than 10 percent of the share capital of the company) between Supervisory Board members and the company

Conflict of interest

Members of the Supervisory Board shall not participate in the discussions and decision-making on a subject or transaction in relation to which they have a conflict of interest with the company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the company, and to the relevant Supervisory Board member, require the approval of the Supervisory Board. Any such decisions will be recorded in the annual report for the relevant year, with reference to the conflict of interests and a declaration that the relevant best practice provisions of the Code have been complied with. During 2015, no transactions were reported under which a member had a conflict of interest which was of material significance to the company.

Remuneration

Supervisory Board members receive a fixed annual remuneration and attendance fee, which is determined by the AGM. More information on the remuneration of the members of the Supervisory Board can be found in Note 21 of the Consolidated financial statements.

Supervisory Board Committees

The Supervisory Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. This section explains aspects of the governance and roles and responsibilities of these committees. Information on the work, composition and attendance of the Supervisory Board members at the meetings of the committees during the year is set out in the Report of the Supervisory Board.

Each committee has a charter describing its role and responsibilities, as well as the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Supervisory Board Rules of Procedure, published on the company's corporate website. The committees report on their deliberations and findings to the full Supervisory Board.

Audit Committee

The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of the accounting, reporting, risk management and internal control practices of the company, as well as the company's compliance with legal and regulatory requirements, the performance of the Internal Audit function and the qualifications, performance and independence of the external auditor. The Audit Committee has a role in assessing the quality and integrity of reporting on sustainability performance and takes an active role in reviewing the company's sustainability performance data. As a rule, the CFO, Corporate Director of Control, Corporate Director of Internal Audit and the lead partner of the external auditor attend all regular meetings. After most Audit Committee meetings, members hold a separate meeting with only the internal auditor present, and a separate meeting with only the external auditor present. In addition, there are regular meetings with only the CFO present. Other members of the Executive Committee attend as and when requested. The General Counsel reports to the Audit Committee on compliance matters at every regular Audit Committee meeting and provides a claim and liability report to the

Audit Committee once a year. The Chairman of the Audit Committee is primarily responsible for the proper functioning of the Audit Committee and reports the activities and findings of the committee to the Supervisory Board, which discusses these activities and findings when necessary. The Chairman also initiates the evaluation of the functioning of the Audit Committee and its individual members, without the members of the Board of Management being present.

Nomination Committee

The Nomination Committee focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members. The Nomination Committee assesses the size and composition of both Boards, evaluates the functioning of the individual members, makes proposals for appointments and reappointments and supervises the Board of Management on the selection of senior management. The Nomination Committee also considers nominations by the CEO of Executive Committee members who are not also a member of the Board of Management. When selecting candidates for appointment to the Supervisory Board, account is taken of the Supervisory Board profile, the diversity requirements of the Dutch Civil Code and the Code, as well as the need for knowledge of the markets in which the company operates and insights from other markets and non-operational areas.

Remuneration Committee

The Remuneration Committee is responsible for making proposals to the Supervisory Board on the Remuneration Policy for the Board of Management, for overseeing the remuneration of the individual members of the Board of Management and the remaining members of the Executive Committee, and for overseeing the remuneration schemes for AkzoNobel executives involving the company's shares. The Remuneration Committee conducts the periodic review of the performance of the members of the Board of Management and the Executive Committee. The Remuneration Committee also reviews the remuneration of the members of the Supervisory Board and prepares proposals for adjustments, if necessary.

Shareholders and the Annual General Meeting (AGM)

The Annual General Meeting of shareholders (AGM) reviews the annual report and decides on the adoption of the financial statements and the dividend proposal, as well as the discharge of the members of the Supervisory Board and the Board of Management.

The AGM also approves or adopts, among others, the following matters:

- The election of members of the Board of Management and the Supervisory Board
- The remuneration of the members of the Supervisory Board
- 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, as required by law
- The authorization of the Board of Management to issue new shares

The AGM is convened by public notice. AkzoNobel provides remote voting possibilities for its shareholders. The AGM agenda, the notes to the agenda and the procedure for attendance – including the record date and the procedure for granting a proxy to a third party – are published in advance and posted on the company's corporate website.

Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the AGM. The notes to the agenda contain relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the "one share, one vote" principle (assuming an equal par value for each class of shares). All resolutions are adopted by absolute majority, unless the law or the company's Articles of Association stipulate otherwise.

Holders of common shares in aggregate representing at least one percent of the total issued capital may submit proposals for the AGM agenda. Such proposals must be adequately substantiated and must be submitted in writing, or electronically, to the company at least 60 calendar days in advance of the meeting. The draft minutes of the AGM (in Dutch) are made available on the company's corporate website within three months of the meeting date. The final and duly signed minutes are made available on the company's website within six months after the meeting date.

Share classes

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 in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2015, a total of 248,976,428 common shares and 48 priority shares had been issued. The company has been informed that by December 31, 2015, MFS Investment Management and Causeway Capital Management each held more than 5 percent of the company's share capital.

The priority shares are held by the Foundation Akzo Nobel (Stichting 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 appointment of members of the Board of Management and of the Supervisory Board, as well as the right to approve amendments to the Articles of Association of the company.

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

The AGM held on April 22, 2015, authorized the Board of Management for a period of 18 months after that date – subject to approval from the Supervisory Board – to issue shares in the capital of the company free from pre-emptive rights, up to a maximum of 10 percent of the issued share capital or 20 percent in case of a merger or acquisition. 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.

Anti-takeover provisions and control

According to provision IV.3.11 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used. The priority shares may be considered to constitute a form of anti-takeover measure. In relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board, the Foundation Akzo Nobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company's management and policies is at stake. This may be the case if a public bid for the common shares of the company has been announced, or has been made, or the justified expectation exists that such a bid will be made, without any agreement having been reached in relation to such a bid with the company. The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued common shares of the company without making an offer. Or if, in the opinion of the Board of the Foundation Akzo Nobel, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases, the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders. The Board of the Foundation Akzo Nobel has reserved the right to make use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances.

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.

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

Auditors

The external auditor is appointed by the AGM on proposal of the Supervisory Board. The appointment is reviewed every four years and the results of this review and assessment are reported to the AGM.

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 adopted. During these meetings, the auditor discusses the outcome of the audit procedures and the reflections thereof in the auditors' report and the management letter. In particular, the key audit matters are highlighted. The auditor receives the financial information and underlying reports of the quarterly figures and is given the opportunity to comment and respond to this information.

The lead external auditor is present at the AGM and may be questioned with regard to his statement on the fairness of the financial statements.

Auditor independence and mandatory succession of audit firm

The Audit Committee and the Board of Management report their dealings with the external auditor to the Supervisory Board annually and discuss the auditor's independence. Based on auditor independence requirements, the lead auditor in charge of the AkzoNobel account is changed every seven years.

The Dutch Audit Profession Act (Wet op het accountants-beroep), requires rotation of our audit firm after the audit firm has performed the statutory audits of the company for a period of eight consecutive years. In 2015, European law was adopted which prevails over Dutch law, changing the mandatory rotation terms to five years for the lead partner and ten years for the audit firm, with an extension of the mandatory first rotation varying with the length of the tenure of the existing firm. The AGM on April 29, 2014, appointed PwC in respect of the audits of the financial statements as of 2016 and, despite a potential respite by virtue of the new European legislation, the Supervisory Board has decided not to propose a reversal of this 2014 decision to end the mandate of KPMG following the reporting on the financial year 2015.

Non-audit services

One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and monitoring of the auditors and the services they provide to the company. Pursuant to the Audit Profession Act, the auditors are prohibited from providing the company with services in the Netherlands other than "audit services aimed at providing reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board, as referred to in the reports mentioned." The company has taken the position that no additional services may be provided by the external auditor and its global network that do not meet these requirements, unless local statutory requirements so dictate. In order to anchor this in our procedures, the Supervisory Board adopted the AkzoNobel Rules on External Auditor Independence and Selection and the related AkzoNobel Guidelines on Auditor Independence. All these documents are available on the company's corporate website.

Internal Audit

The Internal Audit function is mandated to provide the Board of Management and Executive Committee and the Audit Committee with independent, objective assurance on the adequacy of the design and operating effectiveness of the internal control framework described below. The Corporate Director of Internal Audit reports to the CEO and has direct access to the Audit Committee and its Chairman. The function performs its mandate based on an independently developed risk-based audit plan, which is approved by the Audit Committee. It reports a summary of the audit findings bi-annually to the Executive Committee and the Audit Committee, which culminates in an annual assessment of the quality and effectiveness of the company's internal control systems. More information is available under Audit Committee earlier in this section.

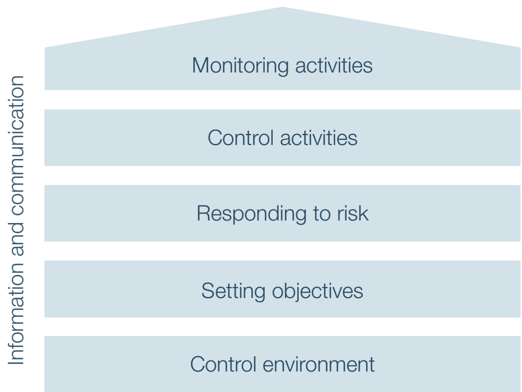
Internal controls and Risk management

Internal controls

The company has strict procedures for internal controls. The Board of Management and Executive Committee have established an Internal Control Committee to facilitate and oversee aspects of these procedures. The Internal Control Committee is responsible for maintaining the company's internal control framework. In 2015, the committee continued work on the reduction of the number of key IT systems in order to facilitate the implementation of system-embedded, automated controls. The committee also further enhanced the quality and transparency of processes and controls through the global introduction of standard ways of working, and the consolidation of activities in both outsourced and captive shared service centers.

The AkzoNobel internal control framework

The AkzoNobel internal control framework provides reasonable assurance in achieving business goals, including strategic, operational and reporting goals, in addition to those covering compliance. Internal control is not only about policies and procedures, but also relates strongly to people, culture and behaviors.



Share Dealing Rules and Rules on Disclosure Control

In accordance with Dutch law and regulations, the company maintains insider lists and exercises controls around the dissemination and disclosure of potentially price sensitive information. The Disclosure Committee monitors the disclosure procedures established by the company and advises the Executive Committee to ensure adequate and timely disclosure of material financial and non-financial information.

All employees and the members of the Board of Management, the Executive Committee and the Supervisory Board, are subject to the AkzoNobel Share Dealing Rules, which limit their opportunities to trade in AkzoNobel securities. Transactions in AkzoNobel shares carried out by Board of Management, Executive Committee and Supervisory Board members are, as and when required, notified to the Dutch Authority for the Financial Markets.

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

Risk management

Our risk management system is explained in more detail in the Strategic performance section. Reference is made to the Statement of the Board of Management in the Leadership section for the statements relating to internal risk management and control systems.

Compliance and integrity management

Integrity is one of AkzoNobel's core principles. We are committed to conducting our business in a lawful, fair and honest way and expect the same from our business partners. We aim for the highest standards suitable for our business and support this with a robust Compliance Framework.

Risk assessment

We assess compliance risks through several processes, including Enterprise Risk Management, Internal Control Self-Assessment, Non-financial letter of representation (NFLoR) and Internal Audit.

Annually, compliance risks and possible weaknesses in the compliance and control framework in every business and function are identified and discussed in the NFLoR review meeting between the business or functional leader and the responsible Executive Committee member, Director of Compliance and Legal Counsel. The outcomes of those meetings is reviewed by the CEO and the General Counsel and reported to the Executive Committee, the Audit Committee of the Supervisory Board and the External Auditor.

The outcome of these risk assessments helps to identify additional risk mitigation actions, improvement actions and strategic compliance focus areas. Based on the risk assessments over 2015 and external trends, the strategic compliance focus areas are: competition law, export control, anti-bribery, fraud, data protection, human rights and our Life-Saving Rules. These focus areas feed into the Compliance Framework and the annual plan of the Compliance function reporting to the General Counsel, and helps to ensure that the compliance activities remain risk-based and meet the needs of our operations.

Compliance Framework

Compliance governance

Corporate Compliance Committee

The Corporate Compliance Committee supports the Executive Committee in establishing, monitoring and assessing the company's Compliance Framework and with its responsibility to report to the Audit Committee of the Supervisory Board. The Corporate Compliance Committee consists of the General Counsel (chair), the Directors of Compliance, Internal Audit, Control, Human Resources and Sustainability and Health, Safety, Environment, as well as the Corporate Secretary.

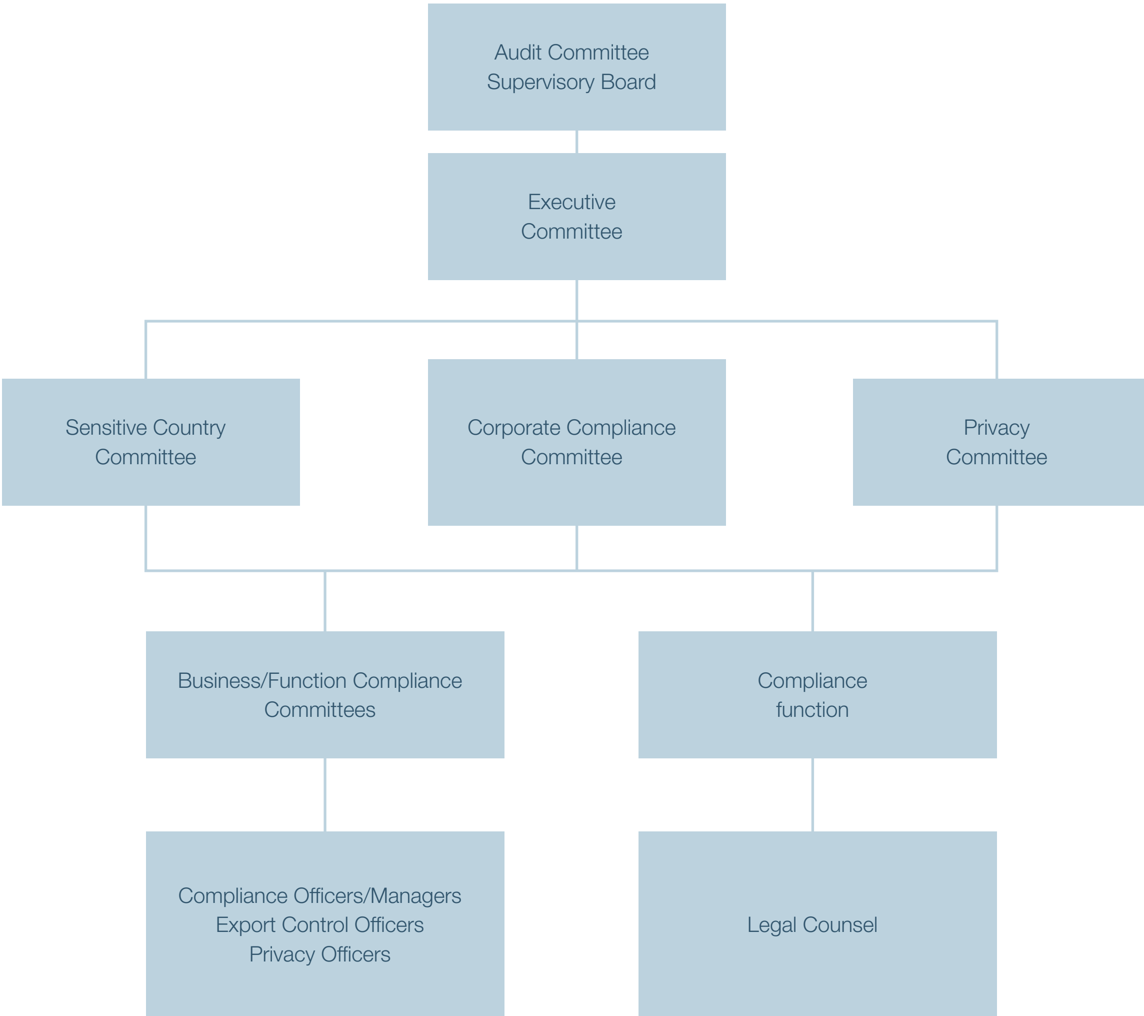
Compliance function

The Compliance function manages the Compliance Framework on behalf of the Corporate Compliance Committee. It makes the Code of Conduct and directives available, manages the compliance education program, develops and communicates rules and procedures necessary to implement compliance programs and manages and supervises investigations of compliance incidents. The Compliance function reports on compliance risks and trends, on compliance breaches and on progress in compliance programs to the Executive Committee and the Audit Committee of the Supervisory Board. Legal experts provide advice in key compliance areas, monitor developments in laws and regulations and drive change to ensure that our rules and Compliance Framework remain up to standard and are suitable for purpose.

Compliance Committees and Compliance Officers

Business and functional management is responsible and accountable for raising awareness of laws and regulations that apply to their operations and for ensuring compliance with the same. Each business and function has a Compliance Committee and a Compliance Officer. The Compliance Officers are responsible for managing the compliance programs and processes in their business or function. They are responsible for ensuring that employees are trained and for managing and reporting on any compliance incidents. The Compliance Committees, chaired

Compliance organization



by the Managing Directors of the businesses and the leaders of the functions, each meet quarterly to decide on and review progress on compliance matters.

Sensitive Country Committee

The Sensitive Country Committee, consisting of the General Counsel (chair), an Executive Committee member with business responsibility and the Director of Compliance, reviews countries with risks relating to export controls, corruption, human rights, safety and security and finance transactions and makes proposals on such matters to the Executive Committee.

Privacy Committee

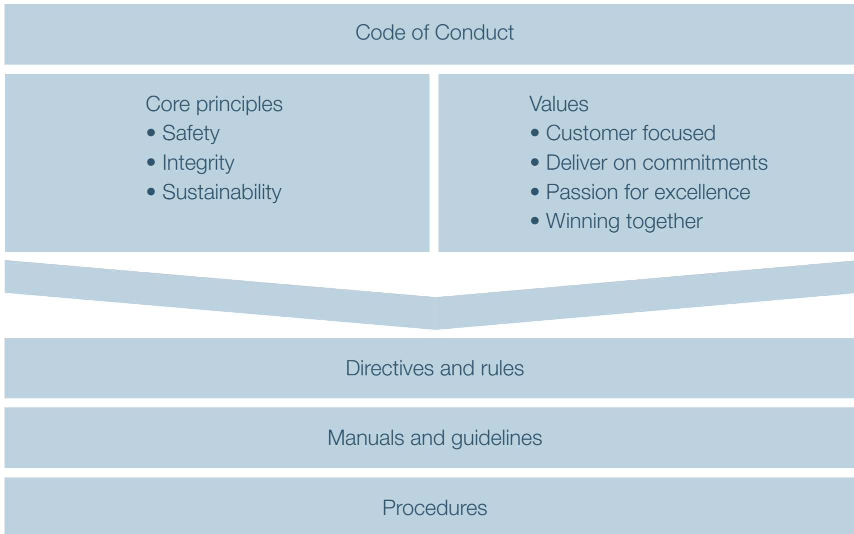
In 2015, a Privacy Committee was established, which consists of the members of the Corporate Compliance Committee, along with representatives from Sales, Information Management and Legal. The Privacy Committee is responsible for creating and maintaining the privacy framework and is chaired by the Director of Compliance.

Directives and rules

Code of Conduct

In 2015, we renewed our Code of Conduct in line with our three Core Principles of Safety, Integrity and Sustainability. The Code of Conduct informs employees and external stakeholders about what we stand for. It explains our three Core Principles and what they mean in practice. The Code of Conduct was made available to employees in 32 languages. Our employees were invited to attend online training and workshop sessions to familiarize themselves with the principles and learn how to deal with practical dilemmas. The extensive launch program was supported by a company-wide awareness campaign. The Code of Conduct serves as a common reference document on which we build a leading performance culture in safety, integrity and sustainability.

Directives portal



Directives Framework

The Code of Conduct is incorporated in the Directives portal, a one-stop website for all of the directives, rules, manuals, guidelines and procedures that make up AkzoNobel's Directives Framework. These documents, most of which are mandatory, drive governance, compliance and functional excellence throughout the company, including controlled joint ventures. To provide more guidance and ensure stricter compliance, new directives, rules and guidelines were introduced on topics such as preventing fraud, record keeping, avoiding conflicts of interest, our Life-Saving Rules, use of company resources and business communication.

Education and awareness

Training

Raising awareness through effective training and communication is pivotal to our Compliance Framework. A wide range of training methods and programs are used to train our employees and external parties on the rules they must apply in their operations. Following a curriculum set annually by the Corporate Compliance Committee, the Compliance function provides a variety of mandatory training on topics covered by the Code of Conduct.

Code of Conduct

In the fourth quarter of 2015, all employees with online access were asked to complete an online training on the renewed Code of Conduct. In addition, managers have been providing workshops to their teams to discuss what the Code of Conduct means for them, how to deal with practical dilemmas and what to do if they are in doubt or see a potential violation. The online training and workshop materials were made available in 23 languages. Employees must confirm their attendance of the online training and workshop by mid-2016. In total, 66 percent of employees with online access had completed the Code of Conduct training by the end of 2015.

Other online training

Online training was also provided to designated employees in the fields of fraud, competition law, our Life-Saving Rules, anti-bribery and export controls. An extensive program of face-to-face competition training was rolled out for senior and middle management, as well as sales and other designated staff.

Newsletters and bulletins

The training programs are supplemented with compliance newsletters and bulletins, issued to relevant audiences on current compliance developments and topics, such as gifts and entertainment, fraud, information security and privacy.

Incident management

Feedback

AkzoNobel fosters a climate in which employees give each other feedback on their behavior relating to the Core Principles. This is an important part of having the right compliance culture and teaching our employees how to deal with integrity issues. If an employee becomes aware of a potential violation of the Code of Conduct, he or she is encouraged to speak to the individual, raise their concerns with their Compliance Officer, HR Business Partner or manager or use our SpeakUp! grievance mechanism.

Integrity management

	2012	2013	2014	**2015**
Code of Conduct reporting				
Code of Conduct number of alleged breaches reported	295	151	170	224
Breakdown: *				
Health and safety	42	8	15	6
Business integrity	152	82	90	123
Treatment of employees	101	61	65	95
Code of Conduct investigation				
Code of Conduct alleged breaches investigated (in %)	100	100	100	100
Code of Conduct alleged breaches handled by the Corporate Compliance Committee (in numbers)	24	9	11	10
Code of Conduct alleged breaches handled by the relevant businesses (in numbers)	271	142	159	214
Substantiated Code of Conduct breaches (within year)	163	57	67	89
Substantiated Code of Conduct breaches (total, including breaches substantiated in a later year)	178	64	76	– **
Number of dismissals for Code of Conduct breaches within year	131	43	46	52
Dismissals for Code of Conduct breaches (total, including employees dismissed in a later year)	139	48	50	– **
Compliance monitoring				
Competition Law Compliance Declaration (number of confirmations)	15,900	12,700	12,184	13,614
Non-Financial Letter of Representation (% of operational managers)	100	100	100	100
Code of Conduct training				
Code of Conduct trained (% online employees) ***	96	95	90	66

* In 2016, categories will be aligned with the set-up of the Code of Conduct
** By definition these numbers are not yet known
*** Code of Conduct online training was updated in 2015, training invitations were sent in Q4, mandatory completion is due by mid-2016.

SpeakUp!

The SpeakUp! grievance mechanism offers employees, business partners and the general public a confidential environment in which they can raise any concerns relating to compliance with our Code of Conduct. Complaints can be raised without risk of retaliation and anonymously if so desired. In 2015, the grievance mechanism was updated to align with the new Code of Conduct, while a new set of SpeakUp! rules was published and a portal was made available. With the launch of the new Code of Conduct, the availability of the SpeakUp! grievance mechanism to raise concerns was widely communicated.

Once a report on a potential violation is made, it is investigated on its merits in accordance with proper investigation procedures. If a complaint is found to be substantiated, the necessary actions are taken, including disciplinary measures and root cause analysis.

In 2015, a total of 224 alleged violations of the Code of Conduct were reported, both through SpeakUp! and other channels. Of these 224 matters, 89 were (partially) substantiated and 41 were still in progress at year-end. Ten were managed by the Corporate Compliance Committee as they met defined criteria. Company-wide, 48 matters resulted in dismissal of one or more employees on grounds related to breaches of the Code of Conduct. Other sanctions and remedial actions in (partially) substantiated matters included: review of procedures/controls (10), coaching/training (8), warnings (10), suspension (1), and other disciplinary actions (9). In three matters no action was taken or needed as the persons involved had already left the company.

We believe that the increase of reported alleged Code of Conduct breaches can be explained to a substantial extent by the renewed attention given to our Code of Conduct and SpeakUp! grievance mechanism.

Business partners

Business Partner Code of Conduct

At the time of the introduction of our new Code of Conduct, a separate Business Partner Code of Conduct was also launched. This Business Partner Code of Conduct - which replaces our Vendor Policy - informs our business partners what we expect of them with regard to our Core Principles. It expands our compliance requirements to include principles such as those laid down in the Universal Declaration on Human Rights, the UN Guiding Principles on Business and Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. We expect our business partners to commit to efficient use of raw materials, energy and other natural resources while minimizing waste, emission and noise. We also expect them to care about the communities in which they operate and to offer a grievance mechanism to those who have concerns about violations of laws and our Core Principles. The Business Partner Code of Conduct also expands the target group to include suppliers, distributors, agents, research partners and joint ventures not under our control. Confirming adherence is a condition for doing business with us.

Agent review

In 2015, we reviewed our businesses' cooperation with agents and conducted investigations into a selection of agents to assess their adherence to our Core Principles. Conclusions from that review are being integrated in a new Business Partner Compliance Framework.

Reporting

Non-financial letter of representation

Annually, management verifies and confirms that they comply with laws and internal directives and rules through the NFLoR process. Exceptions must be reported and actions must be planned and documented. The NFLoR process starts deep in the organization; results are rolled-up to leadership of business units, strategic marketing units, functions and Business Areas. The results are discussed in review meetings between each of the business and functional leaders and their responsible Executive Committee member, in the presence of the Director of Compliance and Legal Counsel. At the review meetings, risks and possible weaknesses in the compliance and control framework are discussed and actions are agreed upon. The responsible Executive Committee member then reports the results of the review meetings to the CEO and the General Counsel, who review the same. A final report is presented to the Executive Committee, the Audit Committee of the Supervisory Board and to the external auditor. The outcome of this NFLoR process, in combination with the internal control self-assessment process and internal audit results, forms a basis for the Statement of the Board of Management in this Report 2015.

Compliance reports

The General Counsel reports to the Executive Committee and the Audit Committee of the Supervisory Board on important compliance matters, developments and initiatives. Twice per year, the General Counsel submits an extensive written report on the progress of all compliance programs and on compliance matters from the preceding period to the Executive Committee and to the Audit Committee of the Supervisory Board, who review the same and agree on any necessary actions.

Competition Law Compliance Declaration

Employees who meet certain criteria, such as having contact with customers or suppliers or managing those who have, confirm their compliance with competition laws as articulated in our competition law compliance manual through our annual Competition Law Compliance Declaration program. In 2015, over 13,000 designated employees signed this declaration. The declaration reminds employees of the importance of complying with competition laws, requests their confirmation of compliance and urges them to disclose any matters of concern. This is an established process in the company. In 2015, a video message was added to the declaration to re-emphasize the importance of competition law compliance and to remind employees to contact the Compliance function in case of doubt.

Remuneration report

This report describes our remuneration policy and the remuneration paid to members of the Board of Management in 2015.

The remuneration and the individual contracts of the members of the Board of Management are determined by the Supervisory Board. The Supervisory Board makes these determinations within the framework of our remuneration policy, which is approved by our shareholders. Our remuneration policy, including all structures and policies related to the remuneration and employment contracts of the members of the Board of Management, is in line with the Dutch Corporate Governance Code (the Code).

The first part of this report describes the remuneration policy as it has been adopted by our shareholders over time, while the second part describes the implementation of the policy in 2015. The remuneration policy was first adopted by the Annual General Meeting of shareholders (AGM) in 2005 and has since been amended several times, most recently in 2013. The performance share plan for the Board of Management was approved by the AGM in 2004. This plan has been amended several times, in accordance with article 2:135 of the Dutch Civil Code by the AGM, most recently in 2013. The share-matching plan for the Board of Management was approved by the AGM in 2011.

Remuneration policy

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

The remuneration of the members of the Board of Management consists of the following elements:

- Base salary
- Performance-related short-term incentive (STI),with share-matching opportunity
- Performance-related long-term incentive (LTI) in the form of shares
- Post-contract benefits
- Other benefits

The various elements of the remuneration package are set out in more detail below.

Base salary

The base salary is determined by the Supervisory Board.

Short-term incentive (annual bonus)

The target STI is 100 percent of base salary for the CEO and 65 percent of base salary for any other member of the Board of Management. The STI is linked to financial targets (70 percent) and to individual and qualitative targets of the members of the Board of Management (30 percent). Targets are determined annually by the Supervisory Board. In respect of the financial targets, the Supervisory Board choses two to three financial metrics and determines their relative weighting from the following list:

- EBITDA
- Operating income (OPI)
- Operating cash flow (OCF)
- EBIT
- Net income (to shareholders)
- Return on investment (ROI)

These metrics are as used or defined in the company's annual report (subject to minor adjustments if required in order to provide a better indicator of management's performance).

For each target, the Supervisory Board sets performance ranges each year. These performance ranges determine for each target and relevant part of the STI (i) the performance level below which no payouts are made, (ii) the performance level at which 100 percent payout is made and (iii) the performance level at which the maximum payout of 150 percent payout is capped. STI awards in aggregate will not exceed 150 percent of base salary for the CEO and 100 percent of base salary for any other member of the Board of Management.

Long-term incentive

The LTI consists of performance-related shares. Under the performance share plan, shares are conditionally granted to the members of the Board of Management. Vesting of these shares is conditional on the achievement of performance targets during a three-year period. Achievement of the performance targets is determined by the Supervisory Board in the first quarter of the year following the three-year performance period. The number of vested shares is adjusted for dividends paid over the three-year performance period. The retention period for the shares expires five years after the conditional grant.

The long-term incentive plan is subject to three performance criteria:

- 35 percent of the conditional grant of shares is dependent on AkzoNobel's relative total shareholder return (TSR) performance compared with companies in a defined peer group
- 35 percent of the conditional grant of shares is dependent on the development in ROI during the performance period
- The remaining 30 percent of the conditional grant of shares is dependent on AkzoNobel's relative sustainability performance, measured as the company's average position in the RobecoSAM ranking during the three-year performance period

For each of these performance criteria, the minimum vesting is 0 percent and the maximum at vesting is 150 percent of the relevant part of the conditional share grant. Peer groups and vesting schemes are determined by the Supervisory Board.

Shareholding requirements and share-matching

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

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

Board members who have not yet achieved their minimum shareholding are required to invest one-third of their short-term incentive (net after tax and other deductions) in AkzoNobel shares. As further encouragement to build up the minimum holding requirement, Board members who invest up to a second third of their short-term incentive in shares will have such shares matched by the company, one on one, after three years, on the condition that the Board member still holds these shares and showed a sustained performance during the three-year period, as determined by the Supervisory Board. The retention period for the matching shares expires two years after these shares have been awarded.

Board members who continue to invest their short-term incentives in whole, or in part, in shares after the minimum holding requirement has been achieved, will have the opportunity to have such shares matched subject to the same conditions. However, such shares will be matched with one share to every two shares thus acquired and no shares will be matched to the extent that shares were purchased with more than two-thirds of the Board member's net annual short-term incentive.

Post-contract benefits

Members of the Board of Management receive a contribution towards pension and similar retirement benefits, as determined by the Supervisory Board.

Other benefits

Other benefits – such as a company car and allowances – are determined by the Supervisory Board.

Claw back and value adjustment

It is noted that the variable pay components are subject to the claw back and value adjustment provisions of the Dutch Civil Code and the Code.

Loans

The company does not grant loans to its Board members.

Implementation of the remuneration policy in 2015

The Supervisory Board is responsible for ensuring that the remuneration policy, and its implementation, are aligned with the company's objectives. Both the policy itself, and the checks and balances applied in its execution, are designed to avoid incidents where members of the Board of Management – and senior executives for whom similar incentive plans apply – act in their own interest, take risks that are not in line with our strategy and risk appetite, or where remuneration levels cannot be justified in any given circumstance.

To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on the short and long-term performance of the individual Board member and the company. Performance targets must be realistic and sufficiently stretching and – particularly with regard to the variable remuneration components – the Supervisory Board ensures that the relationship between the chosen performance criteria and the strategic objectives applied, as well as the relationship between remuneration and performance, are properly reviewed and accounted for, both ex-ante and ex-post.

In accordance with the requirements of the Code, the Remuneration Committee, before setting the targets to be proposed for adoption by the Supervisory Board, has carried out scenario analyses of the possible financial outcomes of meeting target levels, as well as maximum performance levels, and how they may affect the level and structure of the total remuneration of the members of the Board of Management.

We aim to maintain overall remuneration levels that are at the median level of the external market. For benchmarking purposes, a peer group has been defined by the Supervisory Board. In 2015, the peer group consisted of the following companies:

- Royal Ahold
- Arkema
- Clariant
- Royal DSM
- Heineken
- Henkel
- Royal KPN
- LafargeHolcim
- Royal Philips
- Randstad
- Reckitt Benckiser
- Solvay

The Remuneration Committee consults professional independent remuneration experts to ensure an appropriate comparison. It further reviews the impact on pay differentials within the company, which is taken into account by the Supervisory Board when determining the overall remuneration. When other benefits are granted, the Supervisory Board ensures that these are in line with market norms.

For communication purposes, the table Compensation Board of Management 2015 (below) presents an overview of the remuneration of the members of the Board of Management who were in office in 2015. See note 21 of the Consolidated financial statements for more details. The implementation of the remuneration policy in 2016 will be a separate agenda item at the 2016 AGM.

Base salary

The base salary of the CEO increased by 3 percent in 2015. The base salary of the CFO increased by 1.7 percent.

Short-term incentive (annual bonus)

The objectives of the short-term incentive in 2015 were to reward performance on ROI, OPI and OCF, to measure individual and collective performance and to encourage progress in the achievement of long-term strategic objectives. On the outcome of the short-term incentive elements (ROI, OPI, OCF and personal targets), the Supervisory Board applied a reasonableness test in which the actual ambition level of the performance targets was

Compensation Board of Management 2015

in €	**Ton Büchner** **Chief Executive Officer**	**Maëlys Castella** **Chief Financial Officer**
Base salary	859,000	585,000
Short-term incentive	915,800	405,400
Share awards[1]	1,303,600	236,300
Post-contract benefits[2]	356,700	87,800
Other emoluments[3]	8,200	8,200
Total remuneration	**3,443,300**	**1,322,700**

[1] Costs relating to share awards (performance-related share plan and share-matching plan) are non-cash and relate to the expenses following IFRS 2.
[2] Post-contract benefits refers to payments intended for building up retirement.
[3] Other emoluments refers to social security cost.

assessed critically in light of the assumptions made at the beginning of the year. The test also included an assessment of the progress made with the strategic objectives under prevailing market conditions.

For 2015, the targets for ROI, OPI and OCF have been determined by the Supervisory Board. Qualitative STI targets were set and assessed by the Supervisory Board in the context of the medium-term objectives of the company. AkzoNobel does not disclose all qualitative targets, as they are considered commercially sensitive information. However, the targets for 2015 included goals set in relation to delivering on the company's communicated performance improvement.

ROI is calculated by determining the ratio of operating income over 12 months invested capital using reported numbers. OPI was calculated as the number reported for IFRS purposes, in constant currencies. The definitions and calculations were identical to those applied in 2014. OCF was calculated as EBITDA minus the change in operating working capital and capital expenditures, all in constant currencies. In 2015, the performance against the targets set for ROI, OPI, OCF and qualitative targets was as follows:

2015 performance on STI metrics

Metric	Payout as % of target
ROI	126
OPI	127
OCF	87
Qualitative targets	100

Long-term incentives

The objectives of our long-term incentive plan are to encourage long-term sustainable economic and shareholder value creation – both absolute and relative to competitors – and to align Board of Management interests with those of shareholders, as well as ensuring retention of the members of the Board of Management. Performance-related shares are considered to provide a strong alignment with shareholders' interests.

Performance-related share plan

In line with the remuneration policy, vesting of 35 percent of the shares conditionally granted is linked to AkzoNobel's ROI performance. For the shares conditionally granted in 2013 under the performance-related share plan (in respect of which the performance period ended on December 31, 2015), the Supervisory Board has set the ROI to be achieved by the end of 2015 as follows:

ROI performance range series 2013-2015

	Threshold	Target	Maximum
Vesting (as % of 35% of conditional grant)	50%	100%	150%
Target	12.5%	14.0%	16.5%

AkzoNobel's ROI performance at the end the performance period was reviewed by the Supervisory Board and adjusted for currency effects and exceptional items. This resulted in a vesting of 129 percent for this part of the long-term incentive.

For the 2013 conditional grant, 30 percent was linked to AkzoNobel's relative sustainability performance by taking the company's average position in the RobecoSAM ranking. The following vesting scheme has been applied in respect of the conditional grants made in 2013:

Average position in RobecoSAM ranking during performance period

Rank	Vesting (as % of 30% of conditional grant)
1	150
2	125
3	100
4 – 6	75
7 – 10	50
11 – 15	25
Below 15	0

AkzoNobel was placed first in 2013, 2014 and 2015 in the relevant RobecoSAM ranking. As a result, AkzoNobel's sustainability performance during the period 2013 to 2015 resulted in a vesting of 150 percent for this part of the long-term incentive.

For the 2013 conditional grant, the remaining 35 percent was linked to AkzoNobel's relative total shareholder return (TSR) performance compared with the companies in a defined peer group. Independent external experts conducted an analysis to calculate the number of shares that will vest according to the TSR ranking. In order to adjust for changes in exchange rates, all local currencies were converted into euros. The relative TSR performance was compared with a peer group as determined by the Supervisory Board.

The peer group currently consists of the following companies:

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

This peer group is reviewed on a regular basis to ensure that the companies in the group remain appropriate peers. Occasionally, changes need to be made, particularly if one of the companies in the peer group is taken over. The Supervisory Board will see to it that, to the extent reasonably possible, a replacement has no impact on the company's relative TSR ranking.

The following vesting scheme has been applied in respect of the conditional grants made in 2013:

TSR vesting scheme for the conditional grants

Rank	Vesting (as % of 35% of conditional grant)
1	150
2	135
3	120
4	100
5	75
6	50
7	25
8 – 11	0

AkzoNobel's TSR performance during the period 2013 to 2015 resulted in an eighth position within the ranking of the peer group companies. This ranking did not result in any vesting of shares for the TSR part of the share plan.

Based on the company's combined ROI, sustainability and TSR performance, the final vesting percentage of the 2013 conditional grant – after including the dividend yield during the performance period (determined to be 7.96 percent) – equaled 97.48 percent. Upon its ex-post review of the relationship between the chosen performance criteria and the strategic objectives applied, and of the relationship between remuneration and performance, the Supervisory Board – given the importance of the link between the variable remuneration and the company's strategic ambitions – decided not to make any correction in respect of the definitive award.

The number of performance-related shares conditionally granted under the 2015 plan amounted to 22,500 for the CEO and 15,300 for the CFO.

In accordance with provision II.2.13d of the Code, the schedule at the end of this Remuneration report sets out (i) the number of at-target shares conditionally granted; (ii) the number of shares which have vested; (iii) the number of shares held by members of the Board of Management at the end of the lock-up period; (iv) the face value at the conditional share grant, at vesting and at the end of the lock-up period respectively.

In accordance with the company's Articles of Association, the Code and the rules of the performance-related share plan, the number of shares to be conditionally granted to members of the Board of Management is determined by the Supervisory Board, within the limits of the remuneration policy and the maximum number of shares as adopted and approved, respectively, by the AGM. The Supervisory Board has decided that where, in the event of a takeover, the payout under the performance share plan is between 100 percent and 150 percent, it will, at its discretion – taking into account the performance of the company prior to the takeover bid – decide whether the projected outcome is fair and may decide to adjust the vesting upwards or downwards within the bandwidth mentioned. This does not affect the discretion the Supervisory Board has to correct the variable remuneration of the Board of Management upwards or downwards in exceptional circumstances. It is noted that a takeover would not influence the RobecoSAM sustainability ranking of the company, nor the ROI performance. Therefore, the Supervisory Board will, under such circumstances, primarily take into account the company's TSR performance.

Claw back and value adjustment

In 2015, there was no cause for a claw back or value adjustment by the Supervisory Board.

Shareholding requirements and share-matching

The table below summarizes the shares acquired by the relevant members of the Board of Management in 2015 that would, subject to the conditions of the share-matching plan, qualify for matching by the company. See also Note 21 of the Consolidated financial statements.

Qualifying shares

Board members	Qualifying shares acquired in 2015
Ton Büchner	2,252
Maëlys Castella	305

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

Post-contract compensation

The members of the Board of Management receive contributions towards post-contract benefits, which are defined as a percentage of income as determined by the Supervisory Board. Currently, they are based on age. For the CEO, the contributions are paid over the base salary in the current year and the short-term incentive related to that year. The contributions will therefore vary depending on the performance during the year and the age of the Board member. For the CFO, these contributions are paid on base salary only.

Board contracts

Agreements for members of the Board of Management are concluded for a period not exceeding four years, in accordance with the Code. After the initial term, reappointments may take place for consecutive periods of up to four years each. The notice period by the Board member is subject to a term of three months. Notice by the company shall be subject to a six-month term. Members of the Board of Management normally retire in the year that they reach the legal retirement age. The contractual arrangements allow the Supervisory Board to request the CEO to resign between the age of 60 and the legal retirement age for effective succession planning within the Board. In such an exceptional situation, the CEO will be entitled to the "fixed" remuneration component until the date of retirement.

Remuneration policy planned by the Supervisory Board for the next financial year and subsequent years

In 2015, the Supervisory Board conducted a review of the remuneration policy, to assess whether it was still aligned with the external market and the objectives of the company.

The metrics applied for the short-term incentive in 2015 (ROI, OPI, OCF) will continue to be applied in 2016. However, the Supervisory Board will propose to the AGM to add one additional metric to be applied in 2016.

Further details will be provided in the Notice of Meeting for the 2016 AGM.

The metrics applied for the LTI (ROI, TSR and sustainability) will continue to be applied in 2016. The targets and ranges have been set at a challenging but realistic level, based on the company's strategic goals formulated during the year. The vesting schemes for the TSR and sustainability performance remain unchanged. The target and ranges for the ROI metric will not be disclosed as they are considered commercially sensitive information.

Valuation[1] shares Board of Management

Unconditional shares, vested

Board member	Series	Conditional share grant Number	Conditional share grant Value at grant in €	Number of vested shares Number	Number of vested shares Value at vesting in €	End of lock-up period (five years after grant) Number	End of lock-up period (five years after grant) Value in €
Ton Büchner	Series 2012 - 2014	31,900	1,191,784	26,228	1,512,055	–	NA
	Series 2013 - 2015	24,200	1,203,829	23,590	1,455,041	–	NA

Conditional shares, not vested

Board member	Series	Number	Conditional share grant at target Value at grant in €	Vesting at min performance Number	Vesting at max performance Number
Ton Büchner	Series 2014 - 2016	22,300	1,256,382	–	33,450
	Series 2015 - 2017	22,500	1,297,125	–	33,750
	Matching shares 2012 (vesting 2016)	11,582	500,016	–	11,582
	Matching shares 2013 (vesting 2016)	1,429	71,086	–	1,429
	Matching shares 2014 (vesting 2017)	2,450	133,782	–	2,450
	Matching shares 2015 (vesting 2018)	2,252	166,062	–	2,252
Maëlys Castella	Series 2015 - 2017	15,300	882,045	–	22,950
	Matching shares 2015 (vesting 2018)	305	22,491	–	305

[1] Values for LTI series based on the share price on January 1 of the relevant financial year and for the Matching shares based on the date of purchase (face value).

AkzoNobel on the capital markets

Proposed dividend of €1.55 per share (up 7 percent on 2014)

Settlement of €622 million bond which matured on March 27, 2015

A strong case for investment

We have a portfolio of businesses with leadership positions in many markets and strong global brands in both consumer and industrial markets. There is long-term growth potential from end-user segments and we have a balanced exposure across geographical regions. We have a track record of improving returns and cash flow, as well as a history of successfully commercializing innovation. We are a clear leader in sustainability and are committed to making cities more human.

Close dialog with the capital markets

We attach great value to maintaining an open dialog with the financial community in order to promote transparency. Management gave presentations at a number of industry conferences during the year, as well as holding meetings with investors and analysts. In October, a capital markets day was held to give an update on the strategy, which featured presentations from the CEO and CFO, our three Business Area Executive Committee members, the Executive Committee member responsible for Human Resources and the Head of Integrated Supply Chain.

Listings

AkzoNobel's common shares are listed on Euronext Amsterdam. The company is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. The AkzoNobel weight in the AEX index was 3.89 percent at year-end 2015. During 2015, 174 million AkzoNobel shares were traded on Euronext Amsterdam (2014: 171 million). 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
Sedol code	5458314

Key share data

	2013	2014	2015
Year-end (share price in €)	55.71	57.65	61.68
Year-high (share price in €)*	56.08	60.77	74.81
Year-low (share price in €)*	42.65	47.63	55.65
Year-average (share price in €)	49.32	54.87	64.91
Average daily trade (in € millions)	39.8	36.9	44.1
Average daily trade (in millions of shares)	0.8	0.7	0.7
Number of shares outstanding at year-end (in millions)	242.6	246.0	249.0
Market capitalization at year-end (in € billions)	13.5	14.1	15.4
Net income per share (in €)	3.00	2.23	3.95
Dividend per share (in €)	1.45	1.45	1.55
Dividend yield (in %)	2.9	2.6	2.4

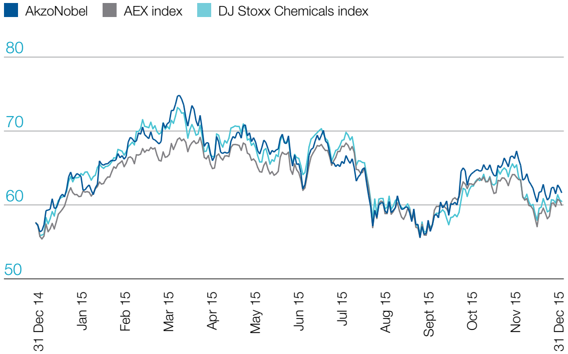
* Based on close value.

Share price performance 2015

Our share price increased 7 percent in 2015, outperforming both the DJ Stoxx Chemicals and AEX indices, and 21 percent over the term from February 2013 (when the new strategy was launched) to December 2015. For more details about our share price performance, please refer to the following graphs:

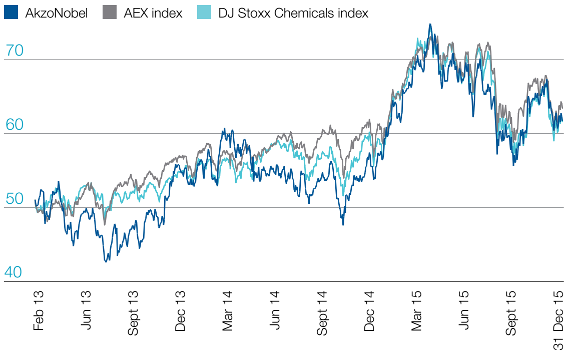
Share price performance 2015

AkzoNobel share price in €



Share price performance February 2013 – December 2015

AkzoNobel share price in €



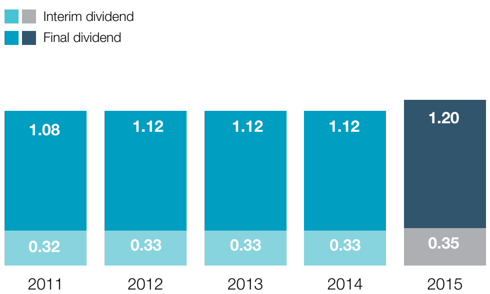
Dividend policy

AkzoNobel's dividend policy is to pay a stable to rising dividend each year. Cash dividend is default, stock dividend is optional.

Total proposed dividend of €1.55 per share

The Board of Management proposes a total dividend of €1.55 per common share. AkzoNobel's shares will be trading ex-dividend as of April 22, 2016. In compliance with the listing requirements of Euronext Amsterdam, the record date will be April 25, 2016. The dividend as proposed to the 2016 Annual General Meeting of shareholders will be payable as of May 19, 2016. The dividend paid over the last five years is shown in the graph below.

Dividend paid in € per share

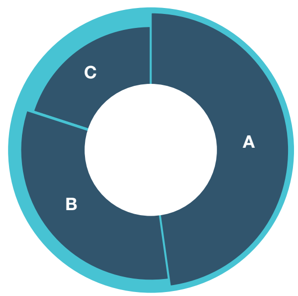


Analyst recommendations

At year-end 2015, AkzoNobel was covered by 25 equity brokers and the following analyst recommendations were applicable (see diagram):

Analyst recommendations in %

A Buy	48
B Hold	32
C Sell	20



Broad base of international shareholders

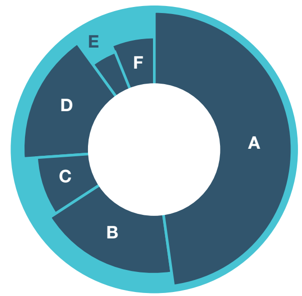
AkzoNobel, which has a 100 percent free float, has a broad base of international shareholders. Based on an independent shareholder identification survey carried out in November 2015, the chart below shows the geographical spread. Around 8 percent of the company's share capital is held by private investors, many of whom are resident in the Netherlands.

Around 9 percent of the company's share capital is held by sustainable and responsible investors.*

* As calculated by Nasdaq, according to their methodology which is to include the sum of:
- Core sustainable and responsible investor firms where 100 percent of equity assets are managed with an ESG approach
- Sustainable and responsible investor themed funds managed by broad sustainable and responsible investors

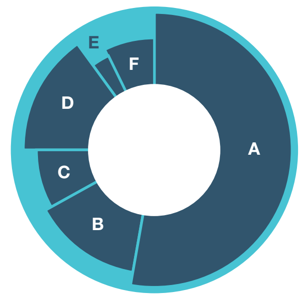
Distribution of shares 2015

A North America	48
B UK/Ireland	18
C The Netherlands	8
D Rest of Europe	16
E Rest of world	4
F Undisclosed	6



Distribution of shares 2014

A North America	53
B UK/Ireland	14
C The Netherlands	8
D Rest of Europe	15
E Rest of world	3
F Undisclosed	7



AkzoNobel in key sustainability indices

Following 2015 reviews, AkzoNobel is a constituent in the following indices: Dow Jones Sustainability World Index (DJSI World), FTSE4Good Index Series, Euronext Vigeo – World 120 index, STOXX® Global ESG Leaders indices, MSCI Global Sustainability Index Series, Ethibel Sustainability Index (ESI) Excellence Europe and the Ethibel Sustainability Index (ESI) Excellence Global.

Widely regarded as the most respected independent sustainability ranking system, the DJSI World Index benchmarks the sustainability performance of leading companies based on environmental, social and economic performance, including forward-looking indicators. AkzoNobel was ranked number one (out of more than 350 companies) in the Materials industry group of the Dow Jones Sustainability World Index (DJSI World) for the fourth consecutive year.

Created by the global index company FTSE Group, FTSE4Good is an equity index series designed to facilitate investment in companies that meet globally recognized corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalize on the benefits of responsible business practice.

The Euronext Vigeo – World 120 index distinguishes companies achieving the most advanced environmental, social and governance performances and is reviewed annually.

The STOXX® Global ESG Leaders indices have set new standards in terms of transparency and comprehensiveness in the ESG indexing space.

MSCI Inc., a leading provider of global benchmark indexes, has over 500 equity and fixed income environmental, social, and governance (ESG) indexes.

The ESI indices universe is composed of companies included in the Russell Global Index that display the best performance in the field of Corporate Social Responsibility. Forum ETHIBEL's selections are largely based on research, carried out by the European rating agency Vigeo, which is responsible for data collecting and processing, performance analysis and industry benchmarking.

We were also once again included in the Carbon Disclosure Project, which represents more than 822 institutional investors, with over $95 trillion in assets under management, and were awarded a position on the Benelux Climate Disclosure Leadership Index (CDLI) 2015.

FTSE4Good

Included in ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Global

MSCI 2015 Constituent MSCI Global Sustainability Indexes

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

Credit rating and bonds

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

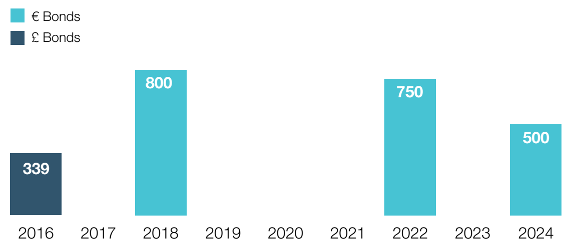
Rating agency	Long-term rating	Outlook
Moody's [1]	Baa1	Stable
Standard & Poor's [2]	BBB+	Stable

[1] Rating affirmed on November 25, 2015.
[2] Rating affirmed on October 13, 2015.

Bonds

On March 27, 2015, a €622 million bond was repaid from existing resources.

Debt maturity* in € millions (nominal amounts)



* At the end of Q4 2015.

For further information please visit www.akzonobel.com/investors

With you every step of the way

There's a certain grace and beauty about a shiny wooden floor, which is why we go to great lengths to develop products that take care of them. We supply a wide variety of paint, lacquers and stains for wood, all designed to offer essential qualities such as durability, reliability and flexibility.

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Consolidated statement of income

In € millions	Note		2014		2015
Continuing operations					
Revenue		14,296		14,859	
Cost of sales	3	(8,676)		(8,784)	
Gross profit			5,620		**6,075**
Selling expenses	3	(2,912)		(3,021)	
General and administrative expenses	3	(1,273)		(1,245)	
Research and development expenses	3	(363)		(347)	
Incidentals	3	(85)		111	
			(4,633)		**(4,502)**
Operating income			987		**1,573**
Financing income	5	42		28	
Financing expenses related to pensions	5	(18)		(13)	
Other financing expenses	5	(180)		(129)	
Results from associates and joint ventures	9	21		17	
Profit before tax			852		**1,476**
Income tax	6		(252)		(416)
Profit from continuing operations			600		**1,060**
Discontinued operations					
Profit for the period from discontinued operations	2		18		6
Profit for the period			618		**1,066**
Attributable to					
Shareholders of the company			546		979
Non-controlling interests			72		87
Profit for the period			618		**1,066**
Earnings per share, in €					
Continuing operations					
Basic	13		2.16		3.93
Diluted	13		2.15		3.90
Discontinued operations					
Basic	13		0.07		0.02
Diluted	13		0.07		0.02
Total operations					
Basic	13		2.23		3.95
Diluted	13		2.22		3.92

Consolidated statement of comprehensive income

In € millions	2014	2015
Profit for the period	618	**1,066**
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Post-retirement benefits	(589)	(191)
Income tax	34	(2)
Net effect	(555)	**(193)**
Items that may be reclassified subsequently to statement of income:		
Exchange differences arising on translation of foreign operations	433	137
Cash flow hedge reserve	–	(30)
Income tax	(16)	9
Net effect	417	**116**
Other comprehensive income for the period	(138)	**(77)**
Comprehensive income for the period	480	**989**
Comprehensive income attributable to		
Shareholders of the company	365	887
Non-controlling interests	115	102
Comprehensive income for the period	480	**989**

Consolidated balance sheet at year-end, before allocation of profit

In € millions	Note		2014		2015
Assets					
Non-current assets					
Intangible assets	7	4,142		4,156	
Property, plant and equipment	8	3,835		4,003	
Deferred tax assets	6	1,152		1,057	
Investments in associates and joint ventures	9	183		165	
Other financial non-current assets	10	813		903	
Total non-current assets			10,125		**10,284**
Current assets					
Inventories	11	1,545		1,504	
Current tax assets	6	88		69	
Trade and other receivables	12	2,743		2,741	
Cash and cash equivalents	16	1,732		1,365	
Assets held for sale	2	66		–	
Total current assets			6,174		**5,679**
Total assets			16,299		**15,963**
Equity and liabilities					
Equity					
Shareholders' equity	13	5,790		6,484	
Non-controlling interests	13	477		496	
Group equity			6,267		**6,980**
Non-current liabilities					
Post-retirement benefit provisions	14	1,488		1,285	
Other provisions	15	655		580	
Deferred tax liabilities	6	412		360	
Long-term borrowings	16	2,527		2,161	
Total non-current liabilities			5,082		**4,386**
Current liabilities					
Short-term borrowings	16	811		430	
Current tax liabilities	6	227		243	
Trade and other payables	17	3,407		3,473	
Current portion of provisions	15	494		451	
Liabilities held for sale	2	11		–	
Total current liabilities			4,950		**4,597**
Total equity and liabilities			16,299		**15,963**

Consolidated statement of cash flows

In € millions	Note		2014		2015
Profit for the period		618		**1,066**	
Income from discontinued operations	2	(18)		(6)	
Adjustments to reconcile earnings to cash generated from operating activities					
Amortization/depreciation	7, 8	618		626	
Impairment losses	7, 8	2		22	
Financing income and expenses	5	156		114	
Results from associates and joint ventures	9	(21)		(17)	
Pre-tax result on acquisitions/divestments	2	(8)		(70)	
Income tax	6	252		416	
Changes in working capital	18	28		46	
Changes in provisions	18	(406)		(658)	
Interest paid		(206)		(151)	
Income tax paid	6	(258)		(261)	
Other changes		54		9	
Net cash from operating activities			811		**1,136**
Capital expenditures	8	(588)		(651)	
Interest received		34		22	
Dividends from associates and joint ventures	9	11		11	
Acquisition of consolidated companies	2	(13)		(9)	
Proceeds from divestments	2	51		160	
Other changes		(24)		(41)	
Net cash from investing activities			(529)		**(508)**
Proceeds from borrowings	16	980		829	
Borrowings repaid	16	(1,347)		(1,518)	
Issue of shares for stock option plan	13	12		–	
Dividends		(280)		(281)	
Buy-out of non-controlling interests		–		(2)	
Net cash from financing activities			(635)		**(972)**
Net cash used for continuing operations			(353)		**(344)**
Cash flows from discontinued operations	2		(88)		(6)
Net change in cash and cash equivalents of continued and discontinued operations			(441)		**(350)**
Cash and cash equivalents at January 1	16		2,020		1,649
Effect of exchange rate changes on cash and cash equivalents			70		18
Cash and cash equivalents			1,649		**1,317**

Consolidated statement of changes in equity

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Cumulative translation reserve	Other (statutory) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
	Attributable to shareholders of the company							
Balance at January 1, 2014	**485**	**319**	**(19)**	**(417)**	**5,226**	**5,594**	**427**	**6,021**
Profit for the period	–	–	–	–	546	546	72	618
Reclassification into the statement of income	–	–	15	–	–	15	–	15
Other comprehensive income	–	–	(15)	390	(589)	(214)	43	(171)
Tax on other comprehensive income	–	–	–	(16)	34	18	–	18
Comprehensive income	**–**	**–**	**–**	**374**	**(9)**	**365**	**115**	**480**
Dividend paid	5	137	–	–	(354)	(212)	(68)	(280)
Equity-settled transactions	–	–	–	–	34	34	–	34
Issue of common shares	2	7	–	–	–	9	3	12
Balance at December 31, 2014	**492**	**463**	**(19)**	**(43)**	**4,897**	**5,790**	**477**	**6,267**
Profit for the period	–	–	–	–	979	979	87	1,066
Reclassification into the statement of income	–	–	26	(5)	–	21	–	21
Other comprehensive income	–	–	(56)	127	(191)	(120)	15	(105)
Tax on other comprehensive income	–	–	7	2	(2)	7	–	7
Comprehensive income	**–**	**–**	**(23)**	**124**	**786**	**887**	**102**	**989**
Dividend paid	4	137	–	–	(363)	(222)	(86)	(308)
Equity-settled transactions [1]	–	–	–	–	32	32	–	32
Issue of common shares	2	(2)	–	–	–	–	2	2
Acquisitions and divestments	–	–	–	–	(3)	(3)	1	(2)
Balance at December 31, 2015	**498**	**598**	**(42)**	**81**	**5,349**	**6,484**	**496**	**6,980**

[1] Includes a tax charge of €1 million (2014: nil)

Segment information

Our Decorative Paints business is a leading color authority, supplying a wide variety of quality products for every situation and surface, including paints, lacquers and varnishes. We also offer a range of mixing machines and color concepts for the building and renovation industry, as well as specialty coatings for metal, wood and other critical building materials.

Our Performance Coatings business is a global leader in technology and innovation. We have an extensive portfolio which includes high performance paints and coatings for ships, yachts, cars, trucks and buses, industrial installations, structural steel, architectural components, beverage cans, furniture, aircraft, mobile devices and flooring.

Our Specialty Chemicals business also holds leadership positions in many markets. We supply industries worldwide with high quality ingredients and process aids for the manufacture of life's essentials.

Information per Business Area

	Revenue from third parties		Group revenue		Amortization and depreciation		Incidentals		Operating income		ROS%	
In € millions	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Decorative Paints	3,858	3,954	3,909	4,007	(157)	(150)	–	–	248	345	6.3	8.6
Performance Coatings	5,569	5,938	5,589	5,955	(142)	(146)	–	–	545	792	9.8	13.3
Specialty Chemicals	4,864	4,965	4,883	4,988	(307)	(320)	–	31	508	609	10.4	12.2
Corporate and other	5	2	(85)	(91)	(12)	(10)	(85)	80	(314)	(173)	–	–
Total	**14,296**	**14,859**	**14,296**	**14,859**	**(618)**	**(626)**	**(85)**	**111**	**987**	**1,573**	**6.9**	**10.6**

	Invested capital		Total assets		Total liabilities		Capital expenditures		ROI%	
In € millions	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Decorative Paints	2,791	2,643	4,610	4,588	1,833	1,741	143	158	8.8	11.7
Performance Coatings	2,424	2,510	4,243	4,359	1,680	1,624	143	147	22.0	29.4
Specialty Chemicals	3,402	3,352	4,641	4,570	1,283	1,252	297	331	14.8	17.2
Corporate and other	1,246	1,324	2,739	2,446	5,225	4,366	5	15	–	–
Assets held for sale	–	–	66	–	11	–	–	–	–	–
Total	**9,863**	**9,829**	**16,299**	**15,963**	**10,032**	**8,983**	**588**	**651**	**10.0**	**15.0**

Regional information

	Revenue by region of destination		Intangible assets and property, plant and equipment		Invested capital		Capital expenditures	
In € millions	2014	2015	2014	2015	2014	2015	2014	2015
The Netherlands	762	693	1.691	1.681	2.088	2.070	72	102
Other European countries	5.710	5.687	2.155	2.256	2.974	3.035	277	258
US and Canada	2.193	2.494	1.096	1.208	1.825	1.865	68	100
Latin America	1.485	1.483	539	401	715	580	45	34
Asia	3.469	3.796	2.397	2.515	2.086	2.099	109	146
Other regions	677	706	99	98	175	180	17	11
Total	**14.296**	**14.859**	**7.977**	**8.159**	**9.863**	**9.829**	**588**	**651**

Notes to the Consolidated financial statements

1 Note 1: Summary of significant accounting policies

General information

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

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

The Management report within the meaning of Section 391 of Book 2 of the Netherlands Civil Code consists of the following parts of the annual report:

- AkzoNobel in 2015 at a glance
- How AkzoNobel created value in 2015
- CEO statement
- Strategic performance
- Leadership: Statement of the Board of Management
- Governance and compliance: Corporate governance statement
- Governance and compliance: Remuneration report
- Financial information: Note 3 Operating income
- Financial information: Note 22 Financial risk management

The section Strategic performance provides information on the developments during 2015 and the results. This section also provides information on cash flow and net debt, capital expenditures, innovation activities and employees.

On February 9, 2016, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to 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 control, because it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect returns through its power over the subsidiary. Non-controlling interests in equity and in results are presented separately.

Change in accounting policies

Accounting pronouncements, which became effective for 2015, had no material impact on our Consolidated financial statements.

Discontinued operations (Note 2)

A discontinued operation is a component of our business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Assets and liabilities are classified as held for sale if it is highly probable that the carrying value will be recovered through a sale transaction within one year rather than through continuing use. When reclassifying assets and liabilities as held for sale, we recognize the assets and liabilities at the lower of their carrying value or fair value less selling costs. Assets held for sale are not depreciated but tested for impairment.

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. The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation and for which changes in the assumptions and estimates could result in significantly different results than those recorded in the financial statements are the following:

- Scope of consolidation (Note 2)
- Income tax and deferred tax assets (Note 6)
- Impairment of intangible assets and property, plant and equipment (Note 7, 8)
- Post-retirement benefits (Note 14)
- Provisions (Note 15)

Statement of cash flows

We have used the indirect method to prepare the statement of cash flows. Cash flows in foreign currencies have been translated at transaction rates. 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 items.

Operating segments

We determine and present operating segments (Business Areas) on the information that is provided to the Executive Committee, our chief operating decision-maker during 2015, to make decisions about resources to be allocated to the Business Area and assess its performance. Business Area results reported to the Executive Committee include items directly attributable to a Business Area as well as those items that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and corporate costs and are reported in Business Area "Corporate and other".

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 euros, the functional currency of the parent entity, using the exchange rates at the balance sheet date. The income and expenses of entities with other functional currencies are translated into the functional currency, using the exchange rates at transaction date.

Foreign exchange differences resulting from translation into the functional currency of investments in subsidiaries and of intercompany loans of a permanent nature with other functional currencies are recorded as a separate component (cumulative translation reserves) within Other comprehensive income. These cumulative translation adjustments are reclassified (either fully or partly) to the statement of income upon disposal (either fully or partly) or liquidation of the foreign subsidiary to which the investment or the intercompany loan with a permanent nature relates to.

Foreign currency differences arising on the re-translation of a financial liability designated as an effective hedge of a net investment in a foreign operation are recognized in the cumulative translation reserves (in Other comprehensive income).

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	
	2014	2015	2014	2015
US dollar	1.216	1.092	1.329	1.111
Pound sterling	0.780	0.736	0.806	0.726
Swedish krona	9.399	9.175	9.099	9.355
Chinese yuan	7.561	7.177	8.199	7.002

Revenue recognition

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

Post-retirement benefits (Note 4, 14)

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. In certain countries we also provide post-retirement benefits other than pensions to our employees and these plans are generally not funded. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Post-retirement costs primarily represent the increase in the actuarial present value of the obligation for projected benefits based on employee service during the year and the interest on this obligation with respect to employee service in previous years, net of the expected return on plan assets, if any. When the calculation results in a benefit to AkzoNobel, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available if it is realizable during the life of the plan, or on the settlement of the plan liabilities. The effect of these so-called asset ceiling restrictions and any changes therein, is recognized in Other comprehensive income.

Actuarial gains and losses, which arise in calculating our obligation with reference to a plan, are recognized in Other comprehensive income. When the benefits of a plan improve, the portion of the increased benefits related to past service by employees is recognized as an expense in the statement of income immediately. We recognize gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

Interest on the defined benefit obligations net of the return on plan assets is included in financing expenses related to pensions. Other charges and benefits recognized are reported in Operating income, in as far as they are not recorded in Other comprehensive income.

Other employee benefits (Note 4, 15)

Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

Share-based compensation (Note 4)

We have a performance-related share plan, under which shares are conditionally granted to certain employees. The fair value is measured at grant date and amortized over the three-year period during which the employees normally become unconditionally entitled to the performance-related shares with a corresponding increase in shareholders' equity. Amortization is accelerated in the event of earlier vesting. The fair value of the performance-related shares for which vesting is based on the company's performance or the ranking for sustainability, is the value of the Akzo Nobel N.V. common share on the date of the grant. The fair value for the TSR-linked vesting condition is measured using actuarial valuation methods. The amount recognized as an expense is adjusted to reflect the actual number of performance-related shares that vest, except when forfeiture or extra vesting is due to TSR performance, because this is a market performance condition.

Income tax (Note 6)

Income tax expense comprises both current and deferred tax, including effects of changes in tax rates. In determining the amount of current and deferred tax we also take into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Income tax is recognized in the statement of income, unless it relates to items recognized in Other comprehensive income.

Current tax includes the expected tax payable and receivable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, as well as any adjustments to tax payable and receivable with respect to previous years.

Deferred tax is recognized using the balance sheet method. We do not recognize deferred tax for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed. Non-refundable dividend tax is taken into account in the determination of deferred tax liabilities to the extent of earnings expected to be distributed by subsidiaries in the foreseeable future. Deferred tax positions are not discounted.

Government grants

Government grants related to costs are deducted from the relevant cost to be compensated in the same period. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset. 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.

Intangible assets (Note 7)

Intangible assets are valued at cost less accumulated amortization and impairment charges. Intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually. Goodwill in a business combination represents the excess of the consideration paid over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income. The effects of all transactions with non-controlling interests are recorded in equity if there is no change in control.

Intangible assets with a finite useful life, such as licenses, know-how, brands, customer relationships, intellectual property rights and capitalized development and software costs, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets, which generally ranges from five to 40 years. Amortization methods, useful lives and residual values are reassessed annually.

Property, plant and equipment (Note 8)

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

Depreciation is calculated using the straight-line method, based on the estimated useful life of the asset components. 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.

Costs of major maintenance activities are capitalized 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.

We recognize conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

Impairments (Note 7, 8)

We assess the carrying value of intangible assets and property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In addition, for goodwill and other intangible assets with an indefinite useful life, the carrying value is reviewed annually in the fourth quarter. If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The assessment for impairment is performed at the lowest level of assets generating largely independent cash inflows. For goodwill and other intangible assets with an indefinite life, we have determined this to be at business unit level (one level below segment).

Except for goodwill, we reverse impairment losses in the statement of income if and to the extent we have identified a change in estimates used to determine the recoverable amount.

Leases (Note 8, 19)

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. The interest expenses are recognized as other financing expenses over the lease term.

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

Associates and joint ventures (Note 9)

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, 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.

Inventories (Note 11)

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of inventories are determined using weighted average cost.

Provisions (Note 15)

We recognize provisions when a present legal or constructive obligation as a result of a past event exists, it is probable that an outflow of economic benefits is required to settle the obligation and the amount can be reliably estimated. Provisions are measured at net present value. The increase of provisions as a result of the passage of time is recognized in the statement of income under Other financing expenses.

Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. We do not provide for future operating costs. A provision for warranties is recognized when the underlying products or services are sold, generally based on historical warranty data.

Financial instruments

Regular purchases and sales of financial assets and liabilities are recognized on trade date. The initial measurement of all financial instruments is at fair value. Except for derivatives, the initial measurement of financial instruments is adjusted for directly attributable transaction costs.

Derivative financial instruments (Note 22)

Derivative financial instruments are recognized at fair value on the balance sheet. Fair values are derived from market prices and quotes from dealers and brokers, or are estimated using observable market inputs. When determining fair values, credit risk for our contract party, as well as for AkzoNobel, is taken into account.

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

Other financial non-current assets (Note 10) and trade and other receivables (Note 12)

Loans and receivables are measured at amortized cost, using the effective interest method, less any impairment losses. An allowance for impairment is established if the collection of a receivable becomes doubtful.

Cash and cash equivalents (Note 16)

Cash and cash equivalents are measured at fair value and include all cash balances and short-term investments that are directly convertible into cash. Changes in fair values are included in Financing income.

Long-term and short-term borrowings (Note 16, 22) and trade and other payables (Note 17)

Long-term and short-term borrowings, as well as trade and other payables, are measured at amortized cost, using the effective interest rate method. The interest expense on borrowings is included in Other financing expenses. The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the interest at the reporting date, taking into account AkzoNobel's credit risk.

New IFRS accounting standards

IFRS standards and interpretations thereof not yet in force which may apply to our Consolidated financial statements for 2016 and beyond have been assessed for their potential impact. The most important upcoming changes are:

Other new IFRS accounting standards

Standard	Published	Implementation date in the standard	Endorsed by the European Union	Anticipated impact
IFRS 9, "Financial Instruments"	2009-2014	Implementation date of January 1, 2018, with earlier adoption permitted	Not yet endorsed	IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and replaces IAS 39 – the current standard on financial instruments. The standard contains new requirements for impairment of financial assets and for hedge accounting. In 2015, we started the assessment of the impact of IFRS 9 on our Consolidated financial statements; we expect to complete this process in 2016.
IFRS 15, "Revenue from Contracts with Customers"	May 28, 2014	January 1, 2018, with earlier adoption permitted	Not yet endorsed	IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. New qualitative and quantitative disclosures will also be required. In 2015, we started the assessment of the impact of IFRS 15 on our Consolidated financial statements, which sofar indicated that the effects are limited: We expect to complete this process in 2016.
IFRS 16, "Leases"	January 13, 2016	January 1, 2019, with earlier adoption permitted, if IFRS 15 is also applied at the date of adoption	Not yet endorsed	IFRS 16 replaces existing guidance on lessee accounting for leases. It requires lessees to bring most leases on balance sheet in a single lease accounting model, recognizing a right-of-use asset and a lease liability. In 2016, we will start with our impact assessment.

Divestments

In 2015, Specialty Chemicals completed the divestment of its Paper Chemicals business, which was accounted for as held for sale in 2014 at year-end. The divestment resulted in a net profit of €31 million, recognized as incidental item.

Acquisitions

In March 2015, we obtained the remaining 50 percent stake in Delesto B.V., which was treated as a consolidated company thereafter.

No acquisition in 2015, individually nor in total, was deemed material in respect of IFRS 3 disclosure requirements.

Discontinued operations

The results and net cash out, both in 2014 and 2015, mainly relate to settlements for previously divested business.

Material subsidiaries

The consolidated financial statements comprise the assets, liabilities, income and expenses of approximately 370 legal entities. We consider legal entities material when they represent, for at least two subsequent years, more than 5 percent of either revenue or operating income (before incidentals). Material subsidiaries included in the table are 100 percent owned and meet these criteria.

Assets and liabilities held for sale

In € millions	2014	2015
Property, plant and equipment	23	–
Intangible assets	21	–
Other assets	22	–
Total assets	**66**	**–**
Total non-current liabilities	3	–
Total current liabilities	8	–
Total liabilities	**11**	**–**

Discontinued operations

In € millions	2014	2015
Results related to discontinued operations in previous years	13	(3)
Tax related to discontinued operations in previous years	5	9
Profit for the period	**18**	**6**

Cash flows from discontinued operations

In € millions	2014	2015
Net cash from operating activities	(88)	(6)
Net cash from discontinued operations	**(88)**	**(6)**

Material subsidiaries

Legal entity	Principal place of business/country of corporation
Akzo Nobel Coatings Inc.	United States
Akzo Nobel Pulp and Performance Chemicals AB	Sweden
Akzo Nobel Industrial Chemicals B.V.	The Netherlands
Akzo Nobel Surface Chemistry LLC	United States
Akzo Nobel Ltda	Brazil

Operating income increased 59 percent to €1,573 million, reflecting the positive effects of process optimization, lower costs, favorable currency developments and the impact of incidental items.

- In Decorative Paints, operating income increased 39 percent as a result of the new operating model and lower costs
- In Performance Coatings, operating income increased 45 percent due to performance improvement initiatives, including management delayering and currencies
- In Specialty Chemicals, operating income increased 20 percent, with significant savings from continuous improvement programs and incidental items
- Operating income in other activities was, apart from incidental items, adversely impacted by insurance costs and higher pension costs due to changes in discount rates and de-risking of pension liabilities. Corporate costs were higher due to planned functional transformation projects and favorable items in 2014 related to the sale of assets

Raw material prices were lower, although in certain regions foreign currency effects adversely impacted raw material costs in local currencies.

For the full-year operating income was positively impacted by €111 million incidental items. In Specialty Chemicals the book profit, net of related costs, of €31 million with respect to the divestment of the Paper Chemicals business was reported as incidental items. Operating income in other activities was impacted by incidental items, including a recovery related to the 2014 fraud case (€42 million) and several adjustments to provisions, mainly for post-retirement benefits and legacy items.

In 2014 operating income was impacted by adverse incidental items (€85 million) related to the external fraud suffered by one of our susidiaries in the US, provisions for legacy items and project costs related to a divestment.

Costs by nature

					2014					2015
In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(926)	(7)	(347)	(7,396)	(8,676)	(1,004)	(7)	(361)	(7,412)	(8,784)
Selling expenses	(986)	(90)	(70)	(1,766)	(2,912)	(1,022)	(97)	(74)	(1,828)	(3,021)
General and administrative expenses	(682)	(37)	(43)	(511)	(1,273)	(564)	(28)	(35)	(618)	(1,245)
Research and development expenses	(230)	(7)	(17)	(109)	(363)	(230)	(7)	(17)	(93)	(347)
Incidentals	–	–	–	(85)	(85)	92	–	–	19	111
Total	**(2,824)**	**(141)**	**(477)**	**(9,867)**	**(13,309)**	**(2,728)**	**(139)**	**(487)**	**(9,932)**	**(13,286)**

Salaries, wages and other employee benefits in operating income

In € millions	2014	2015
Salaries and wages	(2,226)	(2,188)
Post-retirement cost	(221)	(128)
Other social charges	(377)	(412)
Total	**(2,824)**	**(2,728)**

Average number of employees

Average number during the year	2014	2015
Decorative Paints	15,500	15,100
Performance Coatings	21,000	19,700
Specialty Chemicals	10,000	9,300
Corporate and other	1,700	2,000
Total	**48,200**	**46,100**

The average number of employees working outside the Netherlands was 41,200 (2014: 43,100).

Employees

At year-end	2014	2015
Decorative Paints	15.200	14.900
Performance Coatings	20.500	19.300
Specialty Chemicals	9.800	9.100
Corporate and other	1.700	2.300
Total	**47.200**	**45.600**

At year-end 2015, the workforce reduced by 3 percent to 45,600 employees (year-end 2014: 47,200 employees), mainly due to ongoing restructuring and divestments.

Share-based compensation

Share-based compensation relates to the performance-related share plan, as well as the share-matching plan. Charges recognized in the 2015 statement of income for share-based compensation amounted to €33 million and are included in salaries and wages (2014: €34 million).

Performance-related share plan

Under the performance-related share plan, a number of conditional shares are granted to the members of the Board of Management, members of the Executive Committee and executives each year. The number of participants of the performance-related share plan at year-end 2015 was 593 (2014: 635).

The 2013 conditional grant of shares is linked for 30 percent to the ranking of the company in the RobecoSAM benchmark (SAM), 35 percent to the return on investment (ROI) performance of the company and the remaining 35 percent to the relative TSR performance of the company compared with the peer group.

The shares of the series 2012-2014 have vested and were delivered to the participants in 2015.

The conditional shares of the 2013-2015 series vested as follows:

- Our TSR performance over the period 2013-2015 resulted in an eighth position within the ranking of the peer group companies. This did not result in vesting of conditional shares
- Our ROI performance at the end of 2015 resulted in a vesting of 129 percent for this part of the long-term incentive
- The average position in the RobecoSAM benchmark resulted in a first position within the ranking. This resulted in a vesting of 150 percent for this part of the long-term incentive

As a result, the conditional shares of the 2013-2015 series vested for 90.29 percent (series 2012-2014: 75 percent), including dividend shares of 7.96 percent, the final vesting percentage amounted to 97.48 percent (series 2012-2014: 82.22 percent).

The fair value of the performance-related share plan at grant date is amortized as a charge against income over the three-year vesting period. The fair value for the shares conditionally granted in 2015 without a holding restriction was €54.11 and €45.47 with a holding restriction (2014: €57.37 without and €46.91 with a holding restriction).

The share price of a common AkzoNobel share at year-end amounted to €61.68 (2014: €57.65). For further details on our performance-related share plan, refer to the Remuneration report.

Performance-related shares

Series	Balance per January 1, 2015	Granted in 2015	Vested in 2015	Forfeited in 2015	Dividend in 2015 [1]	Balance at December 31, 2015	Vested on January 1, 2016
2012 – 2014	823,825	–	(823,825)	–	–	–	–
2013 – 2015	733,366	11,215	–	(91,376)	9,724	662,929	662,929
2014 – 2016	619,452	15,006	–	(39,863)	12,364	606,959	–
2015 – 2017	–	613,653	–	(27,398)	12,839	599,094	–
Total	**2,176,643**	**639,874**	**(823,825)**	**(158,637)**	**34,927**	**1,868,982**	**662,929**

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

Fair value of performance-related shares

The fair value of the performance-related shares (€54.11) was for 35 percent based on a market condition (TSR: €39.61) and for 65 percent based on non-market based performance conditions (€61.92).
The TSR part of the award is valued applying a Monte Carlo simulation model and the other part is valued based on the share price at grant date discounted for the present value of expected dividends over the vesting period.

Furthermore, for members of the Executive Committee, an additional holding restriction applies after the vesting period, up to a total of five years. Regarding this restriction an additional discount is taken into account. This leads to a lower fair value for their awards (€45.47).

The parameters applied for the fair value calculations are: share price at date of grant (opening of January 2, 2015): €57.50, expected volatility: 24.41 percent, expected dividend yield: 2.63 percent; and risk-free interest rate: 0.21 percent.

For the peer group (TSR) please refer to the Remuneration report.

Share-matching plan

The members of the Board of Management and the members of the Executive Committee are eligible to participate in the share-matching plan. Under certain conditions, members who invest part of their short-term incentives in AkzoNobel shares may have such shares matched by the company. The investment in AkzoNobel shares in 2015 resulted in a total of 4,529 potential matching shares (2014: 5,205).

The fair value of the potential matching shares at the date of the share investment is amortized as a charge against income over the three-year vesting period. The fair value was €67.81 per potential matching share in 2015 (2014: €49.96).

5 Note 5: Financing income and expenses

Financing income and expenses

In € millions	2014	2015
Financing income	42	28
Financing expenses	(157)	(125)
Net interest on net debt	**(115)**	**(97)**
Other interest movements		
Financing expenses related to pensions	(18)	(13)
Interest on provisions	(32)	(17)
Other items	9	13
Net other financing charges	**(41)**	**(17)**
Net financing expenses	**(156)**	**(114)**

Net financing expenses for the year decreased by €42 million, from €156 million to €114 million. Significant variances are:

- Net interest on net debt decreased by €18 million to €97 million (2014: €115 million), mainly due to lower financing expenses as a result of a high interest bond repayment partly off-set by a lower return on investments held in an escrow account
- Net other financing charges decreased by €24 million to €17 million (2014: €41 million) mainly as a result from less significant decreases of discount rates in 2015 when compared to 2014

The average interest rate used for capitalized interest was 3.9 percent (2014: 5.1 percent).

The average financing expenses on total debt were 4.0 percent (2014: 5.0 percent)

6 Note 6: Income tax

Pre-tax income from continuing operations amounted to a profit of €1,476 million (2014: €852 million). The net tax charges related to continuing operations are included in the statement of income as follows:

Classification of current and deferred tax result

In € millions	2014	2015
Current tax expense for		
The year	(244)	(332)
Adjustments for prior years	(8)	27
Total current tax expense	**(252)**	**(305)**
Deferred tax expense for		
Origination and reversal of temporary differences and tax losses	(7)	(82)
(De)recognition of deferred tax assets	8	(20)
Changes in tax rates	(1)	(9)
Total deferred tax expense	**–**	**(111)**
Total	**(252)**	**(416)**

The total deferred tax charge, including discontinued operations was €109 million (2014: € nil). The total tax charge, including discontinued operations, was €407 million (2014: €247 million).

Effective tax rate reconciliation

The effective income tax rate based on the Consolidated statement of income is 28.2 percent.

Effective tax rate

In %	2014	2015
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	0.4	1.9
Weighted average statutory income tax rate	**25.4**	**26.9**
Non-taxable (income)/expenses	0.3	0.4
(De)recognition of deferred tax assets	(0.9)	1.4
Non-refundable withholding taxes	3.6	0.7
Other	1.2	(1.2)
Effective tax rate	**29.6**	**28.2**

The impact of non-refundable withholding tax on the tax rate is dependent on our relative share in the profit of subsidiaries in countries that levy withholding tax on dividends and on the timing of the remittance of such dividends. Based on the Dutch tax system there is a limited credit for such taxes. The high impact in 2014 was caused by relatively high expected dividends.

Deferred tax assets and liabilities

From the total amount of recognized net deferred tax assets, €496 million (2014: €967 million) is related to entities that have suffered a loss in either 2015 or 2014 and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences.

The usage of the tax loss carryforwards recognized in the balance sheet will affect the cash tax rate in coming years.

Income tax recognized in equity

In € millions	2014	2015
Currency exchange differences on intercompany loans of a permanent nature	(16)	2
Cash flow hedges	–	7
Share-based compensation	–	(1)
Post-retirement benefits	34	(2)
Total	**18**	**6**
Current tax	(16)	–
Deferred tax	34	6
Total	**18**	**6**

Unrecognized deferred tax assets

In € millions	2014	2015
Tax losses and tax credits	139	165
Deductible temporary differences	249	267
Total	**388**	**432**

Expiration year of loss carryforwards

In € millions	2016	2017	2018	2019	2020	Later	Unlimited	Total
Total loss carryforwards	53	146	61	63	63	644	2,964	3,994
Loss carryforwards not recognized in deferred tax assets	(36)	(71)	(46)	(38)	(48)	(16)	(44)	(299)
Total recognized	**17**	**75**	**15**	**25**	**15**	**628**	**2,920**	**3,695**

Movement in deferred tax in 2014

In € millions	Net balance January 1, 2014	Changes in exchange rates	Recognized in income	Recognized in equity	Other	Net balance December 31, 2014	Assets	Liabilities
Intangible assets	(493)	(29)	180	–	(10)	(352)	86	438
Property, plant and equipment	(52)	(1)	15	–	(1)	(39)	82	121
Post-retirement benefit provisions	182	11	(64)	138	–	267	348	81
Other provisions	273	21	(132)	–	–	162	175	13
Other items and tax credits	267	(2)	41	–	(1)	305	479	174
Tax loss carryforwards	681	53	51	–	–	785	785	–
Deferred tax assets not recognized	(176)	(17)	(91)	(104)	–	(388)	(388)	–
Tax assets/liabilities	**682**	**36**	**–**	**34**	**(12)**	**740**	**1,567**	**827**
Set-off of tax	–	–	–	–	–	–	(415)	(415)
Net deferred taxes	**682**	**36**	**–**	**34**	**(12)**	**740**	**1,152**	**412**

Movement in deferred tax in 2015

In € millions	Net balance January 1, 2015	Changes in exchange rates	Recognized in income	Recognized in equity	Other	Net balance December 31, 2015	Assets	Liabilities
Intangible assets	(352)	7	(9)	–	–	(354)	61	415
Property, plant and equipment	(39)	1	–	–	(1)	(39)	78	117
Post-retirement benefit provisions	267	13	(91)	5	–	194	310	116
Other provisions	162	10	(36)	–	(1)	135	159	24
Other items and tax credits	305	1	13	13	–	332	396	64
Tax loss carryforwards	785	44	38	(6)	–	861	861	–
Deferred tax assets not recognized	(388)	(14)	(24)	(6)	–	(432)	(432)	–
Tax assets/liabilities	**740**	**62**	**(109)**	**6**	**(2)**	**697**	**1,433**	**736**
Set-off of tax	–	–	–	–	–	–	(376)	(376)
Net deferred taxes	**740**	**62**	**(109)**	**6**	**(2)**	**697**	**1,057**	**360**

Intangible assets

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
Balance at January 1, 2014					
Cost of acquisition	1,264	2,113	854	319	4,550
Cost of internally developed intangibles	–	–	–	237	237
Accumulated amortization/impairment	(85)	(118)	(425)	(253)	(881)
Carrying value	**1,179**	**1,995**	**429**	**303**	**3,906**
Movements in 2014					
Acquisitions through business combinations	5	–	3	2	10
Investments – including internally developed intangibles	–	–	–	24	24
Transfer from/(to) assets held for sale	(16)	–	71	35	90
Amortization	–	(11)	(69)	(61)	(141)
Impairments	–	–	–	(2)	(2)
Changes in exchange rates	78	137	29	11	255
Total movements	**67**	**126**	**34**	**9**	**236**
Balance at December 31, 2014					
Cost of acquisition	1,340	2,267	1,027	401	5,035
Cost of internally developed intangibles	–	–	–	255	255
Accumulated amortization/impairment	(94)	(146)	(564)	(344)	(1,148)
Carrying value at year-end 2014	**1,246**	**2,121**	**463**	**312**	**4,142**
Movements in 2015					
Acquisitions through business combinations	3	–	–	–	3
Investments – including internally developed intangibles	–	–	–	37	37
Divestment	(2)	–	(1)	(8)	(11)
Amortization	–	(12)	(70)	(57)	(139)
Impairments	–	–	–	(1)	(1)
Changes in exchange rates	77	3	29	16	125
Total movements	**78**	**(9)**	**(42)**	**(13)**	**14**
Balance at December 31, 2015					
Cost of acquisition	1,423	2,260	1,071	409	5,163
Cost of internally developed intangibles	–	–	–	246	246
Accumulated amortization/impairment	(99)	(148)	(650)	(356)	(1,253)
Carrying value at year-end 2015	**1,324**	**2,112**	**421**	**299**	**4,156**

Goodwill and other intangibles per segment

In € millions	Goodwill		Brands with indefinite useful lives		Other intangibles with finite useful lives		Total intangibles	
	2014	2015	2014	2015	2014	2015	2014	2015
Decorative Paints	37	36	1,908	1,907	305	265	2,250	2,208
Performance Coatings	701	731	–	–	292	278	993	1,009
Specialty Chemicals	508	557	–	–	391	382	899	939
Total	**1,246**	**1,324**	**1,908**	**1,907**	**988**	**925**	**4,142**	**4,156**

Average revenue growth rates per forecast period

In % per year	2016-2020	2021-2025
Decorative Paints	5.1%	3.4%
Performance Coatings	3.0%	2.5%
Specialty Chemicals	1.3%	2.0%

Dulux is the major brand with an indefinite useful life, due to its global presence, high recognition and strategic nature. Other intangibles include licenses, know-how, intellectual property rights, emission rights and development cost. Both at year-end 2015 and 2014, there were no purchase commitments for individual intangible assets. No intangible assets were registered as security for bank loans.

Impairment

Goodwill and other intangibles with indefinite useful lives are tested for impairment per business unit (one level below segment level) in the fourth quarter or whenever an impairment trigger exists. The impairment test is based on cash flow projections of the five-year plan. The key assumptions used in the projections are:

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

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

For virtually all business units, a terminal value was calculated using a long-term average market growth rate that did not exceed 2 percent. The estimated pre-tax cash flows are discounted to their present value using a pre-tax weighted average cost of capital. The discount rates are determined for each business unit and range from 7.7 percent to 11.9 percent, with a weighted average of 8.6 percent.

A sensitivity test for growth assumptions – a 50 percent reduction of the growth rate – as well as the pre-tax weighted average cost of capital – a one percentage point increase – confirms sufficient headroom in all businesses. As a result, no impairment charge was recognized in relation to the annual impairment test this year.

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	Total
Balance at January 1, 2014						
Cost of acquisition	2,214	5,963	797	646	60	9,680
Accumulated depreciation/impairment	(1,149)	(4,285)	(600)	(4)	(53)	(6,091)
Carrying value	**1,065**	**1,678**	**197**	**642**	**7**	**3,589**
Movements in 2014						
Transfer from assets held for sale	16	10	3	–	–	29
Divestments	(11)	(7)	(4)	–	–	(22)
Capital expenditures	44	144	40	358	2	588
Transfer between categories	54	178	38	(272)	2	–
Depreciation	(81)	(322)	(74)	–	–	(477)
Impairments	7	3	(2)	(7)	(1)	–
Changes in exchange rates	32	44	29	24	(1)	128
Total movements	**61**	**50**	**30**	**103**	**2**	**246**
Balance at December 31, 2014						
Cost of acquisition	2,319	6,261	922	813	70	10,385
Accumulated depreciation/impairment	(1,193)	(4,533)	(695)	(68)	(61)	(6,550)
Carrying value at year-end 2014	**1,126**	**1,728**	**227**	**745**	**9**	**3,835**
Movements in 2015						
Acquisitions	–	11	1	1	–	13
Divestments	(8)	(11)	(6)	(4)	(1)	(30)
Capital expenditures	21	134	31	465	–	651
Transfer between categories	81	279	60	(420)	–	–
Depreciation	(75)	(336)	(76)	–	–	(487)
Impairments	(11)	(2)	(1)	(7)	–	(21)
Changes in exchange rates	12	16	6	9	(1)	42
Total movements	**20**	**91**	**15**	**44**	**(2)**	**168**
Balance at December 31, 2015						
Cost of acquisition	2,403	6,670	999	863	66	11,001
Accumulated depreciation/impairment	(1,257)	(4,851)	(757)	(74)	(59)	(6,998)
Carrying value at year-end 2015	**1,146**	**1,819**	**242**	**789**	**7**	**4,003**

Capital expenditures

- In Decorative Paints, we invested in growth markets and in creating efficiency in Europe through optimization of our production footprint
- In Performance Coatings, we invested in both RD&I facilities and production facilities in mature and growth markets, to increase capacity and to improve efficiency
- In Specialty Chemicals, several asset integrity and efficiency improvement projects as well as growth projects for specific segments were executed

Impairments

In 2015 some small impairments were recorded, spread over all businesses.

Financial lease

The carrying value of the property, plant and equipment financed by hire purchase and leasing and not legally owned by the company was €39 million (2014: €40 million) of which €38 million is related to buildings and land and €1 million to other equipment.

9 Note 9: Investments in associates and joint ventures

At year-end 2015, the carrying value of investments in associates amounted to €107 million (2014: €100 million) and in joint ventures €58 million (2014: €83 million). In 2015, the results from associates and joint ventures amounted to a profit of €17 million (2014: €21 million).

No significant contingent liabilities exist related to associates and joint ventures.

In 2015, we acquired the remaining 50 percent stake in Delesto B.V. and obtained control. As a result Delesto B.V. changed from a joint venture into a consolidated company.

The most significant associates and joint ventures of AkzoNobel are: Metlac Holdings Brl (49 percent), Metlac Spa (44 percent), Eka Chile SA (50 percent), Delamine B.V. (50 percent), Fort Amanda Specialties LLC (50 percent) and I.C. Insurance Holdings Ltd (49 percent).

None of the associates and joint ventures are considered individually material to the group.

Combined financial information of our share in associates and joint ventures

		Associates		Joint ventures
In € millions	2014	2015	2014	2015
Condensed statement of income				
Revenue	93	103	220	126
Profit before tax	19	18	9	12
Profit from continuing operations	13	11	8	6
Other comprehensive income	1	1	4	2
Total comprehensive income	**14**	**12**	**12**	**8**
Condensed balance sheet				
Non-current assets	57	60	44	42
Current assets	84	85	76	46
Total assets	**141**	**145**	**120**	**88**
Shareholders' equity	100	107	83	58
Non-current liabilities	14	4	11	11
Current liabilities	27	34	26	19
Total liabilities and equity	**141**	**145**	**120**	**88**

10 Note 10: Other financial non-current assets

Other financial non-current assets

In € millions	2014	2015
Loans and receivables	232	189
Other than financial instruments	581	714
Total	**813**	**903**

The loans and receivables include the subordinated loan of €90 million (2014: €89 million) granted to the Pension Fund APF in the Netherlands and the non-current part of an escrow account of the AkzoNobel (CPS) Pension Scheme in the UK amounting to €59 million (2014: €86 million), invested in corporate bonds. Under certain conditions, the minimum annual funding of this pension fund from the escrow account is €34 million (£25 million). The current portion of the escrow account is reported as Other receivables within Trade and other receivables.

Other financial non-current assets include an amount of €528 million related to pension plans in an asset position (2014: €409 million). See Note 14.

11 Note 11: Inventories

Inventories

In € millions	2014	2015
Raw materials and supplies	476	450
Work in progress	84	87
Finished products and goods for resale	985	967
Total	**1,545**	**1,504**

Of the total carrying value of inventories at year-end 2015, €51 million is measured at net realizable value (2014: €49 million). In 2015, €27 million was recognized in the statement of income for the write-down of inventories (2014: €28 million), while €15 million of write-downs were reversed (2014: €17 million). There are no inventories subject to retention of title clauses.

12 Note 12: Trade and other receivables

Trade and other receivables

In € millions	2014	2015
Trade receivables	2,246	2,267
Prepaid expenses	63	62
Tax receivables other than income tax	164	155
Receivables from associates and joint ventures	35	29
FX and commodity contracts	17	24
Other receivables	218	204
Total	**2,743**	**2,741**

Trade receivables are presented net of an allowance for impairment of €102 million (2014: €95 million). In 2015, €43 million of impairment losses were recognized in the statement of income (2014: €35 million).

Ageing of trade receivables

In € millions	2014	2015
Performing accounts receivable	2,004	2,026
Past due accounts receivables and not impaired		
< 3 months	205	200
> 3 months	20	25
Impaired accounts receivables	112	118
Allowance for impairment	(95)	(102)
Total trade receivables	**2,246**	**2,267**

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	2014	2015
Balance at January 1	**91**	**95**
Additions charged to income	35	43
Release of unused amounts	(16)	(17)
Utilization	(19)	(18)
Currency exchange differences	4	(1)
Balance at year-end	**95**	**102**

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

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

Composition of share capital at year-end 2015

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	497,952,856
Total	**1,600,019,200**	**497,972,056**

Outstanding common shares

Number of shares	2014	2015
Outstanding at January 1	242,625,535	**246,043,094**
Issued in connection to stock options exercised and performance shares granted	788,616	825,102
Stock dividend	2,628,943	2,108,232
Balance at year-end	246,043,094	**248,976,428**

Weighted average number of shares

Number of shares	2014	2015
Issued common shares at January 1	242,625,535	**246,043,094**
Issued common shares during the year	2,033,094	1,777,510
Shares for basic earnings per share for the year	244,658,629	**247,820,604**
Effect of dilutive shares		
For performance-related shares	1,410,341	1,826,898
For share-matching plan	20,801	24,136
Shares for diluted earnings per share	246,089,771	**249,671,638**

Non-controlling interests

Group equity	Partner	2014 %	2014 Equity stake € million	2015 %	2015 Equity stake € million
Akzo Nobel Swire Paints (Shanghai) Ltd, Shanghai, China	Swire Duro (Holdings) Ltd, China	30.00	184	30.00	191
Akzo Nobel India Limited, Kolkata, India	Privately held, India	27.04	50	27.04	55
PT ICI Paints Indonesia, Jakarta, Indonesia	PT DWI Satrya Utama, Indonesia	45.00	30	45.00	29
Akzo Nobel Paints (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	Privately held, Malaysia	40.05	30	40.05	27
Akzo Nobel Swire Paints (Guangzhou) Limited, Guangzhou, China	Swire Duro (Holdings) Limited, Industrial Development Co. Ltd of Guangzhou, China	46.00	53	46.00	38
International Paint (Korea) Ltd, Busan, South Korea	Noroo Holdings, South Korea	40.00	19	40.00	24
Kayaku Akzo Corporation, Tokyo, Japan	Nippon Kayaku Co., Ltd., Japan	25.00	8	25.00	8
Akzo Nobel Kemipol A.S., Izmir, Turkey	Privately held, Turkey	49.00	18	49.00	18
Marshall Boya Ve Vernik Sanayii A.S., Gebze, Turkey	Marshal Employees' Foundation, Privately held, Turkey	11.74	5	11.74	5
Akzo Nobel Boya Sanayi Ve Ticaret A.S., Izmir, Turkey	Privately held, Turkey	25.00	5	25.00	4
Akzo Nobel Pakistan Limited, Karachi, Pakistan	Privately held, Pakistan	24.19	10	24.19	13
Akzo Nobel Oman SAOC, Muscat, Oman	Omar Zawawi Establishment LLC, Oman	50.00	13	50.00	14
Others			52		70
Total			477		**496**

Subscribed share capital
For further details on subscribed share capital, see Note D in the Company financial statements.

Other components of shareholders' equity
Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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.

Equity-settled transactions consist of the performance-related share plan and share-matching plan, whereby shares are granted to the Board of Management, Executive Committee and other executives. For details of the share-based compensation, see Note 4.

Non-controlling interests
None of the non-controlling interests are considered individually material to the group.

Post-retirement benefit provisions relate to defined benefit pension and other post-retirement benefits, including healthcare or welfare plans. We have a number of defined benefit pension plans. The largest pension plans are the ICI Pension Fund (ICIPF) and the AkzoNobel (CPS) Pension Scheme (CPS) in the UK which together account for 83 percent of defined benefit obligations (DBO) and 91 percent of plan assets. Other pension plans include the largely unfunded plans in Germany, the plans in the US and certain other smaller plans in the UK. The benefits of these pension plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment. We also provide certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands.

Valuations of the obligations under the plans are carried out regularly by independent qualified actuaries. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees. Governance of the benefit plans is the responsibility of the ExCo Pensions Committee. This committee provides oversight of the costs and risks of the plans including oversight of the impact of the plans on the company in terms of cash flow, pension expenses and the balance sheet, by the development and maintenance of policies on benefit design, funding, asset allocation and assumption setting.

Pension plans

Almost all of the defined benefit plans have been closed to new members since the early to mid-2000s, although in many plans long-serving employees continue to accrue benefits. For plans in the US, benefit accrual is frozen and employees participate in defined contribution plans for future service. In countries where plans are closed, new employees are eligible to join a defined contribution arrangement. In countries in high growth markets, pension schemes currently are not material. Unless mandated by law, it is our policy that any new plans are established as defined contribution plans.

The most significant risks that we run in relation to defined benefit plans are that investment returns fall short of expectations, low discount rates, that inflation exceeds expectations, and that retirees live longer than expected. The assets and liabilities of each of the funded plans are held outside of the company in a trust or a foundation, which is governed by a board of fiduciaries or trustees, depending on the legal arrangements in the country concerned. The primary objective with regard to the investment of pension plan assets is to ensure that each individual plan has sufficient funds available to satisfy future benefit obligations in accordance with local legal and legislative requirements. For this purpose, we work closely with plan trustees or fiduciaries to develop strategic asset allocation strategies. Asset liability modeling (ALM) studies are carried out periodically to analyze and understand the trade-off between expected investment returns, volatility of outcomes and the impact on cash contributions. We aim to strike a cautious balance between these factors in order to agree affordable contribution schedules with plan fiduciaries. Plan assets principally consist of long-term interest-earning investments, insurance policies and (investment funds with holdings primarily in) quoted equity securities. Our largest plans use derivatives (such as index futures, currency forward contracts and swaps) to reduce volatility of underlying variables, for efficient portfolio management and to improve the liability matching characteristics of the assets. Limits have been set on the use of derivatives which are periodically subject to review for compliance with the pension fund's investment strategy. ICIPF invested in annuity contracts that aim to hedge all key risks related to a certain part of the pensioner population. CPS has an insurance contract with SwissRe to hedge longevity risk in respect of a portion of its pensioners.

In line with our proactive pension risk management strategy, we seek to reduce risk in our pension plans over time. We continue to evaluate different potential de-risking strategies and opportunities on an ongoing basis. Some future de-risking transactions may have both cash flow and balance sheet impacts which may be substantial, as have some of the de-risking actions already taken. The cost of fully removing risk would exceed estimated funding deficits. In 2015, the Trustee of ICIPF entered into three more annuity buy-in agreements. Two of the agreements are with Legal & General plc and the other is with Prudential Retirement Income Limited and they cover, in aggregate, £1.5 billion (€2.0 billion) of pensioner liabilities (local plan value). The buy-ins involved the purchase of bulk annuity policies under which the insurers will pay to ICIPF amounts equivalent to the benefits payable to a subset of current pensioners. The pension liabilities remain with ICIPF and the matching annuity policies are held within ICIPF. The accounting impact of the transaction is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £230 million (€321 million). The Trustee of a smaller UK pension plan, the ICI Specialty Chemicals Pension Fund (ISCPF) transacted two buy-ins in August and November 2015 with Prudential Retirement Income Limited covering £235 million (€317 million) of pensions liabillities (local plan value) giving a reduction in Other comprehensive income of £47 million (€63 million). By purchasing these bulk annuities, the Trustees have both taken significant steps in actively de-risking liabilities and reducing the risk that AkzoNobel will be required to contribute additional cash in the future.

The remaining pension plans primarily represent defined contribution plans. This includes, among others, the Pension Fund APF in the Netherlands and the 401k Plan in the US. The ITP2 plan in Sweden is financed through insurance with the Alecta insurance company and is classified as a multi-employer defined benefit plan. As AkzoNobel does not have access to sufficient information from Alecta to enable a defined benefit accounting treatment, it is accounted for as a defined contribution plan. Contributions in 2015 were €8 million (2014: €10 million). Alecta's target funding ratio in 2015 was 140 percent. The most recently quoted ratio at September 2015 stood at 148 percent. There is also a small number of multi-employer plans in the US and Germany in which AkzoNobel participates with annual contributions in each case totaling less than €1 million. These are also accounted for as defined contribution plans. The expenses of all plans accounted for as defined contribution plans in AkzoNobel totaled €132 million in 2015 (2014: €145 million).

Other post-retirement benefit plans

AkzoNobel provides certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands. The risks to which the US healthcare plans expose AkzoNobel include the risk of future increases in the cost of healthcare which would increase the cost of maintaining the plans. The benefit payments to retirees under the Dutch plan are frozen. Both plans expose AkzoNobel to the risk of a further decline in discount rates, which increases the plan obligations, and longevity risk as the plans generally pay lifetime benefits.

In the second half of 2015, we modified the US welfare plans to align with local market practice. This resulted in plan amendments and curtailments, leading to an adjustment of the provision of €92 million.

Reconciliation balance sheet

			2014			2015
In € millions	DBO	Plan assets	Total	DBO	Plan assets	Total
Balance at the beginning of the period	**(15,188)**	**14,248**	**(940)**	**(17,165)**	**15,989**	**(1,176)**
Statement of income						
Current service cost	(57)	–	(57)	(65)	–	(65)
Past service cost	(2)	–	(2)	92	–	92
Settlements	–	–	–	2	(1)	1
Net interest (charge)/income on net defined benefit (liability)/asset	(643)	625	(18)	(597)	584	(13)
Cost recognized in statement of income	**(702)**	**625**	**(77)**	**(568)**	**583**	**15**
Remeasurements						
Actuarial gain/(loss) due to liability experience	68	–	68	404	–	404
Actuarial gain/(loss) due to liability financial assumption changes	(1,469)	–	(1,469)	394	–	394
Actuarial gain/(loss) due to liability demographic assumption changes	132	–	132	(126)	–	(126)
Actuarial loss due to buy-in	–	(841)	(841)	–	(384)	(384)
Return on plan assets greater/(less) than discount rate	–	1,528	1,528	–	(473)	(473)
Remeasurement effects recognized in other comprehensive income	**(1,269)**	**687**	**(582)**	**672**	**(857)**	**(185)**
Cash flow						
Employer contributions	–	425	425	–	480	480
Employee contributions	(4)	4	–	(3)	3	–
Benefits and administration costs paid from plan assets	948	(948)	–	1,061	(1,061)	–
Net cash flow	**944**	**(519)**	**425**	**1,058**	**(578)**	**480**
Other						
Acquisitions/divestments/transfers	10	(10)	–	9	(8)	1
Changes in exchange rates	(960)	958	(2)	(966)	951	(15)
Total other	**(950)**	**948**	**(2)**	**(957)**	**943**	**(14)**
Balance at the end of the period	**(17,165)**	**15,989**	**(1,176)**	**(16,960)**	**16,080**	**(880)**
Asset restriction			(2)			(3)
Medicare receivable			(3)			–
Net balance sheet provision			**(1,181)**			**(883)**
In the balance sheet under						
Other financial non-current assets			409			528
Post-retirement benefit provisions			(1,488)			(1,285)
Current portion of provisions			(102)			(126)
Liabilities held for sale			–			–
Net balance sheet provision			**(1,181)**			**(883)**

In addition to the expenses borne by the funds themselves, some expenses are borne directly by AkzoNobel. Administrative expenses are incurred, especially for the UK pension funds, of €24 million (2014: €17 million), which are included in Operating income. In addition, we directly incurred asset management expenses of €5 million (2014: €7 million), which have been included in Other comprehensive income.

Interest costs on DBO for both pensions and other post-retirement benefits together with the interest income on plan assets comprise the net financing expenses related to pensions of €13 million (2014: €18 million), see Note 5.

DBO at funded and unfunded pension plans

In € millions	2014	2015
Wholly or partly funded plans	16,481	16,380
Unfunded plans	350	324
Total	**16,831**	**16,704**

Cash flows

In 2016, we expect to contribute €436 million to our defined benefit pension plans. This includes €104 million of regular pension contributions and €332 million for top-ups, of which £25 million (€34 million) will be paid out of the CPS escrow account (see explanation in Key plan details). We expect to pay a further €20 million for other post-retirement benefit plans. No allowance is made for any special one-off contributions that may arise in relation to new de-risking opportunities.

The figures in the table below are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

Plan assets

	2014		2015	
In € millions	Total	Percentage of total	Total	Percentage of total
Equities	1,566	10	1,166	7
Debt – fixed interest government bonds	1,222	8	950	6
Debt – index-linked government bonds	3,701	23	4,028	25
Debt – corporate and other bonds	1,645	10	1,069	7
Insurance contracts	4,405	28	6,250	39
Cash and cash equivalents	1,516	9	238	1
Other	1,934	12	2,379	15
Total	**15,989**	**100**	**16,080**	**100**

Future benefit payments

In € millions	Pensions	Other post-retirement benefits
2016	1,047	21
2017	1,031	20
2018	1,042	20
2019	1,047	19
2020	1,059	18
2021-2025	5,388	84

The equities and government bond debt assets in the table above have quoted prices in active markets, although most are held through funds comprised of such instruments which are not actively traded themselves. The other categories of plan assets include certain assets that are not quoted in active markets. Such unquoted securities, totaling €997 million (2014: €654 million), have increased due to changed investment allocations by the trustees. Unquoted plan assets include investments in real estate, totaling €362 million (2014: €314 million) and other investments in infrastructure, catastrophe bonds, insurance policies and high-yield credit strategies. Plan assets did not directly include any of AkzoNobel's own transferable financial instruments, nor any property occupied by or assets used by the company.
Pension balances recorded under Other financial non-current assets totaled €528 million (2014: €409 million). These assets could be recognized under IFRIC 14 because economic benefits are available in the form of future refunds from the plan or reductions in future contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

Key figures and assumptions by plan

In € millions	2014					2015				
	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total
Percentage of total DBO	62%	21%	15%	2%		62%	21%	15%	2%	
Defined Benefit Obligation	(10,633)	(3,548)	(2,650)	(334)	(17,165)	(10,544)	(3,568)	(2,592)	(256)	(16,960)
Fair value of plan assets	10,870	3,606	1,513	–	15,989	10,821	3,764	1,495	–	16,080
Plan funded status	237	58	(1,137)	(334)	(1,176)	277	196	(1,097)	(256)	(880)
Restriction on asset recognition	–	–	(2)	–	(2)	–	–	(3)	–	(3)
Medicare receivable	–	–	–	(3)	(3)	–	–	–	–	–
Amounts recognized on the balance sheet	**237**	**58**	**(1,139)**	**(337)**	**(1,181)**	**277**	**196**	**(1,100)**	**(256)**	**(883)**
Percentage of total current service cost	16%	22%	55%	7%		16%	21%	56%	7%	
Current service cost	9	13	31	4	57	10	14	36	5	65
Employer contributions	230	93	79	23	425	253	102	97	28	480
Discount rate	3.4%	3.6%	2.8%	3.3%	3.4%	3.6%	3.7%	3.1%	3.6%	3.5%
Rate of compensation increase	3.9%	4.0%	2.7%	–	3.8%	3.9%	4.0%	2.7%	–	3.8%
Inflation	2.9%	3.0%	2.0%	–	2.8%	2.9%	3.0%	1.9%	–	2.8%
Pension increases	2.8%	2.1%	2.1%	–	2.5%	2.8%	2.1%	2.0%	–	2.5%
Healthcare cost trend rate for next year	–	–	–	5.3%	5.3%	–	–	–	5.2%	5.2%
Rate to which cost trend rate is assumed to decline	–	–	–	3.9%	3.9%	–	–	–	3.8%	3.8%
Year that rate reaches the ultimate trend	–	–	–	2019-2032	2019-2032	–	–	–	2024	2024
Life expectancy (in years)										
Currently aged 60										
Males	26.7	26.8	25.2	24.8	26.5	27.0	26.9	25.6	26.2	26.8
Females	29.0	28.4	28.3	26.7	28.7	29.5	29.4	28.6	28.2	29.3
Currently aged 45, from age 60										
Males	27.8	28.0	26.8	26.1	27.7	28.3	28.3	27.1	27.5	28.1
Females	30.3	29.7	29.8	27.6	30.0	31.0	30.9	30.3	29.5	30.8

Sensitivity of DBO to change in assumptions

In € millions	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total
Discount rate: 0.5% decrease	692	291	196	13	1,192
Price inflation: 0.5% increase [1]	427	160	113	–	700
Life expectancy: one year increase from age 60	492	127	111	10	740
Healthcare cost trend rate: 0.5% increase	–	–	–	4	4
Maturity information					
Weighted average duration of DBO (years)	12.6	15.3	14.6	9.4	13.4

[1] The sensitivity to price inflation assumption includes corresponding changes to all inflation-related compensation increases, pensions in payment and pensions in deferment.

The effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO; in particular the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for each plan. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent our view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-retirement defined benefit plans are not reflected in this analysis, as they would normally be reflected in plan asset changes rather than DBO changes.

The sensitivities in the table only apply to the DBO and not to the net amounts recognized in the balance sheet. Movements in the fair value of plan assets (which include the de-risking instruments) would, to a significant extent, be expected to offset movements in the DBO resulting from changes in the given assumptions. The annuity buy-in contracts cover 66 percent of pensioner liabilities at ICIPF and the longevity hedge contract covers 40 percent of pensioner liabilities at CPS.

Key plan details for the two largest pension plans

	ICI Pension Fund, UK	AkzoNobel (CPS) Pension Scheme, UK
Type of plan	Defined benefit, based upon years of service and final salary	Defined benefit, based upon years of service and final salary
Benefits	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement
Pension increases (main benefit section)	Annually linked to UK RPI with a maximum of 5 percent	Annually linked to UK CPI with a maximum of 5 percent
Plan structure	Plans are set up under a trust and are tax approved	Plans are set up under a trust and are tax approved
Governance	Trustee directors: Five members nominated One independent (Law Debenture) Five appointed with the agreement of Law Debenture	Trustee directors: Four members nominated Four companies nominated One independent (Law Debenture)
Regulatory framework	The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company	
Funding basis	A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities	
Frequency of funding reviews	Every three years	Every three years
Latest valuation	March 31, 2014	March 31, 2012
Funding deficit[1] at latest valuation	£850 million (€1,154 million)	£220 million (€299 million) allowing for the escrow account
Recovery plan	£150 million (€204 million) per annum in 2016 and 2017 and £125 million (€170 million) per annum in 2018 to 2021, paid in January each year	£42 million (€57 million) per annum to 2018, plus a minimum of £25 million (€34 million) per annum to 2017 from the escrow account paid in March each year
Next funding review	March 31, 2017 with recovery plan to be agreed by June 30, 2018	March 31, 2015 with recovery plan to be agreed by June 30, 2016
Estimated funding deficit[1] at March 31, 2015 Estimated solvency deficit[1] at March 31, 2015	£0.75 billion (€1.0 billion) £1.8 billion (€2.4 billion)	Funding position to be agreed with Trustees by June 30, 2016
Asset allocation at March 31, 2015 Matching: Return seeking:	 85% 15% Buy-in annuity contracts cover 66% of pensioner liabilities	 58% 42% Longevity hedge contract covers 40% of pensioner liabilities
Escrow account	Not applicable	Pre-funded account established in 2007 to fund existing deficit. It pays a minimum of £25 million (€34 million) per annum to CPS until it is exhausted (no later than 2017). Value at year-end 2015 is £68 million (€93 million)
Membership at March 31, 2015 Active Deferred Pensioner Total	 347 9,327 46,196 55,870	 569 9,162 19,382 29,113

[1] Based on local valuation regulations.

15 Note 15: Other provisions

Movements in other provisions

In € millions	Restructuring of activities	Environmental costs	Sundry	Total
Balance at January 1, 2015	**259**	**326**	**462**	**1,047**
Additions made during the year	88	13	127	228
Utilization	(171)	(34)	(129)	(334)
Amounts reversed during the year	(40)	(18)	(23)	(81)
Unwind of discount	2	6	7	15
Changes in exchange rates	4	12	14	30
Balance at year-end 2015	**142**	**305**	**458**	**905**
Non-current portion of provisions	24	266	290	580
Current portion of provisions	118	39	168	325
Balance at year-end 2015	**142**	**305**	**458**	**905**

Provisions for restructuring of activities

Provisions for restructuring of activities comprise of 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 one year from the balance sheet date.

Provisions for environmental costs

For details on environmental exposures, see Note 19.

Sundry provisions

Sundry provisions relate to a great variety of risks and commitments, including provisions for claims, antitrust cases and other long-term employee benefits, such as long-service leave and jubilee payments.

The majority of the cash outflows related to sundry provisions are expected to be within one to five years. In calculating the sundry provisions, a pre-tax discount rate of on average 2.8 percent has been used.

Current portion of provisions

Current portion of post-retirement benefit provisions (€126 million) and other provisions (€325 million) adds up to €451 million (2014: €494 million), as reflected in the balance sheet.

16 Note 16: Net debt

Net debt at year-end 2015 of €1,226 million was below 2014 (€1,606 million).

Analysis of net debt by category

In € millions	2014	2015
Bonds issued	2,351	2,034
Other borrowings	176	127
Long-term borrowings	**2,527**	**2,161**
Current portion of long-term borrowings	662	378
Debt to credit institutions	83	48
Other	66	4
Short-term borrowings	**811**	**430**
Total borrowings	**3,338**	**2,591**
Cash and cash equivalents	(1,732)	(1,365)
Net debt	**1,606**	**1,226**

AkzoNobel's net debt is mainly denominated in euro.

The part of long-term borrowings that is due within one year is presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see Note 22.

Bonds issued

In € millions	2014	2015
8% 2009/16 (£250 million)	320	–
4% 2011/18 (€800 million)	794	796
2 5/8% 2012/22 (€750 million)	741	742
1 3/4% 2014/24 (€500 million)	496	496
Total	**2,351**	**2,034**

The average effective interest rate of the bonds outstanding at year-end 2015 was 2.9 percent (year-end 2014: 3.6 percent).

Aggregated maturities of long-term borrowings

In € millions	2017 – 2019	After 2020
Bonds issued	796	1,238
Other borrowings	67	60
Total	**863**	**1,298**

Long-term borrowings

We have a €1.8 billion multi-currency revolving credit facility, which was amended and extended in 2015 by two additional years to 2020. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or on material adverse change. At year-end 2015 and 2014, this facility had not been drawn. At year-end 2015 and 2014, none of the borrowings was secured by collateral.

Financial lease liabilities are included in Other borrowings and aggregated €46 million (2014: €49 million). An amount of €5 million (2014: €6 million) will mature within one year, €18 million will mature in the period 2017 through 2020 and €23 million after 2020.

Short-term borrowings

In March 2015, a bond of €621 million matured. In April 2016, a bond totaling £250 million will mature; at year-end 2015 this bond was classified as a short-term borrowing.

We have US dollar and euro commercial paper programs in place, which can be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2015 and 2014.

Cash and cash equivalents

In € millions	2014	2015
Cash on hand and in banks	848	771
Short-term investments	884	594
Included under cash and cash equivalents in the balance sheet	**1,732**	**1,365**
Debt to credit institutions	(83)	(48)
Total per cash flow statement	**1,649**	**1,317**

Cash and cash equivalents

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 22.

At December 31, 2015, an amount of €68 million in cash and cash equivalents was restricted (2014: €95 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

Net debt

In € millions	Long-term	Short-term	Cash	Net debt
Net debt at January 1, 2014	**2,666**	**961**	**(2,098)**	**1,529**
Net cash from operating activities	–	–	(811)	(811)
Net cash from investing activities	–	–	529	529
Proceeds from borrowings	512	474	(986)	–
Borrowings repaid	–	(1,347)	1,347	–
Transfers from long-term to short-term	(663)	663	–	–
Issue of shares for stock option plan	–	(12)	–	(12)
Dividends	–	–	280	280
Changes in exchange rates	23	–	(70)	(47)
Other changes	(11)	72	77	138
Net debt at year-end 2014	**2,527**	**811**	**(1,732)**	**1,606**
Net cash from operating activities	–	–	(1,136)	(1,136)
Net cash from investing activities	–	–	508	508
Proceeds from borrowings	–	829	(829)	–
Borrowings repaid	–	(1,518)	1,518	–
Transfers from long-term to short-term	(386)	386	–	–
Dividends	–	–	281	281
Buy-out of non-controlling interests	–	–	2	2
Changes in exchange rates	6	(2)	(18)	(14)
Other changes	14	(76)	41	(21)
Net debt at year-end 2015	**2,161**	**430**	**(1,365)**	**1,226**

17 Note 17: Trade and other payables

Trade and other payables

In € millions	2014	2015
Suppliers	2,149	2,137
Amounts payable to employees	367	400
FX and commodity contracts	45	65
Taxes and social security contributions	231	252
Customer-related payables	224	250
Dividends	14	34
Payable to associates and joint ventures	13	3
Other liabilities	364	332
Total	**3,407**	**3,473**

18 Note 18: Cash flow

Operating activities in 2015 resulted in cash inflows of €1,136 million (2014: €811 million). Profit from continuing operations was higher in 2015 as a result of process optimization, lower costs, reduced restructuring expenses, favorable currencies and incidental items. Net cash from operating activities benefited from increased profit from continuing operations.

Changes in working capital per cash flow statement

In € millions	2014	2015
Trade and other receivables	(113)	(29)
Inventories	(59)	56
Trade and other payables	200	19
Total	**28**	**46**

Changes in provisions per cash flow statement

In € millions	2014	2015
Post-retirement provisions	(348)	(474)
Restructuring provisions	16	(132)
Environmental and sundry provisions	(74)	(52)
Total	**(406)**	**(658)**

In 2014, €92 million of the change in sundry provisions concerned discontinued operations.

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 reliably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and clean-ups proceed and additional information becomes available. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the geological circumstances, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

The provisions for environmental costs amounted to €305 million at year-end 2015 (2014: €326 million). The provision has been discounted using an average pre-tax discount rate of 3.3 percent (2014: 3.3 percent). While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion, based on information currently available, would not have a material effect on the company's financial position but could be material to the company's results of operations in any one accounting period.

Claims and litigations

AkzoNobel is – together with others – involved in civil proceedings initiated by Cartel Damages Claims HP SA/NV before the Dortmund Court in Germany in relation to the Hydrogen Peroxide infringement in the 1990s. This claim is disputed. In 2015, the European Court of Justice ruled that the Dortmund court has jurisdiction over the dispute.

An appeal by the company is pending with the European Court of Justice against the ruling of the General Court on the decision by the European Commission to impose fines on certain subsidiaries of the company for violations of EU competition laws regarding Heat Stabilizers in the 1980s and 1990s.

AkzoNobel has provided various indemnities and guarantees in respect of past divestments to the relevant purchasers and their permitted assigns (if applicable), which in general are capped in time and/or amount (in proportion to the value received). The provided guarantees and indemnities have varying maturity periods. AkzoNobel has received various claims under such indemnities and guarantees. In some instances, AkzoNobel has been named as a direct defendant despite the divestments.

A number of other claims are pending, all of which are contested. We are also involved in disputes with tax authorities in several jurisdictions.

Provisions are recognized when an outflow of economic benefits for settlement is probable and the amount can be reliably estimated. It should be understood that, in light of possible future developments, such as: (a) potential additional lawsuits; (b) possible future settlements; and (c) rulings or judgments in pending lawsuits, certain cases may result in additional liabilities and related costs. At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence. While the outcome of said cases, claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

Commitments

Purchase commitments for property, plant and equipment aggregated €31 million (2014: €44 million).

Lease payments during 2015 amounted to €193 million (2014: €112 million).

Maturity operational lease contracts

In € millions	2014	2015
Payments due within one year	103	152
Payments between one and five years	205	335
Payments due after more than five years	103	150
Total	**411**	**637**

Guarantees related to associates and joint ventures at year-end 2015 totaled €5 million (2014: €9 million).

20 Note 20: Related party transactions

We purchased and sold goods and services to various related parties in which we hold a 50 percent or less equity interest (associates and joint ventures). Such transactions were conducted at arm's length with terms comparable with transactions with third parties.

During 2015, we considered the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 "Related parties". For details on their remuneration, as well as on shares and options held by members of the Supervisory Board or Board of Management, see Note 21. In the ordinary course of business, we have transactions with various organizations with which certain of the members of the Supervisory Board or Executive Committee are associated, but no related party transactions were effected in 2015. Likewise, there have not been any transactions with members of the Supervisory Board or Executive Committee, any other senior management personnel or any family member of such persons. Also no loans have been extended to members of the Supervisory Board or Executive Committee, any other senior management personnel or any family member of such persons. For related party transactions with pension funds, see Notes 10 and 14. For receivables from and payables to related parties, see Notes 12 and 17.

21 Note 21: Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €13.3 million (2014: €10.8 million). An amount of €7.6 million relates to short-term employee benefits (2014: €7.1 million); €1.1 million to post-contract benefits and other post-contract compensation (2014: €1.0 million); and €4.6 million to share-based compensation (2014: €2.7 million). The members of the Executive Committee that are not a member of the Board of Management are included in key management personnel.

Supervisory Board

Members of the Supervisory Board receive a fixed remuneration: €130,000 for the Chairman, €78,000 for the Deputy Chairman and €65,000 for the other members. Members of committees receive an extra compensation. Members living outside the Netherlands receive an attendance fee dependent on the country of residence. Members who are resident in the Netherlands do not receive an attendance fee except for meetings held outside the Netherlands.

In accordance with the Articles of Association and good corporate governance practice, the remuneration of Supervisory Board members is not dependent on the results of the company.

We do not grant share-based compensation to our Supervisory Board members, neither do we provide loans. Travel expenses and facilities for members of the Supervisory Board are borne by the company and reviewed by the Audit Committee. The shares in the company owned by Supervisory Board members serve as a long-term investment in the company.

Supervisory Board

In €	Total remuneration 2014	Remuneration	Attendance fee	Committee allowance fees	Employer's charges	Total remuneration 2015
Antony Burgmans, Chairman	124,200	130,000	2,500	20,000	–	152,500
Sari Baldauf	91,700	65,000	12,500	20,000	–	97,500
Peggy Bruzelius	116,500	65,000	15,000	20,000	10,300	110,300
Uwe-Ernst Bufe [1]	87,000	26,000	5,000	–	–	31,000
Byron Grote	66,700	65,000	15,000	23,300	–	103,300
Louis Hughes	112,200	65,000	30,000	21,700	3,600	120,300
Dick Sluimers [2]	–	43,300	2,500	13,300	–	59,100
Ben Verwaayen	89,700	65,000	15,000	15,000	3,600	98,600
Total	**688,000**	**524,300**	**97,500**	**133,300**	**17,500**	**772,600**

[1] Until April 22, 2015.
[2] As of May 1, 2015.

Shares held by the members of the Supervisory Board

Number of shares at year-end	2014	2015
Antony Burgmans	500	551
Sari Baldauf	–	–
Peggy Bruzelius	500	500
Byron Grote [1]	392	1,333
Louis Hughes	548	548
Ben Verwaayen	–	–
Dick Sluimers	–	–

[1] In the form of ADRs.

Board of Management

The individual contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adopted by the Annual General Meeting of shareholders. We do not provide loans to members of the Board of Management. For more detailed information on the decisions of the Supervisory Board with respect to the individual contracts of the members of the Board of Management, see the Remuneration report.

Short-term incentive

The short-term incentives for 2015 are linked to ROI (20 percent), OPI (20 percent), OCF (30 percent) and the individual and qualitative targets of the members of the Board of Management (30 percent). For more information, see the Remuneration report.

Board remuneration 2014

In €	Salary	Short-term incentives	Other short-term benefits	Post-contract compensation	Share-based compensation	Total remuneration
Ton Büchner	834,000	783,000	8,500	325,000	1,233,100	3,183,600
Maëlys Castella [1]	176,800	106,100	5,400	28,800	–	317,100
Keith Nichols [2]	308,000	308,000	315,500	147,900	(766,000)	313,400
Total	**1,318,800**	**1,197,100**	**329,400**	**501,700**	**467,100**	**3,814,100**

[1] As from September 15, 2014.
[2] Until June 30, 2014.

Board remuneration 2015

In €	Salary	Short-term incentives [1]	Other short-term benefits	Post-contract compensation	Share-based compensation	Total remuneration
Ton Büchner	859,000	915,800	8,200	356,700	1,303,600	3,443,300
Maëlys Castella	585,000	405,400	8,200	87,800	236,300	1,322,700
Total	**1,444,000**	**1,321,200**	**16,400**	**444,500**	**1,539,900**	**4,766,000**

[1] This concerns the short-term incentive amounts over 2015, to be paid in 2016.

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.

Post-contract compensation

This refers to compensation intended for building up retirement benefits instead of pension contributions. The compensation is based on age and is calculated over the 2015 remuneration. For the CEO, the contributions are paid over the base salary in the current year and the short-term incentive related to that year. For the CFO, these contributions are paid on base salary only.

Share-based compensation

The costs for share-based compensation are non-cash and relate to the performance-related share plan and the share-matching plan following IFRS 2. The fair value of the performance-related share plan at grant date is amortized as a charge against income over the three-year vesting period. The fair value amounted to €45.47 per performance-related share conditionally granted in 2015 for those members of the Board of Management facing a two-year holding restriction (2014: €46.91), and €54.11 for those members whose holding restriction will lapse after the end of their term (2014: €57.37). The fair value for the shares related to the share-matching plan amounted to €67.81 (2014: €49.96).

Performance-related shares

With regard to the performance-related shares granted to the members of the Board of Management in 2013, the final vesting percentage of the series 2013-2015 equaled 90.29 percent (series 2012-2014: 75.00 percent), including dividend shares 97.48 percent (series 2012-2014: 82.22 percent). The members of the Board of Management will retain the shares for a minimum period of two years after vesting or (if shorter) for the duration of their tenure as member of the Board of Management.

Share-matching plan

The CEO is required to build up, over a five-year period from the date of appointment, and then hold, at least three times his gross base salary in AkzoNobel shares for the duration of his tenure as member of the Board of Management. For other Board of Management members, the requirement is at least one time their gross base salary. Under certain conditions, members who invest part of their short-term incentives in AkzoNobel shares may have such shares matched by the company. See the Remuneration report.

Former members of the Board of Management

In 2015, charges for former members of the Board of Management amounted to €0.6 million (2014: €2.5 million) mainly due to accrued taxation on excessive pay ("Belastingheffing excessieve beloningsbestanddelen").

Number of performance-related shares

	Series	Balance at January 1, 2015	Granted in 2015	Vested in 2015	Forfeited in 2015	Dividend in 2015	Balance at December 31, 2015	Vested on January 1, 2016
Ton Büchner	2012 – 2014	26,228	–	(26,228)	–	–	–	–
	2013 – 2015	25,568	–	–	(2,536)	558	23,590	23,590
	2014 – 2016	22,892	–	–	–	498	23,390	–
	2015 – 2017	–	22,500	–	–	493	22,993	–
Maëlys Castella	2015 – 2017		15,300	–	–	335	15,635	–

Number of potential matching shares

	Year of share investment	Potential match	Matched in 2015	Forfeited in 2015	Balance at year-end 2015
Ton Büchner	2012	11,582	–	–	11,582
	2013	1,429	–	–	1,429
	2014	2,450	–	–	2,450
	2015	2,252	–	–	2,252
Maëlys Castella	2015	305	–	–	305

Shares held by the Board of Management

Number of shares at year-end	2014	2015
Ton Büchner	21,901	44,683
Maëlys Castella	–	610

Financial risk management framework

Our activities expose us to a variety of financial risks: market risk (including: currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. These risks are inherent to the way we operate as a multinational with a large number of locally operating subsidiaries. Our overall risk management program seeks to identify, assess, and – if necessary – mitigate these financial risks in order to minimize potential adverse effects on our financial performance. Our risk mitigating activities include the use of derivative financial instruments to hedge certain risk exposures. The Board of Management is ultimately responsible for risk management. We centrally identify, evaluate and hedge financial risks, and monitor compliance with the corporate policies approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation and hedging in the businesses. We have treasury hubs located in Brazil, China, Singapore and the US that are primarily responsible for regional cash management and short-term financing. We do not allow for extensive treasury operations at subsidiary level directly with external parties.

Liquidity risk management

The primary objective of liquidity management is to provide for sufficient cash and cash equivalents at all times and any place in the world to enable us to meet our payment obligations. We aim for a well-spread maturity schedule of our long-term borrowings and a strong liquidity position. At year-end 2015, we had €1.4 billion available as cash and cash equivalents (2014: €1.7 billion), see Note 16. In addition, we have a €1.8 billion multi-currency revolving credit facility, which was amended and extended in 2015 by two additional years to 2020. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or on material adverse change. At year-end 2015 and 2014, this facility had not been drawn. We have US dollar and euro commercial paper programs in place, which can be used

Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
At December 31, 2014			
Borrowings	805	1,210	1,275
Interest on borrowings	103	228	93
Finance lease liabilities	6	17	25
Trade and other payables	3,362	–	–
Fx contracts (hedges)			
Outflow	2,196	–	–
Inflow	(2,188)	–	–
Other derivatives			
Outflow	14	10	–
Inflow	–	(4)	–
Total	**4,298**	**1,461**	**1,393**
At December 31, 2015			
Borrowings	425	845	1,275
Interest on borrowings	71	186	65
Finance lease liabilities	5	18	23
Trade and other payables	3,408	–	–
Fx contracts (hedges)			
Outflow	2,630	–	–
Inflow	(2,641)	–	–
Other derivatives			
Outflow	28	27	–
Inflow	(2)	–	–
Total	**3,924**	**1,076**	**1,363**

to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2015 and 2014. The table above shows our cash outflows per maturity group. The amounts disclosed in the table are the contractual undiscounted cash flows.

Credit risk management

Credit risk arises from financial assets such as cash and cash equivalents, derivative financial instruments with a positive fair value, deposits with financial institutions, and trade receivables. We have a credit risk management policy in place to limit credit losses due to non-performance of financial counterparties and customers. We monitor our exposure to credit risk on an ongoing basis at various levels. We only deal with financial counterparties that have a sufficiently high credit rating.

Generally, we do not require collateral in respect of financial assets. Investments in cash and cash equivalents and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and good reputation. Derivative transactions are concluded mostly with parties with whom we have contractual netting agreements and ISDA agreements in place. We set limits per counterparty for the different types of financial instruments we use. We closely monitor the acceptable financial counterparty credit ratings and credit limits and revise where required in line with the market circumstances. We do not expect non-performance by the counterparties for these financial instruments. Due to our geographical spread and the diversity of our customers, we were not subject to any significant concentration of credit risks at balance sheet date. The credit risk from trade receivables is measured and analyzed at a local operating entity level, mainly by means of ageing analysis, see Note 12. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets in the balance sheet.

At year-end 2015, the credit risk on consolidated level was €4.3 billion (2014: €4.7 billion) for cash, loans, trade and other receivables. Our credit risk is well spread among both global and local counterparties. Our largest counterparty risk amounted to €249 million at year-end 2015 (2014: €194 million).

Foreign exchange risk management

Trade and financing transactions

We operate in a large number of countries, where we have clients and suppliers, many of whom are outside of the local functional currency environment. This creates currency exposure which is partly netted out on consolidation.

The purpose of our foreign currency hedging activities is to protect us from the risk that the functional currency net cash flows resulting from trade or financing transactions are adversely affected by changes in exchange rates. Our policy is to hedge our transactional foreign exchange rate exposures above predefined thresholds from recognized assets and liabilities. Cash flow hedge accounting is applied by exception. Derivative transactions with external parties are bound by overnight limits per currency.

In general, forward exchange contracts that we enter into have a maturity of less than one year. When necessary, forward exchange contracts are rolled over at maturity. Currency derivatives are not used for speculative purposes.

Hedged notional amounts at year-end

In € millions	Buy 2014	Sell 2014	Buy 2015	Sell 2015
US dollar	289	649	211	324
Pound sterling	212	103	554	66
Swedish krona	350	45	304	53
Chinese yuan	67	90	19	171
Other	355	385	562	705
Total	**1,273**	**1,272**	**1,650**	**1,319**

Investments in foreign subsidiaries, associates and joint ventures

Net investment hedge accounting was applied on hedges of pound sterling net investments in foreign operations which were hedged by a £250 million bond. During 2015 this hedge relationship was de-designated; until de-designation the hedge was fully effective. During 2015 net investment hedge accounting was applied to hedges of Chinese yuan net investments in foreign operations. During 2015 this hedge was fully effective. No net investment hedging is applied on pound sterling hedges and Chinese yuan hedges at year-end 2015.

Price risk management

Commodity price risk management

We use commodities, gas and electricity in our production processes and we are particularly sensitive to energy price movements. Our Chlor-Alkali activity in the Netherlands mitigates price risks related to electricity by concluding electricity futures to gradually cover the expected use over future periods. We apply cash flow hedge accounting to these futures. The fair value of the contracts outstanding at year-end 2015 amounted to a loss of €20 million, net of tax, recorded in equity (year-end 2014: a loss of €8 million, net of tax), which are expected to affect profit within the next three years. All contracts qualified as effective for hedge accounting. In order to hedge the oil price risk, we have entered into oil/gas swap contracts. At the end of 2015, the contracts outstanding have a fair value of €2 million gain, net of tax on those contracts. The fair value of the contracts at the year-end 2014 was a €3 million gain, net of tax. We did not apply hedge accounting to the changes of the fair values of these 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 Nasdaq commodities, based on expected use of electricity over the period 2016–2020. We apply cash flow hedge accounting to these contracts in order to mitigate the accounting mismatch that would otherwise occur. The effective part of the fair value of these contracts amounted to a €22 million loss net of tax, recorded in equity (year-end 2014: a loss of €11 million, net of tax), which are expected to affect profit within the next five years. All hedges were effective in 2015 and 2014.

Interest rate risk management

We are partly financed with debt in order to obtain more efficient leverage. Fixed rate debt results in fair value interest rate risk. Floating rate debt results in cash flow interest rate risk. Fixed rate debt maturing within one year is treated as floating rate debt. The fixed/floating rate of our outstanding bonds shifted from 79 percent fixed at year-end 2014 to 86 percent fixed at year-end 2015. During 2015, we have not used any interest rate derivatives.

Capital risk management

Our objectives when managing capital are to safeguard our ability to satisfy our capital providers and to maintain a capital structure that optimizes our cost of capital. For this we maintain a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Moody's and Standard & Poor's. The capital structure can be altered, among others, by adjusting the amount of dividends paid to shareholders, return capital to capital providers, or issue new debt or shares. In March 2015, a bond of €621 million matured.

Consistent with other companies in the industry, we monitor capital headroom on the basis of funds from operations in relation to our net borrowings level (FFO/NB-ratio). The FFO/NB-ratio for 2015 at year-end amounted to 0.58 (2014: 0.45). Funds from operations are based on net cash from operating activities after tax, which is adjusted, among others, for the elimination of changes in working capital, additional payments for pensions and for the effects of the underfunding of 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 post-retirement benefit obligations and lease commitments.

Fair value of financial instruments and IAS 39 categories

Loans, receivables and other liabilities are recognized at amortized cost, using the effective interest method. We estimated the fair value of our long-term borrowings based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with similar maturities.

The carrying amounts of cash and cash equivalents, trade receivables less allowance for impairment, short-term borrowings and other current liabilities approximate fair value due to the short maturity period of those instruments.

The only financial instruments accounted for at fair value through profit or loss are derivative financial instruments and the short-term investments included in cash. The fair value of foreign currency contracts, swap contracts, oil contracts and gas and electricity futures was determined by valuation techniques using market observable input (such as foreign currency interest rates based on Reuters) and by obtaining quotes from dealers and brokers.

The following valuation methods for financial instruments carried at fair value through profit or loss are distinguished:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable)

Level 1 fair valuation methods were used for bonds issued (€2.5 billion), of which €2.2 billion of the long-term borrowings and €0.3 billion of the short-term borrowings. All other fair values were determined using level 2 fair valuation methods, except for €110 million level 3 (discounted cash flow) fair valuation.

Fair value per financial instruments category

			Carrying value per IAS 39 category			
In € millions	Carrying amount	Out of scope of IFRS 7	Loans and receivables/ other liabilities	At fair value through profit or loss	Total carrying value	Fair value
2014 year-end						
Other financial non-current assets	797	529	268	–	268	289
Trade and other receivables	2,743	227	2,499	16	2,515	2,515
Cash and cash equivalents	1,732	–	–	1,732	1,732	1,732
Total financial assets	**5,272**	**756**	**2,767**	**1,748**	**4,515**	**4,536**
Long-term borrowings	2,527	–	2,527	–	2,527	2,775
Short-term borrowings	811	–	811	–	811	819
Trade and other payables	3,407	1,215	2,149	45	2,194	2,191
Total financial liabilities	**6,745**	**1,215**	**5,487**	**45**	**5,532**	**5,785**
2015 year-end						
Other financial non-current assets	903	666	237	–	237	255
Trade and other receivables	2,741	217	2,500	24	2,524	2,524
Cash and cash equivalents	1,365	–	–	1,365	1,365	1,365
Total financial assets	**5,009**	**883**	**2,737**	**1,389**	**4,126**	**4,144**
Long-term borrowings	2,161	–	2,161	–	2,161	2,336
Short-term borrowings	430	–	430	–	430	436
Trade and other payables	3,473	1,271	2,137	65	2,202	2,202
Total financial liabilities	**6,064**	**1,271**	**4,728**	**65**	**4,793**	**4,974**

Master netting agreements

We enter into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of transactions outstanding in the same currency may be aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement may be terminated, the termination value is assessed and a net amount is payable in settlement of the transactions.

We have evaluated the potential effect of netting agreements including the potential effect of rights of set-off. We did not offset any amounts regarding derivative transactions, but we did offset bank balances for immaterial amounts.

Sensitivities on financial instruments at year-end 2015

Sensitivity object	**Sensitivity**	**Hypothetical impact**
Foreign currencies: We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end.	A 10 percent strengthening of the euro versus US dollar A 10 percent strengthening of the euro versus the Pound sterling A 10 percent strengthening of the euro versus Swedish krona	Profit: €2 million (2014: profit €7 million). Equity: €nil (2014: €nil) Profit: €2 million (2014: profit €3 million). Equity: €nil (2014: €nil) Profit: €nil million (2014: profit €2 million). Equity: €nil (2014: €nil)
Commodity prices: 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.	**Electricity price Specialty Chemicals Netherlands:** A 10 percent change in the forward price of electricity (€3 per MWh) as compared with the market prices (up/down) **Electricity price Specialty Chemicals Sweden and Finland:** A 10 percent change in the forward price on the Nord Pool exchange electricity (€2 per MWh) as compared with market prices (up/down) **Oil price Specialty Chemicals Netherlands and Denmark:** A 10 percent change in price of oil (€3 per barrel) as compared with market prices (up/down)	Equity: €11 million (2014: €16 million) We apply cash flow hedge accounting to the fair value changes of electricity futures Equity: €6 million (2014: €7 million) We apply cash flow hedge accounting to the fair value changes of electricity futures Profit/(loss): €1 million (2014: €3 million) Over the full term of the (partially long-term) contracts, net impact on profit will be €nil
Interest rates: We perform interest rate sensitivity analysis by applying an adjustment to the interest rate curve prevailing at year-end. This adjustment is based on observed changes in the interest rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all interest bearing assets and liabilities.	A 100 basis points increase of EURIBOR interest rates A 100 basis points increase of US LIBOR interest rates A 100 basis points increase of GBP LIBOR interest rates	Profit: €4 million (2014 profit: €nil million) Profit: €1 million (2014 loss: €2 million) Loss: €2 million (2014 profit: €1 million)

Company financial statements

Statement of income

In € millions	2014	2015
Net income from subsidiaries, associates and joint ventures	546	1,018
Other net income	–	(39)
Total net income	**546**	**979**

Balance sheet as of December 31, before allocation of profit

In € millions	Note	2014		2015	
Assets					
Non-current assets					
Financial non-current assets	B	13,037		11,310	
Total non-current assets			**13,037**		**11,310**
Current assets					
Trade and other receivables	C	103		111	
Cash and cash equivalents	E	724		373	
Total current assets			**827**		**484**
Total assets			**13,864**		**11,794**
Equity and liabilities					
Equity	D				
Subscribed share capital		492		498	
Additional paid-in capital		463		598	
Cash flow hedge reserve		(19)		(42)	
Other statutory reserves		335		313	
Cumulative translation reserves		(43)		81	
Actuarial gains & losses		(2,050)		(2,243)	
Other reserves		6,147		6,387	
Undistributed results		465		892	
Shareholders' equity			**5,790**		**6,484**
Non-current liabilities					
Provision for subsidiaries	B	147		–	
Long-term borrowings	E	6,969		4,751	
Total non-current liabilities			**7,116**		**4,751**
Current liabilities					
Short-term borrowings	E	716		373	
Other current liabilities	F	242		186	
Total current liabilities			**958**		**559**
Total equity and liabilities			**13,864**		**11,794**

A 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 21 of the Consolidated financial statements.

Movement in shareholders' equity

In € millions	Subscribed share capital	Additional paid-in capital	Statutory reserves: Cash flow hedge reserve	Statutory reserves: Other Statutory reserves	Statutory reserves: Cumulative translation reserves	Actuarial gains & losses	Other reserves	Undistributed results	Shareholders' equity
Balance at January 1, 2014	485	319	(19)	275	(417)	(1,495)	5,802	644	5,594
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	374	–	–	–	374
Post-retirement benefits	–	–	–	–	–	(555)	–	–	(555)
Net income	–	–	–	–	–	–	–	546	546
Comprehensive income	**–**	**–**	**–**	**–**	**374**	**(555)**	**–**	**546**	**365**
Dividend paid	5	137	–	–	–	–	–	(354)	(212)
Equity-settled transactions	–	–	–	–	–	–	34	–	34
Issue of common shares	2	7	–	–	–	–	–	–	9
Addition to other reserves	–	–	–	60	–	–	311	(371)	–
Balance at December 31, 2014	**492**	**463**	**(19)**	**335**	**(43)**	**(2,050)**	**6,147**	**465**	**5,790**
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	124	–	–	–	124
Changes in fair value of derivatives	–	–	(23)	–	–	–	–	–	(23)
Post-retirement benefits	–	–	–	–	–	(193)	–	–	(193)
Net income	–	–	–	–	–	–	–	979	979
Comprehensive income	**–**	**–**	**(23)**	**–**	**124**	**(193)**	**–**	**979**	**887**
Dividend paid	4	137	–	–	–	–	–	(363)	(222)
Equity-settled transactions	–	–	–	–	–	–	32	–	32
Issue of common shares	2	(2)	–	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	–	–	(3)	–	(3)
Addition to other reserves	–	–	–	(22)	–	–	211	(189)	–
Balance at December 31, 2015	**498**	**598**	**(42)**	**313**	**81**	**(2,243)**	**6,387**	**892**	**6,484**

B Note B: Financial non-current assets and provisions for subsidiaries

Movements in financial non-current assets

In € millions	Subsidiaries: Share in capital	Subsidiaries: Loans [1]	Other financial non-current assets	Total
Balance at January 1, 2014	**8,910**	**4,818**	**94**	**13,822**
Acquisitions/capital contributions	1,986	–	–	1,986
Divestments/capital repayments	–	–	(1)	(1)
Net income from subsidiaries, associates and joint ventures	546	–	–	546
Post-retirement benefits	(553)	–	–	(553)
Equity-settled transactions	31	–	–	31
Loans granted	–	1,804	–	1,804
Repayment of loans	–	(2,297)	–	(2,297)
Changes in exchange rates	379	64	–	443
Dividends received	(2,402)	–	–	(2,402)
Other changes	–	–	1	1
Change to provisions for subsidiairies	(343)	–	–	(343)
Balance at December 31, 2014	**8,554**	**4,389**	**94**	**13,037**
Acquisitions/capital contributions	550	–	4	554
Divestments/capital repayments	–	–	(2)	(2)
Net income from subsidiaries, associates and joint ventures	1,018	–	–	1,018
Post-retirement benefits	(195)	–	–	(195)
Equity-settled transactions	27	–	–	27
Loans granted	–	268	–	268
Repayment of loans	–	(1,840)	–	(1,840)
Changes in exchange rates	139	17	–	156
Dividends received	(1,541)	–	–	(1,541)
Other changes	(26)	–	1	(25)
Change to provisions for subsidiairies	(147)	–	–	(147)
Balance at December 31, 2015	**8,379**	**2,834**	**97**	**11,310**

[1] Loans to these companies have no fixed repayment schedule.

C Note C: Trade and other receivables

Trade and other receivables

In € millions	2014	2015
Receivables from subsidiaries	42	57
Receivable from associates and joint ventures	16	13
FX contracts	15	21
Other receivables	30	20
Total	**103**	**111**

D Note D: Shareholders' 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 a 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, for the period between the beginning of the year and the date of transfer. There are no restrictions on voting rights of holders of common or priority shares. The Articles of Association set out procedures for exercising voting rights.

The Annual General Meeting of shareholders has in 2015 resolved to authorize the Board of Management for a period of 18 months (i) to issue shares (or grant rights to shares) in the capital of the company up to a maximum of 10 percent, which in case of mergers or acquisitions can be increased by up to a maximum of 10 percent, of the total number of shares outstanding (and to restrict or exclude the pre-emptive rights to those shares) and (ii) to acquire shares in the capital of the company, provided that the shares that will at any time be held will not exceed 10 percent of the issued share capital. The issue or repurchase of shares requires the approval of the Supervisory Board.

We held no common shares at year-end 2015 or 2014.

Of the shareholders' equity of €6.5 billion, an amount of €5.7 billion (2014: €5.0 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law. We consider negative reserves for actuarial gains and losses as restricted.

Statutory reserves have been recognized following section 373 paragraph 4 of Book 2 of the Netherlands Civil Code. At the Annual General Meeting of shareholders of April 26, 2001, an amendment to the Articles of Association was approved whereby the par value of the priority shares was decreased to €400 and of the common shares and the cumulative preferred shares to €2. As the revised nominal values are lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, we recognize a statutory reserve of €61 million for this reduction in subscribed share capital. Statutory reserves also include €23 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates, and joint ventures after 1983.

Unrestricted reserves at year-end

In € millions	2014	2015
Shareholders' equity at year-end	5,790	6,484
Subscribed share capital	(492)	(498)
Subsidiaries' restrictions to transfer funds	(245)	(224)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(24)	(23)
Cash flow hedge reserve	–	–
Unrestricted reserves	**4,968**	**5,678**

Dividend

We will propose to the Annual General Meeting on April 20, 2016, a 2015 final dividend of €1.20 per share, which would make a total 2015 dividend of €1.55 per share (2014: €1.45). There will be a stock dividend option with cash dividend as default.

During 2015, we paid the 2014 final dividend of €1.12 and the 2015 interim dividend of €0.35 per share.

E Note E: Net debt

Analysis of net debt by category

In € millions	2014	2015
Bonds issued	1,610	1,292
Debt to subsidiaries	5,299	3,429
Other borrowings	60	30
Long-term borrowings	**6,969**	**4,751**
Current portion of debenture loans	623	339
Current portion of other long-term borrowings	30	30
Borrowings from associates and joint ventures	41	–
Short-term loans	22	4
Short-term borrowings	**716**	**373**
Total borrowings	**7,685**	**5,124**
Cash and cash equivalents	(724)	(373)
Net debt	**6,961**	**4,751**

Long-term-borrowings

For the fair value of the debenture loans, see Note 22 of the notes of the Consolidated financial statements.

Bonds issued

In € millions	2014	2015
8% 2009/16 (£250 million)	320	–
4% 2011/18 (€800 million)	794	796
1 3/4% 2014/24 (€500 million)	496	496
Total	**1,610**	**1,292**

We have a €1.8 billion multi-currency revolving credit facility, which was amended and extended in 2015 by two additional years to 2020. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or on material adverse change. At year-end 2015 and 2014, this facility had not been drawn. At year-end 2015 and 2014, none of the borrowings was secured by collateral.

Short-term-borrowings

We have US dollar and euro commercial paper programs in place, which can be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at the year-end 2015 and 2014.

Cash and cash equivalents

Cash and cash equivalents

In € millions	2014	2015
Cash on hand and in banks	114	53
Short-term investments	610	320
Total	**724**	**373**

F Note F: Other current liabilities

Other current liabilities

In € millions	2014	2015
Payables to subsidiaries	21	23
FX contracts	19	10
Debt related to pensions	6	6
Other suppliers	81	43
Other liabilities	115	104
Total	**242**	**186**

G Note G: Financial instruments

At year-end 2015, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.6 billion (year-end 2014: €1.3 billion), while contracts to sell currencies totaled €1.3 billion (year-end 2014: €1.3 billion). The contracts mainly related to US dollars, Pound sterling and Swedish krona, and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidiaries, and the fair value changes are recognized in the statement of income to offset the fair value changes on the contracts with the subsidiaries. For information on risk exposure and risk management, see Note 22 of the notes to the consolidated financial statements.

H Note H: Contingent liabilities

Akzo Nobel N.V. is parent of the group's fiscal unit in the Netherlands, and is therefore liable for the liabilities of said fiscal unit as a whole.

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Dutch consolidated companies (section 403 of Book 2 of the Netherlands Civil Code). These debts, at year-end 2015, aggregating €0.8 billion (2014: €0.6 billion), are included in the Consolidated balance sheet. Additionally, at year-end 2015, guarantees were issued on behalf of consolidated companies for an amount of €1.2 billion (2014: €1.4 billion).

The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated balance sheet or in the amount of long-term liabilities in respect of operational lease contracts as disclosed in Note 19 of the Consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €5 million (2014: €9 million).

I Note I: Auditor's fees

Auditor's fees

			2014			2015
In € millions	In the Netherlands	Network outside the Netherlands	Total	In the Netherlands	Network outside the Netherlands	Total
Audit	3.1	7.1	10.2	3.2	6.8	10.0
Audit-related	0.3	0.2	0.5	0.5	0.3	0.8
Tax	–	0.1	0.1	–	0.2	0.2
Other services	–	–	–	–	–	–
Total	**3.4**	**7.4**	**10.8**	**3.7**	**7.3**	**11.0**

Amsterdam, February 9, 2016

The Board of Management
Ton Büchner
Maëlys Castella

The Supervisory Board
Antony Burgmans
Sari Baldauf
Peggy Bruzelius
Byron Grote
Louis Hughes
Dick Sluimers
Ben Verwaayen

Independent auditor's report

To: the Annual General Meeting of shareholders and the Supervisory Board of Akzo Nobel N.V.

Report on the audit of the Financial statements 2015

Our opinion
In our opinion:
- The Consolidated financial statements give a true and fair view of the balance sheet of Akzo Nobel N.V. as at December 31, 2015, and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code
- The company financial statements give a true and fair view of the balance sheet of Akzo Nobel N.V. as at December 31, 2015, and of its result for 2015 in accordance with Part 9 of Book 2 of the Netherlands Civil Code

What we have audited
We have audited the Financial statements 2015 of Akzo Nobel N.V. (the company), based in Amsterdam. The Financial statements include the Consolidated financial statements and the Company financial statements.

The Consolidated financial statements comprise:
1. The Consolidated balance sheet as at December 31, 2015
2. The following Consolidated statements for 2015: the statement of income, the statements of comprehensive income, changes in equity and cash flows; and
3. The notes comprising a summary of the significant accounting policies and other explanatory information

The Company financial statements comprise:
1. The Company balance sheet as at December 31, 2015;
2. The Company statement of income for 2015; and
3. The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the Financial statements section of our report.

We are independent of Akzo Nobel N.V. in accordance with the Regulation regarding the independence of auditors in case of assurance engagements ("Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO)) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Regulation code of conduct and professional practice auditors ("Verordening gedrags- en beroepsregels accountants" (VGBA)).

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

Audit approach summary

Unqualified audit opinion

Materiality
- Overall materiality of €60 million
- 4.1 percent of group profit before tax, 0.4 percent of group revenue and 0.4 percent of group total assets

Scope of the group audit
- Coverage of 82 percent of Group profit before tax, 70 percent of group revenue and 85 percent of group total assets

Key audit matters
- Goodwill and other asset impairment testing
- Post-retirement benefit provisions
- Accounting for income tax positions
- Transformation programs

Materiality
Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the Financial statements as a whole at €60 million (2014: €64 million). The materiality is determined with reference to group profit before tax (4.1 percent). In addition, the appropriateness for the materiality was assessed by comparing the amount to group revenue (0.4 percent) and group total assets (0.4 percent). We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the Financial statements.

We agreed with the Supervisory Board that misstatements in excess of €3 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
Akzo Nobel N.V. is head of a group of entities. The financial information of this group is included in the Financial statements of Akzo Nobel N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and / or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or specified audit procedures had to be carried out on the complete set of financial information or specific items.

We scoped components of Akzo Nobel N.V. into the group audit where they are of significant size, have significant risks to the group or are considered significant for other reasons. In case this determination does not provide adequate coverage over the Financial statements, we used our judgment to scope-in additional components. Operating companies and operating business units arereporting components in our group audit. Applying these scoping criteria led to 53 components in scope, in total covering 15 countries. Furthermore, we performed specified audit procedures at corporate level and at business unit level on significant risk areas such as post-retirement benefit provisions, goodwill and other asset impairment testing and tax positions. This resulted in coverage of 82 percent of Group profit before tax, 70 percent of Group revenue and 85 percent of Group total assets. In addition, we performed analytical procedures at the aggregated group level on the remaining components in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining components.

The group audit team provided detailed instructions to all component auditors which covered the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. The group audit team visited component locations in the US, UK, Sweden, Germany, Brazil and China. Telephone calls were also held with the auditors of these components and of all other components that were not physically visited. During these visits and calls, the findings and observations reported to the group audit team were discussed in more detail. Furthermore, we performed detailed file reviews and any further work deemed necessary by the group audit team was then performed.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the Financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the Financial Statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill and other asset impairment testing

Description

The annual impairment test was significant to our audit because the assessment process is complex and the test imposes estimates. In performing the impairment testing for goodwill and other assets, the company used various assumptions in respect of future market and economic conditions, market share, revenue and margin development.

Our response

For our audit we assessed and tested the assumptions, methodologies, the weighted average cost of capital and other data used by the company, for example by comparing them to external data, such as expected inflation rates, external market growth expectations and by analyzing sensitivities in AkzoNobel's valuation model. We included in our team a valuation specialist to assist us with these procedures. We specifically focused on the sensitivity in the available headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Board of Management's estimates. Based on our procedures performed, we consider Board of Management's key assumptions to be within a reasonable range. We assessed the adequacy of the company's disclosures included in Note 7 about those assumptions to which the outcome of the impairment test is most sensitive.

Post-retirement benefit provisions

Description

The total amount of post-retirement benefit provisions consists of total defined benefit obligations of €17 billion offset by total plan assets amounting to €16 billion as per December 31, 2015. The largest pension plans are the ICI Pension Fund (ICIPF) and the AkzoNobel Pension Scheme in the UK, which together account for 83 percent of the defined benefit obligation and 91 percent of plan assets.

Our response

As part of our audit we have tested internal controls as well as assessed and challenged the Board of Management's actuarial assumptions such as discount rates, expected inflation rates, mortality tables, indexation percentages, valuation of plan assets and future salary increases. We benchmarked the discount rates utilized by the company with external sources such as the AA Corporate yield curve published by Merrill Lynch and peer companies. In performing our audit we included in our team local and international pension specialists including actuarial and valuation specialists. Based on our procedures performed, we consider Board of Management's key assumptions to be within a reasonable range. We specifically focused on the de-risking transactions executed by the trustee of ICIPF and we verified the appropriate accounting through other comprehensive income. We also assessed the adequacy of the company's disclosure in Note 14 in respect of post-retirement benefit provisions.

Accounting for income tax positions

Description

Income tax positions were significant to our audit because the assessment process is complex and imposes estimates. AkzoNobel's operations are subject to income taxes in various jurisdictions and changes in the company's business model might have certain tax implications.

Our response

We have performed audit procedures on the completeness and accuracy of the amounts recognized as current and deferred tax, including the assessment of the tax impact of changes in the company's business model, correspondence with tax authorities and the evaluation of tax exposures. In addition, in respect of deferred tax assets, we assessed and tested the Board of Management's analysis and assumptions supporting the probability that deferred tax assets recognized in the balance sheet will be recovered through taxable income in future years and available tax planning strategies. We included in our team local and international tax specialists to analyze the tax positions and to challenge the assumptions used to determine tax positions. Based on our procedures performed, we consider Board of Management's key assumptions to be within a reasonable range. We also assessed the adequacy of the company's disclosure in Note 6 in respect of tax and uncertain tax positions.

Transformation programs

Description

The company continued to implement several global transformation programs which impact the company's business processes, control activities and internal control organization. In general transformation programs result in an inherent increased risk of control deficiencies that could occur if the programs are not implemented with proper oversight and without focus on maintaining effective internal controls throughout the transition processes.

Our response

In our audit we focused on the Finance and IT implications of these transformation programs. Our audit procedures included, amongst others, meetings with the transformation and project managers, internal control officers, internal audit and the Board of Management on a regular basis during the year to understand and monitor the effects of changes to the company's internal control environment, across the organization. We tested monitoring activities executed at different levels in the organization designed to ensure continued effectiveness of the internal control framework during the transformations. We also tested the effectiveness of controls impacted by the transformations and instructed our component auditors globally to perform procedures designed to provide reasonable assurance that a material misstatement did not exist in the financial statements as a result of the transformations.

Responsibilities of the Board of Management and the Supervisory Board for the Financial statements

The Board of Management is responsible for the preparation and fair presentation of the Financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the report of the Board of Management in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the Financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the Financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Management should prepare the Financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. the Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the Financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of Financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud. For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) www.nba.nl/standardtexts-auditorsreport

Report on other legal and regulatory requirements

Report on the report of the Board of Management and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the report of the Board of Management and other information):

- We have no deficiencies to report as a result of our examination whether the report of the Board of Management, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed
- We report that the report of the Board of Management, to the extent we can assess, is consistent with the financial statements

Engagement

We were re-appointed by the Annual General Meeting of shareholders on April 29, 2014, as auditor of Akzo Nobel N.V. for the years 2014 and 2015.

Amsterdam, February 9, 2016

KPMG Accountants N.V.

E.J.L. van Leeuwen RA

Profit allocation and distributions

Profit allocation and distributions

Article 43

43.6

The Board of Management shall be authorized to determine, with the approval of the Supervisory Board, what share of profit remaining after application of the provisions of the foregoing paragraphs shall be carried to reserves. The remaining profit shall be placed at the disposal of the Annual General Meeting of shareholders, with due observance of the provisions of paragraph 7, it being provided that no further dividends shall be paid on the preferred shares.

43.7

From the remaining profit, the following distributions shall, to the extent possible, be made as follows:

(a) To the holders of priority shares: 6 percent per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends

(b) To the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the Annual General Meeting of shareholders may decide to carry to reserves, shall permit

43.8

Without prejudice to the provisions of paragraph 4 of this article and of paragraph 4 of article 20, the holders of common shares shall, to the exclusion of everyone else, be entitled to distributions made from reserves accrued by virtue of the provision of paragraph 7b of this article.

43.9

Without prejudice to the provisions of article 42 and paragraph 8 of this article, the Annual General Meeting of shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

Article 44

44.7

Cash dividends by virtue of paragraph 4 of article 20, article 42, or article 43 that have not been collected within five years of the commencement of the second day on which they became due and payable shall revert to the company.

Proposal for profit allocation

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €593 million is carried to the other reserves. Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €386 million (to be increased by dividend on shares issued in 2016 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.55 per share, of which €0.35 was paid earlier as an interim dividend. The final dividend of €1.20 per share (which under the conditions to be published by the company and at the shareholders' election will be paid either in cash or in stock) will be made available from May 19, 2016.

Special rights to holders of priority shares

The priority shares are held by "Stichting Akzo Nobel" (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation.

The Meeting of Holders of Priority Shares has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments to the Articles of Association are subject to the approval of this meeting.

Financial summary

Consolidated statement of income

In € millions	2006	2007	2008 [1]	2009	2010 [2]	2011	2012	2013	2014	2015
Revenue	10,023	10,217	15,415	13,028	13,605	14,604	15,390	14,590	14,296	14,859
Operating income	887	778	(577)	855	1,293	1,157	(1,198)	958	987	1,573
Financing income and expenses	(134)	(151)	(232)	(405)	(329)	(311)	(205)	(200)	(156)	(114)
Income tax	(96)	(166)	(260)	(141)	(176)	(241)	(203)	(111)	(252)	(416)
Results from associates and joint ventures	87	(20)	25	21	25	24	13	14	21	17
Profit for the period from continuing operations	**744**	**441**	**(1,044)**	**330**	**813**	**629**	**(1,593)**	**661**	**600**	**1,060**
Minority interests attributable to minority shareholders	(29)	(31)	(65)	(77)	(83)	(64)	(63)	(68)	(72)	(87)
Discontinued operations	438	9	23	32	58	(59)	(436)	131	18	6
Net income, attributable to shareholders	**1,153**	**419**	**(1,086)**	**285**	**788**	**506**	**(2,092)**	**724**	**546**	**979**
Common shares, in millions at year-end	287.0	262.3	231.7	232.3	233.5	234.7	239.0	242.6	246.0	249.0
Dividend [4]	344	472	417	325	320	304	214	210	212	222
Number of employees at year-end	42,700	42,600	60,000	54,700	55,600	52,020	50,610	49,600	47,200	45,600
Average number of employees	61,900	42,600	61,300	56,300	55,100	51,100	52,200	50,200	48,200	46,100
Employee benefits	2,158	2,215	3,022	2,955	2,980	2,765	3,018	2,950	2,824	2,728
Average revenue per employee (in €1,000)	162	240	251	231	247	286	295	291	297	322
Average operating income per employee (in €1,000)	14	18	(9)	15	23	23	(23)	19	20	34
Ratios										
ROS	8.8	7.6	–[3]	6.6	9.5	7.9	–[3]	6.6	6.9	10.6
ROI	16.3	14.6	–[3]	7.3	11.3	10.0	–[3]	9.6	10.0	15.0
Net income in % of shareholders' equity	30.5	122.9	–[3]	3.7	8.8	5.6	–[3]	12.9	9.5	15.1
Employee benefits in % of revenue	21.5	21.7	19.6	22.7	21.9	18.9	19.6	20.2	19.8	18.4
Interest coverage [5]	6.6	5.2	–[3]	2.1	6.8	4.7	–[3]	5.1	8.6	16.2
Per share information										
Net income	4.02	33.82	(4.38)	1.23	3.23	2.04	(8.82)	3.00	2.23	3.95
Adjusted earnings per share				2.06	3.71	3.10	2.55	2.62	2.81	4.02
Shareholders' equity	14.44	42.06	32.21	33.47	38.48	39.25	24.12	23.06	23.53	26.04
Highest share price during the year	49.41	65.56	57.11	46.52	47.70	53.74	49.75	56.08	60.77	74.81
Lowest share price during the year	38.30	44.41	22.85	26.01	37.18	29.25	35.16	42.65	47.63	55.65
Year-end share price	46.18	54.79	29.44	46.40	46.49	37.36	49.75	55.71	57.65	61.68

[1] Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.
[2] Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.
[3] Not meaningful as operating income and net income were losses.
[4] Cash dividend paid to shareholders of AkzoNobel.
[5] Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.

Consolidated balance sheet

In € millions	2006	2007	2008 [1]	2009	2010 [2]	2011	2012	2013	2014	2015
Intangible assets	682	669	7,172	7,388	6,568	7,392	4,454	3,906	4,142	4,156
Property, plant and equipment	3,346	2,203	3,357	3,474	3,191	3,705	3,739	3,589	3,835	4,003
Financial non-current assets	1,706	1,402	1,848	1,783	2,105	2,664	2,628	2,219	2,148	2,125
Total non-current assets	**5,734**	**4,274**	**12,377**	**12,645**	**11,864**	**13,761**	**10,821**	**9,714**	**10,125**	**10,284**
Inventories	2,042	1,177	1,781	1,441	1,482	1,924	1,545	1,426	1,545	1,504
Receivables	2,919	2,164	2,977	2,666	2,740	3,035	2,789	2,622	2,831	2,810
Cash and cash equivalents	1,871	11,628	1,595	2,128	3,133	1,635	1,752	2,098	1,732	1,365
Assets held for sale	219	–	4	–	–	–	921	203	66	–
Total current assets	**7,051**	**14,969**	**6,357**	**6,235**	**7,355**	**6,594**	**7,007**	**6,349**	**6,174**	**5,679**
Shareholders’ equity	4,144	11,032	7,463	7,775	8,397	9,031	5,764	5,594	5,790	6,484
Non-controlling interests	119	97	450	470	525	529	464	427	477	496
Total equity	**4,263**	**11,129**	**7,913**	**8,245**	**8,922**	**9,560**	**6,228**	**6,021**	**6,267**	**6,980**
Provisions	2,132	1,598	2,072	1,919	1,958	2,392	2,677	1,938	2,143	1,865
Long-term borrowings	2,551	1,954	2,341	3,641	2,727	3,035	3,388	2,666	2,527	2,161
Other non-current liabilities	181	133	715	674	556	541	434	389	412	360
Total non-current liabilities	**4,864**	**3,685**	**5,128**	**6,234**	**5,241**	**5,968**	**6,499**	**4,993**	**5,082**	**4,386**
Short-term borrowings	410	1,635	1,338	384	904	494	662	961	811	430
Current liabilities	2,652	2,276	3,510	3,220	3,575	3,782	3,632	3,438	3,634	3,716
Current portion of provisions	571	518	845	797	577	551	455	601	494	451
Liabilities held for sale	25	–	–	–	–	–	352	49	11	–
Total current liabilities	**3,658**	**4,429**	**5,693**	**4,401**	**5,056**	**4,827**	**5,101**	**5,049**	**4,950**	**4,597**
Average Invested capital [3]	8,034	6,629	9,311	12,578	11,467	11,537	11,817	10,007	9,871	10,475
Capital expenditures	371	359	534	513	534	658	826	666	588	651
Depreciation	349	330	453	424	435	419	463	472	477	487
OWC			2,359	1,691	2,016	1,891	1,572	1,384	1,418	1,385
Net debt	1,090	(8,039)	2,084	1,897	500	1,894	2,298	1,529	1,606	1,226
Ratios										
Equity/non-current assets	0.74	2.60	0.64	0.65	0.75	0.73	0.58	0.62	0.62	0.68
Inventories and receivables/current liabilities	1.87	1.47	1.36	1.28	1.18	1.31	1.19	1.18	1.20	1.16
Operating working capital as % of revenue [4]			16.5	13.7	13.9	13.2	10.7	9.9	10.1	9.7

[1] Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.
[2] Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.
[3] Restated to current definition as from 2010.
[4] Operating working capital is measured against four times fourth quarter revenue.

Business Area statistics

In € millions	2008	2009 [1]	2010	2011 [2]	2012	2013	2014	2015
Decorative Paints								
Revenue	5,006	4,573	4,968	4,201	4,297	4,174	3,909	4,007
Operating income	(669)	133	275	235	(2,012)	398	248	345
ROS [4]	3.5	2.9	5.5	5.6	2.2	9.5	6.3	8.6
Average invested capital [3]	6,515	6,169	4,908	5,032	4,701	2,896	2,824	2,959
ROI [4]	2.7	2.2	5.6	4.7	2.0	13.7	8.8	11.7
Capital expenditures	120	112	154	155	206	171	143	158
Average number of employees	24,600	22,900	21,800	17,100	17,200	16,800	15,500	15,100
Average revenue per employee	203	200	228	246	250	248	252	265
Average operating income per employee	(27)	6	13	14	(117)	24	16	23
Performance Coatings								
Revenue	4,575	4,112	4,786	5,170	5,702	5,571	5,589	5,955
Operating income	444	433	487	458	542	525	545	792
ROS	9.7	10.5	10.2	8.9	9.5	9.4	9.8	13.3
Average invested capital [3]	2,010	1,868	2,063	2,267	2,499	2,463	2,480	2,692
ROI	22.1	23.2	23.6	20.2	21.7	21.3	22.0	29.4
Capital expenditures	89	61	87	116	123	143	143	147
Average number of employees	21,000	20,200	20,600	21,300	21,700	21,300	21,000	19,700
Average revenue per employee	218	204	232	243	263	262	266	302
Average operating income per employee	21	21	24	22	25	25	26	40
Specialty Chemicals								
Revenue	5,687	4,359	4,943	5,335	5,543	4,949	4,883	4,988
Operating income	130	422	604	622	500	297	508	609
ROS	2.3	9.7	12.2	11.7	9.0	6.0	10.4	12.2
Average invested capital [3]	3,797	3,435	3,464	3,406	3,678	3,609	3,442	3,540
ROI	3.4	12.3	17.4	18.3	13.6	8.2	14.8	17.2
Capital expenditures	305	319	273	365	484	346	297	331
Average number of employees	12,900	11,400	11,100	11,300	11,800	10,600	10,000	9,300
Average revenue per employee	441	382	445	472	470	467	488	536
Average operating income per employee	11	37	54	55	42	28	51	65

[1] Excluding National Starch, divested in 2010.
[2] Restated to present Decorative Paints North America as a discontinued operation.
[3] From 2010 restated to current definition.
[4] 2012 excluding goodwill impairment.

Regional statistics

In € millions	2011	2012	2013	2014	2015
The Netherlands					
Revenue by destination	694	745	765	762	693
Revenue by origin	1,646	1,601	1,600	1,662	1,563
Capital expenditures	144	110	94	72	102
Average invested capital	1,384	1,326	1,175	1,631	2,154
Number of employees [2]	5,200	5,200	5,300	5,000	4,900
Germany					
Revenue by destination	1,284	1,258	1,176	986	1,036
Revenue by origin	1,228	1,219	1,143	920	903
Capital expenditures	31	69	87	106	52
Average invested capital	945	861	736	764	854
Number of employees [2]	3,800	3,600	3,100	2,300	2,100
Sweden					
Revenue by destination	515	486	473	436	414
Revenue by origin	1,481	1,505	1,411	1,289	1,329
Capital expenditures	54	70	38	40	55
Average invested capital	551	539	471	428	542
Number of employees [2]	3,300	3,200	3,000	2,900	2,700
UK					
Revenue by destination	841	901	887	947	1,011
Revenue by origin	879	967	948	950	1,109
Capital expenditures	27	68	74	74	91
Average invested capital	1,512	1,433	1,314	1,008	833
Number of employees [2]	3,900	3,800	3,700	3,600	3,500

In € millions	2011 [1]	2012	2013	2014	2015
Other European countries					
Revenue by destination	3,702	3,647	3,531	3,341	3,226
Revenue by origin	2,459	2,400	2,330	2,246	2,062
Capital expenditures	98	85	66	57	60
Average invested capital	2,641	2,127	1,406	1,117	1,024
Number of employees [2]	8,900	8,500	8,000	7,700	7,300
US and Canada [1]					
Revenue by destination	2,092	2,294	2,155	2,193	2,494
Revenue by origin	2,222	2,413	2,287	2,306	2,644
Capital expenditures	67	70	62	68	100
Average invested capital	1,722	1,742	1,739	1,778	1,949
Number of employees [2]	5,100	5,100	5,000	4,800	4,600
Latin America					
Revenue by destination	1,515	1,623	1,553	1,485	1,483
Revenue by origin	1,282	1,343	1,282	1,252	1,210
Capital expenditures	66	138	83	45	34
Average invested capital	704	784	713	707	679
Number of employees [2]	4,500	4,600	4,500	4,400	4,100
China					
Revenue by destination	1,376	1,621	1,643	1,730	1,828
Revenue by origin	1,361	1,699	1,690	1,814	1,960
Capital expenditures	96	135	104	75	115
Average invested capital	1,089	1,295	1,330	1,380	1,683
Number of employees [2]	7,400	7,700	7,400	7,400	7,500

In € millions	2011	2012	2013	2014	2015
Other Asian countries					
Revenue by destination	1,918	2,087	1,733	1,739	1,968
Revenue by origin	1,627	1,779	1,463	1,438	1,613
Capital expenditures	64	71	40	34	31
Average invested capital	786	727	612	600	671
Number of employees [2]	7,800	6,800	7,100	6,900	6,700
Other regions					
Revenue by destination	667	728	674	677	706
Revenue by origin	419	463	436	419	466
Capital expenditures	11	9	18	17	11
Average invested capital	218	210	178	159	87
Number of employees [2]	2,100	2,100	2,500	2,200	2,200

[1] As from 2011 excluding Decorative Paints North America, divested in 2013.
[2] At year-end.

Helping you to look and feel good

We think science is a thing of beauty. So it's no surprise that we supply a wide range of essential ingredients for the personal care industry. Whether it's hair care or skin care, you'll find that we play a vital role in helping you to look your best.

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On our website (www.akzonobel.com/sustainability) you will find additional information on processes, detailed data and contacts to support the following:

Note 1:	Managing our sustainability agenda
Note 2:	Reporting principles
Note 3:	Stakeholder engagement
Notes 4-7:	Value chain management
Notes 8-11:	Safety
Notes 12-14:	Employees and community
Notes 15-20:	Environment

This Sustainability statements section of the Report 2015 is separate from, and does not in any way form part of the company's annual financial reporting as defined in article 5:25c of the Dutch Financial Markets Supervision Act. This section contains summarized key performance indicators (KPIs) relating to sustainability performance. Further information on AkzoNobel's sustainability strategy, activities and results can be found on our corporate website: www.akzonobel.com/sustainability

Consolidated Sustainability statements

Sustainability topics have been integrated into all sections of the AkzoNobel Report 2015. This summary focuses on sustainability processes and activities that span our businesses.

A fuller overview of our sustainability strategy, activities and results can be found in the Sustainability section of our corporate website: www.akzonobel.com/sustainability

Consolidated Sustainability statements

	Note	2012	2013	2014	2015	Ambition 2015	Ambition 2020
Sustainable business							
Resource Efficiency Index (REI)	4	100	98	96	113	–	–
Eco-premium solutions with downstream benefits (% of revenue)	4	17	18	19	19	–	20
Eco-premium solutions (% of revenue)	4	22	24	24	24	30	–
Resource efficiency							
Carbon footprint cradle-to-grave per ton of product sales (% reduction from 2012)	5	0	2	-4	3	–	25–30
Renewable energy own operations (%)	5	33	31	34	38	–	45
Renewable raw materials (% of organic)	5	13	13	13	11	–	–
Capable, engaged people							
Employee engagement (ViewPoint score 1–5 scale)	12	3.80	3.88	3.97	4.03	>4.00	>4.20
Sustainability foundations							
Total reportable injury rate employees/supervised contractors (per million hours)	8	2.4	2.3	1.8	1.6	<2.0	<1.0
Significant loss of containment (Level D)	9	0	1	0	0	0	0
Priority substances with management plan (%)	10	42	62	82	100	100	100[1]
REACH compliance third phase (%)	10	–	–	15	23	25	100
% of female executives	12	15	16	17	19	20	25
% of executives from high growth markets	12	13	14	16	16	20	22
Operational eco-efficiency footprint measure (% reduction from 2009)	15-20	13	24	24	23	30	40 (2017)

[1] Phase 2 starting in 2016.

Planet Possible

In order to secure our own business success – and that of our customers – we have to create more value from fewer resources. To help us achieve this, we have adopted an agenda called Planet Possible, which is our commitment to doing more with less.

We believe the planet can support nine billion people by 2050, but only if we take the right approach and understand the changes that will be needed. So we're looking to engage with partners across the entire value chain as well as specialist partners who believe in our agenda and have the same commitment to finding opportunities where there don't appear to be any. Welcome to Planet Possible.

Our strategic sustainability objectives are explained in detail throughout the Sustainability statements section of this Report 2015.

Sustainable business: Details of our focus areas across the value chain can be found in Note 4 of this section.

Resource efficiency: Details of our focus areas across the value chain can be found in Note 5 and 7.

Capable, engaged people: Details of our focus areas across the value chain can be found in Note 6.

Sustainability foundations: Our strong sustainability foundations have been built up over many years. They include people, process and product safety (Notes 8-11); employee engagement and talent management (Note 12); community involvement (Note 14); environmental management (Notes 15-20); and integrity management (Governance and compliance section).

Strategic focus

Our sustainability agenda incorporates economic, environmental and social aspects across the value chain. The importance of sustainability to running our business is firmly integrated into the AkzoNobel strategy. As well as being a strategic focus area, it is one of the three core principles (Safety, Integrity and Sustainability) that provide the foundation for our company values and the updated Code of Conduct. In addition, sustainability is being embedded into our company-wide processes, including Innovation, Commercial excellence and Talent management. Sustainability helps us to enhance our existing business, create new business opportunities and minimize risks.

We developed the sustainability elements of our strategy by reviewing our sustainability risks and opportunities against the global trends that will impact our key market segments by 2050. The trends were identified as population growth and the new middle class and urbanization – both of which provide opportunities for our end-user segments – and long-term constraints of natural resources and climate change, which drive us towards the need for radical resource efficiency and circular thinking.

We express our sustainability agenda through a concept known as Planet Possible, which highlights our commitment to creating more value from fewer resources across the value chain. Planet Possible encompasses all our programs to make our products and operations more sustainable. As well as driving our own success, putting sustainability at the heart of everything we do means that our customers and employees – not to mention our planet – will also benefit. For more details, see the Strategic performance section of this Report 2015.

By focusing on the full value chain, we will drive business, resource and engagement benefits

				Energy/resource benefits in use
Sustainable business	Cost savings	Cost savings	Improved revenue and margin	Improved revenue and margin
Resource efficiency	Reduced material and energy use	Reduced material and energy use	Reduced material and energy use in customer processes, application	Reduced material and energy use in product use
Capable, engaged people	Engaged suppliers	Engaged employees	Engaged customers	Engaged customers and users
Foundations: HSE, product stewardship, employee practices, community involvement, Code of Conduct				

Our strategy has three sustainability focus areas designed to deliver more value from fewer resources, with targets for 2020. Our progress towards creating more value from fewer resources is measured by a special Resource Efficiency Index (REI), which monitors the gross margin generated divided by the resource/energy use across the value chain (measured as cradle-to-grave carbon footprint). We focus on three aspects:

- **Sustainable business:** Creating business value through products and solutions that provide both functionality and other sustainability benefits, as well as cost savings from operational efficiencies.
  Target: 20 percent of revenue from eco-premium solutions with a downstream benefit by 2020
- **Resource efficiency**: Accelerating material and energy efficiency across the value chain.
  Target: 25-30 percent reduction in cradle-to-grave carbon footprint per ton of sales from 2012 to 2020
- **Capable, engaged people**: Engaging our people and partnering with our suppliers and customers to deliver significant changes. Objectives are emerging at Business Area and functional level

Sustainability foundations

These strategic objectives are underpinned by strong foundation programs for other economic, environmental and social aspects that are material for our business. Specifically, these are: people and process safety, product safety/stewardship, employee talent management/ engagement, community involvement, environmental management and integrity management. Community involvement is included due to the link to employee engagement. For these elements, we have key performance indicators with 2015 targets, being extended to 2020. Other short-term and long-term ambitions are set at functional and business level.

The Notes in the Sustainability statements and other elements of this Report 2015 illustrate our performance against the strategy goals and foundation elements.

Sustainability framework

Our strategic sustainability focus areas are a natural next step in our Sustainability framework, which maps out a progression towards sustainability and identifies those aspects that are material for our business. The framework has three levels, which include environmental, economic and social aspects:

- **Invent:** Integrate sustainable value propositions
- **Manage:** Include sustainability in all aspects of the value chain
- **Improve:** Continue to comply and ensure our license to operate

The Improve level, with an emphasis on risks – working on integrity, governance and compliance with our standards and applicable laws and regulations – is now part of the Compliance framework (see the Governance and compliance section).

The current strategy focuses on creating opportunities for value creation through resource efficiency, innovation and talent development, alongside continued integration of sustainability in all aspects of the value chain.

Sustainability framework

Level of development	Environmental		Economic		Social	
Invent Integrate sustainable value propositions	Resource efficiency: Carbon footprint Circular economy		Sustainable business: Customer needs Eco-premium solutions		Capable, engaged people: Employee engagement Stakeholder engagement Talent management	
Manage Include sustainability in all aspects of the value chain	Future trends	Eco-premium solutions; VOC	Eco-efficiency analysis	Sustainable supplier mgt	Operational eco-efficiency	Market propositions
	Market research	R&D	Investment decisions	Purchasing	Manufacturing /supply chain	Sales and marketing
Improve Continue to comply and ensure our license to operate	Environmental management Product stewardship		Integrity management Business Partner Code of Conduct		People/process safety Employee practices Community involvement	

Examples of material issues
Value chain aspects

The framework diagram indicates the main material issues and programs, which are further detailed in the Notes of these Sustainability statements and in other sections of this Report 2015.

Management accountability

Company level

The Executive Committee has overall responsibility for sustainability. They set company strategy and targets and monitor the sustainability performance of each Business Area, as well as the foundation elements, through the Operational Control Cycle.

We have established a Sustainability Council, which advises the Executive Committee on strategy developments, monitors the integration of sustainability into management processes and oversees the company's sustainability targets and overall performance. The Council, which meets quarterly, is chaired by the CEO and includes representative Managing Directors from our Business Areas, as well as the Corporate Directors of Strategy, Supply Chain/Research and Development, Purchasing, Human Resources, Sustainability and HSE, and Communications. The Council maintains an external perspective, with input from value chain partners and thought leaders during regular meetings, in addition to company involvement in leading external organizations.

The Corporate Director of Sustainability and HSE reports directly to the CEO and has an expertise team for HSE and sustainability, including a group focusing on lifecycle and sustainability assessments. In 2012, we formed a team of senior Business Area representatives to work with the expertise team and the business teams to ensure effective roll-out of the new strategy.

Businesses and functions

Accountability for managing sustainability and delivering against targets lies with the businesses and functions.

The Managing Director of each business is responsible for managing sustainability as an overall part of business. All businesses have appointed a sustainability manager, or 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 work together at Business Area level to accelerate performance improvements; they also exchange best practices and identify opportunities for further development at company level.

Each function in the value chain has identified focus areas for sustainability. Functional management teams, such as Procurement, Supply Chain and RD&I, are in place to support the implementation of the functional strategy, including the sustainability elements. These management teams include corporate and business representatives.

Foundation elements – safety, product stewardship, employee engagement/talent management and environmental – are managed by the management processes in the Human Resources and Health, Safety and Environment functions. The Compliance framework and the management structure for integrity and compliance aspects are detailed in the Governance and compliance section under Compliance and integrity management.

Management processes

AkzoNobel uses a range of methods to manage sustainability performance. The management of each Business Area has identified sustainability priorities in line with the company strategy and market drivers, and developed a dashboard – with KPIs and targets – which is used to monitor progress. Some improvement programs and activities are managed at Business Area level to improve effectiveness. For cross-business activities, each function in the value chain has identified focus areas for sustainability, with targets where appropriate.

Specific challenges are reported in the Strategic performance and Business performance sections. Where there are specific sustainability risks or issues of concern to stakeholders, we develop a company position and an improvement plan owned by a subject matter expert.

Goals and targets

AkzoNobel has three strategic sustainability KPIs and company level targets for strategic and foundation elements. The business dashboards reflect the main sustainability drivers for that business and the contribution to company targets.

Common processes

We include material sustainability issues in our company, business and functional processes: strategy and planning; risk management and internal control; compliance; the Operational Control Cycle; as well as in our internal audit and external assurance processes. These are reported in other sections of this Report 2015 (see Strategic performance and Governance and compliance).

Foundation elements: global standards and programs

Global functions oversee the foundation elements of our sustainability agenda: health and safety; environmental protection; product stewardship; employee engagement/talent development; and compliance; including social and labor aspects. They set global standards and processes and implement improvement programs in partnership with the Business Areas. These standards are also the basis of our supplier management processes.

Improvement plans and programs

Improvement programs for strategic objectives are developed at business, Business Area or company level. In 2015, for example, the Executive Committee carried out a complete review of the resource efficiency/carbon footprint improvement plans in two dedicated meetings.
A new forecasting process, which includes the impact of potential projects and changes in our portfolio product mix, will be used to prioritize improvements.

To further embed sustainability in the way we do business, we have developed a functional excellence improvement tool, which reflects the strategic objectives, management processes and good practice implementation. The purpose is to accelerate sustainability performance against strategy/targets by raising the capability of people and processes, supporting good practice implementation, providing challenges to the operating businesses and focusing improvement actions where they count. Each business carries out a self-assessment of the current situation and sets ambition levels, based on company requirements and business priorities, as well as focused annual improvement plans. These assessments are subject to a peer review/challenge by cross-business colleagues to hone improvement options and identify the need for common improvement programs. In the future, the overall improvement plans will be reviewed alongside current performance as part of the Operational Control Cycle.

We carried out a pilot assessment in 2014 which identified two priorities around our work with suppliers and the capability of managers and employees. We have made good progress with suppliers on initiating carbon footprint improvements, as reported in Note 7. Progress on raising the capability of managers across functions to drive sustainability improvements has been somewhat slower, but is starting to gain momentum. In 2015, we embedded many structural changes in our businesses and decided to retain the pilot version of the tool for a further year. Each business has reviewed their 2014 assessment when developing the current improvement plan. Common issues were again reviewed at Business Area and AkzoNobel level. We have agreed to further refine the tool for 2016.

Priorities for 2016 will include:

- Continued work with suppliers
- Focus on the resource efficiency improvement areas identified in each Business Area
- Further capability development activity, particularly in marketing and sales

Incentives

We strive to empower all employees to contribute and be accountable for our sustainability performance, using training and other engagement processes, including business and site level activity, as well as web-based resources. This responsibility continues to be anchored in the personal targets and remuneration packages of managers and employees. Thirty percent of the conditional grant of shares for Board of Management members and all executives is based on AkzoNobel's performance in the RobecoSAM assessment over a three-year period (see Remuneration report in the Governance and compliance section). This link to sustainability performance has been in place since 2009.

Monitor, benchmark and review

The business dashboards are reviewed at Business Area and Executive Committee level at least every six months as part of the Operational Control Cycle. Relevant sustainability aspects are also discussed in other functional Operational Review meetings.

Material sustainability issues are integrated into corporate compliance and audit processes, which are supplemented by specialist functional audits. We also benchmark our performance against our peers using external assessment processes such as the RobecoSAM assessment for the Dow Jones Sustainability Indices.

The sustainability aspects material to the company are summarized in the company strategy and sustainability framework. These are reviewed annually, with input from internal and external stakeholders (see Materiality in Note 2). Full details of the boundaries and management processes for each aspect are included in the Global Reporting Initiative (GRI) G4 additional information document, which is available on our corporate website.

Reporting scope

This Report 2015 integrates our financial and sustainability reporting and is addressed to readers interested in both areas. In particular, we seek ways of linking sustainability performance to business results in areas such as resource efficiency, carbon emission reduction, eco-premium solutions, safety, people development and engagement, and operational eco-efficiency.

The information in this Report 2015 offers an update on our implementation of the ten principles of the United Nations Global Compact (UNGC). More sustainability information is available on our corporate website, including an index of the Global Reporting Initiative G4 indicators and a summary of our UNGC communication of progress.

Reporting process and assurance

The reporting period is 2015. Data has mainly been obtained from our financial management reporting systems, corporate HR information management systems, corporate compliance information reporting systems and the AkzoNobel corporate reporting systems for health, safety and environment performance indicators, each of which have associated approval and verification processes. These processes continue to be updated and improved. Data collection for the newer value chain reporting aspects is carried out using standard templates and procedures. We follow GHG Protocol standards for our value chain carbon footprint metric and have applied the market-based method for our Scope 2 emissions (GHG Protocol Scope 2 Guidance). More details on Scope 2 emissions according to the location-based method, as well as details on all reporting processes, are available on our corporate website.

We are confident in the overall reliability of the data reported, but recognize that some of the information is subject to an element of uncertainty, inherent to limitations associated with measuring and calculating data. Senior managers approved the content and the quantitative data used in the Sustainability statements section relating to their respective areas of responsibility. The integration of sustainability in day-to-day business is part of our routine internal audit process.

The Sustainability statements section has been reviewed by independent, external auditors. The Assurance report, including the scope of the audit, can be found in the Independent assurance report at the end of this section.

For further information please go to
www.akzonobel.com/sustainability

Reporting policies

Reporting boundaries

This Report 2015 integrates sustainability aspects of our processes and business operations in each section, in particular the How AkzoNobel created value in 2015, Strategic performance, Business performance and Governance and compliance sections.

This Sustainability statements section summarizes the global, cross-business elements of the sustainability agenda and company performance. It includes quantitative and qualitative information relating to the calendar year 2015 and comparative data for 2014, 2013 and 2012. We report on consolidated data from entities where AkzoNobel is the majority shareholder (more than 50 percent) and joint ventures where we have management control, but exclude all data from entities where we have minority ownership, or no management control.

Comparability

Since 2010, we report acquisitions from the date of purchase, recognizing that reporting improvements may be required at these facilities. Recent significant changes:

- 2015 data includes Paper Chemicals until it was divested in May 2015
- 2014 data includes updated definitions on regulatory actions and executive potential. See also Note 11 and Note 12 respectively. It also includes the result of the divestment of our Building Adhesives business
- 2013 data excludes Chemicals Pakistan as it was divested at the end of 2012. We include data from Decorative Paints North America until April 1, 2013, when it was divested
- 2012 data includes the Boxing Oleochemicals acquisition and our new facilities at Ningbo, China

Our value chain (cradle-to-grave) carbon footprint is measured per metric ton of product sales leaving AkzoNobel. In 2012, the definition of product was clarified to reduce variability in the indicator. It now excludes sold by-products and sold energy. Previous years' data have been restated on the same basis, so there was no impact on the percentage change in carbon footprint. For our own operations, environmental impact and improvements are quoted relative to production quantity, i.e. the product volumes leaving every manufacturing plant.

Since 2013, we include the climate impact of VOCs in our overall carbon footprint targets. This increased our Scope 3 downstream CO_2(e) by about three million tons. The 2012 data have been restated to provide a sound baseline for our 2012 to 2020 targets. There continue to be minor changes in models and raw material data. We calculate the percentage improvement based on comparable 2012 data, and include "as reported" data for each year in this Report 2015. The changes to GHG Protocol guidance in 2015 do not impact comparability – we have applied the market-based method since before 2012.

We identify issues that affect comparability in the text or footnotes.

Materiality

We have used the principle of materiality for assessing the topics to include in this Report 2015, which are current and important for the company and key stakeholders. In order to determine the materiality of topics, we made a long list of all (more than 200) possible material topics, using the following as our key sources:

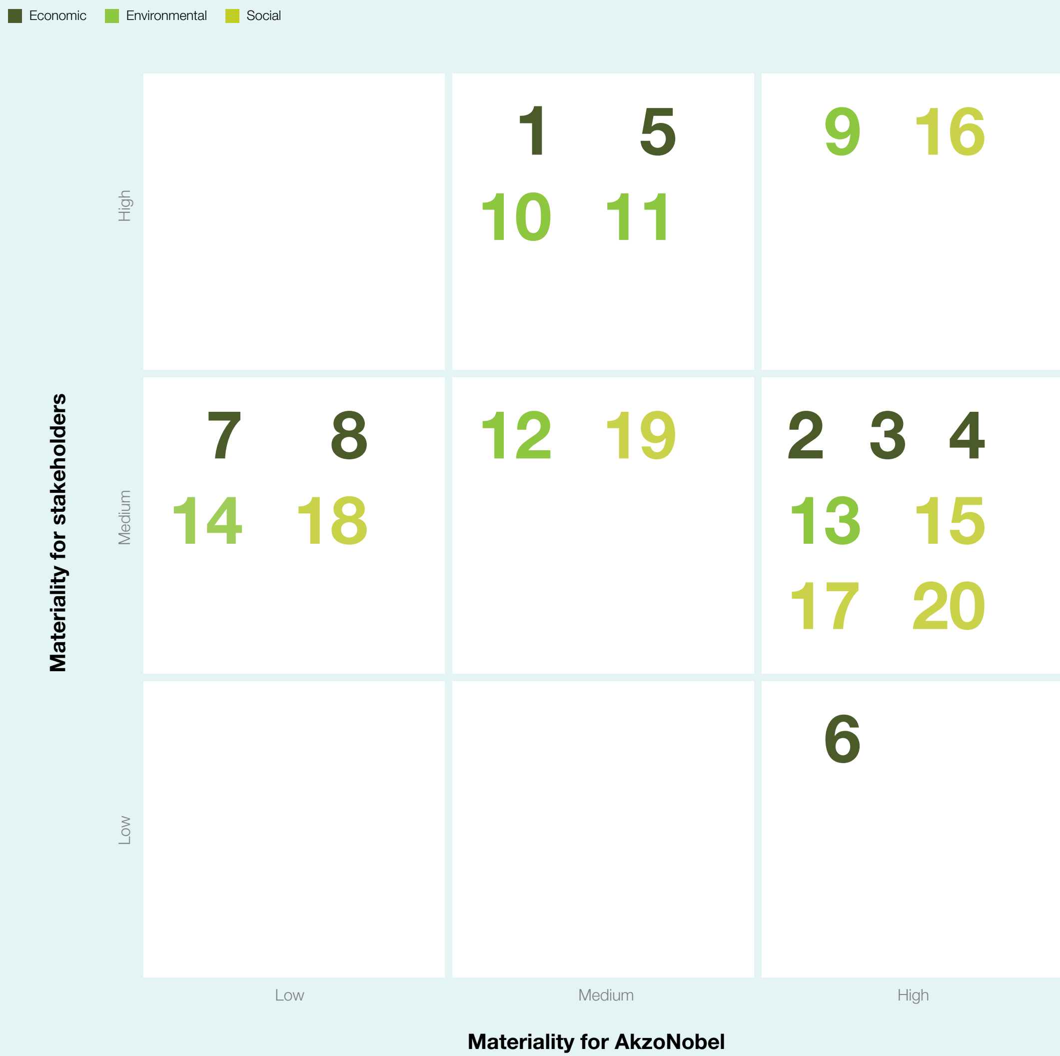
- Shareholders
- Customers
- Employees
- AkzoNobel strategy
- AkzoNobel Report 2014
- Sustainability organizations such as the World Business Council for Sustainable Development (WBCSD), Forum for the Future and the International Integrated Reporting Council
- Issues raised by investor associations such as the VBDO
- Reporting guidelines and frameworks such as GRI G4 and SASB
- Sustainability ratings agencies such as RobecoSAM and Carbon Disclosure Project
- Peer reporting
- Media analysis

This long list was then reduced by reviewing the dominance of the topics in the above-mentioned key sources and ranking them. The highest ranked topics were then clustered into 20 final topics, prioritized and plotted in the matrix. The topics marked as high importance are included in the Consolidated Sustainability statements. The topics marked as high importance are also included in the integrated materiality diagram and are covered by the AkzoNobel strategic focus areas and core principles. See also the Strategic performance section.

A full explanation of each topic featured in the matrix can be found on the next page.

For further information please go to www.akzonobel.com/sustainability

Materiality matrix



Sustainability topics (alphabetical within importance categories)

	Economic	Importance	Qualitative information	Quantitative information	Reported
1	Circular economy principles	High	Renewable energy and raw material programs, waste reuse, Circular economy section	Bio-based raw materials, Renewable energy, Circular economy section	Report 2015: Business performance, Sustainability statements Notes 4 and 5, Case study
2	Customer needs	High	Insight on end-user segment trends Customer excellence programs	–	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance
3	Economic performance and strategy	High	Market segmentation Description of economic performance	Economic performance and strategy	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance
4	Eco-premium solutions and value chain management	High	Lifecycle assessment value chain impacts Customer partnership solutions	Eco-premium solutions with downstream benefits, Eco-premium solutions VOC in product	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance, Sustainability statements Notes 4 and 5
5	Integrity	High	Insight on policies and procedures	Code of Conduct reporting, Code of Conduct investigation, Compliance monitoring, Code of Conduct training	Report 2015: Compliance and integrity, website
6	Product and margin management	High	Operational excellence initiatives	–	Report 2015: Strategic performance, Business performance
7	Fair taxes	Medium	Responsible tax policy	Geographic tax reconciliation	Report 2015: Consolidated financial statements Note 6, website
8	Resource scarcity/ material availability risks	Medium	Risk description and mitigation actions Renewable energy and raw material programs	Bio-based raw materials, Renewable energy	Report 2015: Risk management, Business performance, Sustainability statements Notes 4 and 5
	Environmental				
9	Energy, resource use, carbon emissions throughout the value chain	High	Value chain descriptions Insight on impacts throughout the value chain	Resource Efficiency Index, Cradle-to-grave carbon footprint, Bio-based raw materials, Energy use, Renewable energy, Greenhouse gas emissions per ton of production	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance Sustainability statements Notes 4, 5, 15, 16 and website
10	Product stewardship	High	Priority substance management Regulatory affairs	Priority substances with management plan, REACH compliance	Report 2015: Strategic performance, Sustainability statements Note 10
11	Climate change	Medium	Climate change risk management, mitigation and adaption policies	Cradle-to-grave carbon footprint, Greenhouse gas emissions per ton of production	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance, Sustainability statements Notes 4 and 5
12	Operational eco-efficiency	Medium	Operational eco-efficiency program and management	Operational eco-efficiency footprint measure	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance, Sustainability statements Notes 15-20
13	Sustainability in the supply chain	Medium	Supplier sustainability framework program	Third party assessements and audits, Supplier Support Visits, Business Partner Code of Conduct compliance, Environmental supply chain aspects	Report 2015: Sustainability statements Note 7
14	Biodiversity	Low	Climate change, pollution control	–	Report 2015: Sustainability statements Notes 3, 5, 15-20
	Social				
15	Employee engagement	High	Insight on policies and procedures	Employee engagement survey	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance, Sustainability statements Note 12, Case study
16	People and process safety	High	Insight on policies and procedures	Reportable injury rate, Lost time injury rate, Behavior-based safety program, Life-Saving Rules, Regulatory actions, Loss of containment	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance, Sustainability statements Notes 8 and 9
17	Talent management	High	Insight on policies and procedures	Cross-BU moves of leadership talents, Internal promotion into executive level, Retention of leadership talent, ViewPoint score on learning and growth, Female executives, Female executive potentials, High growth market executives, High growth market executive potentials	Report 2015: How AkzoNobel created value in 2015, Strategic performance, Business performance, Sustainability statements Note 12
18	Community involvement	Medium	Human Cities initiative, Community Program, Business activities	Projects involved, Volunteers, Donations	Report 2015: Human Cities, Case studies, Strategic performance, Sustainability statements Note 14, website
19	Stakeholder engagement	Medium	Framework activities	Sustainability ratings, Agency rankings	Report 2015: AkzoNobel on capital markets, Sustainability statements Note 3, website
20	Sustainability in the supply chain	Medium	Supplier sustainability framework programs, Human rights commitment program	Third party audits, Supplier Support Visits, Business Partner Code of Conduct compliance, Social supply chain aspects	Report 2015: Compliance and integrity, Sustainability statements Note 7

Our approach

The aim of our ongoing stakeholder engagement is to learn from key financial, social and environmental stakeholder groups and, in collaboration, to develop innovative and sustainable solutions to address some of the world's most pressing challenges. Our Planet Possible agenda is not only designed to help drive innovation and enable us to become radically resource efficient, it's also intended to inspire employees, customers, suppliers and other key stakeholders to work together with us in achieving this.

Reaching out to all our stakeholders in ongoing conversations is vital to achieving our goals and to further developing our long-term vision and strategy in all areas of sustainability. Our key stakeholders are employees, suppliers, customers, investors, shareholder representative groups, NGOs and international organizations, governments, industry associations, sustainability rating agencies and communities. Based on the company strategy, emerging societal and business issues, and the outcomes of our materiality analysis, we identify the key topics and levels of engagement per stakeholder group, which can vary from pro-active engagement to providing information upon request.

This section includes several 2015 highlights. More details can be found on our corporate website, in the Strategic performance section, and other chapters of this Report 2015:

- Customers: Business performance section
- Investors: Governance and compliance section
- Specific sustainability/research organizations and NGOs: Note 3 of this section
- Employees: Notes 6 and 12 of this section
- Suppliers: Note 7 of this section
- Communities: Note 14 of this section

Stakeholder engagement in 2015

Our commitment and primary partners

We support a number of charters and external organizations to demonstrate our commitment to sustainability issues. We have been a signatory of the UN Global Compact since 2004. We are a partner of the Caring for Climate platform and an active member of the Global Compact Netherlands Network.

We are participating in a program led by the UNGC network in partnership with Oxfam Novib, Oxfam America and Shift, a non-profit center for business and human rights practice, supported by a grant from the Dutch government. The aim is to explore how to improve awareness and build capability in the area of human rights in four key countries – Indonesia, Mexico, South Africa and Turkey. Company managers have taken part in workshops to explore the local issues and potential areas for joint activity. The project builds on the successful 2008 – 2010 Business and Human Rights Initiative, in which several Dutch multinationals, including AkzoNobel, collaborated to contribute to the development of the UN Guiding Principles on Business and Human Rights. It will lead to an updated publication and an online portal of resources to support action.

In addition, we subscribe to the UN Universal Declaration of Human Rights; the key conventions of the International Labor Organization; the OECD Guidelines for Multinational Enterprises; the Responsible Care® Global Charter and the CEO Water Mandate.

In order to contribute to, and keep up to date with, important developments in sustainability, we participate in meetings and task forces as a member of organizations such as the WBCSD, Forum for the Future, True Price and the Dutch Sustainable Growth Coalition (DSGC). Since 2010, we have been a member of Worldconnectors, a Dutch-based initiative working to broaden the discussion on international issues by incorporating perspectives from a cross-generational network. In 2014, we were one of more than 60 signatories of their Post-2015 Charter, committing to contribute to the achievement of the United Nations Sustainable Development Goals (2015-2030). We have reviewed these goals against our company agenda and priorities. Our Human Cities agenda will lead to a focus on Goal 11 Sustainable cities and communities, and Goal 17 Partnerships for the goals, extending existing and developing new programs or partnerships:

- Our Buildings and Infrastructure products and partnership activities to support affordable housing, cultural heritage, improved air quality and sustainable cities policies; our Transportation end-user products to support affordable, safe transport
- Our Human Cities initiative contribution to urban resilience and regeneration in partnership with the Clinton Global Initiative and the Rockefeller Foundation's 100 Resilient Cities program
- AkzoNobel's Human Cities Coalition, a multi-stakeholder group in the Netherlands, contributing to the development of the New Urban Agenda to be adopted during 2016 in Quito, Ecuador
- The Sustainable Trade initiative on Pulp & Paper (STIPP), a sector-wide trade initiative in Indonesia (link to Goal 15 Life on land)
- Partnerships for the development/supply of renewable energy, including the WBCSD Energy Efficiency in Buildings program (link to Goal 7 Affordable and clean energy)
- The Advanced Research Center Chemical Building Blocks Consortium (ARC CBBC), a major Dutch consortium which has announced plans to establish a national research center focused on tackling important energy and chemistry issues associated with the growing depletion of the finite supply of raw materials, involving companies, government and universities – which also links to Goal 12 Responsible consumption and production and Goal 7 Affordable and clean energy

In addition to these focus areas, our current product portfolio allows us to make some contribution to Goals 2, 6, 7, 12, 15. Our operations/internal targets and international operations will have a minor influence on Goals 3-16.

United Nations Sustainable Development Goals

Initial assessment of AkzoNobel contribution

● Main ● Intermediate ● Minor

	Goal	Operations	International business	Products	Human Cities/ Community
1	No poverty				Minor
2	Zero hunger			Intermediate	
3	Good health and well-being	Minor			
4	Quality education	Minor			Minor
5	Gender equality	Minor			
6	Clean water and sanitation	Minor		Intermediate	Minor
7	Affordable and clean energy	Minor	Minor	Intermediate	Intermediate
8	Decent work/economic growth	Minor	Minor		
9	Industry innovation and infrastructure	Minor	Minor		
10	Reduced inequalities		Minor		
11	Sustainable cities and communities		Minor	Main	Main
12	Responsible consumption/production	Minor	Minor	Intermediate	Minor
13	Climate action	Minor	Minor		Minor
14	Life below water	Minor			
15	Life on land	Minor		Intermediate	Intermediate
16	Peace, justice and strong institutions	Minor	Minor		
17	Partnerships for the goals		Minor		Main

Customers and products

Our customers are increasingly looking for products and solutions that will make their business more sustainable. In order to continuously improve our product offering, we encourage customers to challenge us and work together with us. This includes joint research and development projects. For example AkzoNobel's Marine Coatings business has launched the first ever digital tool for the shipping industry that can accurately predict the potential fuel and CO_2 savings offered by fouling control coatings. Intertrac Vision was developed in collaboration with leading academic and commercial research institutes and more than 30 shipowners and operators.

More specific examples can be found in the various case studies and the Business performance section of this Report 2015. In addition, we are in the process of improving our methods to monitor customer engagement and customer satisfaction.

One of our focus areas is to support legislation, standards and initiatives that promote and support the use of safer and more sustainable products in our industry. In 2015, we became a partner in the Global Alliance to Eliminate Lead Paint (GAELP) to promote the phase-out of all lead-based paints and eliminate the risks these products cause. We will support the work of the alliance by sharing experiences of conversion from lead to lead-free paints, providing technical advice and by supporting the development of legislation to phase out the use of lead compounds from all paints. See Note 10.

AkzoNobel's Ferrazone iron fortificant continues to make an important contribution in the fight against iron deficiency anemia, a major global health issue, affecting around two billion people. It causes a loss of physical endurance due to reduced levels of haemoglobin and tissue iron. It is linked with increased risk of maternal mortality during pregnancy; while in infancy and childhood it can cause significant loss of cognitive abilities and decreased resistance to infections.

The most efficient way of combating the condition in developing countries is by fortifying staple foods, such as flour, with a form of iron that is readily absorbed by the body. AkzoNobel's Ferric Sodium EDTA, Ferrazone, has been demonstrated to be both safe and effective in reducing iron deficiency, even in inhibitory diets lacking bioavailable iron. The use of Ferrazone also avoids undesirable color and flavor changes in the fortified food, as well as teeth staining. AkzoNobel is working closely with NGOs, governments and leading producers of so-called pre-mixes (a mix of vitamins and minerals used to fortify food) to provide the highest quality product and the know-how needed for successful application.

AkzoNobel was a global partner of the Forest Stewardship Council (FSC) from 2010 to 2015, with the aim of growing awareness of responsible forestry worldwide. This was the first and only partnership outside the forest products chain of custody. Over the five years, our sponsorship focused on the Smallholder Support Program, with the associated Made with Heart campaign and the on-product label – the Small and Community Label Option (SCLO) – to increase the visibility of small-scale producers in the marketplace. When consumers buy a product carrying the Made with Heart concept and the FSC label, they are assured that the product originates from a community that is dedicated to protecting natural resources, and which benefits from this both financially and socially. Over the years, we have also developed 11 active local partnerships between FSC and AkzoNobel in the Netherlands, UK, Germany, Switzerland, Czech Republic, Brazil, Russia, Sweden, Denmark, Argentina and Poland. This involved a range of communication and training activities and, in 2013, included the widest ever geographic coverage of the FSC Friday event.

A spokesman for FSC said: "FSC is grateful for AkzoNobel's support to the FSC Smallholder Support Program. Together with the contribution since 2011, it allowed us to set up a program taking care of those in the FSC system, who do not have a very strong voice and need special attention. It helped to develop tools such as the Made with Heart marketing campaign and the smallholder fund, a financing mechanism for smallholders in the certification process. The inclusion of smallholders in the FSC system is of strategic importance to achieve the mission of our organization."

AkzoNobel has also been involved in the set-up of a sector-wide trade initiative to accelerate Indonesia's progress towards mainstreaming sustainability in the pulp and paper industry and building lasting relationships with customers. The Sustainable Trade Initiative on Pulp & Paper (STIPP) – a sector-wide initiative co-founded by IDH, APP and AkzoNobel and supported by the Indonesian Ministry of Forestry and the Indonesia Pulp & Paper Association – was launched in June 2014. STIPP aims to de-couple deforestation from the pulp and paper supply chain by initiating sector-wide solutions to the sustainability challenges, including peat land practices, High Carbon Stock (HCS) standards, clean manufacturing, yield intensification, community engagement and social conflict management. Significant support to the development of a "green provincial plan" for South Sumatra has been started, with STIPP supporting in the Pulp & Paper and Peatland Protection initiatives.

In addition, AkzoNobel is sharing expertise on "clean" manufacturing, supporting improved industry practices on resource and energy efficiency and waste management. This allows us to build close relationships with this important customer. The first project with APP is scheduled to begin in 2016.

Suppliers and sourcing

We continue to engage with Together for Sustainability (TfS), the chemical sector initiative to create more sustainable supply chains. Founded by the Chief Procurement Officers of six European companies, the initiative now has 16 partners across three continents and is making good progress towards building the industry's standard for sustainable supply chains. The TfS program uses high quality third party sustainability assessments and audits to measure the supplier's sustainability performance against a pre-defined set of industry best practice criteria, and shares that single assessment across the partners. It also provides a platform for monitoring improvement actions. For more information, see Note 7.

Engaging employees

During 2015, we continued to engage employees from around the world on the theme of sustainability through our Planet Possible activities. For more information, see Note 6.

Energy and climate

Our aim is to achieve cost-effective energy sources and maximize sustainable impact while being prepared for future developments. For our energy-intensive production processes, we are actively engaging in diversifying the energy mix to lower risks and enhancing our sustainability performance by reducing our carbon footprint and increasing the use of renewable energy.

Information on some new energy partnership, for example with Eneco, and bio-based raw materials partnerships are included in the case studies, the Business performance section and Note 5 of this section. In addition, we engaged in a number of consortia on innovations in bio-based chemistry.

We co-chair the WBCSD Chemicals Sector Reaching Full Potential working group. Following work to develop a consensus approach to aspects of lifecycle assessment, the focus in 2015 was on partnerships to accelerate uptake of more sustainable products. AkzoNobel led the Energy Efficiency in Buildings Benelux Laboratory to contribute to the EU energy efficiency goals of 20 percent in 2020 and 27-30 percent in 2030. The team convened a wide range of building stakeholders to support the development/implementation of ambitious, practical, retrofitting solutions for large-scale residential buildings, schools and public and private office buildings.

Developing good practice

As part of our efforts for continuous improvement and the development of good practice, we participate in a range of activities that offer the opportunity to learn from and share and engage with a broad group of stakeholders. We are incorporating natural capital thinking to ensure our business is sustainable as it grows. During 2015, we tested the outcome of some of these activities in the extended four-dimensional profit and loss (4D P&L) pilot, as described in the case study in this section.

We continue to use our membership of the International Union for Conservation of Nature's (IUCN) business engagement network to increase awareness and inspiration for AkzoNobel employees. Leaders for Nature, in place since 2006, is the IUCN NL business engagement network of 20 multinationals and major Dutch enterprises working together on greening the economy. The main biodiversity focus for our own operations is on climate change mitigation (through the adoption of a carbon mitigation policy) and pollution control (monitoring air, water and soil emissions). We have also incorporated an assessment element in the 4D P&L pilot.

Our product portfolio includes solutions that deliver both environmental and social benefits to our customers and wider society. While processes for measuring environmental benefit are well advanced, social impact measurement is less well developed. Therefore, we contributed to the Roundtable for Social Metrics and the WBCSD social metrics working group, working together with leaders in the industry to develop ways of quantifying the social challenges we are facing. We are testing the outcome of some of this work in our 4D P&L pilot.

To help us in further developing integrated reporting and transparency, AkzoNobel was one of the pilot companies for the International Integrated Reporting Council program to create a forward-looking company reporting framework, and provided company input to the working group.

We continue as a member of the International Integrated Reporting Council business network, made up of companies committed to making the integrated reporting framework a practical reality. Our Report 2014 gained recognition from the Ethical Corporation in the UK, won a European Excellence Award and was awarded the Transparency Benchmark Crystal Prize by the Dutch Ministry of Economic Affairs.

Shareholders, analysts and indices

We continuously developed our engagement with shareholders and investors on sustainability aspects by taking part in conferences and meetings during the year, as well as answering questions in telephone briefings and questionnaires. In addition, in May 2015, we organized our second Social Responsible Investor (SRI) conference call. Sustainability aspects of business are also included in many analyst and general shareholder presentations.

Investors make use of sustainability rating agencies. An overview of the agencies and their ratings can be found in the following table:

Sustainability rating agencies

RobecoSAM (Dow Jones Sustainability Index)	We were industry group leader for the fourth consecutive year, and have been in the top three for the last ten years.
CDP	We have participated in the CDP assessments since 2007 and achieved a 100 percent disclosure score in 2015.
Sustainalytics	Sustainalytics has covered us in their rating since 2004. For the fourth year in a row, we're ranked among the industry leaders.
Oekom	Oekom research has analyzed us since 2001. We have been awarded Oekom Prime status since 2012. We currently rank in the top five chemical companies.
Vigeo	Vigeo has rated us since 1999. In 2015, we were among their leader group in ESG performance, resulting in inclusion in all their ethical indices.

ROBECOSAM Sustainability Award Industry Leader 2016

SUSTAINALYTICS

Corporate Responsibility Prime rated by oekom research

CDP DRIVING SUSTAINABLE ECONOMIES

vigeo rating

For an overview of our listing on sustainable stock indices, turn to AkzoNobel on the capital markets in the Governance and compliance section.

Using **four dimensions** to generate more value

The four-dimensional profit and loss (4D P&L) methodology represents value creation in multiple dimensions. This is a totally new way of looking at an economy, where the impact of a company on society at large can be assessed.

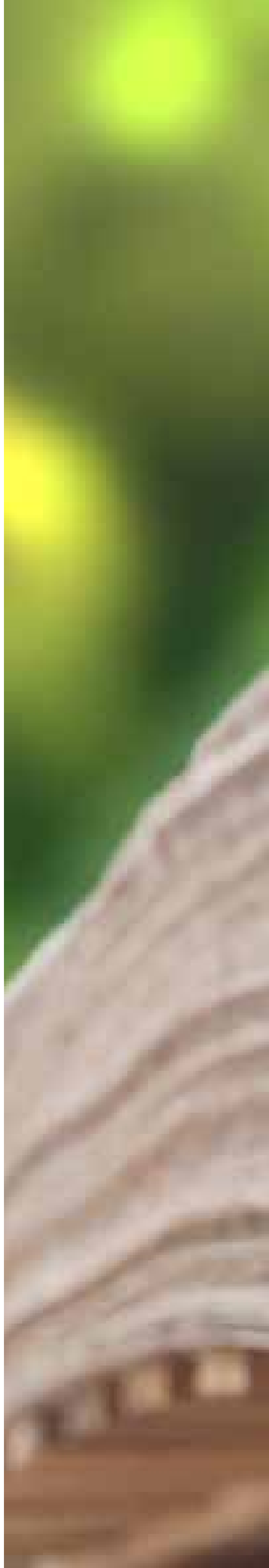
In an effort to gain a more detailed insight into how our profit and loss is generated, we launched a 4D P&L accounting pilot study during 2014 at our Pulp and Performance Chemicals business in Brazil.

The aim was to gain a deeper understanding across the value chain of our environmental, human, social and financial impact. We reasoned that the more we knew about these four dimensions – including their monetary value – the more we would be able to identify possible improvements and, ultimately, increase business value. The study also shows that it's possible to shape the future by looking at society and the economy with a multi-dimensional perspective.

Based on the findings of the pilot, together with other assessments, we agreed and implemented specific actions during 2015 designed to reduce the negative aspects and build on the positive factors. For example, the business increased its use of renewable resources and is implementing continuous energy and material efficiency improvements in its own operations. Additional community programs have also been launched – with those offering more value to society being prioritized – while additional talent development and training programs for employees have been introduced.

In addition to the insights for our own operations, we have been using this data with customers to improve their energy and resource efficiency, as well as motivating our suppliers to map their sustainability performance. We had the opportunity to share knowledge and experiences gained from the pilot with customers and other stakeholders on many occasions.

In order to build on this progress, we launched phase two in 2015. This involved widening the scope to include our Pulp and Performance Chemicals sites producing pulp bleaching chemicals in the US and Sweden. The methodologies for the assessment of financial capital (including all financial contributions, not just conventional economic profit) and natural (environmental) capital were refined. For social capital, we moved to a semi-quantitative, risk-based method, including a wide range of topics, from worker safety to community engagement. For human capital, we developed our monetization method, based on inflation-corrected future salary growth of employees. To summarize, the methodologies behind the



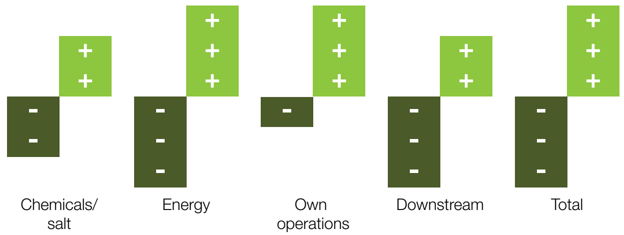
It’s possible to **shape the future** by looking at society and the economy with a multi-dimensional perspective

Zooming in on paper.

Eucalyptus wood is the key raw material for pulp production.

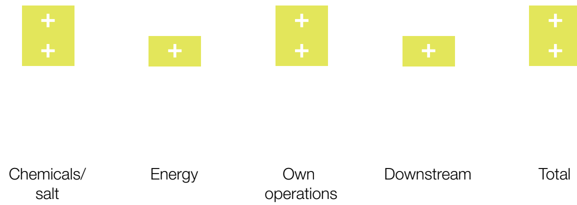
Financial capital and natural capital

Financial capital (positive) Natural capital (negative)



Human capital

Human capital (positive)



study are now more robust, based on open source methods, and can be applied to all parts of the value chain.

The results of phase two of the pilot (outlined in the chart above) show the highest impact to be on financial capital, positively creating value through a combination of salaries, taxes and interest payments, as well as the traditionally explored company profit. There is also a substantial negative natural capital along the value chain, mainly resulting from the use of fossil fuels as an energy source.

As outlined in the charts above, the human capital – based on generic industry data – is mainly influenced by salary development. This is positive in a lot of cases, but not in all regions and sectors.

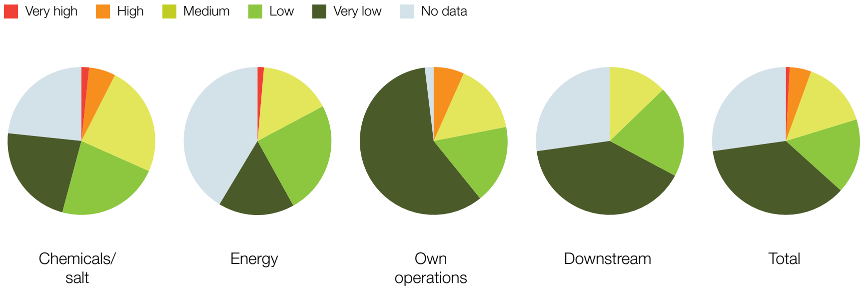
Nearly all the social capital indicators that were assessed resulted in a very low to medium risk, which indicates a low overall social risk. For our own operations, social risk can be reduced by developing a more formal procedure for engaging with local communities. Some other high risks, related to freedom of association and the right to collective bargaining, were identified in our value chain. Since this is based on generic regional industry data, we will review whether this is also relevant for our specific value chains.

The 4D P&L methodology was also applied to a consumer product relevant for our business – a book. The exercise was carried out to increase awareness among value chain partners of the possible financial, environmental, social and human issues. It also

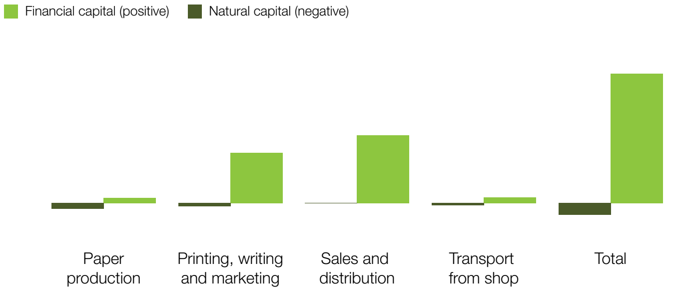
Pulp is the key raw material for paper production.

Our Chemical Island in Jupiá, Brazil, which is located on the site of a customer.

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



Value chain of a typical book (indicative in monetary value)



demonstrates how to operationalize the 4D P&L in a full product value chain. Moreover, we wanted to put the business-specific results of bleaching chemicals production into a context and show the contribution of AkzoNobel to a consumer product. With the company providing bleaching chemicals, it was assumed the book would be produced in Europe on 50 percent virgin paper from Brazil and 50 percent recycled paper, with 100,000 copies sold at €20 each.

Part of the 4D results (outlined in the chart Value chain of a typical book) indicate total positive financial capital, mainly in labor intensive steps such as writing, marketing and selling and negative natural capital, mainly in material intensive steps such as paper production and transport.

The 4D P&L methodology represents value creation in multiple dimensions. This is a new way of looking at an economy, where the role of a company in society at large can be assessed. The results add new sustainability perspectives to traditional risk/opportunity processes used in business decision-making. Thanks to this more extensive assessment, we can continue to engage with value chain partners and tackle specific actions that help us to reduce the negatives and build on the positives.

Value chain management

Our sustainability objective is to create more value from fewer resources – right across the value chain – by making more effective use of natural resources in our own operations and through our products, and by engaging employees, suppliers and customers in developing solutions. We have maintained our performance on eco-premium solutions and are now seeing an improvement in our cradle-to-grave carbon footprint performance – leading to an increase in our Resource Efficiency Index.

The programs summarized in the following sections are designed to create value, right across the chain:

- Value for our customers by providing products with excellent functionality that generate resource/energy benefits ahead of competitive products
- Value for the environment through more effective use of natural resources and a significant reduction in specific greenhouse gas emissions across the value chain
- Value for society through the positive impact of our products in our end-user segments
- Value for our business by focusing on our end-user segments – delivering growth and profitability

There are three aspects for the delivery of this value chain strategy, which are summarized over the following pages:
- Sustainable business
- Resource efficiency
- Capable, engaged people

Key performance indicators – value chain

	2012	2013	2014	2015	Ambition 2015	Ambition 2020
Sustainable business						
Resource Efficiency Index (2012 baseline)	100	98	96	113	–	–
Eco-premium solutions with downstream benefit (% of revenue)	17	18	19	19	–	20
Eco-premium solutions total (% of revenue)	22	24	24	24	30	–
VOC in product (% reduction from 2009)	10	7	5	n/a	–	–
Resource efficiency						
Carbon footprint cradle-to-grave per ton of product sales (% reduction from 2012)	0	2	-4	3	–	25-30
Carbon footprint cradle-to-gate per ton of product sales (% reduction from 2009)	1	4	0	8	10	–
Carbon footprint own operations (million tons of CO_2(e))	4.7	3.9	3.9	3.8	<4.6	<4.6
Renewable energy own operations (%)	33	31	34	38	–	45
Renewable raw materials (% of organic)	13	13	13	11	–	–
Supplier management						
Critical PR[1] spend covered by supplier management framework (% of spend)	69	80	83	87	88	–
PR[1] suppliers signed Business Partner Code of Conduct (% of spend)	97	96	98	98	98	–
NPR[2] suppliers signed Business Partner Code of Conduct (% of spend)	80	83	80	81	80	–
Suppliers on SSV program since 2007	373	392	432	455	–	–

[1] Product related (raw materials and packaging).
[2] Non-product related.

Lifecycle assessment

Lifecycle thinking is the basis for all our sustainability work. Our standard assessment method is eco-efficiency analysis (EEA), based on a combination of lifecycle assessments and lifecycle costing. Assessment work is carried out by business and company level specialists and is based on ISO 14040-44 and a company lifecycle assessment database.

Lifecycle assessment has been included in a range of processes for many years. As part of the current strategy, the company has developed a number of common processes – either at company or Business Area level – which include lifecycle thinking.

Innovation process

The new Innovation process for product and process developments covers an assessment of market segments and strategic alignment, including sustainability. AkzoNobel's eco-premium solutions concept requires the assessment of sustainability aspects along the value chain. It encourages the development of more innovative, sustainable products. We continuously aim to reduce the environmental footprint of our product value chains.

Carbon footprint assessment

We measure the carbon footprint of all our key value chains (472 in 2015) using a full cradle-to-grave, or screening, lifecycle assessment. This is the basis of our carbon footprint key performance indicator.

Commercial excellence processes

Including sustainability in marketing propositions is an essential aspect of our Planet Possible agenda. We are developing environmental product declarations (EPDs) for some products as part of our marketing activity.

Investment decisions

All our major investment proposals (more than €5 million) require a sustainability evaluation alongside the financial case. This includes assessments at different stages in the project development. At the point of application for capital, the requirements include an eco-efficiency assessment, as well as a full review of health and safety, process and product safety, natural resource/raw material requirements and environmental impacts. The proposals are reviewed by subject matter experts, who give input to the Executive Committee, to provide a strong basis for the investment decision.

Other value chain aspects

While we focus on carbon footprint as a proxy for raw material and energy efficiency, our lifecycle assessment considers a range of impacts. In 2015, this included:

Four-dimensional profit and loss (4D P&L)

We have applied methodologies for assessment of profit and loss accounting along the value chain, taking environmental, financial, human and social aspects into account. The 4D P&L covers the full value chain, consistent with our Planet Possible agenda. The 4D P&L method has been applied to some of our chlorate value chains in Brazil, the US and Sweden (see case study).

Bio-diversity

As a part of the 4D P&L accounting project, we are including a biodiversity assessment by analyzing hot spots, based on methods used in three recognized assessment processes: Environmental Priority Strategies, the WBCSD global water tool and the Product Environmental Footprint (PEF) pilots. This was done for a number of AkzoNobel Pulp and Performance Chemicals value chains in three countries including their respective suppliers and customers. We have concluded that a number of sites operate in broad regions that are considered biodiversity hotspots. For these product lines, specific recommendations have been made in order to manage the related possible biodiversity risks.

Resource Efficiency Index

The adoption of a Resource Efficiency Index as a key financial indicator results from the conviction that global population growth and increasing resource constraints will drive new business models in the materials and energy intensive industry sectors. In the chemicals industry, sustained business success will require product and process innovations that generate much more added value from each unit of raw materials and energy used across the value chain – be it with our suppliers, in our own operations or with the users of our products.

The Resource Efficiency Index is defined as gross margin divided by cradle-to-grave carbon footprint – reported as an index. We selected gross margin as an indicator of added value as it is comparatively stable and captures the effects of efficiency improvements. Carbon footprint is a good proxy for resource efficiency across our value chains.

We are initially monitoring the Resource Efficiency Index and expect it to be a long-term indicator for AkzoNobel. Although margin variability and currency fluctuations may affect performance in any given year, the long-term trend

Resource Efficiency Index
gross margin/CO_2(e) indexed

Resource Efficiency Index is gross margin divided by cradle-to-grave carbon footprint, expressed as an index. The index is set at 100 for 2012, since this is the baseline year for our strategic sustainability objectives.
REI 2009-2011 is indicative and has been approximated. Cradle-to-grave carbon data for 2009-2011 is based on:
- Cradle-to-gate carbon data as measured and reported
- Gate-to-grave carbon data has been extrapolated based on 2012 data, adjusted for product volumes in 2009-2011

must be upwards. A review of our performance over the past seven years reveals a variable trend. We have seen increases from factors such as:

- Improvements in energy efficiency
- Increased renewable and low carbon energy supply
- The ongoing switch towards waterborne coatings
- Margin improvements as a result of higher value added products

However, alongside these positive factors we have seen tighter margins, together with expansion in markets that are slower in adopting low VOC coatings and have a high proportion of high carbon energy supplies. The increase this year is a combination of improved carbon footprint performance and increased margins, partly due to currency variations.

Eco-premium solutions

We want to continue to lead by example in terms of sustainability. It is common knowledge that we live in a world with finite resources. We therefore have a strategy of resource efficiency to create more value from fewer resources, and to find opportunities where there don't appear to be any. We minimize the environmental and social impact/footprint of the products we sell and the processes we use to manufacture them.

Eco-premium solutions (EPS) are products and processes that offer an improvement in sustainability, delivering either environmental or social benefits. They are measured via a quantitative analysis or a qualitative assessment of performance in seven categories:

- Energy efficiency
- Use of natural resources/raw materials
- Land use
- Emissions and waste
- Risks (e.g. accidents)
- Toxicity
- Health and well-being

When assessed across the entire value chain against currently available solutions in the market, the eco-premium solution must be significantly better in at least one of the above criteria, and not significantly worse in any. We aim to make comparisons with products and services that are readily available and appealing to the wider general public, as opposed to being of interest to only a very specific group.

Year-on-year progress will be impacted not only by our own improvements, but also by competitor activity and legislation changes. For example, the introduction of new products into the market whose performance is equal to our current range of eco-premium solutions will redefine the standards that we will have to surpass to acquire EPS status.

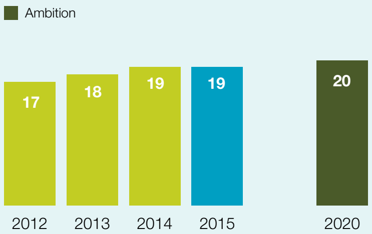
In 2012, we added another element to our eco-premium solutions: eco-premium solutions with downstream benefits. This is a measure of those eco-premium solutions (products and services) that deliver the sustainability benefits in the downstream value chain – directly to our customers or consumers – as a semi-finished product, as a final product, or as a reusable/recyclable material in the end-of-life phase.

Recent examples of eco-premium solutions with downstream benefits include:

- **AquaSilk:** A waterborne coating for the Chinese furniture market with exceptional film transparency and hardness. It is one of the first products to meet the relatively new demand for waterborne products in China
- **Armohib CI-5150:** A high-end film-forming corrosion inhibitor fulfilling the highest level of environmental criteria within the oilfield chemicals sector globally. Corrosion is a serious issue in the production and transportation of oil and gas which, without protective measures taken, could lead to serious consequences for health, safety and environment, not to mention the economic losses. Armohib CI-5150 is ten to 100 times less aquatoxic than the two globally most used competitive chemistry classes
- **Bolikel XP:** A novel, highly efficient micronutrient for a full, healthy color of crop. It is fully biodegradable and water soluble, making this product suitable for sustainable soil applications (fertigation)
- **Dulux Easycare:** Interior paint with extended lifetime. Superior in terms of scratch, knock resistance and washability. Introduced in Poland in March 2015 with excellent sales results
- **Dulux Powerflexx:** Unique Powerflexx technology and stay-clean properties mean that buildings are protected from peeling or flaking in any weather conditions and stay clean for longer. The Keep Cool technology of this external coating can reduce exterior temperatures by as much as 5ºC, keeping homes cooler and reducing energy use for cooling in warmer climates
- **Sikkens Cetol BLX-Pro Top:** A waterborne woodcare product with stay-clean properties. These extend the lifetime. Compared with the regular recipe, this product has a lower carbon footprint. It is sold mainly in Germany and France, and is being introduced in Belgium, Spain and Italy
- **Interpon A2000 Dual Trim:** A powder coating applied to the roof rails of cars, in the automotive chassis market, where liquid or anodizing coatings are still the standard
- **Kayabrid:** A coupling agent between polar fillers and non-polar polymer chains, allowing commodity plastics such as polypropylene to be processed into high performance composites. Lower loadings of coupling agent are needed to achieve the same/higher mechanical properties. The carbon footprint is low due to the use of bio-based fibers
- **Sikkens Autoclear UV/Lesonal UV Clear:** A new UV clearcoat to meet the needs of fast track/stationary repair. The bodyshop's energy costs and footprint are lowered, while productivity is improved by shorter drying times compared with ambient curing products

Revenue from all eco-premium solutions totaled €3.5 billion, or 24 percent of total revenue. In 2015, revenue from eco-premium products and services with downstream benefits totaled €2.9 billion, or 19 percent of total revenue, of which 9 percent relates to EPS with social benefits: health and well-being, risks and toxicity.

Eco-premium solutions with downstream benefits
in % of revenue



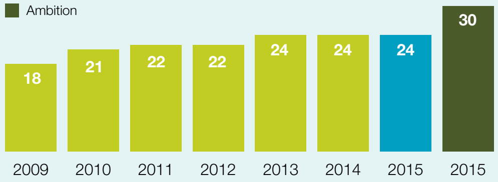
Eco-premium solutions with downstream benefits are products and processes that offer an improvement in sustainability in the downstream value chain.

Eco-premium solutions with downstream benefits per Business Area

in % of revenue	2012	2013	2014	2015
Decorative Paints	22	27	27	28
Performance Coatings	13	13	15	15
Specialty Chemicals	16	16	17	17

Our 2009 total EPS target of 30 percent of sales revenue by 2015 was not achieved, mainly because of a changed focus towards customer benefits in our current strategy and targets. This change is reflected in the results for EPS with downstream benefits, for which the 2020 ambition has almost been achieved. We maintain our focus on continuously improving this challenging metric with a variable baseline.

Eco-premium solutions in % of revenue



Eco-premium solutions are products and processes that offer an improvement in sustainability in (part of) the total value chain.

Eco-premium solutions per Business Area

in % of revenue	2012	2013	2014	2015
Decorative Paints	26	35	33	33
Performance Coatings	14	13	15	15
Specialty Chemicals	25	26	27	25

VOC in products

Our businesses continue to introduce new and reformulated products with significantly reduced (or preferably virtually zero) volatile organic compound (VOC) content. As a result of this multi-year program, our product portfolio is undergoing a transformation towards a range of products that are lower in VOC content. Since 2009, this has been established as an important part of our target to minimize the potential social and environmental impact from the materials in our products.

Both Decorative Paints and Performance Coatings are contributing to this continued reduction of VOC content. The company's overall paints and coatings product portfolio showed a decrease of 5 percent in average VOC content in 2014[1], compared with the baseline position of 2009. Due to divestments of businesses with very low VOC products, the like-for-like reduction for AkzoNobel over this period was 19 percent.

1 The annual metrics for VOC in products are assessed in the second quarter of the year, which is why the figures above reflect the year 2014 instead of 2015.

Drivers for change towards reduced VOC content come from a combination of technological improvements and changing customer and market demands – particularly with respect to the use of waterborne products. We are active in supporting these changes in emerging markets, where we are beginning to see changes in the form of VOC legislation. For example, the recent introduction of VOC tax regulation in China is helping the industrial wood coatings market move to our new waterborne technology.

Our Performance Coatings business continues to achieve a reduction of VOC content in its product portfolio, despite the technical challenges involved in balancing formulation cost and product performance. Although we continue to make technological progress, we remain acutely aware that it is cost/performance that will ultimately define the pace of market uptake. In the marine and protective coatings market, we have reduced VOC by launching several new high solids products. This contributed to an average VOC reduction within Performance Coatings in 2014 of 2 percent, compared with 2012. This represents a further reduction of VOC content in our product portfolio compared with the previous year's performance.

Our Decorative Paints products also contributed significantly to VOC reduction through the continuous introduction of high quality, low VOC solutions. Sales of waterborne and zero-emission paints are steadily increasing, an effect which we expect to continue in the coming years. Due to a change in product mix caused by divestments in 2014, average VOC content in Decorative Paints actually increased by 5 percent compared with 2012. However, when taking into account the impact of the divestments of the low VOC businesses in North America in 2013, and the Building Adhesives business in 2014, the average VOC content in 2014 was reduced by 14 percent compared with 2012.

For 2015, we forecast a continuation of these trends, with a further reduction in average VOC content for our Performance Coatings and Decorative Paints portfolio.

The circular economy

The circular economy is increasingly being talked about as a possible alternative to today's unsustainable and linear (take-make-dispose) consumption patterns.

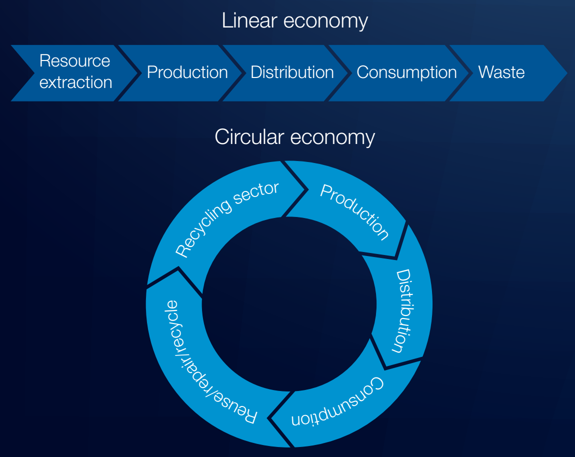
Its potential is such that AkzoNobel has embraced the concepts of the circular economy in its Planet Possible agenda.

Business leaders around the globe are also paying more attention to the circular economy and consider it to be an important way of increasing growth and profitability in line with sustainable development.

Many of these leaders gathered in Paris in December 2015 at the sustainable innovation forum (SIF15), which took place alongside the historic COP21 climate summit. The event provided an opportunity for them to discuss how companies can best make the transition to more sustainable business and production practices.

AkzoNobel takes great interest in the circular economy and strongly endorses the concept as the necessary route towards a sustainable society. The philosophy behind it is perhaps best described by the Ellen MacArthur Foundation, who have clearly set out its three key principles:

1 Preserve natural capital by controlling finite stocks and balancing **renewable resource** flows – for example replacing fossil fuels with renewable energy.
2 Optimize resource yields by **circulating products, components and materials** in use at the highest utility, at all times, in both technical and biological cycles – for example sharing or looping products and extending product lifetimes.
3 Increase system effectiveness by revealing and **designing out negative externalities**, such as water, air, soil and noise pollution; climate change; congestion and negative health effects.



We are moving away from unsustainable and linear (take, make, dispose) consumption patterns to a circular economy.

Our **Planet Possible** agenda is in line with circular economy thinking

Planet Possible™

Our Chemical Island sites are integrated with pulp mills and primarily run on renewable excess energy.

Consumer paint recycling.

Our own Planet Possible agenda is focused on creating more value from fewer resources, very much in line with circular economy thinking. There are many examples of where circular thinking is already in practice in our activities. Our bio-based raw material strategy, targets and performance, our renewable energy purchasing objectives and performance and elements of our priority substance management program are included in the Notes to the Sustainability statements.

Renewable resources

The increased use of renewable energy and bio-based raw materials is actually circular thinking at a planetary level. The carbon atoms (as CO_2) are absorbed when trees, plants etc. are growing. The same amount of CO_2 is released when fibers are incinerated or biodegraded.

Our Chemical Island concept is an example of circular thinking. We set up chemical facilities at our customers' pulp mills. These factories make use of excess renewable energy from the pulp mill and we provide the mill with the chemicals it needs. Our Pulp and Performance Chemicals business is part of a potentially fully renewable value chain based on abundant salt, renewable energy and renewable fibers.

Circulating products, components and materials

We also make use of other people's waste. In Delfzijl, the Netherlands, for example, we purchase heat created by the incineration of waste. Since it is household waste, most of it has a renewable origin.

On the flip side, other people make use of our waste. In the UK, ReColour was launched last year as a viable alternative to throwing away unwanted household paint, building on our long-standing partnership with Community RePaint. We are enabling social enterprises to remanufacture this unwanted paint for social and community use, helping community groups and charities to create colorful living spaces using recycled products.

In order to find more opportunities for waste reuse we are participating in the United States Materials Marketplace, set up by the US Business Council for Sustainable Development (US BCSD) and the WBCSD.

AkzoNobel also strives for more durable coatings. All our outdoor paints and coatings are continuously being developed to increase the lifetime of the paints, as

Steam from waste is delivered to our plants in pipelines.

An asphalt warm mix additive reducing climate and potential health impacts.

well as the lifetime of the materials they are protecting. By lasting longer, the overall amount of resources required over the lifetime of a building can be reduced.

Designing out negative externalities

Many of our products and solutions lead to less energy use for our customers. For example, Rediset is a surfactant and additive for asphalt which results in less energy use during asphalt paving. Another example is the Weathershield products developed by our Decorative Paints business, which keep buildings cooler by reflecting sunlight. This means less electricity is needed for air conditioning.

There's also Intersleek, an antifouling paint which makes ships' hulls smoother, resulting in less drag, which means less fuel is needed and there are fewer emissions. We also have various examples of new industrial coatings that can be cured with UV light instead of thermal heat, saving energy for our customers.

In addition, we have a number of products that can help improve air quality, both inside and outside of buildings. Products like Dulux Guardian in China help absorb air pollutants such as formaldehyde inside buildings, while Sikkens Alpha Aeroxane can neutralize nitrous oxides that can cause smog in cities. We are also actively promoting low VOC (particularly water-based) coatings across our business to help reduce the amount of solvents emitted from our products. In addition, the AkzoNobel operational eco-efficiency program aims at less energy use and emissions from our plants.

Embedding circular thinking in AkzoNobel

AkzoNobel not only pursues business activities of a circular nature, but also quantifies its efficiency in generating value across the full value chain. This is done by means of cradle-to-grave carbon targets and the Resource Efficiency Index, a unique indicator expressed as gross margin divided by cradle-to-grave carbon footprint, expressed as an index.

The implementation of circular thinking is embedded in AkzoNobel's business activities and is a key principle of our Planet Possible sustainability agenda – doing more with less.

Carbon footprint cradle-to-grave

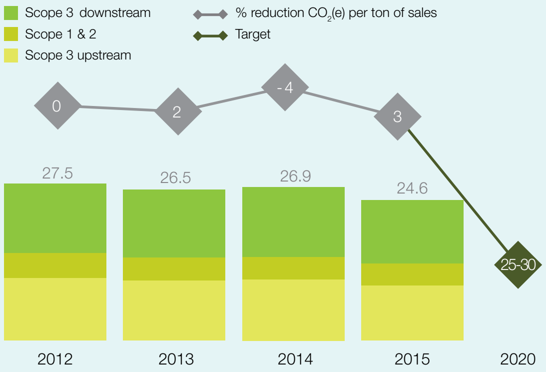
In our 2020 sustainability objectives, carbon footprint has a very important role – not only for its measure of climate impact and protection, but also because we are using it as a proxy for how efficiently we are using raw materials and energy in our products.

Our target is to reduce our cradle-to-grave carbon footprint by 25 to 30 percent per ton of sales between 2012 and 2020, including the impact from VOC emissions. We will achieve this through innovative products/solutions, technology and energy management, and by creating more value from fewer resources. Collaboration with suppliers and customers is crucial for our success.

Our assessment this year indicates a total footprint of around 25 million tons of CO_2(e) which is 7 percent lower than 2014. CO_2(e) per ton of sold product is 3 percent lower than 2012. The cradle-to-grave assessment shows that around 40 percent is from raw materials extraction and processing (Scope 3 upstream), 15 percent from our own direct and indirect emissions from energy consumption (Scope 1 and 2), and 45 percent from the use and end-of-life phase (Scope 3 downstream).

We have made some good improvements in 2015 although our 2020 cradle-to-grave ambitions will still be very challenging. Our cradle-to-gate performance is variable, mainly due to product and energy mix, but the trend is moving in right direction and performance is approaching the original 10% target. In 2015, new power contracts for production sites, for example in Russia and Brazil, together with significant energy efficiency improvements in energy intensive sites (chlorate and chlor-alkali) have reduced Scope 2 emissions. Increased production at our Chemical Islands (using renewable power), higher sales of paints with lower carbon footprint in Asia and the divestment of our Paper Chemicals business (relatively high carbon footprint) have reduced the value chain footprint significantly. However, some of our

Cradle-to-grave carbon footprint
in million tons of CO_2(e) and % reduction per ton of sales



The carbon footprint of the six main greenhouse gases is measured from cradle-to-grave based on the international Greenhouse Gas (GHG) Protocol and Lifecycle Assessment ISO 14040-44. See Assessment method on our corporate website.

Cradle-to-grave carbon footprint
Total in million tons CO_2(e) and reduction per ton of sales

	2012	2013	2014	2015
Decorative Paints				
Total	5.0	4.2	3.9	3.6
% reduction per ton of sales	0	3	0	4
Performance Coatings				
Total	13.0	12.9	13.6	12.3
% reduction per ton of sales	0	0	-2	-2
Specialty Chemicals				
Total	9.5	9.4	9.4	8.6
% reduction per ton of sales	0	2	-2	6
AkzoNobel				
Scope 3 upstream	11.0	10.5	10.7	9.7
Scope 1 & 2* (see note below)	4.4	4.1	4.0	3.8
Scope 3 downstream	12.1	11.9	12.2	11.1
Total	27.5	26.5	26.9	24.6
% reduction per ton of sales	0	2	-4	3

*Scope 1 and 2 includes emissions from our facilities and our own transport, including VOCs.

improvements have been outweighed by a deterioration of power mix in Germany.

Scope 2 emissions are calculated using the market-based method (GHG Protocol). We have assessed all Scope 3 categories according to the GHG Protocol Scope 3 standard (see Scope 3 emissions on our corporate website).

More information on our assessment method for carbon footprint cradle-to-grave can be found in Note 2.

Management plans

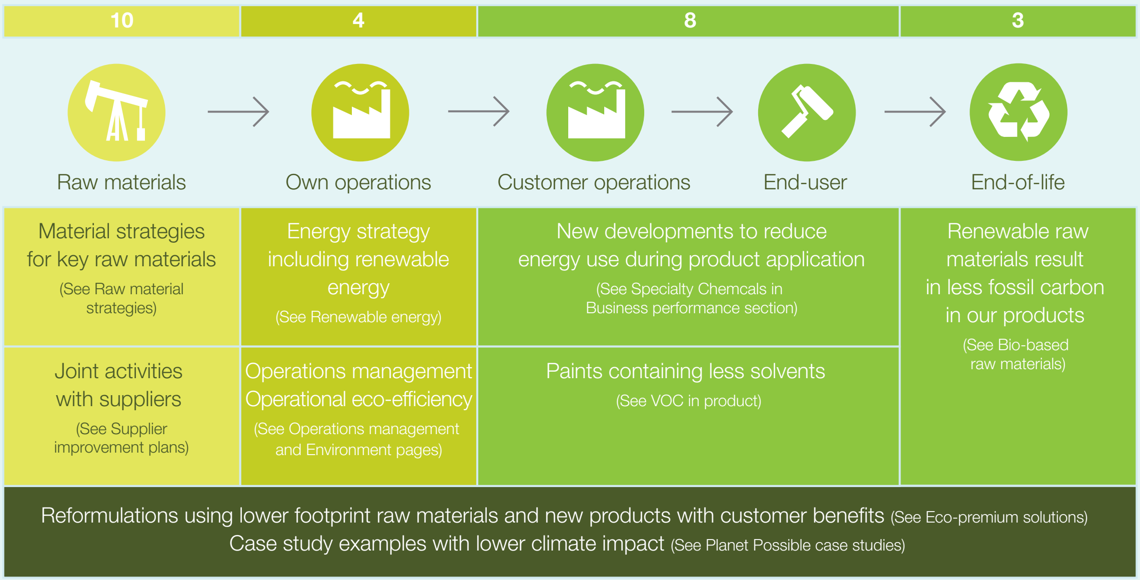
Our Executive Committee and Sustainability Council have initiated a detailed review and follow-up of our plans to achieve this 2020 target. All Business Areas have improved the process to forecast carbon footprint reductions and have been challenged to show how to reach this stretched target by specific improvement opportunities and programs along the value chain. This is now part of our regular Operational Review Meetings and aggregated at AkzoNobel level. Research activities around new raw materials have been initiated and Procurement is working with suppliers on how they can contribute to more value from fewer resources along our value chain. We also need to make certain that we are spending capital in a way which optimizes the improvement across our businesses and the company as a whole.

The following illustration highlights the impact of our main initiatives in different areas of our value chain:

- Raw materials which are more energy and material efficient for our customers
- Improved energy efficiency and fuel mix for our energy intensive operations
- Improvements in formulation to reduce product footprint

The following sections discuss improvement activities for raw materials, our operations and in the product solutions we deliver to customers.

AkzoNobel carbon footprint in million tons CO_2(e)



Raw materials

Raw materials contribute around 40 percent to our cradle-to-grave carbon footprint.

Raw material strategies

The procurement strategy for the next few years is to move further beyond availability-price-synergy towards cross-functional sourcing, integration and value chain orientation. Buying on price will move towards total cost of ownership, while selected supplier relationships will move towards cooperation and partnering. We see this as a way to leverage the size and scope of our global business, our position with suppliers and to drive competitive advantage.

A cross-functional approach with our key suppliers is now set as the standard in our updated key supplier management process. This enables us to structure the cooperation regarding joint sustainability and innovation topics with our key suppliers.

During 2015, we continued the development and implementation of our raw material strategies, while also capturing opportunities and mitigating risks in volatile markets. Sourcing strategy implementation included elements such as material resource planning, capacity and supply cover, supplier selection and sourcing plans per region, "make" versus "buy" and renewable materials. They are also an instrumental tool in reducing the footprint of our global value chains. This process also ensures that we have taken into account interdependencies with a forward-looking perspective, including sustainability. In order to further improve our raw material strategies, we have institutionalized a standard sourcing strategy development approach and linked this to a capability improvement program. More than 150 procurement professionals across the globe have been trained and we will continue to develop these capabilities.

Complexity reduction

Raw material slates have been developed for all key areas of spend. These slates define the core list of preferred materials/suppliers as the basis for our future formulations. Health and sustainability aspects, such as product safety and environmental concerns, have been among the key criteria applied. The objective is to migrate our materials/suppliers over time onto these core materials, making our value chains less complex and more sustainable. We have achieved an annual reduction of 3-4 percent on the number of raw materials over the past two years.

The slates form the basis of our standard raw material management processes, which were introduced this year. Teams of procurement and technical experts are now in place to maintain the slates on a continuous basis and identify opportunities to further improve our value chains – lower cost, improved sustainability and reduced risk.

Supplier improvement plans

In 2015, we continued to work with key suppliers to develop carbon footprint improvement plans across the whole value chain through operational improvements, material substitution and/or specification optimization. Clear action plans and commitments are in place to reduce their carbon footprint on a year-on-year basis.

Bio-based raw materials

Bio-based raw materials continue to play an important role in our sustainability agenda. A considerable share of the company's environmental footprint is embodied in the raw materials we buy. Bio-based materials can, in most cases, offer an option to reduce this.

While many of our materials are already bio-based, we notice that several new materials are being developed and are starting to reach the market. In order to lead the deployment of these materials in our markets, we have been setting up and developing partnerships across our supply chain. Our strategy focuses on cost-competitive, high-impact materials. In addition, we carefully consider feedstocks to ensure that bio-based materials are sustainably sourced and managed. This approach will support the emergence of a new bio-based industry, while at the same time enabling AkzoNobel to tap into alternative feedstock sources so that we can offer more sustainable products and reduce our cradle-to-grave carbon footprint.

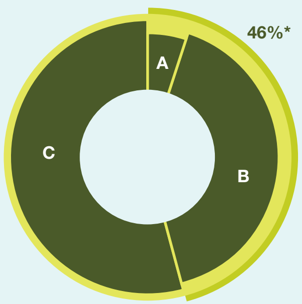
In 2015, we made progress with our existing partnerships and announced additional collaborations involving a number of our key raw materials:

- **Waste-derived chemicals:** We are working with Canadian company Enerkem, various site owners and other value chain partners to build a strong consortium exploring the feasibility of (and building business cases for) waste-to-chemicals facilities in Europe. Such a facility would be a major step towards the circular economy and would close the loop by converting waste back into useful products
- **Sugar beet-derived chemicals:** AkzoNobel is working with SuikerUnie, Rabobank, Deloitte, the Investment and Development Agency for the Northern Netherlands (NOM), Groningen Seaports and the Province of Groningen, to investigate the possibility of producing chemicals from beet-derived sugar feedstock. We are now carrying out technical due diligence and building business cases for a feedstock and product-flexible bio-refinery
- **Algae-derived oils:** Our work with biotech company Solazyme has progressed and should lead to a multi-year supply agreement targeting annual supply of up to 10,000 tons of renewable Tailored™ algal oils. The target product is designed to have improved functional and environmental performance, as well as a lower overall cost to AkzoNobel
- **Bio-based epichlorohydrin:** In partnership with Solvay, EY and epoxy resin producers, we are working to track and encourage the use of bio-based epichlorohydrin in our value chain, aiming to reach 20 percent of AkzoNobel's global indirect use by 2016
- **Bio-based solvents:** We are involved in ongoing discussions with several companies aiming to produce novel solvents and are working towards launch as soon as these facilities are in production
- **Photanol partnership:** Our partnership with Photanol was named Bio-Based Chemical Collaboration of the Year at the 2015 World Bio Markets Bio Business Awards. Held annually, the awards program recognizes business excellence and innovation in the bio-based industry. The prize was awarded for our ongoing work focused on creating sustainable technology which mimics the way plants use photosynthesis. Combining AkzoNobel's processing technology expertise and Photanol's existing proprietary technology, the aim is to produce "green" chemical building blocks that will eventually replace some of the raw materials AkzoNobel currently obtains from fossil-based production

These partnerships have the potential to make a major impact with regard to improving the long-term sustainability of our supply chain. In 2015, 11 percent of all our organic raw materials came from bio-based (renewable) sources (2014: 13 percent). This is 5 percent (2014: 7 percent) of the total volume of raw materials purchased, i.e. including other raw materials such as salt, minerals and clays.

This decrease in bio-based materials was mainly the result of divestments in our Specialty Chemicals businesses, with some smaller contribution due to product mix changes.

Total volume of raw materials in % per source

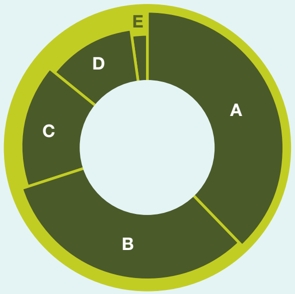


*11 percent of organic raw materials are from renewable sources.

A Renewable raw materials (bio-based)	5
B Fossil-derived materials (petrochemicals)	41
C Inorganic materials (e.g. salt, minerals, clays)	54

Total energy in % by source

A Renewable energy	38
B Natural gas	32
C Coal	16
D Nuclear	12
E Other fossil fuels	2



Renewable energy

In % of total electricity, heat and energy use	2013	2014	2015	Ambition 2020
Renewable electricity (%)	36	39	44	–
Renewable heat (%)	12	14	16	–
Renewable energy (%)	31	34	38	45

Own operations

Renewable energy

The energy we use on our sites contributes about 15 percent to our cradle-to-grave carbon footprint. Renewable energy is therefore an important aspect of the improvements required to achieve our 2020 strategic carbon footprint target.

Our Renewable Energy Supply Strategy has three focus areas: protecting our current renewable share, participating in cost-effective, large energy ventures and exploring commercially feasible on-site renewable energy generation.

The diagram on the previous page details our energy mix and renewable energy use. During the past year, we have taken several steps to increase the share of renewables in our energy supplies and to decrease our carbon footprint. The highlights include:

- AkzoNobel, Eneco and Groningen Seaports joined forces to invest in sustainable steam generation in Delfzijl, the Netherlands. We have signed a 12-year agreement with Dutch energy provider Eneco to purchase steam generated from reclaimed wood. The partnership will help to reduce AkzoNobel's CO_2 emissions by more than 100,000 tons a year
- Production records have been set at all three of the Nordic Vindln wind power parks in which AkzoNobel participates. Very favorable wind conditions in 2014/15 produced good output. Another three to five wind parks are in the pre-project phase, with the best prospects likely to materialize in Finland
- The new AkzoNobel Center in Amsterdam is being supplied with 100 percent green energy, provided by solar panels, an installation for geothermal energy and Dutch wind power. Thirteen other AkzoNobel locations in the Netherlands will also be supplied with wind energy. The contract will result in a reduction of 130,000 tons of CO_2 during its lifetime

Due to these initiatives, the proportion of renewable energy in our operations increased to 38 percent (2014: 34 percent).

Operations management

AkzoNobel has a strong drive to embed continuous improvement in supply chain management and manufacturing. A company-wide approach has been defined named ALPS (AkzoNobel Leading Performance System). Standardized processes, metrics and training programs are part of ALPS. Deployment in all three Business Areas to all manufacturing sites in AkzoNobel will continue in the next few years.

The program is supported by the AkzoNobel Academy, offering a continuous improvement curriculum, as well as functional training programs. Safety, customer service, eco-efficiency and cost productivity continue to improve as a result of the program.

Full details of our operational eco-efficiency program are included in Notes 15-20 of this section.

Logistics, distribution and car lease

As part of our performance improvement program, we have started to manage warehousing and logistics at a regional AkzoNobel level. This will result in a reduction of warehouses and combined transport solutions. It will also have a positive effect on our footprint.

We are involved with Smartway in the US and Green Freight Europe in the EU, focusing on CO_2 reduction.

The carbon emission ambition for our own passenger car fleet was 130 g/km. Since Volkswagen is one of our lease car suppliers, we are not able to provide verifiable data for 2015. We have arranged a meeting with Volkswagen and our lease car partner to agree remedial actions and plan how to reach our new ambition of 115 g/km by the end of 2016.

Customer product solutions

Our sustainability agenda emphasizes resource effectiveness and solutions for our customers, which in turn help them to be more energy and resource effective. We aim to continue developing more sustainable solutions and stay ahead of the competition.

The headline metric we have used since 2009 relates to eco-premium solutions. This measures products or solutions that have a significant benefit over mainstream products in the market in defined environmental and social sustainability aspects (e.g. GHG emissions), when assessed across the total value chain (see Note 4). This metric is challenging and is used as a driver for more sustainable innovations. A comparison with mainstream is now being recognized as good practice at many companies and organizations (ref. WBCSD Addressing the Avoided Emissions Challenge).

Many of our products enable GHG emissions to be avoided (e.g. water-based paint, coatings with new curing technologies and chemicals used in LED lighting). In total, 13 percent of our 2015 revenue was from these leading eco-premium solutions that avoid GHG emissions for our customers, compared with the mainstream solution. Some examples of solutions are UV radiation cured coatings, warm mix additives in asphalt and surfactants manufactured using renewable raw materials (rather than petroleum based).

In our Marine Coatings business, leadership in fouling control that supports our customers in reducing their fuel requirements is fundamental. We have now received our first carbon credits for our industry-leading Intersleek foul release coatings and have launched a high performance coastal fouling control solution for the severe fouling challenges of vessels trading in tropical coastal waters, providing energy savings and an extended operating life. Other examples are protective coatings requiring fewer coats and that dry faster – resulting in lower energy consumption for our customers – and vehicle refinishes products that can bake faster or at lower temperature.

Other products that help to reduce global GHG emissions are not captured by this leading measure. For example, more than 80 percent of our decorative paints are water-based or low/zero VOC (as opposed to solvent-based), while our powder coatings reduce VOC emissions in use (compared with solvent-based alternative solutions). These products are only counted as an eco-premium solution where the standard in the market is still solvent-based. Additional low VOC products, which are not eco-premium solutions, would add about 20 percent to this 13 percent revenue figure.

Suppliers and sourcing

A fundamental requirement of our strategy is to work together with our suppliers in order to create a sustainable supply base and deliver customer benefits, as well as improving resource efficiency. This means that we have to collaborate effectively. We have supplier management programs in place that support both performance improvement and opportunities for joint developments. One specific project focuses on the introduction of renewable raw materials in our supply chains, in collaboration with selected partners. See also the examples in Note 5 under Bio-based raw materials.

Further information on our engagement with suppliers and the management processes is included in Note 7.

Capable, engaged employees

Employees are routinely involved in delivering many aspects of our sustainability agenda, such as improving energy or resource efficiency at our sites, developing and selling eco-premium solutions to customers, managing all areas of safety and assessing the sustainability aspects of investments. We want to build on all these activities to accelerate performance against our objectives.

Awareness training to help everybody understand their contribution is available for both current and new employees through a company level e-learning program. This is supported by communication through newsletters, webinars and videos. Our learning and development specialists are also working to embed the sustainability agenda in all company-level programs in the AkzoNobel Academy.

The focus for 2015 was on our leadership programs. In addition, a number of functional-specific programs are being developed for roll-out in 2016, for example in Procurement and Human Resources. We continued to drive employee engagement through our Planet Possible sustainability agenda. A webinar was held for all employees to understand more about our number one position on the Dow Jones Sustainability Index.

The Business Areas also have their own programs. For example, our Decorative Paints business has progressed with its two-year engagement plan, where the focus is on the key global priorities for driving our sustainability ambitions. Employees are also actively involved at their work locations through local Green Teams and community activities around the world.

More information about our employee KPIs and management processes is included in Note 12.

Customer engagement

End–users and customers are continuously asking for products and solutions that will meet their current and future needs and help make their business more sustainable. In many cases, we work closely with them to deliver breakthrough solutions that offer downstream sustainability benefits, while also providing economic value to all parties in the value chain. These collaborations can range from smart product choices and logistics solutions to complete, long-term innovation programs, often involving academic partners and government institutes.

We are continuing to integrate Planet Possible conversations with customers into the learning and development curricula for our sales and marketing teams. The Planet Possible marketing toolkit for both professional and consumer brands is actively used within our Decorative Paints business. In Specialty Chemicals, a dedicated sustainability training module and toolkit has been developed and tested.

Further details about our work with customers are included in the case studies and the Strategic performance section of this Report 2015.

Supplier segmentation

AkzoNobel works closely with suppliers to identify and minimize supply chain risks in order to provide a secure and sustainable supply to its customers. Supplier management programs are in place to drive continuous improvement of existing supply chains and develop meaningful collaboration and joint development opportunities.

We have identified two supplier segments for particular attention, based on the potential risks and opportunities:

- Critical suppliers are those in emerging markets where we want to build a long-term, mature supply base. Selection may be based on risks associated with labor conditions, environmental performance or business integrity, or security of supply of important materials
- Key suppliers are selected because of their importance to the business – spend or dependency – as well as the potential for partnership, joint innovation and collaboration on long-term sustainability initiatives

In order to improve the alignment between our initiatives for all supplier segments, we have formalized our sustainable supply framework, as reflected below. Our Supplier sustainability framework is based on AkzoNobel's core principles and company values. We demand the highest ethics and integrity in all supplier relationships. The company's new Business Partner Code of Conduct explains what we stand for as a company, what we value and how we run our business. It brings our core principles of safety, integrity and sustainability to life, and shows what they mean in practice.

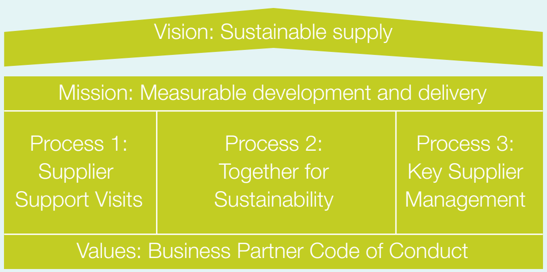
Three formal processes are in place to help AkzoNobel ensure compliance, manage risks and promote supplier development. Our Supplier Support Visits and Key Supplier Management programs focus on two distinctly different supplier segments: critical suppliers in emerging markets and globally strategic (key) suppliers. Together for Sustainability (TfS), applies to all supplier segments. TfS provides standardized, third party assessments and audits into our routine supplier management process to identify and minimize risks and promote continuous improvement.These various elements enable AkzoNobel to measure supplier development and delivery against the company's goals.

Our critical product related (PR) spend is actively managed by our supplier framework processes. This KPI provides a meaningful measure of how well AkzoNobel is building the sustainability, capability and capacity of its suppliers in critical emerging markets around the world.

We have defined critical spend as all PR spend (raw materials and packaging) from emerging markets. Spend is considered to be covered by this metric if at least one of the following conditions is met:

- The supplier is part of our Key Supplier Management process
- The supplier is part of our Supplier Support Visits program and has been followed up in compliance with program guidelines
- The supplier's sustainability performance has been assessed via AkzoNobel's third party supplier assessment and/or audit program (TfS)

Supplier sustainability framework



Key performance indicators – supplier management

	2012	2013	2014	2015	Ambition 2015	Ambition 2016	Ambition 2017
Critical PR[1] spend covered by supplier management framework (% of spend)	69	80	83	87	88	90	90
Product related suppliers signed Partner CoC[2] (% of spend)	97	96	98	98	98	98	98
NPR[3] suppliers signed Partner CoC[2] (% of spend)	80	83	80	81	80	85	85
Suppliers on SSV program since 2007[4]	373	392	432	455	–	–	–
Third party online sustainability assessments (TfS)[5]	–	–	539	724	600	700	800
Third party on-site sustainability audits (TfS)[5]	–	–	20	65	40	60	80

[1] PR – Product related (raw materials and packaging).
[2] Partner CoC – Business Partner Code of Conduct.
[3] NPR – Non-product related.
[4] SSV program targets are included in the Critical PR spend coverage KPI.
[5] Includes TfS shared assessments/audits.

- The supplier has a signed the Business Partner Code of Conduct, delivers less than €5 million from emerging markets and is not classified as a critical supplier (and therefore not part of the Supplier Support Visits program)

As a result of these continued efforts, we raised our critical PR spend coverage again from 83 percent in 2014 to 87 percent in 2015. Even though we made a good improvement, we missed our challenging target by a small margin. We will increase our critical spend coverage in 2016 by closely monitoring our SSV visits, setting clear targets with our businesses and increasing the number of third party assessments (TfS).

The Supplier sustainability framework has been put in place to support continuous improvement of suppliers, to prioritize improvement activities across our supply base and to accelerate delivery of our corporate sustainability goals. Each of the elements in the sustainable supply framework is further explained below.

Business Partner Code of Conduct

The Business Partner Code of Conduct covers 98 percent of the product related (PR) spend and 81 percent of the non-product related (NPR) spend. Both critical suppliers and key suppliers have to confirm their compliance with environmental, social and governance factors. Our aim for 2016 is to increase the coverage of our NPR suppliers to 85 percent.

Supplier Support Visits

The Supplier Support Visits (SSV) program is designed to develop long-term local suppliers in emerging markets by raising their capability and performance. Introduced in 2007, the SSV program is an important supplier management tool. The supportive visits focus on critical suppliers and are carried out by teams from Procurement and Health, Safety and Environment (HSE). Formal follow-up visits by these teams are conducted to verify implementation of agreed plans and overall progress. In order to ensure continued development of sustainable supply chains in emerging markets, selected approved SSV suppliers continue their sustainability journey by entering AkzoNobel's third party assessment and audit programs. Awareness of, and compliance with, corporate social responsibility is measured with continued support from local, cross-functional AkzoNobel teams.

Together for Sustainability (TfS)

Further acceleration of this program in 2015 has impacted all supplier segments, including product related and non-product related suppliers, resulting in more than 50 percent of our total spend being assessed. TfS is an industry initiative made up of 16 leading global chemical companies and continues to expand. It aims to improve sustainability practices within the global supply chains of the chemical industry, building on established global principles such as the United Nations Global Compact and the Responsible Care® Global Charter. With TfS, we aim to implement effective, leading edge practices across the industry. We are implementing standardized global sustainability assessments and on-site audits to monitor and improve sustainability practices in our supply chains.

Global implementation of TfS provides the following benefits:

- Confirms compliance with our Business Partner Code of Conduct across a selected global supplier portfolio
- Supplements our existing SSV program by ensuring continued development of critical suppliers in emerging markets
- Strengthens our risk identification and mitigation processes
- Further integrates auditable corrective action planning into the supplier development process
- Provides third party verification of AkzoNobel activities against industry best practices

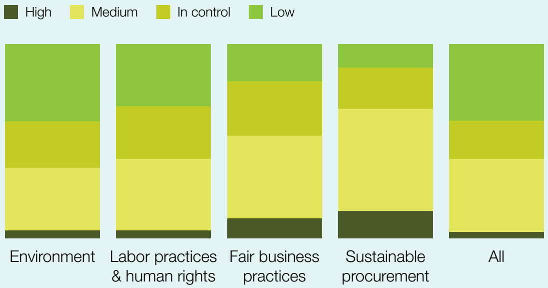
The results of our TfS assessments, which use the EcoVadis platform, allow us to identify common areas for improvement across our supply base and focus improvement activities. Improvement areas include the introduction of a formal reporting system on our supplier's sustainable procurement performance and business ethics issues.

The diagram below shows the 724 suppliers assessed between 2013 and 2015 with risk levels set by AkzoNobel based on the scores given by EcoVadis. If suppliers achieve a score of less than 25 out of 100, they are classified as “high risk”.

We request high and medium risk suppliers to work on corrective actions with a clear priority on the main areas for improvements as mentioned above. Out of the 357 suppliers that were re-assessed, 255 improved their scores.

Overview of risk levels

Total of 724 suppliers



As part of the TfS membership criteria, AkzoNobel verifies the quality of its own corporate supplier management activities against industry best practice. The company was granted a Gold recognition level in 2014 by EcoVadis, putting us among the best performing companies assessed by EcoVadis globally in our industry category. In our 2015 re-assessment, we were able to defend our position as best performing company in our industry category by further improving our scores.

Key Supplier Management

As part of our ongoing operational effectiveness program, our Key Supplier Management process helps focus our internal resources on 35 suppliers we have defined as strategic to AkzoNobel, both now and in the future.

These suppliers are essential to supporting us in realizing our strategic objectives. With many of these key suppliers, we also have a formal key supplier agreement in place, underpinning the aims of the Key Supplier Management process. Sustainability objectives are now included in new key supplier agreements. The current focus is carbon footprint improvement, renewable materials and innovation opportunities.

Measurable development and delivery

In 2015, we trialed a Supplier Sustainability Balanced Scorecard (SSBC) designed to measure the current level of sustainability awareness and maturity of our key suppliers and suppliers important to our sustainability performance (see also Performance improvement and innovation). Clear and quantifiable key performance indicators are contained in this process to help drive continuous improvement of all suppliers and delivery of sustainability benefits to AkzoNobel in the area of resource efficiency. The SSBC consists of six stages of maturity and is divided into two sections: “Compliance and risk management” and “Advanced contribution”. Following trials with a few key suppliers, it will be further implemented in 2016.

Performance improvement and innovation

Our Key Supplier Management program has already moved our supplier relationship beyond risk management to opportunities for partnership in performance improvement and innovation.

During 2015, we identified a wider group of suppliers who have a significant impact on our sustainability resource efficiency objectives. We have now embarked on a structured program to identify opportunities to drive sustainability value and carbon footprint reduction.

- **Prioritization:** Analyzing our raw material carbon footprint gave us a clear direction regarding which suppliers to contact about particular raw materials
- **Supplier engagement:** Suppliers completed a questionnaire that we designed to give us an estimate on carbon footprint reduction potential. The results of the questionnaire were than discussed in a series of follow-up meetings to agree on internal reduction targets and improvement plans

This process is creating insight into our suppliers’ sustainability programs which we didn’t have previously and is helping to create real partnerships to identify and maximize shared benefits.

Through this collaboration with our suppliers, we have a list of innovation projects in place and first commitments on year-on-year improvement targets that will result in carbon footprint reduction, starting in 2016.

Safety

Key performance indicators – safety

	2012	2013	2014	2015	Ambition 2015	Ambition 2016	Ambition 2020
People							
Total reportable injury rate employees/ supervised contractors (per million hours)	2.4	2.3	1.8	1.6	<2.0	1.4	<1.0
Behavior-based safety program implemented (% FTEs)	50	68	84	96	100	100	100
Life-Saving Rules implemented (% of sites)	–	100	100	100	100	100	100
Process							
Regulatory actions (Level 4)	0	0	0	0	0	0	0
Significant loss of containment (Level D)	0	1	0	0	0	0	0
Product							
Priority substances with management plan (%)	42	62	82	100	100	33[1]	100[1]
REACH compliance third phase (%)	–	–	15	23	25	50	100
Management							
Safety incidents (Level 3)	3	0	1	0	0	0	0
Management and reassurance audits	61	56	63	57	–	–	–

[1] Phase 2 starting in 2016

Our Safety Common Platform established company-wide improvement processes in people, process and product safety, supported by continuous improvement and capability building. The Safety Common Platform sets out milestones to achieve a world class level of safety excellence by 2020. We aim to differentiate ourselves by our thoroughness in embedding best practice safety processes in all our operations, using common approaches and systems:

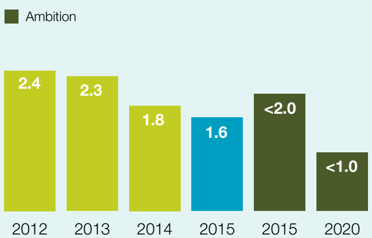
- A common approach to behavior-based safety (BBS) has been implemented at all our manufacturing sites in recent years. During 2015, we further extended BBS to all non-production work locations and groups – including offices, stores, warehouses, laboratories and remote workers. In order to continuously improve the BBS maturity of sites, further key performance metrics are being developed
- Company drivers participate in our globally launched Safe Driving program. Depending on their annual mileage, some registered company drivers additionally need to complete a set of e-learning trainings and a practical defensive driving training
- Our process safety management (PSM) framework sets out minimum process safety management standards to be implemented at all manufacturing sites. The program continues to progress for completion by the end of 2018. In addition to the 46 sites that started PSM implementation last year, 82 more sites joined the program in 2015. To embed the PSM framework in our organization, we have introduced standard processes for hazard analysis, a framework for PSM capability building and PSM leading and lagging indicators
- With the objective of continuous improvement, a program to refresh and reinforce our common set of Life-Saving Rules (LSRs) has been initiated, with a focus on incident prevention. Breaches of these rules that result in injuries, or are intentional or repeated, resulted in the maximum disciplinary sanction allowed under local legislation in 23 cases. The processes for preventing and responding to LSR incidents have been updated in the LSR Directive, Rules and Procedures. We have also launched refresher communication to key stakeholders and will continue in 2016 with additional employee and management training
- Our company-wide rule on product stewardship requires all AkzoNobel businesses to implement an effective and auditable product stewardship management process. Businesses are required to address the key elements of product stewardship, following the principles of Responsible Care® and Coatings Care®. In 2015, we published a Product Stewardship procedure which provides guidance for all AkzoNobel businesses on implementation of the eight key elements of product stewardship
- Our product stewardship and product safety processes are underpinned with a requirement for continuous improvement. In 2015, we piloted our Product Stewardship Continuous Improvement Tool (PSCIT) across eight businesses. Using this tool, the businesses are able to assess their level of maturity and plan their next steps to achieving a leading level in product stewardship
- Through our HSE Faculty, various groups of line managers and specialists have received refresher training in the company's expectations and the required competencies for safety leadership. The newly-developed Advanced Safety Leadership (Hearts & Minds) program provides site managers with the opportunity to benchmark internally, receive coaching from experienced peers and share best practices worldwide. This continuous focus on line management competence, capability and engagement at every level contributed to the further reduction of more than 16 percent in the number of injuries

Our main performance indicators for people safety are the total reportable injury rate (TRR) and the lost time injury rate. We will continue focusing on continuous improvement through our people safety programs in order to achieve the 2020 target of a TRR of less than 1.0 for employees and supervised contractors.

The behavior-based safety program (BBS), which actively engages all manufacturing personnel in identifying and addressing at-risk behavior, has been tailored to the needs of our non-manufacturing personnel and was rolled out in 2014 and 2015 across all locations and groups.

- The overall TRR for employees and supervised contractors decreased to 1.6 (2014: 1.8) which is below the 2015 TRR ambition of 2.0

Employee and supervised contractors total reportable injuries frequency rate



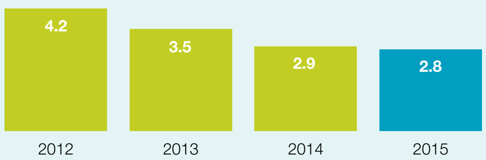
The Total Reportable Rate (TRR) is the number of injuries, including fatalities, resulting in a lost time case, restricted work or requiring medical treatment by a competent medical practitioner per million hours worked. In line with OSHA guidelines, supervised contractors (SC) are reported with employees since day-to-day management is by AkzoNobel. Independent contractors are managed by their own companies. Since 2011, we have been working towards the objective of an employee and supervised contractors TRR of 2.0 in 2015.

Total reportable injury rate per Business Area

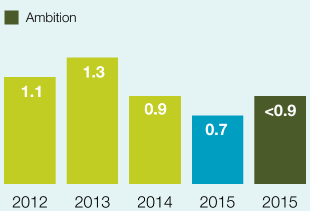
	2013	2014	2015
Decorative Paints	1.9	1.6	1.2
Performance Coatings	2.8	1.8	1.8
Specialty Chemicals	2.2	2.4	1.9

- The overall downward trend in reportable injuries coincides with both the implementation of our Life-Saving Rules at all our facilities and across all workgroups, and the global roll-out of the people, process and product safety programs that are part of the Safety Common Platform
- Implementation was complemented by a strong focus on compliance and operational discipline, performance monitoring and enforcement of rules when necessary
- There were no employee or contractor fatalities during the year
- The TRR of independent contractors slightly decreased to 2.8 (2014: 2.9)

Independent contractors total reportable injuries frequency rate



Employee and supervised contractors lost time injuries frequency rate



The Lost Time Injury (LTI) rate is the number of injuries resulting in a lost time case per million hours worked. In line with OSHA guidelines, supervised contractors (SC) are reported with employees since day-to-day management is by AkzoNobel. Independent contractors are managed by their own companies.

Behavior-based safety (BBS)

As the reduction in TRR coincided with the implementation of the BBS process across sites, and to ensure that the impact of the process is sustained, the following BBS initiatives were rolled out during 2015:

- Formal review of the BBS process was completed at all manufacturing sites (100 percent reviewed)
- Each BBS review resulted in at least three improvement projects in the site's safety improvement plan to ensure continuous improvement of the BBS process
- The BBS process was customized for various types of non-manufacturing personnel and rolled out to all of these groups during 2014-2015. In total 96 percent of all personnel have now been included in the process

Behavior-based safety

	2012	2013	2014	2015
Behavior-based safety reviews (% manufacturing sites)			100	100
Behavior-based safety program implemented (% FTEs)	50	68	84	96

During 2016, the non-manufacturing locations and groups will be included in the yearly BBS review cycle.

Learning from incidents

Embedding the use of our company-wide Incident Reporting System (IRS) has enabled us to identify and learn from incidents and near-miss trends. The IRS enabled prompt learning from incidents to be shared locally, regionally or company-wide as appropriate. The IRS, an interactive database, enables:

- Anyone in the company to promptly report any incident (including near misses)
- The progress of investigations and resultant actions to be monitored through to completion
- During 2015 >9,500 incidents (including near misses) were reported in the IRS (2014: < 5,000)

Employee health

As well as ensuring a safe working environment, healthy working conditions and managing illness-related absenteeism, we also foster employee health and well-being. This is achieved, for example, through the promotion and use of the Wellness Checkpoint, our health risk appraisal tool.

Employee health

	2012	2013	2014	2015
Total illness absence rate	2.0	2.1	2.1	2.1
Occupational illness rate	0.23	0.14	0.24	0.14
Wellness Checkpoint use	>11,300	>13,700	>15,000	>16,200

Total illness absence rate (TIAR) is the number of lost employee working hours, whether work-related or non work-related, per reporting period due to all illnesses and injuries as a percentage of the scheduled working hours per reporting period. Occupational illness frequency rate (OIFR) is the total number of reportable occupational illness cases for the reporting period per 1,000,000 hours worked. This parameter is reportable for employees and supervised contractors.

- The total illness absence rate (TIAR) remained stable at 2.1 percent (2014: 2.1 percent). We continue to monitor this indicator for the whole company, aiming to stay at a level of around 1.9 percent
- The occupational illness frequency rate (OIFR) for employees and supervised contractors has decreased to 0.14 illnesses per million hours worked (2014: 0.24). As the absolute numbers of occupational illnesses are low, small variations in numbers can cause large fluctuations in the OIFR
- Our health risk appraisal tool, the Wellness Checkpoint, is appreciated and used by an increasing number of employees and their families. By the end of 2015, 16,209 people had joined the program since its launch in 2008. During 2015 a further 4 percent of employees joined (2014: 15,555)

Distribution and motor vehicle incidents

Distribution and motor vehicle incidents continue to be a risk to the safety of employees, contractors and the general public. Most incidents occur on the road and in countries where enforcement of traffic regulations is still developing.

Distribution incidents

	2012	2013	2014	2015
Road	44	44	43	44
Sea	2	2	3	2
Rail	0	2	6	2
Air	0	0	0	0
Off-site pipeline	0	0	0	1
Total	**46**	**48**	**52**	**49**

Distribution incidents occur during the off-site (in-transit) transport and handling of raw materials, products, samples, intermediates and wastes owned by AkzoNobel, including loading and unloading activities at ports, airports, external warehouses and storage terminals, but excluding incidents which occur once materials are stored at external warehouses and storage terminals.

Motor vehicle incidents

	2012	2013	2014	2015
Incidents with injury	28	19	20	18
Fatalities – employees	1	0	0	0

- The number of distribution incidents decreased to 49 in 2015 (2014: 52). The majority of the distribution incidents that occurred are on the road, 90 percent of the total (2014: 83 percent)
- There was also a slight increase in distribution incidents involving the transportation of our products by third party contractors. These were mainly in countries where the road infrastructure and traffic enforcement are still developing
- The number of motor vehicle incidents which resulted in injury decreased slightly to 18 (2014: 20)

We raised awareness of safe driving through our risk-based Safe Driving program.

Safe Driving program

	2015	Ambition 2015
Safe Driving set of e-learnings based on driver risk profile >10,000 km annually (# of employees)	5,788	5,843
Defensive driving training >20,000 km annually (# of employees)	2,176	1,613

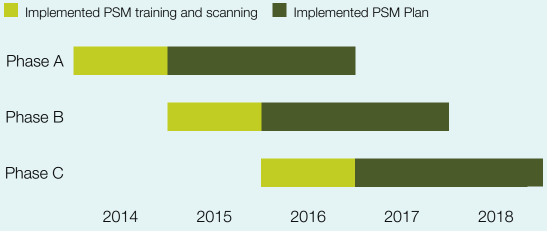
- In 2015, we launched the risk-based Safe Driving e-learning training, which is tailored to individual driver needs and is based on an interactive computer-based assessment. In total, 99 percent of the target group completed this training in 2015 (5,788)
- Practical, on the road defensive driving training started in mid-2015 and was successfully completed by 2,176 company drivers. During 2016, the remaining (1,000) company drivers in this category will be trained

Process safety management

Process safety management (PSM) is an integral part of our overall safety strategy. In addition to helping manufacturing sites meet their legal requirements, PSM is an essential first step to operational excellence.

Our PSM framework sets out minimum process safety management standards at all sites and provides a structured way to assess and manage risks to eliminate injuries and incidents related to hazardous substances and processes. Implementation of the framework is phased. Phase A sites are the most safety critical sites, prioritized based on their residual risk, taking into account their inherent safety hazards and current levels of process safety performance.

Process Safety Management program planning



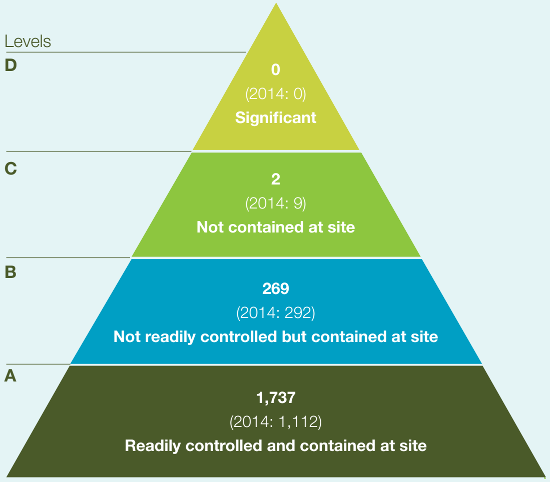
- In 2015, Phase A sites (46) implemented part of their improvement plans according to schedule
- The Phase B sites (82) started the program in 2015, developing their improvement plans for implementation over the next two years
- The remaining 72 sites (Phase C) will carry out the PSM gap analysis in 2016 to develop their improvement plans for implementation by 2018
- PSM is being implemented by line management with the support of PSM experts at all manufacturing sites
- Standard processes for hazard analysis were introduced globally in 2015
- A framework for PSM capability building is being developed to help embed PSM and ensure process safety competence at all our sites
- PSM leading and lagging indicators have been developed and aligned with international best practices to enable effective measurement and monitoring of continuous improvement in PSM. These will be implemented in 2016

Loss of containment

AkzoNobel uses "loss of containment" as a main indicator of process safety performance at its manufacturing sites.

- The number of losses of containment classified as Level D remained at zero in 2015 (2014: zero)

Loss of containment incidents



Loss of containment is defined as an unplanned release of material, product, raw material or energy to the environment (including those resulting from human error). Losses of containment are divided into four categories, dependent on severity, from small on-site spill (Level A) to a significant escape (Level D).

- The number of losses of containment classified as Level C decreased to 2 (2014: 9). These spills were reported to the authorities and fully investigated, while immediate action was taken to prevent reoccurrence
- The number of reported Level A minor spills and leaks, which are readily controlled on site, increased by 56 percent to 1,737, illustrating the desire to report, investigate and learn from these process safety near misses. The IRS has proved to be an easy tool to use at site level to manage all incidents, including these minor spills

Product stewardship

Our product safety process is a key building block in the AkzoNobel safety strategy. This process protects people and the environment from unsafe exposure to hazardous materials and goes beyond the traditional approach of reactive compliance with rules and regulations. This enables us to take a leading position in Product stewardship by providing our customers with safer and more sustainable products that meet or exceed their expectations, while promoting the development and introduction of eco-premium solutions in our markets.

During 2015, we focused on the strategic priorities in our product safety process:

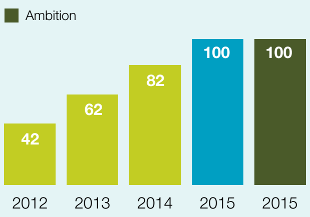
Priority substance management

Our company-wide priority substance process takes a systematic approach to the identification, review and management of hazardous substances that we use in our products and chemical processes. Taking this proactive approach promotes the use of safer and sustainable products and means we often take action to manage harmful substances in advance of legislation, future-proofing our products against changes in regulations. The process identifies hazardous substances for review by scoring them on the basis of their human and environmental hazards and where societal concern exists over their use. Substances with higher scores are designated as priority substances and are subject to review by our experts. Where a safer and effective alternative exists (which is economically feasible), priority substances are substituted with less hazardous materials. In cases where substitution is not possible, a full risk assessment is carried out on the substance using state-of-the-art techniques from the EU REACH regulations.

Only when use of a priority substance can be managed safely can it be used in AkzoNobel products and processes.

The process is supported by a mandatory company rule, which lists priority substances that are either prohibited or restricted in AkzoNobel products and/or processes.

Priority substances
% reviewed and managed



A priority substance is reviewed and managed when it has been reviewed under the AkzoNobel priority substance process and is listed as prohibited or restricted in the AkzoNobel company-wide rule on product stewardship.

- Review and management of 204 priority substances used in AkzoNobel have been completed, meeting our ambition for 2015
- Of the priority substances reviewed in the program, 56 have been phased out and 148 restricted to uses where the risk can be managed to an acceptable level
- Examples of priority substances that were reviewed and restricted in 2015 are methyl ethyl ketoxime (MEKO) and triisopropyl borate. These substances must not exceed maximum levels in AkzoNobel products and strict risk management measures must be followed when they are used
- We presented our priority substances program to stakeholders including customers, non-governmental organizations and investor associations and received positive feedback on our approach

The priority substance methodology is now embedded into key business processes and in our company raw material databases, so safer materials can be sourced in AkzoNobel. We are now developing the second phase of the priority substance program, which will update the scoring methodology and take into account new information and concerns on hazardous substances.

In 2015, AkzoNobel received the Responsible Care® Product Stewardship Award from the European Chemicals Industry Association (Cefic) for its priority substances program. In addition, we were awarded a Product Safety award from the American Chemistry Council (ACC) and a merit award for Responsible Care® from the Association of International Chemical Manufacturers (AICM) in China.

Regulatory compliance

In addition to complying with current regulations that affect our products and processes, we carefully monitor changes and prepare ourselves for new regulations that will impact on our businesses. Our company-wide regulatory information system (RIS) ensures up-to-the minute information relating to product safety legislation is available to all regulatory affairs professionals within AkzoNobel.

During 2015, our primary activities included:

Substance management regulations

Our REACH teams are now busy preparing information required for successful registration of our substances that are under the scope of the third phase of the EU REACH regulations. All applications for registration must be submitted by June 2018 and we are preparing carefully to achieve the objective.

In 2015, new substance management regulations for South Korea and Taiwan came into force. To support our businesses in their compliance programs, we provided training for our product safety professionals on compliance with both regulations through the AkzoNobel Academy.

EU REACH third phase

■ Ambition

in %	2015	2015	2016	2017	2018
Progress towards EU REACH third phase	23	25	50	75	100

Classification and labeling of AkzoNobel products

During 2015, we successfully implemented the Global Harmonized System (GHS) for labeling of chemical substances and products, in line with legislative deadlines. In our Specialty Chemicals business, a single software system for the generation of text used in safety data sheets and labels is now fully operational. An electronic awareness training module (e-learning) is also available for employees through the AkzoNobel Academy to ensure changes in labels and datasheets are understood.

Advocacy

We continue to be active in industry bodies, public forums, with customers and other key stakeholders to discuss product safety at local, regional and global level. Participating in this way gives us an opportunity to engage regulators and other stakeholders before new rules are finalized. Our aim is to support legislation, standards and initiatives that promote and support the use of safer and more sustainable products in our industry.

For example, in 2015:

- We became a partner in the Global Alliance to Eliminate Lead Paint (GAELP) – a voluntary alliance of governments, non-governmental organizations and industry, brought together under the auspices of the United Nations Environment Program (UNEP) and the World Health Organization (WHO). The objective of the alliance is to promote the phase-out of all lead-based paints and eliminate the risks these products cause. AkzoNobel fully supports the objectives of the alliance, and will share experiences of conversion from lead to lead-free paints, providing technical advice. Through the alliance we will support by engaging governments to support the development of legislation to phase out the use of lead compounds from all paints
- For our work in developing and introducing our bio-based and biodegradable chelate Dissolvine GL, the United States Environmental Protection Agency (US-EPA) recognized AkzoNobel as a leader in furthering safer chemistry and products by awarding us with the 2015 Safer Choice Partner of the Year Award in the innovation category. A US-based NGO, the Environmental Defense Fund (EDF), published this case as an illustrative example of development and successful introduction of safer chemistry into the market in their blog
- We led a consortium of manufacturers that challenged a requirement issued by the European regulatory authorities to carry out extensive animal testing on one of our products. The Board of Appeal ruled that the tests were unnecessary, as safety of the substance can be shown using existing data, preventing unnecessary testing on significant numbers of animals
- In China, through our participation in the Association of International Chemical Manufacturers (AICM), China National Coatings Industry Association (CNCIA) and the China Petroleum and Chemical Industry Forum (CPCIF), we provided input for discussions on the introduction of a coatings consumption tax

Product safety and regulatory affairs capability building

We continue to build a community of Product Safety and Regulatory Affairs (PSRA) professionals within AkzoNobel. In 2015, we focused on developing the different learning activities within Level 1 and Level 2 of the curriculum, which includes training and e-learning for dangerous goods, priority substance management, the US Toxic Substances Control Act, Korean and Taiwan Reach and environmental risk assessment.

PSRA capability development

in % of target group	2013	2014	2015	Ambition 2015
Level 1 PSRA program	40	79	91	90

- All targeted employees in the Level 1 PSRA group for 2015 have completed the Level 1 program
- In 2016, we will continue to design and deliver further Level 2 training courses and will introduce Level 3 (advanced) training for our PSRA community. The courses will be set up according to the competency framework which maps out the skills needed to progress within the PSRA function in AkzoNobel

Management systems

Operational excellence at our sites is supported by risk-based management systems that follow Responsible Care® and Coatings Care® principles. Our HSE rules and procedures are set up and updated in accordance with international standards such as ISO-14001, RC-14001, OHSAS-18001 and PAS 55 (public standard for process safety). Many sites and businesses also have external certifications for their management systems, which are subject to internal and external audit.

The greater focus on leadership in the revised ISO-14001: 2015 fits well with the focus on leadership in both our HSE and process safety management systems.

External certification

in % of manufacturing sites	2012	2013	2014	2015
ISO-14001/RC-14001	75	78	79	80
OHSAS-18001/RC-18001	42	51	53	54

Maturity framework

We have a common maturity framework for measuring HSE management progress at our manufacturing sites through self-assessment and audit. The HSE maturity framework is being used to drive continuous improvement. In total, 97 percent of all sites achieved the target for 2015 of an average maturity level of six, this is an improvement of 14 percent (2014: 83 percent).

Self-assessment questionnaire (SAQ)

The SAQ, which covers all elements of the HSE management system, continues to be the company-wide HSE improvement planning tool. To maintain relevance to major programs rolled out during recent years (e.g. the PSM framework), the SAQ was thoroughly revised during 2014. Since January 2015, this revised version has been used by sites to self-assess the maturity of their processes and procedures against the updated requirements. The revision of the SAQ has resulted in the average HSE maturity level staying constant at 6.9 (2014: 6.9). This was an expected outcome due to the new requirements included in the revised tool.

Self-assessment questionnaire (SAQ)

in %	2012	2013	2014	2015
Sites at or above average SAQ of 6			83	97
Average SAQ score	6.2	6.5	6.9	6.9

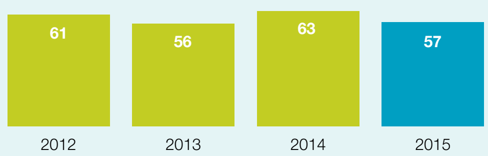
HSE audit

The HSE audit process combines the SAQ continuous improvement tool with a periodic audit conducted by HSE subject matter experts from the business and managed by the global Internal audit function.

All sites carry out an annual self-assessment against our corporate HSE rules and procedures, and applicable business requirements, by filling in the SAQ. As well as providing input for the corporate HSE audits, the results are used locally to prepare site improvement plans. Together, the corporate HSE rules and auditing create the assurance framework.

For most sites, the audit frequency is every five years. For sites with a high hazard rating this frequency is every three years.

Management audits number of audits



As in 2014, audits at multi-sites, where more than one business is represented, were completed by one (larger) audit team. During 2015, 57 corporate HSE audits were completed (2014: 63); of which two were site closure audits (2014: three) and eight were reassurance audits (2014: five) of previously audited sites with high risk findings.

Follow up on actions from corporate HSE audits is an important part of the corporate HSE audit protocol. Follow-up of non-compliances and high risks is supervised by the Internal audit function via the execution of reassurance audits. All reassurance audits in 2015 received the final conclusion "acceptable".

Our HSE management system requires each site to develop a site safety improvement plan (SIP) annually. In parallel with the SAQ revision, a template was developed for SIPs which will be used as the standard during 2016.

These SIPs are intended to raise the level of HSE performance by ensuring the actions required to address the identified gaps in the SAQ and audits are completed, as well as keeping the site focused on delivering their HSE continuous improvement activities.

Learnings from HSE audits indicate that business management need to strengthen the process for completing HSE audit findings by assessing the quality of the SIPs and regularly reviewing progress, keeping site teams focused on delivery of the required actions. A project has been started to improve the governance of the follow-up of HSE audit findings during 2016.

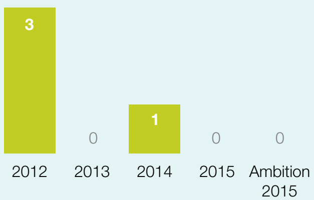
Safety incidents

Safety incidents are those that result in severe consequences, requiring an independent investigation. We classify safety incidents based on the severity of the outcome (Level 1 to Level 3). Level 3 safety incidents receive the immediate attention of the Executive Committee.

To ensure timely and thorough investigations of our most serious incidents, we maintain a global pool of trained investigators (who also have HSE or operational roles in the organization). The investigation results in actions to prevent a recurrence, with the lessons learned shared company-wide. Progress and compliance with the requirements is monitored and shared with the Executive Committee and line management on a monthly basis.

- The total number of safety incidents in 2015 decreased slightly to 12 (2014: 15) all of which were at the lowest Level 1 (local impact only)
- There were no Level 2 or Level 3 safety incidents during 2015 (2014: 2)
- The Level 1 incidents included inadequate isolation of machinery (four), slips, trips and falls (two) and the use of forklift trucks (three)

Safety incidents (Level 3)



Level 3 safety incidents: incidents involving loss of life, more than five severe injuries, environmental, assets or business damage totaling more than €25 million, or extensive reputational damage.

These incidents reinforce our need for a continued focus on behavior-based safety and our Life-Saving Rules.

Regulatory actions

We have defined four categories of regulatory actions, from self-reported issues (Level 1), to a formal notice of a criminal prosecution or penalty greater than €100,000 (Level 4). The Level 4 regulatory actions are recognized as material for AkzoNobel.

Regulatory actions

	2012	2013	2014	2015
Regulatory actions (Level 4)	0	0	0	0

Regulatory action (Level 4): A formal notice of a criminal prosecution or (conditional) penalty greater than €100,000. These are reported to indicate to management the potential for reputational damage and the effect on our license to operate.

As in previous years, we did not receive any Level 4 prosecutions or penalties, which suggests that our people, process and product safety programs, near-miss reporting and investigation, stewardship and behavior-based safety programs continue to have an effect on reducing the number of serious injuries and significant losses of containment.

HSE capability building

The Integrated Supply Chain competency framework, proficiency levels and job profiles define the capability requirements for managers with critical HSE responsibilities and HSE professionals. The core development programs, delivered through the Supply Chain, Research and Development Faculty, use a blended learning approach for line managers, HSE professionals, senior leaders and front line leaders with critical HSE functions in manufacturing and non-manufacturing units.

In 2015, the HSE Faculty's offering was expanded with a new program for site managers – Advanced Safety Leadership: the Hearts & Minds program. This is a follow-up to the HSE critical leadership workshop and focuses on accelerated HSE improvement through enhanced engagement.

- Since 2012, more than 1,200 critical leaders have been trained in the HSE critical leaders workshop (target 2015: 1,000)
- In 2015, 40 percent of site managers were trained in four different sessions in Asia, the Americas and EMEA. The blended learning approach includes direct dialog with our most senior leaders on safety performance and improvement plans, virtual classrooms and two face-to-face events
- In 2016, the second level within the HSE professionals curriculum will be further developed with additional content, including risk assessment training

HSE capability development

in % of target group	2013	2014	2015	Ambition 2015	Ambition 2016
HSE critical leaders workshop	62	90	100	100	100
Site managers participated in Hearts & Minds	–	–	40	33	66

Employees and community

Our people are critical to the success of our company. We won't achieve our vision of leading performance in all the markets in which we operate without an engaged, diverse and capable workforce.

An engaged workforce who live our core principles and values is what underpins the delivery of our strategic objectives and makes AkzoNobel a great place to work.

We want our people to truly reflect and represent the many and varied cultures of the markets we serve and the different locations where we do business. We believe it's also important that our management teams reflect the diversity of our overall workforce. We know that inclusive and diverse teams better understand customer demands and make our organization stronger and more innovative.

Having the right people in the right jobs helps us to build a stronger business. We work hard to find and retain talent and provide continuous learning and development opportunities. Our objective is to create a high performing culture where employees can contribute to the best of their ability.

Key performance indicators – employees

	2012	2013	2014	2015	Ambition 2015	Ambition 2020
People data						
Employees at year-end (FTE)	55,272	49,561	47,207	45,568	–	–
Employee engagement						
Employee engagement (ViewPoint score (1-5 scale))	3.80	3.88	3.97	4.03	>4.00	>4.20
Diversity and inclusion						
% of females in total workforce	24	24	24	24	–	–
% of employees from high growth markets	40	47	48	49	–	–
% of female executives	15	16	17	19	20	25
% of executives from high growth markets	13	14	16	16	20	22
% of female executive potentials	27	28	24*	25*	30	30
% of executive potentials from high growth markets	31	34	30*	31*	30	30
Talent management						
% cross-BU moves of leadership talents	5	7	13**	11**	10	15
% internal promotion into executive level	70	75	68	58	80	80
% retention of total workforce	88	89	87	87	–	–
% retention of leadership talent	96	92	93**	93**	95	95
% retention of leadership talent – under-represented groups (women and high growth market employees)	97	92	89**	92**	95	95
Learning and development						
ViewPoint score on Learning and growth (Q12) (1-5 scale)	3.85	3.93	3.99	4.05	>4.00	>4.20

* The definition of potentials changed in 2014 to better reflect our talent pool.
** In line with the new definition of potentials, the definition of leadership talent also changed in 2014 to better reflect our talent pool.

Core principles and values

Core principles:
Safety
Integrity
Sustainability

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

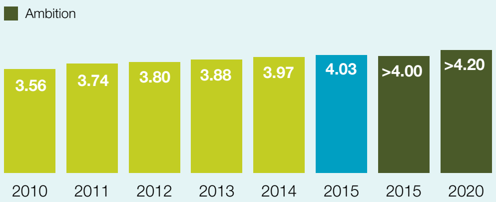
Building an engaged workforce

We strive to measure and increase employee engagement. Every year, we give employees the opportunity to share their feedback through our annual engagement survey. It provides us with information about what's going well and where we can improve our working environment. Our employees and managers have a shared responsibility to discuss the results and develop and implement actions for further improvements.

In 2015, we exceeded our ambition of a 4.00 engagement score for the first time since we started the survey in 2010. Since then, we have seen a step change in our leaders' engagement and now have five times as many teams at top engagement levels.

Compared with other companies that started at a similar level five years ago, we are among the top improvers in terms of our engagement scores. We are pleased with our level of improvement, but we recognize that to become a leader in this area, we need to continue building the capabilities of our people managers and our feedback culture.

ViewPoint score employee engagement (1 – 5 scale)



Creating inclusive and diverse teams

We are committed to reflecting the diversity of our overall workforce in all our management layers. At the end of 2015, 24 percent of positions in AkzoNobel were held by women and 49 percent by employees from high growth markets.

Our 2020 ambition is to have at least the same gender representation at senior management level in the organization, with a specific focus on increasing female representation in commercial and business roles. Alongside our gender ambition, we want our executive population to be a better reflection of the regions where we do business. We are in the process of updating our strategy and measures to reflect these ambitions.

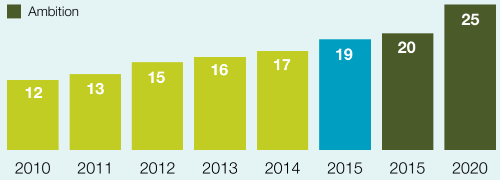
Over the last five years, the representation of women in executive positions in our organization has grown steadily to 19 percent at the end of 2015 (2009: 10 percent). Our Women in Leadership program helped to support this growth in 2015. It aims to support women to fulfill their potential as leaders by recognizing their strengths, exploring their authentic leadership style and identifying strategies to increase their impact.

However, the percentage of female executive potentials has not reached our ambition level of 30 percent. This is primarily due to the improvements made in 2014 to the definition of growth potential, although we did still see a small increase from 24 percent in 2014 to 25 percent in 2015.

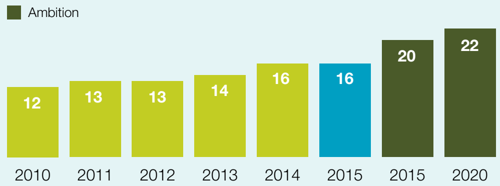
The representation of executives from high growth markets has remained steady over the last two years, at 16 percent. The economic slowdown in some of our key growth markets impacted the growth in the number of executive roles in these regions and meant that we did not achieve our 2015 ambitions. However, the continued higher diversity of our hires and promotions into executive level (2015: 20 percent from high growth markets) will improve the number in the future.

In contrast, the number of executive potentials from high growth markets grew to 31 percent at the end of 2015, exceeding our ambition of 30 percent and securing a future pipeline of diverse talent.

Female executives in %



High growth market executives in %



Identifying and retaining talent

Building a strong internal talent pipeline – based on potential, skills and knowledge – is one of our key priorities in terms of meeting the changing demands of our businesses and the markets in which we operate. With this in mind, we continued our Fast Track Management Program in 2015 and recruited new leadership talent, mainly in our high growth markets.

By the end of 2015, we had also conducted a major review of our internal talent to verify the strength of our internal pipeline and skills base. We assessed that in order to achieve our business goals, we needed to rapidly increase our knowledge and skills in certain areas. As a result we made a conscious decision to hire externally to accelerate our progress. This meant that in 2015, external hires into executive positions were above 20 percent. Our ambition over multiple years continues to be to fill 80 percent of our executive positions with internal promotions. The new external hires have been tasked with putting together strong teams to ensure the future development of internal talent pipelines.

In 2015, we saw multiple proof points of our increased attractiveness in the labor market. We broke into the top 20 favorite employers in the Intermediair Favorite Employer Survey in the Netherlands. In Brazil, we were the top ranked chemical company in the list of most loved companies in Brazil published by Love Mondays. In the UK, we ranked number two in the Scientific and R&D industry sector of Job Crowd's Top 100 Companies for Graduates to work for. In Sweden, AkzoNobel was the number one employer for chemical engineers according to the Universum Student Ranking, while in China, we were presented with the 2015 Best Recruitment and Retention Company award.

The continued reorganization of the company offered opportunities to promote and retain potential leaders and transfer knowledge across our businesses. This resulted in 11 percent of potential and current leaders moving across the organization in 2015 (2014: 13 percent). Additional development opportunities inside the company meant that our retention rate for leadership talent remained at a similar level to 2014 (93 percent), despite improved external labor market conditions. We saw an improvement in our retention in under-represented groups (from 89 percent in 2014 to 92 percent in 2015).

Our total turnover remained stable at 13 percent, which reflects both the impact of our restructuring efforts and the overall improvements in the external labor markets in some of our key countries, including the US.

Providing learning and development opportunities

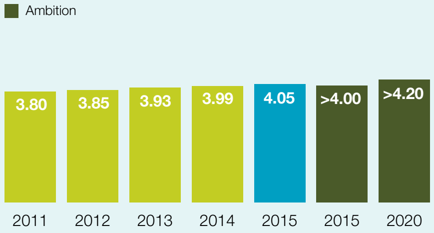
We are committed to supporting professional and personal development for all our employees. We do all we can to develop existing talent, nurture new skills and help employees progress within AkzoNobel. By holding regular conversations, employees and managers can identify future development opportunities and ensure that individual skill sets are expanded, enabling our people to continuously grow.

The AkzoNobel Academy is our global virtual hub for learning and development and gives all employees access to learning programs and content based on best practices from across our organization. The Academy offers blended learning opportunities to suit individual needs. It was expanded in 2015 to include more than 100 open enrolment programs in eight languages, allowing employees to access learning on demand. It will continue to grow further in 2016.

Our commitment to developing our employees is reflected in our annual engagement survey, with a learning and growth opportunity score of 4.05 (2015 target: 4.00). Specific attention was paid to the development of our people managers. Their skills and behavior are key to the creation and development of diverse teams, with a strong customer focus and excellent performance. To support this, we introduced our People Manager Program in 2015. This is a blended learning program with multiple modules, clustered around specific topic areas and offering timely support to people managers.

To support both individual employees and their managers in the development of their teams, we have trained 100 internal coaches. They provide development sessions to identify and leverage the strengths of individuals and teams, coaching them to do what they do best every day, both in and outside of work.

ViewPoint score on Learning and growth
(Q12) (1 – 5 scale)



13 Note 13: Restructuring

In 2015, we continued to restructure our business to implement our company strategy so that we can meet the needs of our customers in years to come. We are aware of the impact this has on the employees involved and, as a responsible employer, we are committed to supporting our employees during such reorganizations. We do this in compliance with legal requirements and, where applicable, in consultation with employee representative bodies. We strive to ensure clear and ongoing communications, transparent selection processes and, in many cases, support the transition from work to work, which can include training and out-placement.

During 2015, our workforce decreased due to ongoing restructuring and divestments. We also added to the headcount, mainly through new hires in high growth markets. For details of how our workforce changed, see Note 4 of the Consolidated financial statements.

Wherever possible, we announce our restructuring plans between 12 and 26 months in advance. This allows for better planning in the transition from work-to-work. In most countries, we use the services of an external company to support employees in finding their next position. Exceptions to this are in Italy, based on an agreement with the Italian government, and the Netherlands, where we operate an in-house mobility office to support employees.

14 Note 14: Community

As a global company, we fully understand our role and responsibilities when it comes to society and contributing to the communities in which we operate. All our community activities are guided by our Human Cities initiative. It also provides direction for our partnerships and helps us make informed decisions about sponsorship agreements.

Whenever possible, we try to make a positive difference to the world around us. We engage with people and partner with various organizations to help bring the AkzoNobel brand to life, while also supporting deserving and sustainable projects and causes, using our products when appropriate.

A big success story is our global "Let's Colour" program, which inspires people to revitalize their local communities with our paint products. Run by our Decorative Paints business, the initiative also encourages the active participation of our employees around the world.

Another vital part of our partnership approach is the development of young people, highlighted by our work with the Plan organization, which includes the AkzoNobel Education Fund. Meanwhile, our global sponsorship program is currently focused on key partnerships with the Johan Cruyff Foundation, the Rijksmuseum and the Van Gogh Museum in the Netherlands, and the Extreme Sailing Series.

Our products

When possible, we endeavor to assist society through our products. Ferrazone, for example, is helping to improve well-being in many communities, particularly in developing countries. Used to fortify food, it is widely regarded as being the most effective way to treat iron deficiency anemia.

Another example is our partnership with the Forest Stewardship Counsil (FSC) in relation to our woodcare products. See Note 3 in this section for more details.

"Let's Colour" program

"Let's Colour" is our employee-led community program, which is based on our belief in the transformative power of color. We donate paint and organize projects for community groups, charities and individuals who have the desire and determination to make a difference through color. By revamping grey and unappealing spaces into bright and colorful environments, our goal is to bring happiness to the lives of people everywhere.

As part of AkzoNobel's Human Cities initiative, the "Let's Colour" program highlights the important role color can play in making cities more vibrant, inspiring and human. In August, for example, 450 volunteers took part in one of the biggest "Let's Colour" events ever staged by the company's Decorative Paints business. Around 20,000 liters of Coral (AkzoNobel's paint brand in Brazil) was used to transform more than 300 buildings in Rio de Janeiro's famous Santa Marta favela.

Education is also a key component of the "Let's Colour" program. This is achieved through paint apprenticeships, which combine our desire to bring color to communities – via schools, hospitals and other public places – with a commitment to train local people (often from disadvantaged backgrounds) in the skills of painting and decorating.

During 2015, we donated more than 115,000 liters of paint, worth an estimated €0.5 million. Approximately 1,000 AkzoNobel employees were involved, volunteering more than 8,000 hours of their time to various "Let's Colour" projects across the globe. We also trained 4,250 people in painting and estimate that we positively impacted the lives of around five million people in 2015 alone.

Let's Colour

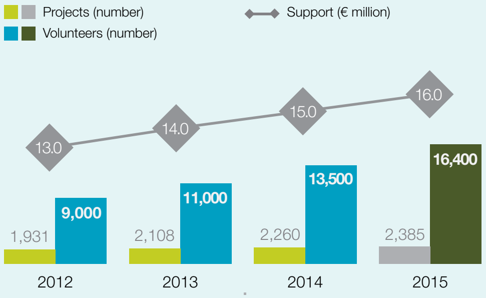
Community Program

Our Community Program encourages sites and individuals to take part in projects where our products, and the skills and knowledge of employees, can benefit the wider community on a sustainable basis. In the past ten years, the initiative has been firmly embedded in our worldwide organization.

Projects have included employee involvement in the redecoration of schools, community centers, shelters and daycare centers for the homeless. Other projects have focused on vocational training for the reintegration of unemployed youngsters, women and the disabled, as well as enhancing HSE awareness among children and boosting their interest in chemistry and science. All of these community activities are taking place in various parts of the world and contribute to creating more human cities.

Cumulative Community Program involvement

Cumulative data, since 2005



Approximately 16,400 volunteers from around 55 countries have worked on 2,385 projects since the launch of the program in 2005. It was another successful year in 2015, with more people having benefited. Community Program projects are increasingly being organized as a team building activity, which contributes to employee engagement, team spirit and our company value of Winning together.

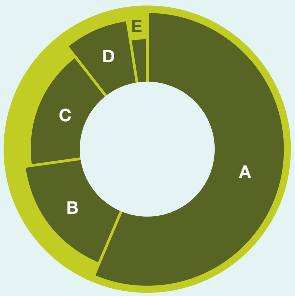
The Community Program also provides opportunities for employees to develop their capabilities and discover hidden talents. In training programs and international conferences, community activities are increasingly becoming part of the agenda, which in turn increases the participants' awareness of local circumstances.

During 2015, 125 new projects were initiated. Some examples are briefly described below.

In Brazil, employees from Pulp and Performance Chemicals in Jundiaí again teamed up with their Surface and Polymer Chemistry colleagues from Itupeva. They helped transform a former poultry stable into a community center for homeless and female (former) drug addicts. In China, 60 employees from Powder Coatings and Specialty Chemicals sites in Boxing and Tianjin joined their Decorative Paints colleagues from Langfang to repaint Ruicong Training & Special School and organize activities for its deaf children.

2015 projects by region

A Europe	75
B Asia	22
C Latin America	14
D North America	11
E Other regions	3



Moved by the plight of refugees, various teams in Germany and the Netherlands decided to give extra support by organizing educational visits, cultural outings and reading sessions to enhance language knowledge and skills for migrant children and adults. Many similar and successful joint initiatives took place all over the world.

To celebrate the Community Program's tenth anniversary, the ten best projects from 2015 will be selected and recognized in early 2016.

COMMUNITY PROGRAM

SERVING SOCIETY

Education Fund

What would a city be without the people who live there? AkzoNobel is proud to be associated with a variety of organizations and initiatives in ways that truly make a positive difference. These partnerships allow us to bring the AkzoNobel brand to life and create value for our stakeholders. One of our flagship partnerships is with the Plan organization in the Netherlands – a member of the Plan International network – a collaboration which marked its 20th anniversary in 2014. The cooperation was established to help children in developing countries fulfil their potential by improving the quality of their education. It has since evolved to also support the employability of young people via vocational training programs designed to set them on a proper career path. Over the years, tens of thousands of young people have benefited from dozens of projects in countries such as Bolivia, Brazil, China, Ecuador, India, the Philippines and Vietnam. During 2015, we worked together with Plan Nederland and our Coral decorative paints brand to support a project which involved training deprived young people in Natal, Brazil, to benefit from life skills training and vocational training to become painters.

Other partnerships

Our work with the Cruyff Foundation is designed to support projects that make sport more accessible to children around the world. As one of their top partners and preferred paint supplier, we help the Foundation to create and maintain facilities in neighborhoods where children lack the possibility to play sports in a safe environment. During 2015, seven new Cruyff Courts were built using our products, including one in Argentina, one in India and two in the Netherlands.

Also during 2015, the Van Gogh Museum opened its new entrance hall, which features a number of AkzoNobel products. Brought together by our Sikkens Decorative Paints colleagues, the Autobase Plus, Car Refinishes Benelux team worked closely with Interpon powder coatings to reproduce specific colors requested by the entrance hall's architect. We also continued our support of the museum's Restoration Studio by helping to digitally restore Van Gogh's famous Field of Irises. We are employing the same technology and techniques regularly used by our Vehicle Refinishes business to calculate color recipes and accurately match different car colors. The work will help to reveal what the renowned masterpiece would have looked like when the artist first painted it over 125 years ago. The project should be finished by mid-2016.

One of our more recent partnerships is with the Extreme Sailing Series – a global racing circuit which attracts larger audiences as the action takes place closer to shore. The Extreme 40 catamarans that participate use our Awlgrip yacht coatings, which offer a number of important benefits, including superior performance and aesthetics. Now in its second year, close to 100 customers from all our businesses attended events which were staged around the world at host cities including Istanbul, St. Petersburg, Sydney and Muscat.

Why we value employee engagement

Employee engagement might sound like a fancy term, but it's vital to any successful organization. The more engaged your employees, the more motivated and productive they are likely to be. This has a whole series of knock-on effects in terms of culture, behavior, safety and – ultimately – the performance of your business.

Happy and productive employees are essential for success. Get it wrong and you may be faced with low morale, poor levels of motivation and higher levels of absence. There's also a risk that relationships with customers could be affected. Now, more than ever, companies are powered by their people.

At AkzoNobel, we take a pro-active approach to employee engagement which is designed to measure, analyze and improve the connection with our people around the world. Fundamental to this process is our annual ViewPoint survey. It gives all 46,000 employees an opportunity to share their opinions and offers a complete picture of what's happening throughout the company.

Conducted in association with Gallup, the independent survey provides valuable metrics that enable us to identify best practices and pinpoint areas that require attention. One of the key findings we've noticed is that our overall engagement score has risen for the last five years in a row. It's no coincidence that our safety performance also improved during this period, underlining the fact that engagement drives safety. This was evidenced in the 2015 survey by the fact that our most engaged businesses reported fewer injuries and lower absence.

The results also show that our engagement journey continues to gather momentum, with the experience of working at AkzoNobel having been fundamentally transformed since we started conducting the survey in 2010. We still have work to do – highlighted by the different pace of progress within the company – and we have identified clear areas for improvement, with relevant action plans in place.

But having introduced a new set of values and behaviors in 2014 – which were very positively received – we are now targeting "leading" levels of employee engagement. This will involve offering more career opportunities, encouraging talent development, listening to feedback and providing the right environment for people to perform at their best.


AkzoNobel

Environment

Key performance indicators – environment

	2012	2013	2014	2015	Ambition 2015	Ambition 2017
Operational eco-efficiency footprint measure (% reduction from 2009)	13	24	24	23	30	40
Greenhouse gas emissions per ton of production (own operations, in kg)	257	222	224	221	245	–
Sustainable fresh water management (% of manufacturing sites)	83	85	89	93	100	–

This section outlines environmental impacts from our own operations and related improvements. The key performance indicators are mentioned in the table above. Many of these improvements are driven through our operational eco-efficiency (OEE) program.

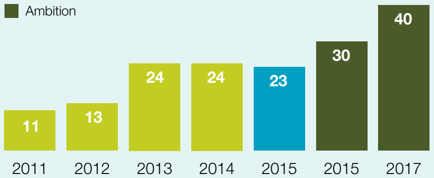
Operational eco-efficiency program

The focus of the OEE agenda is to increase raw material efficiency, reduce energy consumption and decrease both emissions and the production of waste. Improvements include many small site contributions such as upgrading existing processes, rationalization of the manufacturing footprint and application of best available technology for new investments.

We measure progress on a quarterly basis using the eco-efficiency footprint measure, a company indicator which combines energy, water, waste and air emissions, as well as cost elements. Weighting factors for each parameter are used to calculate the absolute footprint. This number is used in combination with production volume to calculate the relative footprint improvement.

- Between 2009 and 2015, we achieved a relative footprint improvement of 23 percent
- Many of the businesses showed an eco-efficiency footprint improvement, but due to product mix changes and the consolidation of a joint venture, the final result is lower compared with last year for the first time since we started monitoring performance
- Our target of a relative footprint improvement of 30 percent by 2015 (compared with 2009) was not met. Additional programs are being put in place to accelerate progress towards our 40 percent target

OEE footprint improvement
(% reduction from 2009)



The OEE footprint is calculated from the weighted average of nine footprint parameters and production volume.

Our OEE performance and trends (the footprint and its related parameters) are transparent for the whole of AkzoNobel via the EcoXchange platform. This platform also provides access to know-how, best practices and showcases on eco-efficiency related topics relevant for all locations.

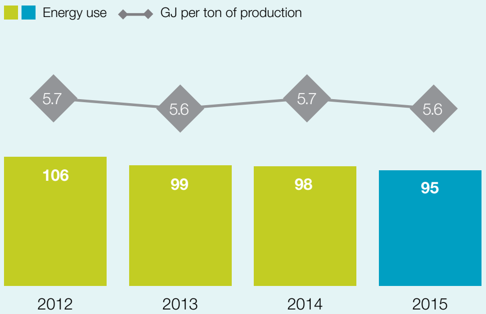
In order to focus even more attention on this improvement program, OEE improvement projects are being integrated in the main supply chain improvement monitoring tool, the AkzoNobel tracker. This will now integrate/quantify all site improvement activities.

15 Note 15: Energy

Energy use

Energy is important for all our operations, especially some of our Specialty Chemicals businesses, because they use energy as a major raw material for their products. Energy efficiency and carbon efficient energy use are therefore important metrics for our operations.

Energy use in 1000 TJ



Energy use [TJ] is the sum of fuels, electricity, steam, hot water and other utilities (expressed as fuel equivalents)

Energy use per Business Area

in 1000 TJ	2013	2014	2015
Decorative Paints	2.0	1.8	1.8
Performance Coatings	5.0	4.6	4.5
Specialty Chemicals	92.0	92.0	89.2

- Energy use per ton of production reduced to 5.6 GJ/ton. Absolute energy use was down 3 percent to 95,000 TJ, both in line with a change in product mix and volume changes
- In 2015, 38 percent of our sites improved their relative footprint with regards to energy use versus 2014
- The total cost of energy in our production was about €0.7 billion
- More details about the energy sources can be found in Note 5 of this section and on our website

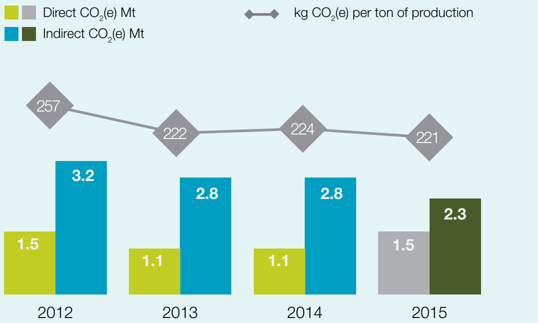
We use energy scans to increase awareness and identify savings opportunities in all our businesses. During 2015, this resulted in many energy improvement projects, for example:

- In Adria, Italy, a set of old chillers was replaced by modern, high efficiency units, saving 2.3 TJ of energy and resulting in an annual saving of around €100,000
- The conversion of our new chlorine plant in Frankfurt, Germany, was completed. The new membrane electrolysis technology means the process is now 20 percent more energy efficient, with expected annual savings of more than €5 million
- Optimization of the use of hydrogen in boilers to generate steam in Rotterdam, the Netherlands, resulted in a reduction of the use of natural gas of over €100,000
- Optimization of our furnaces in LeMoyne, Alabama, in the US resulted in 15 percent natural gas savings and a reduction of 2,700 metric tons of CO_2, delivering savings of around €150,000
- In Ambes, France, a contract was concluded to use our waste hydrogen in fuel cells to generate carbon-free electricity

16 Note 16: Greenhouse gases

Greenhouse gas (GHG) emissions from our facilities are primarily related to the fuel and power we use. This section reflects the performance of all our own operations covering the gate-to-gate scope. More details on our Carbon Policy and cradle-to-grave reporting can be found in Note 5 in this section.

Greenhouse gas emissions in million tons



Total greenhouse gas emissions made up of direct emissions from processes and combustion at our facilities and indirect emissions from purchased energy.

Greenhouse gas emissions per Business Area

in million tons	2013	2014	2015
Decorative Paints	0.1	0.1	0.1
Performance Coatings	0.3	0.3	0.2
Specialty Chemicals	3.5	3.5	3.4

- Total greenhouse gas emissions per ton of production decreased by 2 percent to 221 kg/ton CO_2(e). Absolute GHG emissions reduced to 3.8 million tons of CO_2(e). These were both caused by a change in product mix and production volumes of main energy consumers
- A detailed breakdown of our greenhouse gas emissions is available on our website

17 Note 17: Local air quality

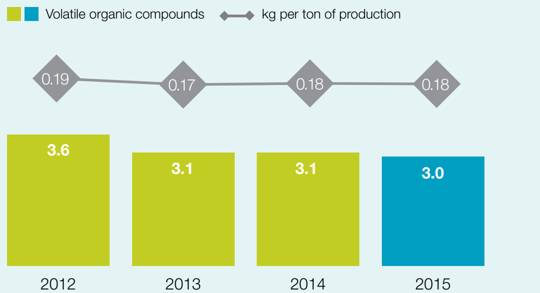
Air monitoring around our operations is focused on volatile organic compounds (VOC) and NOx and SOx emissions. We monitor particulates at site level as required.

Volatile organic compounds (VOC)

All our businesses will continue to manage VOC emissions from operations, in line with national or supranational (European Commission) legal requirements.

The VOC reduction focus for our paints and coatings businesses concentrates on low/zero VOC product design, going beyond controlling VOC emissions from our operations. Reducing VOC emissions from our sites remains part of the scope of our OEE program, while our Research, Development and Innovation groups are working on projects to reduce the solvent content of our products – VOC in product (see Note 4 in this section).

Volatile organic compounds in kilotons



We measure halogenated and non-halogenated organic compounds discharged to air.

- VOC emissions per ton of production remained stable at 0.18 kg/ton. Total VOC emissions decreased 1 percent to 3.0 kilotons (2014: 3.1 kilotons)

NOx and SOx

NOx and SOx emissions may have a significant impact on local air quality because of their potential contribution to acidification.

NOx and SOx emissions

in kilotons	2012	2013	2014	2015
NOx	1.9	1.3	1.3	1.7
NOx kg/ton	0.10	0.08	0.08	0.10
SOx	7.6	4.6	3.7	3.8
SOx kg/ton	0.41	0.26	0.22	0.22

Emissions may form acid rain that can lead to acidification. The gases are emissions from manufacturing and combustion of fuel that we burn. The total quantity of NOx/SOx emissions from manufacturing processes discharged directly to air (e.g. after any abatement process) and the quantity of NOx/SOx emissions calculated from the use of fuels.

- The consolidation of the Delesto joint venture combined heat and power plant (CHP) into AkzoNobel resulted in an extra emission of 0.5 kilotons of NOx, although a low NOx burner was installed, reducing the emissions by 0.07 kilotons
- Due to the consolidation of the Delesto joint venture, total emissions increased to 1.7 kilotons. NOx emissions per ton from our sites increased to 0.10 kg/ton of production
- The start-up of the incinerator in Mons, Belgium, with a low NOx furnace resulted in a reduction of over 0.1 kilotons a year
- SOx emissions (from process emissions and energy) were stable at 0.22 kg/ton of production. Absolute emissions were up 3 percent to 3.8 kilotons
- Our three sulfur derivatives plants in Germany, the US and Argentina contributed 97 percent of the SOx emissions. Due to a product mix effect, we were not able to convert SO_2 to a product, resulting in the increase

Ozone depleting substances

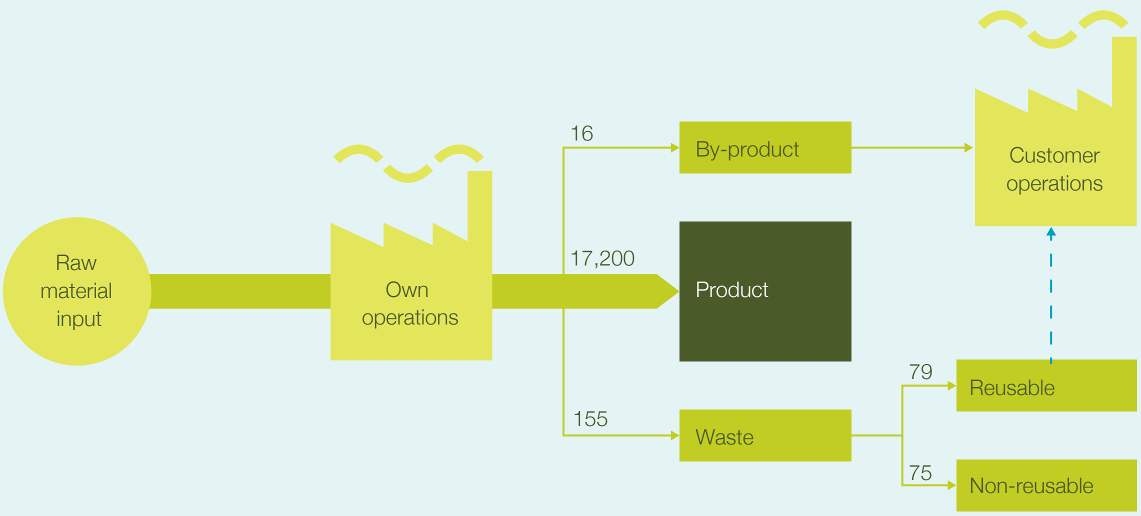
- Emissions of ozone depleting substances are at a very low level, 0.6 tons (2014: 1.8 tons). They are mainly due to Freon22 from maintenance in older air conditioning and cooling units, which are replaced when appropriate.

Material efficiency

We are maximizing our conversion of raw materials into final product by solving the root cause of the losses. This will not only reduce the waste, but will also, for example, decrease COD and the carbon related to our raw materials upstream.
A variety of projects was initiated:

- At Decorative Paints, a material efficiency program was started, focusing on a better conversion of raw materials into final product
- Performance Coatings started a global material efficiency program for all businesses focusing on yield improvement in production. A wide variety of smaller projects has resulted in savings of more than €10 million and this will continue in 2016. Examples of this type of project are a powder fines recycling system for a continuously operating powder coatings production line,

Raw material flow in kilotons



reducing the size of a pump, piping and a filter-housing used for filling and using compressed air to empty mills for liquid coatings
- Specialty Chemicals started a program to identify opportunities on material efficiency. Seven sites were selected and held workshops, when opportunities were identified to increase the material efficiency, with a potential saving of more than €1 million

Waste

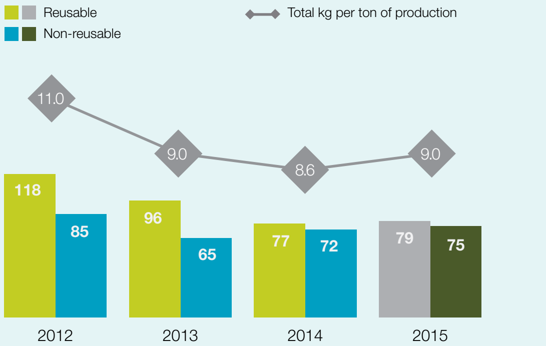
Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both our environmental footprint and costs. We have moved our focus from managing/reducing total waste to eliminating waste by increasing material efficiency. We are still moving towards eliminating hazardous waste to landfill. The exception is asbestos waste – mainly from demolishing old equipment and buildings – where the preferred current safe disposal route is properly designed landfill facilities.

- Total waste per ton of production generated and leaving our sites was up by 5 percent to 9.0 kg/ton. The total waste volume increased to 155 kilotons, an increase of 4 percent
- Incidental activities at some sites led to a one-off waste increase of 6 kilotons
- Hazardous waste per ton of production decreased by 1 percent to 3.3 kg/ton
- Although waste went up, many projects are in place to reduce waste. One of these involves the conversion of one of our Rotterdam waste streams (a filter aid) into a product which can now be sold to the paper industry, where it can be used without modification

Total waste per Business Area

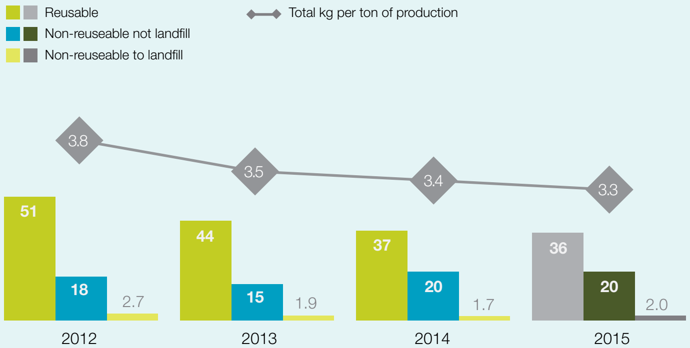
in kilotons	2013	2014	2015
Decorative Paints	39	35	34
Performance Coatings	54	55	54
Specialty Chemicals	64	59	66

Total waste in kilotons



Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard.

Hazardous waste in kilotons



Hazardous waste is waste that is classified and regulated as such according to the national, state or local legislation in place.

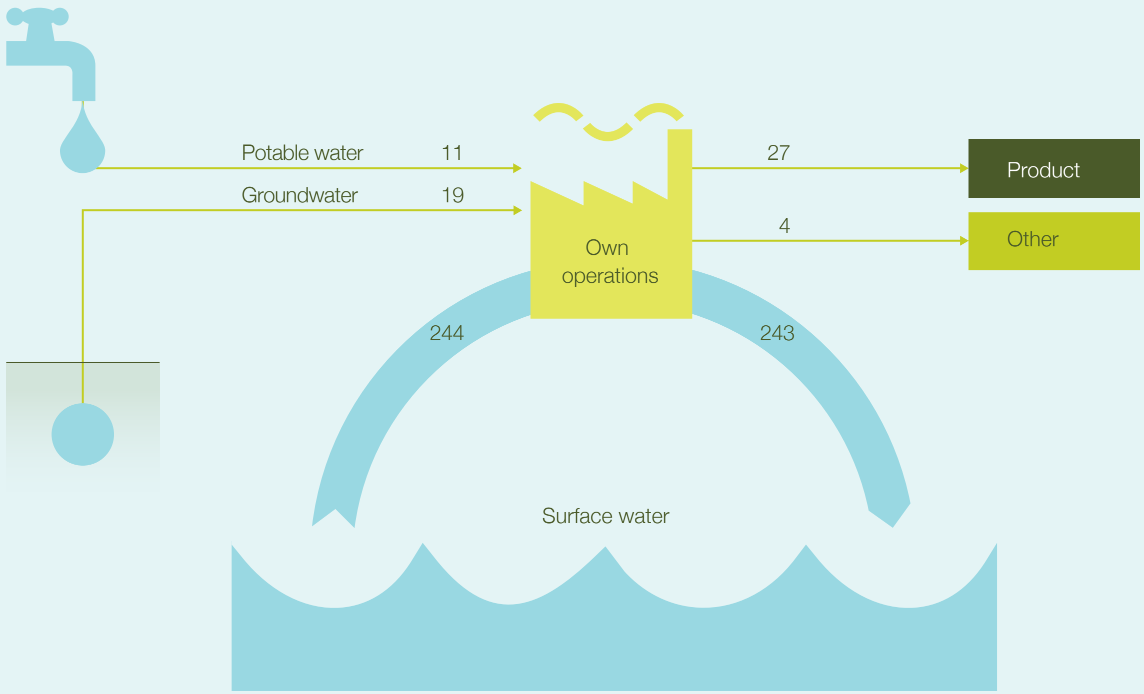
Fresh water availability

Sustainable water supply is essential to life – and to the sustainability of our business. We rely on water for raw materials production, product formulation and manufacturing, as well as power generation, cooling, cleaning, transporting and for the effective use of some products. Around 89 percent of our fresh water intake is from surface water and 89 percent of our intake is used for cooling and is only slightly heated before being returned to the original source. We continue to reduce the chemical oxygen demand (COD) of our effluent to surface water.

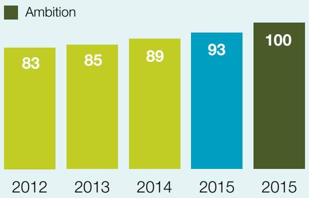
We monitor our progress using a fresh water risk assessment tool, which is completed at least bi-annually by each manufacturing site. The tool assigns risk levels to water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors.

Sustainable fresh water management assessment was carried out in 2013. In total, 93 percent of our sites (2014: 89 percent) have sustainable fresh water management in place, as measured by the AkzoNobel fresh water management risk assessment tool, with a target of 100 percent for 2015. The short fall from the target is due to sites that cannot become sustainable due to their location in a water scarce area. They continue to monitor the local situation and seek improvement options. We will continue with the sustainable fresh water management program beyond 2015.

Water flow in million m^3



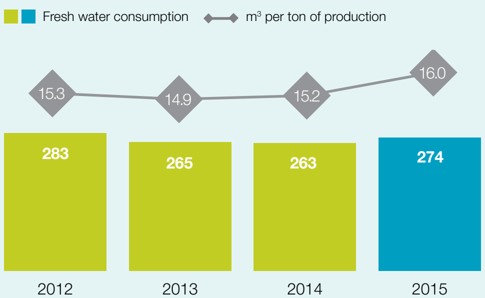
Sustainable fresh water management
in % of manufacturing sites



Sustainable water management is defined as a low risk score in all categories in the AkzoNobel sustainable fresh water assessment tool: water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors.

- Fresh water use per ton of production increased to 16.0 m^3/ton (2014: 15.2 m^3/ton)
- Total fresh water use was 274 million m^3, an increase of 4 percent (2014: 263 million m^3). An increase of over 10 million m^3 was due to the startup of the new chlorine plant in Frankfurt, Germany

Fresh water use in million m^3

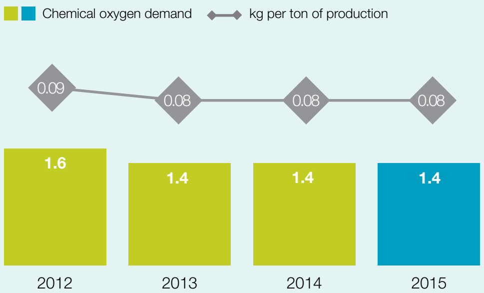


Fresh water use is the sum of the intake of groundwater, surface water and potable water.

Water emissions

In total, 89 percent of the COD is generated at ten production locations, with the remainder being generated by numerous sites. These ten locations are the primary focus for improvement actions.

Chemical oxygen demand (COD) in kilotons



COD is the amount of oxygen required for the chemical oxidation of substances in the waste water effluent that is discharged into surface waters.

- The COD load to surface water per ton of production remained stable at 0.08 kg/ton
- The total COD load to surface water was stable at 1.4 kilotons
- A new treatment plant is being built in Maua, Brazil, and will reduce COD further by 150 tons per year
- A project has been started to reduce the COD of one of the major contributors by addressing the root cause of the COD

Soil and groundwater remediation

There are costs associated with the assessment and remediation of historical soil and groundwater contamination. We periodically review historic contamination at our sites, taking remedial action when required, and have procedures to prevent new contamination.

A dedicated group of legal and environmental experts assesses, manages and resolves environmental liabilities. In 2015, the Corporate Directives were extended to include a new directive designed to ensure the appropriate and effective management of closed sites to maintain value, avoid future liabilities and control risks to people and the environment.

In line with IFRS accounting rules, we make provisions for environmental remediation costs when it is probable that liability will materialize and the cost can be reasonably estimated. We have set aside €305 million, which we believe is sufficient for the sites where we have ownership or responsibility (See Note 19 of the Consolidated financial statements).

Mandatory annual environmental liability reviews are conducted to review risks, monitor progress in resolving our liabilities and assessing changes in company exposure.

Independent assurance report

To the readers of the AkzoNobel Report 2015

Our conclusion

We have reviewed (limited assurance) the information in the Sustainability statements (pages 195 to 249) and in the Compliance and integrity management section (pages 124 to 129) (hereafter "The Sustainability Reporting"), which are part of the Report 2015 ("The Report") of Akzo Nobel N.V. (further "the company").

Based on our review, nothing has come to our attention to indicate that The Sustainability Reporting is not presented, in all material respects, in accordance with the reporting criteria as described in Note 2: Reporting principles.

Furthermore, we have audited (reasonable assurance) Note 1: Managing our sustainability agenda (pages 197 to 200) of the Sustainability statements. In our opinion, the information in Note 1: Managing our sustainability agenda is presented, in all material respects, in accordance with the reporting criteria as described in Note 2: Reporting principles.

Our report on consistency

We report, to the extent we can assess, that the information on sustainability in the rest of The Report is consistent with The Sustainability Reporting.

Basis for our conclusion and opinion

We conducted our engagement in accordance with the Dutch Standard 3810N: Assurance engagements relating to sustainability reports, which is a specified standard that is based on the International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Our responsibilities under Standard 3810N and procedures performed have been further specified in the paragraph titled Our responsibility for the assurance of The Sustainability Reporting.

We are independent of Akzo Nobel N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA). We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

Key assurance matters

Key assurance matters are those matters that, in our professional judgment, were of most significance in our assurance of The Sustainability Reporting. We have communicated the key assurance matters to the company. The key assurance matters are not a comprehensive reflection of all matters discussed.

These assurance matters were addressed in the context of our assurance of The Sustainability Reporting as a whole and in forming our conclusion thereon, and we do not provide a separate conclusion on these matters.

Managing the sustainability agenda

The Note in relation to Managing our sustainability agenda explains the status of the level of integration of sustainability in the company's management processes. This information in the Sustainability statements demonstrates the underlying organizational embedding of the performance reported. In light of its resulting materiality, we have identified this Note therefore as a Key Assurance Matter.

We have held interviews and discussions with relevant staff about the Note as presented and reviewed evidence for the text claims relating to embedding sustainability within the organization to assess whether the information as provided in Note 1: Managing our sustainability agenda shows a clear and balanced picture of the current status of integration of sustainability in management processes.

Responsibilities of the Board of Management for The Sustainability Reporting

The Board of Management is responsible for the preparation and fair presentation of The Sustainability Reporting in scope as included above under "Basis for our conclusion and opinion" in accordance with the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative supported by internally developed guidelines as described in Note 2: Reporting principles. It is important to view The Sustainability Reporting in the context of these criteria. We believe these criteria are suitable in view of the purpose of our assurance engagement.

As part of this, the Board of Management is responsible for such internal control as it determines is necessary to enable the preparation of The Sustainability Reporting that is free from material misstatement, whether due to fraud or error.

Our responsibility for the assurance of The Sustainability Reporting

Our objective is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion regarding The Sustainability Reporting and our opinion regarding the information in Note 1: Managing our sustainability agenda.

Procedures performed for the review of The Sustainability Reporting are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

Our audit of the information in Note 1: Managing our sustainability agenda has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

Our review procedures on The Sustainability Reporting included, among others:

- A risk analysis, including a media search, to identify relevant sustainability issues for the company in the reporting period
- Reviewing the suitability of the internal reporting criteria including conversion factors used
- Evaluating the design and implementation of the systems and processes for the collection, processing and control of the information in scope for the review, including the consolidation of the data
- Interviewing management at corporate and business level responsible for the sustainability and compliance and integrity policies, implementation, management, internal controls, monitoring and reporting
- Interviewing relevant staff at corporate and business level responsible for providing the information and consolidating the data for The Sustainability Reporting
- Evaluating internal and external documentation, based on sampling, to determine whether the information in The Sustainability Reporting is supported by sufficient evidence
- Joining an internal audit of Health, Safety and Environment Management at the Industrial Chemicals site in Rotterdam, the Netherlands
- Reviewing the relevant work of the Internal Audit function

Our additional audit procedures on the information in Note 1: Managing our sustainability agenda included among others:

- Testing the relevant work of the Internal Audit function in respect of the information in Note 1: Managing our sustainability agenda
- Interviews with relevant staff at corporate level responsible for providing the information for Note 1: Managing our sustainability agenda

During the assurance process we discussed the necessary changes of The Sustainability Reporting and reviewed the final version of The Report to ensure that it reflects our findings.

Amsterdam, February 9, 2015
KPMG Sustainability,
Part of KPMG Advisory N.V.

W.J. Bartels RA, Partner

Sustainability performance summary

Economic/Governance/Social

Area		2011	2012	2013	2014	2015	Ambition 2015	Ambition 2020
Product								
Eco-premium solutions with downstream benefits	% of revenue	–	17	18	19	19	–	20
Eco-premium solutions	% of revenue	22	22	24	24	24	30	–
Business integrity								
Code of Conduct alleged complaints handled by the Compliance Committee	number	24	24	9	11	10	–	–
Code of Conduct trained[1]	% of employees	95	96	95	90	66[1]	–	–
Health and Safety								
Fatalities employees	number	2	2	0	0	0	0	0
Total reportable injury rate employees/supervised contractors	/million hours	3.1	2.4	2.3	1.8	1.6	<2.0	<1.0
Lost time injury rate employees/supervised contractors	/million hours	1.3	1.1	1.3	0.9	0.7	1.3	–
Occupational illness rate employees	/million hours	0.26	0.23	0.14	0.24	0.14	–	–
Total illness absence rate employees	%	2.0	2.0	2.1	2.1	2.1	1.9	–
Fatalities contractors (supervised plus independent)	number	1	0	0	0	0	0	0
Total reportable injury rate independent contractors	/million hours	3.5	4.2	3.5	2.9	2.8	–	–
Behavior-based safety program implemented	% of employees	–	50	68	84	96	100	100
Distribution incidents	number	80	46	48	52	49	–	–
Motor vehicle incidents with injury	number	29	28	19	20	18	–	–
Employees								
Employee numbers (FTE)	number	57,240	55,272	49,561	47,207	45,568	–	–
Female executives	%	13	15	16	17	19	20	25
Executives from high growth markets	%	13	13	14	16	16	20	22
Employee engagement index	1-5 scale	3.74	3.80	3.88	3.97	4.03	>4.00	>4.20
Community Program investment	in € millions	1.5	1.5	1.0	1.0	1.0	–	–
Reliable operations								
Management audits plus reassurance audits	number	66	61	56	63	57	–	–
Safety incidents (Level 3)	number	8	3	0	1	0	0	0
Safety incidents (Level 1, 2, 3)	number	36	23	14	15	12	–	–
Significant loss of containment (Level D)	number	2	0	1	0	0	0	0
Regulatory actions (Level 4)	number	0	0	0	0	0	0	0
Sourcing								
Critical PR[2] spend covered by supplier management framework	% of spend	–	69	80	83	87	88	–
Product related suppliers signed Business Partner Code of Conduct	% of spend	95	97	96	98	98	98	–
NPR[3] suppliers signed Business Partner Code of Conduct	% of spend	77	80	83	80	81	80	–
Suppliers on SSV program since 2007[4]	number	304	373	392	432	455	–	–
Renewable raw materials	% organic RM	–	13	13	13	11	–	–

[1] Code of Conduct online training was updated in 2015, training invitations were sent in Q4, mandatory completion is due by mid-2016.
[2] PR – Product related (raw materials and packaging).
[3] NPR – Non-product related.
[4] SSV program targets are included in the Critical PR spend coverage KPI.

Environmental

Area		2011	2012	2013	2014	2015	Ambition 2015	Ambition 2020
Raw material efficiency								
Total waste	kiloton	217	203	161	149	155	–	–
per ton of production	kg/ton	11.6	11.0	9.0	8.6	9.0	-10%	–
Total non-reusable waste	kiloton	96	85	65	72	75	–	–
per ton of production	kg/ton	5.1	4.6	3.6	4.1	4.4	–	–
Hazardous waste total	kiloton	71	71	62	58	57	–	–
per ton of production	kg/ton	3.8	3.8	3.5	3.4	3.3	–	–
Hazardous waste non-reusable	kiloton	26	20	17	22	22	–	–
per ton of production	kg/ton	1.4	1.1	1.0	1.2	1.3	–	–
Hazardous waste to landfill	kiloton	3.0	2.7	1.9	1.7	2.0	–	–
per ton of production	kg/ton	0.16	0.15	0.11	0.10	0.12	–	–
Maintain natural resources/fresh air								
Fresh water use	million m^3	291	283	265	263	274	–	–
per ton of production	m^3/ton	15.6	15.3	14.9	15.2	16.0	–	–
COD emissions	kiloton	1.8	1.6	1.4	1.4	1.4	–	–
per ton of production	kg/ton	0.10	0.09	0.08	0.08	0.08	–	–
Manufacturing sites with sustainable fresh water	%	74	83	85	89	93	100	–
VOC emissions	kiloton	3.6	3.6	3.1	3.1	3.0	–	–
per ton of production	kg/ton	0.19	0.19	0.17	0.18	0.18	0.19	–
NOx emissions	kiloton	2.0	1.9	1.3	1.3	1.7	–	–
per ton of production	kg/ton	0.11	0.10	0.08	0.08	0.10	–	–
SOx emissions	kiloton	7.7	7.6	4.6	3.7	3.8	–	–
per ton of production	kg/ton	0.41	0.41	0.26	0.22	0.22	–	–
Direct CO_2(e) emissions (Scope 1)	million tons	1.6	1.5	1.1	1.1	1.5	–	–
per ton of production	kg/ton	85	82	64	63	87	-10%	–
Indirect CO_2(e) emissions (Scope 2)	million tons	3.2	3.2	2.8	2.8	2.3	–	–
per ton of production	kg/ton	171	175	158	161	133	-10%	–
Total energy consumption	1000TJ	107	106	99	98	95	–	–
per ton of production	GJ/ton	5.7	5.7	5.6	5.7	5.6	–	–
Value chain								
Total CO_2(e) emissions (cradle-to-grave)[1]	million tons	–	27.5	26.5	26.9	24.6	–	–
reduction per ton of product[1] (from 2012)	%	–	0	2	-4	3	–	25–30
Total CO_2(e) emissions (cradle-to-gate)	million tons	16.1	15.4	14.6	14.7	13.5	–	–
reduction per ton of product (from 2009)	%	3	1	4	0	8	10	–

[1] Reported from 2012. Includes impact from VOC emissions.

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Financial calendar

2016

April 19

Report for Q1 2016

April 20

Annual General Meeting of shareholders

April 22

Ex-dividend date of 2015 final dividend

April 25

Record date of 2015 final dividend

April 26 - May 11

Election period cash or stock final dividend

May 13

Determination of exchange ratio

May 19

Payment date of cash dividend and delivery of new shares

July 19

Report for Q2 2016

October 19

Report for Q3 2016

2017

February 15

Report for the full-year 2016 and the fourth quarter

Glossary

Adjusted earnings per share
Basic earnings per share from continuing operations excluding incidentals in operating income, amortization of intangible assets and tax on these adjustments.

AGM
Annual General Meeting of shareholders.

ALPS
AkzoNobel Leading Performance System.

BBS
Behavior-based safety. A global program run at all AkzoNobel locations.

Business Partner Code of Conduct
Explains what we stand for as a company, what we value and how we run our business. It brings our core principles of Safety, Integrity and Sustainability to life and shows what they mean in practice.

Carbon footprint
The carbon footprint of a product or organization is the total amount of greenhouse gas (GHG) emissions caused during a defined period, or across the total or part of a product lifecycle. It is expressed in terms of the amount of carbon dioxide equivalents CO_2(e) emitted.

Circular economy
An economic system that is restorative and regenerative by design, and which aims to keep products, components, and materials at their highest utility and value at all times, distinguishing between technical and biological cycles.

Code of Conduct
Our Code of Conduct defines our core principles and how we work. It incorporates fundamental principles on issues such as business integrity, labor relations, health, safety, environment and security and community involvement.

Community Program
AkzoNobel's global Community Program encourages and gives financial support for employees to get involved, hands-on, in their local communities.

Comprehensive income
The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with shareholders in their capacity as shareholders.

Earnings per share
Net income attributable to shareholders divided by the weighted average number of common shares outstanding during the year.

EBITDA
Operating income before depreciation, amortization and incidental items.

Eco-efficiency
Eco-efficiency means doing more with less; creating goods and services while using fewer resources and creating less waste and pollution.

Eco-premium solutions (EPS)
A measure of the eco-efficiency of our products. An eco-premium solution is significantly better than competing offers in the market in at least one eco-efficiency criterion (toxicity, energy use, use of natural resources/raw materials, emissions and waste, land use, risks, health and well-being), and not significantly worse in any other criteria.

Eco-premium solutions with downstream benefits
Provide tangible material or energy efficiency benefits for our customers, compared with competitive products.

EMEA
Europe, Middle East and Africa.

Emerging Europe
Central and Eastern Europe (excluding Austria), Baltic States and Turkey.

Emissions and waste
We report emissions to air, land and water for those substances which may have an impact on people or the environment: CO_2, NOx and SOx, VOCs, chemical oxygen demand, hazardous and non-hazardous waste. Definitions are in the Sustainability statements section.

Four-dimensional profit and loss (4D P&L)
The four-dimensional profit and loss (4D P&L) methodology represents value creation in multiple dimensions. This is a totally new way of looking at an economy, where the impact of a company on society at large can be assessed.

GHG
Greenhouse gases, including CO_2, CO, CH_4, N_2O and HFCs, which have a global warming impact. We also include the impact of VOCs in our targets.

GBS
Global Business Services, which covers functional support activities such as Human Resources, Finance and Information Management, as well as non-product related Procurement.

HSE
Health, safety and environment.

Invested capital
Total assets (excluding cash and cash equivalents, investments in associates, the receivable from pension funds in an asset position, assets held for sale) less current income tax payable, deferred tax liabilities and trade and other payables.

Key value chain (KVC)
Used to map the carbon footprint of our businesses. Key value chains are product groupings with similar footprint characteristics, which are representative of the majority of total business revenue/production.

LCA
Lifecycle assessments are the basis of our value chain sustainability programs. Eco-efficiency analysis (EEA) is our standard assessment method.

Lost time injury (LTI) rate
The number of lost time injuries per million hours worked. Full definitions are in the Sustainability statements.

Loss of containment
A loss of containment is an unplanned release of material, product, raw material or energy to the environment (including those resulting from human error). Loss of containment incidents are divided into four categories, dependent on severity, from small, on-site spill up to Level D – a significant escape.

Mature markets
Mature markets are comprised of Western Europe, the US, Canada, Japan and Oceania.

Natural resource use
We do not report specific natural resource use, except water. We do report our use of energy and waste from our operations, and indicate the main raw materials used in our products.

Net debt
Defined as long-term borrowings plus short-term borrowings less cash and cash equivalents.

Operating income
Operating income is defined in accordance with IFRS and includes the relevant incidental items.

Operational cash flow
We use operational cash flow to monitor cash generation. It is defined as operating income excluding depreciation and amortization, adjusted for the change in operating working capital and capital expenditures.

Operational eco-efficiency
Refers to the eco-efficiency of our manufacturing operations. Our aim is to improve operational eco-efficiency by reducing the resources used and emissions/waste from our sites during the manufacture of our products.

OTIF
On-time in-full, referring to customer service.

P&D Dialog
The Performance and Development Dialog is AkzoNobel's global performance and appraisal system for employees.

RD&I
Research, Development and Innovation.

Regulatory action
We have defined three categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications with fines above €10,000 (Level 3).

REI
Resource Efficiency Index is gross margin divided by cradle-to-grave carbon footprint. The index measures value created from use of raw materials and energy.

ROI (return on investment)
This is a key profitability measure and is calculated as operating income as a percentage of average invested capital.

ROS (return on sales)
This is a key profitability measure and is calculated as operating income as a percentage of revenue.

Safety incident
We have defined three levels of safety incidents. The highest category – Level 3 – involves any loss of life; more than five severe injuries; environmental, asset or business damage totaling more than €25 million; inability to maintain business; or serious reputational damage to AkzoNobel stakeholders.

Shareholders' equity per share
Akzo Nobel N.V. shareholders' equity divided by the number of common shares outstanding at year-end.

Supplier sustainability framework
Business Partner Code of Conduct, Supplier Support Visits, Key Supplier Management and Together for Sustainability are all elements of our supplier sustainability framework.

RobecoSAM assessment
Assesses the sustainability performance of companies selected for the Dow Jones Sustainability Index (DJSI). The DJSI tracks the performance of the global sustainability leaders. The index comprises the top 10 percent in each industry for the 2,500 largest companies.

Total reportable rate of injuries (TRR)
The number of injuries per million hours worked. Full definitions are in the Sustainability statements.

TSR (total shareholder return)
Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

VOC
Volatile organic compounds.

Disclaimer
In this Report 2015, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units. In this publication the terms “AkzoNobel” and “the company” refer to Akzo Nobel N.V. and its consolidated companies in general. The company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Business performance”, they refer to the business concerned.

Safe harbor statement
This Report 2015 contains statements which address such key issues as AkzoNobel’s growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies.

Integrated Report 2015
AkzoNobel’s annual financial report has been combined with the sustainability report into one Report 2015. The Report 2015 includes elements of the reporting guidelines issued by the International Integrated Reporting Council (IIRC). The sustainability sections, however, in no way form part of the company’s annual report as the company is required to publish pursuant to Dutch law.

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