

AkzoNobel



2016

Report



# AkzoNobel at a glance

Key regions (by 2016 revenue)

North America  
17%

Mature Europe  
36%

Emerging Europe  
7%

€14.2 billion revenue  
€1,502 million EBIT  
€3.87 earnings per share  
80+ countries  
46,000 employees

Latin America  
9%

Other regions  
4%





# Our businesses

Asia Pacific  
27%

## 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.

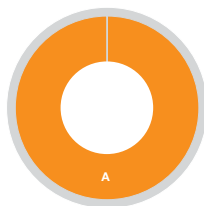
### Main business operations:

- 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: consumers, paint distributors around the world and large retail outlets such as B&Q, Leroy Merlin and OBI.

Decorative Paints 2016 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.

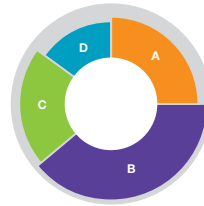
### Main business operations:

- 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, Mercedes-Benz, Philips, Samsung, Shell and Whirlpool.

Performance Coatings 2016 revenue breakdown by end-user segment in %



A Buildings and Infrastructure	25
B Transportation	39
C Consumer Goods	21
D Industrial	15

## Specialty Chemicals

As a major producer of specialty chemicals with leadership positions in markets such as surfactants, polymer chemistry, pulp processing and chlor-alkali, we make sure that industries worldwide are supplied with high quality ingredients and process aids for the manufacture of life's essentials.

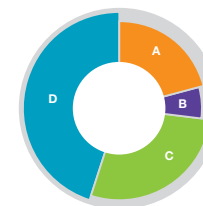
### Main business operations:

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

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

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

Specialty Chemicals 2016 revenue breakdown by end-user segment in %



A Buildings and Infrastructure	21
B Transportation	6
C Consumer Goods	28
D Industrial	45

# DENIM DRIFT

Color of the Year 2017

## **Essential ingredients. Essential protection. Essential color.**

We create everyday essentials to make people's lives more liveable and inspiring. Take a look at the cover image to get a sense of how we contribute to the things people see and use every day. Whether it's sports equipment, stadiums, running shoes or outdoor spaces, we're helping to create a protected, colorful and more sustainable world.

Our Report 2016 is also available online:

[www.akzonobel.com/report](http://www.akzonobel.com/report)





“In a year of record profitability in terms of return on sales and return on investment, our purpose of creating everyday essentials to make people’s lives more liveable and inspiring was brought to life”

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

CEO Ton Büchner visited Singapore to announce a long-term partnership with the Ground-Up Initiative’s Kampung Kampus. The new eco-site will be focused on sustainable living and community building and will benefit from products and expertise supplied by AkzoNobel.

**Report**

2016



# Featured content

“2016 WAS A YEAR OF RECORD PROFITABILITY IN TERMS OF RETURN ON SALES AND RETURN ON INVESTMENT”

CEO statement

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# How AkzoNobel performed in 2016

## Financial guidance

9-11%

### Return on sales (ROS)

Achieve return on sales (EBIT/revenue) of 9-11 percent for 2016-2018

13-16.5%



### Return on investment (ROI)

Achieve return on investment (EBIT/average invested capital) of 13-16.5 percent for 2016-2018

## 2016 progress

10.6% 

15.0% 

 Indicates a positive development  
 Indicates a flat/negative development



## Sustainability targets

20%

### Eco-premium solutions

Increase revenue from downstream eco-premium solutions to 20 percent of revenue by 2020

2016 progress

20% 

25-30%

### Carbon emissions

Reduce our carbon emissions across the value chain by 25 to 30 percent per ton by 2020 (2012 base)

6% 

REI

### Resource Efficiency Index

Monitor gross margin divided by carbon emissions across the value chain, as an indicator for resource efficiency

112 

# How AkzoNobel created value in 2016

## Economic value: Input

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. We are also 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 enable us to deliver more economic value for our investors.

**€7.0 billion**  
group equity

**€2.7 billion**  
borrowings

**€363 million**  
research and development expenses

## Organization

**€14.2 billion**  
revenue

**€1,502 million**  
EBIT

**€1,297 million**  
cash flow from operating activities

**€634 million**  
capital expenditures

**€10,266 million**  
invested capital at year-end

We invested in 2016 to keep our facilities in good shape, as well as expanding our manufacturing capability.

## Environmental value: Input

**40%**  
renewable energy

**97,000 TJ**  
energy use

**12%**  
renewable raw materials as %  
of organic materials

**€0.6 billion**  
energy spend

**9.5 million tons**  
upstream CO<sub>2</sub>(e) emissions

## Social value: Input

**46,000**  
employees at year-end 2016

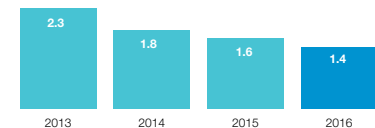
**>300**  
number of projects launched through  
our Human Cities initiative

## Organization

**1.4**  
total reportable rate of injuries  
(per million hours)

**Employee and supervised contractors  
total reportable rate of injuries**

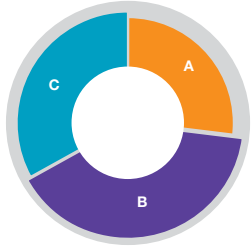
Target: <1.0 (2020)



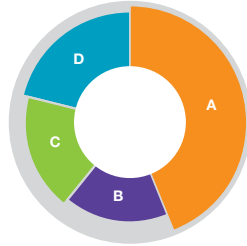


## Outcomes

Revenue breakdown by Business Area  
in %



Revenue breakdown by end-user segment  
in %



A Decorative Paints	27
B Performance Coatings	40
C Specialty Chemicals	33

A Buildings and Infrastructure	44
B Transportation	17
C Consumer Goods	18
D Industrial	21

€285 million  
income tax paid

€336 million  
dividend paid

RD&I investments have resulted in 20 percent of revenue derived from eco-premium solutions with customer benefits.

↗ 10.6% ROS

↗ 15.0% ROI

↗ 20%  
of revenue from eco-premium solutions with customer benefits

## Organization

3.7 million tons  
CO<sub>2</sub>(e) emissions own operations

143 kilotons  
total waste own operations

28%  
reduction in operational eco-efficiency footprint (since 2009)

## Outcomes

10.5 million tons  
downstream CO<sub>2</sub>(e) emissions

23.7 million tons  
CO<sub>2</sub>(e) emissions cradle-to-grave

↗ 6%  
improvement CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

≡ 112 REI  
in Resource Efficiency Index

## Outcomes

19%  
female executives

4%  
high potential turnover

€2.7 billion  
employee benefits

4.17  
employee engagement score

9.0 million  
lives positively impacted by our Human Cities initiative

■ Indicates a positive development  
■ Indicates a flat/negative development

# CEO statement

**In a year of record profitability in terms of return on sales and return on investment, our purpose of creating everyday essentials to make people's lives more liveable and inspiring was brought to life. We continued to build on our solid foundation of operational excellence to drive growth and sharpened our focus on delivering more value for our people, our customers and our shareholders.**

As well as introducing a series of innovative new products, we began to advance our digital agenda and made important steps with regard to sustainability, setting us up to accelerate organic growth. Our expanding Human Cities initiative – everything we do for and with society – also continued to impact millions of people around the world.

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## Strategy and performance

Our commitment to delivering essential ingredients, essential protection and essential color ensured we made progress towards our vision of leading market positions delivering leading performance. Our track record of performance improvement continued – 2016 was again a record year for us in terms of return on investment and return on sales – driven by our focus on growth, operational excellence and continuous improvement.

We now have a stronger operational and financial foundation for adapting to market challenges and seizing growth opportunities, evidenced by our €425 million acquisition (after closing adjustments and working capital requirements) of BASF's Industrial Coatings business. The transaction included relevant technologies, patents and trademarks, as well as two manufacturing plants in the UK and South Africa and around 350 employees (see page 27). It's an acquisition with many positive synergies and I would like to extend a warm welcome to all our new colleagues.

To support our drive for growth, we strengthened our position in the North American hydrogen peroxide market

by fully acquiring the shares of our joint venture partner OCI Peroxy LLC. We also started a new cooperation in Spain to convert a salt-based waste stream into high quality vacuum salt. In addition, we made continued investments to upgrade and expand existing sites and build and open new facilities to drive organic growth. This included new plants for powder coatings (near Mumbai in India and in Chengdu, China), and two new Specialty Chemicals facilities in Ningbo and Tianjin in China. We also invested in existing sites in Los Reyes, Mexico, and in Battleground and Pasadena in the US, as well as forming a joint arrangement with Atul to build a world scale MCA plant in Gujarat, India.

Meanwhile, our Global Business Services model – which simplifies various support functions by identifying common ways of working – is freeing up time for the businesses to focus more on customers, innovation and growth. Productivity improvements and efficiency programs have also been delivered within the support functions.

These actions have been instrumental in improving our performance and driving cost savings of over €200 million. They have also helped us create a more engaged workforce, underlined by our engagement levels improving for the sixth year in a row. Our people are fundamental to the success

## “WE ARE BETTER PLACED TO ACCELERATE GROWTH”

As expected, market conditions remained challenging and we continued to face an uncertain and volatile economic environment. However, our agility enabled us to adapt and respond. As well as delivering a record year financially for our return on sales and return on investment, we delivered performance records in terms of EBIT and operational cash flow. A further increase in our dividend – and the launch of a share buyback program to neutralize the 2016 stock dividends paid – indicate confidence in our cash flow generation. We are better placed to accelerate growth and deal with challenges in our markets.

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## Organization

Our organization has evolved significantly over the last few years and we have been working hard to embed a culture of continuous improvement through our AkzoNobel Leading Performance System (ALPS). It's an effective way for us to empower our people to improve the business and has now been implemented at more than 75 percent of our sites.

our company, so we intend to raise the engagement level even higher as we continue to make AkzoNobel a great place to work. Safety plays an essential role in this. As one of our core principles, it's embedded in everything we do and it was pleasing to see us make good progress towards our 2020 target. Our aim continues to be zero incidents.

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## Human Cities

One of the most inspiring aspects of 2016 was seeing examples of our purpose being brought to life. Our Human Cities initiative played a major role in this, underlining how we welcome our responsibility to play an important role in the communities where we operate. During 2016, more than 300 projects were launched around the world – impacting over nine million people – highlighting our contribution to the United Nations Sustainable Development Goals (SDGs).

In Ecuador, for example, an area of Quito was transformed ahead of the UN Habitat III Conference on Housing and



Sustainable Urban Development. Working with several partners, we created a vertical garden which uses our micro-nutrients, as well as adding essential color to roads and buildings to create the “Ruta de la Experiencia”, a people-friendly route for visitors and local residents (see page 13).

Other notable projects included the renovation of four historic locations in Shanghai’s Jing’an District in China and restoring the old town of Jakarta in Indonesia. In Brazil, a favela in Rio de Janeiro was transformed using paint and a bit of imagination to create Unexpected Courts for children to try different sports. The launch of the Dulux Academy at our Slough site in the UK was another highlight. The center will give over 4,000 decorators and apprentices every year the chance to expand their capabilities, while addressing skill gaps in the industry.

## Innovation

Our strategic focus on driving innovation to support organic growth gathered momentum. We launched a series of products, many offering major benefits in terms of their sustainability profile. For example, we introduced an ingredient for detergent makers which enables them to meet strict environmental regulations, while one of our Expancel products – which is used in corks to keep wine fresh – was approved by the US Food and Drug Administration. Our Dulux Forest Breath range – interior paints which improve indoor air quality – was also launched for the Chinese market (see page 64).

Digital innovation is a major area of attention and is playing an important role in product development and how we work with customers. A recent introduction making good progress is Intertrac Vision, which is helping the shipping industry become more sustainable (see page 74). We also opened a new virtual reality center for our decorative paints customers in the UK which allows visitors to explore different store environments. Meanwhile, our Visualizer decorating app was upgraded and has been downloaded over 13 million times.



Ton Büchner speaking at an all-employee town hall meeting in China.

## Sustainability

Our sustainability agenda was brought into sharper focus as we stepped up our activities in all areas. We firmly believe sustainability is business, and business is sustainability, and are continuing to identify areas of opportunity. As well as conducting a company-wide review of operational eco-efficiency, we compiled a detailed assessment of our contribution to the UN SDGs. This will help us accelerate progress towards our strategic sustainability ambitions (see page 16). We also continue to take a pioneering approach to integrated reporting, evidenced by the further development of our materiality assessment and innovative 3D profit and loss model (see pages 46 and 204 and Notes 2 and 3 of the Sustainability statements).

Notable developments during the year included taking the lead in a major partnership with Google, Philips and DSM to source power from a new wind park in the Netherlands. Together, we have agreed to source a total of 350 million kWh a year from the Krammer wind park once it becomes operational in 2019. The consortium also agreed to a second Dutch project (announced in early 2017) to purchase energy from the Bouwdokken wind park. Together, the two sites will have a total capacity of 140 MW, enough to power around 140,000 households for a year. The proportion of renewable energy used in our own operations is now 40 percent and we aim to increase this figure over the next few years.

## Leadership

At the end of 2016, we announced the retirement of Werner Fuhrmann after 37 years of service. As Executive Committee member responsible for Specialty Chemicals, he has been instrumental in transforming the business and leading it to record levels of performance. I would like to express the gratitude of the entire company and wish Werner a very happy retirement. As of February 1, 2017, his successor is highly experienced chemical industry professional Thierry Vanlancker, whom we are delighted to welcome to AkzoNobel.

All our achievements were made possible by our dedicated teams around the world. The progress we’ve made, the improvements we’ve introduced and the innovation we’ve delivered, are all important in terms of accelerating growth. We are now a stronger, more agile company, with excellent brands, a growing global presence and a solid operational and financial foundation. On behalf of the Executive Committee, I thank everyone for their passion and hard work. Together, we will continue to supply essential ingredients, essential protection and essential color while creating tangible value for our people, customers and shareholders.

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

# MAKING PEOPLE'S LIVES MORE LIVEABLE AND INSPIRING



Click to watch video





In 2016, we continued to focus on what we do best – creating everyday essentials to make people’s lives more liveable and inspiring, with essential ingredients, essential protection and essential color.

This purpose gives us energy, sparks our creativity and enables us to deliver great products and services for our customers. It drives our innovation, enables our Human Cities initiative to thrive and provides added momentum for our long-standing commitment to sustainability.

By supplying the everyday essentials customers and consumers need, we support cities in meeting the challenges they face, we help a number of industries to become more sustainable and we create a protected, colorful world where life is improved by what we do.

On the following pages, we highlight just a few examples of how we demonstrated this during 2016.



GIVING  
PEOPLE  
THAT  
WINNING  
FEELING



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**Our purpose is brought to life in many ways. It can be particularly effective in inspiring people to meet the many challenges being faced by cities and communities. By using our three key strengths – essential ingredients, essential protection and essential color – we are in an ideal position to energize and regenerate urban areas across the world.**

Everything we do for and with society is channeled through our global Human Cities initiative. It's an active expression of our purpose which enables us to combine our expertise in sustainable innovation with our passion for working closely with local communities. It includes all the work we do through our Community Program and "Let's Colour" initiative. In 2016, this involved a total of more than 300 projects, impacting over nine million people.

Two particular highlights during 2016 took place in Latin America. In Brazil, our Coral paint brand launched its Unexpected Courts project in Rio de Janeiro's Santa Marta favela. It involves giving children the chance to test their sporting skills in surprising spaces, through the simple but ingenious use of paint.

Several courts have been created so far, including a walkway which has been turned into a running track, a set of stairs and a wall that have become a basketball arena, and a series of clothes lines and pillars that have been transformed into a volleyball court. We plan to repeat the initiative in communities around the world so that many more people can be inspired by the use of essential color.

Later in the year, we played a major role in transforming part of Quito in Ecuador, which played host to the UN Habitat III Conference on Housing and Sustainable Urban Development. This included creating a large vertical urban garden to help transform a bleak expanse of concrete into a colorful and more attractive space for local residents. The garden has no soil and is based on

a hydroponic system, which uses our micronutrients to provide essential minerals for the plants. It was part of a larger project to create a people-friendly route through the city, known as the "Ruta de la Experiencia", which also featured our coatings and volunteer help from our employees.

Other major Human Cities projects launched during 2016 included repainting four primary schools and refurbishing areas of a popular local park in Rotterdam, the Netherlands; renovating four historical locations in Shanghai's Jing'an District in China; and restoring the historic Kota Tua (old town) area of Jakarta in Indonesia, a partnership designed to help the site secure UNESCO World Heritage status.



In 2016, we led the creation of the **Human Cities Coalition**. A public-private partnership of Dutch organizations from government, NGOs and business, it's focused on contributing to Goal 11 of the UN Sustainable Development Goals: Sustainable cities and communities.



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People all over the world use our products every single day. Often without realizing it. These everyday essentials can be found in everything from paper and plastic to food and furniture.

Food and furniture are among the most basic essentials that we'd find it difficult to live without. Both industries are also resource intensive, whether it's land and labor needed to grow crops, or the raw materials and energy required for creating the items that furnish our homes.

During 2016, we addressed some key challenges facing these industries by developing sustainable innovations to make everyday life healthier and more inspiring. As well as offering customers and consumers important benefits, they also reflect our Planet Possible sustainability agenda of doing more with less.

With the world's population expected to reach nine billion by 2050, safeguarding food supply is vital. In India, we introduced two new products for crop protection – Adsee 1629 and Agrilan 788 – designed to help herbicide producers improve quality and efficiency while using fewer resources. Both are examples of how our scientists around the world work closely with customers to develop essential ingredients for the challenges people face every day.

The furniture industry in China is also adopting innovative solutions in order to satisfy a shift in consumer preferences for more sustainable products and meet stricter government standards on sustainability. To help manufacturers make this transition, we developed Aquasilk specifically for the Chinese market. It's a water-based wood coating which contains substantially lower levels of volatile organic compounds (VOCs) than the traditional solvent-based systems it replaces.

The first water-based coating to contain the company's in-house resin, Aquasilk delivers the highest standards of color and protection and highlights how we are constantly working to drive our sustainable innovation to new levels.

Another recent product innovation means detergent makers can now meet strict environmental regulations relating to the use of phosphates, following the launch of our **Dissolvine M-40** ingredient. Readily biodegradable, it's a replacement for ingredients under regulatory pressure.

# BRINGING INNOVATION TO LIFE



Click to watch video

# AkzoNobel supporting the UN Sustainable Development Goals

In 2015, countries around the world adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. Devised by the United Nations, the 17 Sustainable Development Goals (SDGs) set out a comprehensive list of targets to be achieved by 2030, covering all three dimensions – economic, environmental and social – of sustainable development.



Although they are primarily aimed at governments, the SDGs also call on businesses to apply their creativity and innovation to help solve sustainable development challenges. An advantage for companies putting the SDGs at the heart of what they do is they can discover new growth opportunities and reduce their risk profile across the value chain.

Ultimately, the SDGs mean companies will increasingly pay for the cost of their negative impact on the environment and society, emphasizing the growing importance of radical resource efficiency. New business opportunities will also open up for companies that develop innovative solutions for tackling the challenges that the SDGs represent.

AkzoNobel takes this challenge to heart. In 2014, we were one of over 60 signatories of the Post-2015 Charter that committed to contributing to the achievement of the SDGs. Through our Planet Possible sustainability agenda and our global Human Cities initiative, we aim to be part of the solution.

## Our contribution

We recognize that different companies impact each SDG to a different extent, subject to geography, sector and strategic profile. In 2016, we revised our review of the SDGs against

our own agenda and priorities, in line with guidance from the SDG compass – a tool developed by the World Business Council for Sustainable Development, UN Global Compact and Global Reporting Initiative. The findings revealed that we contribute, to varying degrees, to all the SDGs through our operations and supply chain, products and Human Cities initiative. There are a few where we can have a particular impact through our products or activities – including SDG 7: Affordable and clean energy; SDG 12: Responsible consumption and production; and SDG 13: Climate action. Our main focus areas are SDG 11: Sustainable cities and communities and SDG 17: Partnerships for the goals, which are explained in more detail on the opposite page.

Further information on our complete SDG mapping can be found in Note 3 of the Sustainability statements.



## 11 SUSTAINABLE CITIES AND COMMUNITIES



### Goal 11: Sustainable cities and communities

Founded in 2016 to build on the work of our global Human Cities initiative, the Human Cities Coalition is focused on contributing to SDG 11. This public-private partnership was created after AkzoNobel brought together a unique coalition of global and local partners from business, governments, academia and civil society to help make megacities in the emerging world more liveable and prosperous places for all. Each partner organization uses its expertise to improve the economic, environmental and social development of cities, such as designing new financing mechanisms for large infrastructure projects (e.g. water sanitation, affordable housing). AkzoNobel CEO Ton Büchner serves as Chairman of its Supervisory Board.

The work of the Human Cities Coalition includes designing inclusive models to build sustainable business cases that meet the many planning challenges megacities face. This is based on an approach where bottom-up meets top-down, which means community organizations are closely involved in the co-creation of solutions, while public-private partnerships and financing ensure feasibility of the implementation. To ensure that impact on the ground is achieved, measurement plays a key role. One of the main aims of the Human Cities Coalition is to ensure this approach is converted into a replicable and scalable model. The first two cities for which urban interventions will be designed are Jakarta and Manila.

Launched in 2014, Human Cities is everything we do for and with society and includes the work of our global Community Program and "Let's Colour" initiative. During 2016, it saw the introduction of more than 300 projects, impacting over nine million people.

The 17 UN Sustainable Development Goals are a universal call to action to **end poverty, protect the planet and ensure that all people enjoy peace and prosperity.**

The goals are interconnected – often the key to success on one will involve tackling issues more commonly associated with another.

## 17 PARTNERSHIPS FOR THE GOALS



### Goal 17: Partnerships for the goals

Partnerships between private companies – as well as public-private partnerships – are becoming ever more important to accelerate sustainable development. At AkzoNobel, we appreciate the power of partnerships to help give us further momentum to becoming a more sustainable business. This enables us to have an impact on creating economic, environmental and social value, thereby contributing to the achievement of the SDGs. A number of examples where we have acted as consortium leader can be found throughout this Report 2016 and on our corporate website, including:

- We established a consortium with Van Gansewinkel, Air Liquide, AVR, Enerkem and various others to explore the feasibility of setting up waste-to-chemicals facilities in Europe, contributing to SDG 12: Responsible consumption and production. See Note 8 of the Sustainability statements
- AkzoNobel led a partnership with Google, Philips and DSM to jointly source power from renewable energy projects, contributing to SDG 7: Affordable and clean energy. As part of this collaboration, the first agreement is to buy power from the Krammer wind park in the Netherlands
- Another partnership contributing to SDG 7 is our sustainable steam project in Delfzijl, the Netherlands. We have signed a 12-year agreement with Dutch energy provider Eneco to purchase steam generated from reclaimed wood. See Note 8 of the Sustainability statements
- We set up a landmark carbon credits scheme for ship owners in conjunction with the Gold Standard Foundation and the Fremco Group which is contributing to SDG 13: Climate action. See the case study on page 198 of the Sustainability statements

More details on how we aim to scale up our positive impact and minimize our negative impact across the economic, environmental and social dimensions of sustainability – and throughout the value chain – can be found under Creating shared value across three dimensions in the Sustainability statements.



### Volvo Ocean Race host ports

- Alicante (Spain)
- Lisbon (Portugal)
- Cape Town (South Africa)
- Melbourne (Australia)
- Hong Kong (China)
- Guangzhou (China)
- Auckland (New Zealand)
- Itajaí (Brazil)
- Newport (US)
- Cardiff (UK)
- Gothenburg (Sweden)
- The Hague (the Netherlands)



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# THE ULTIMATE TEST OF PERFORMANCE



**One of the year's highlights took place in July when team AkzoNobel was the first to enter the 2017-2018 Volvo Ocean Race.**

The announcement – which was positively received by our employees – has also captured the imagination of the global sailing community and sports fans in general. As a leading supplier of marine and yacht coatings, our maritime heritage can be traced back to the late 19th century. So entering a team into the world's premier offshore sailing race is a natural way for us to combine innovation with tradition and showcase our products in what is the ultimate test of performance, expertise and winning together.

Starting in October 2017, the race will visit 12 host ports during the following eight months, giving us the

opportunity to engage in projects with local communities through our Human Cities initiative. This already started in July 2016 during the launch event, when we painted 50 pillars of Scheveningen's famous pier in the Netherlands to add some essential color to the seaside environment. The race will end in sight of the pier when it finishes in The Hague in mid-2018.

Renowned and respected around the world, the Volvo Ocean Race will also enable us to develop potential business opportunities, attract talent and demonstrate our commitment to sustainable performance. It's a unique global platform for us to highlight how we create everyday essentials to make people's lives more liveable and inspiring.

**Join the adventure at [www.teamakzonobel.com](http://www.teamakzonobel.com)**





# PROMOTING EDUCATION IN INDIA

# Strategic performance

Our Indian organization received an award in 2016 for its work in promoting education among young children. The Golden Peacock Award for excellence in corporate social responsibility was presented to the company in recognition of supporting and investing in the education of more than 7,000 youngsters in Delhi, Punjab, Madhya Pradesh, Maharashtra, Telangana and Karnataka. The work being done in India also supports Goal 4 of the UN Sustainable Development Goals.

Following last year's announcement of new financial guidance for 2016-2018, we have made good progress towards our vision of leading market positions delivering leading performance.

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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 a record year of profitability in 2016, in terms of return on sales (ROS) and return on investment (ROI). Our ROS came in at 10.6 percent, while our ROI was 15.0 percent. Both performance metrics have been delivered at the upper end of our financial guidance for 2016-2018.

The continued achievement of our financial targets over several successive years highlights the progress we have made. Our strategy is showing results. We have also made progress towards a high performance culture with the successful introduction of new values and behaviors and an increased focus on performance management. During the next few years, we will balance our actions towards driving organic growth and innovation, while pursuing value generating acquisitions.

In this Strategic performance section, we briefly highlight what we achieved in 2016, outline our ongoing ambitions and explain our key focus areas. You will also find an updated overview and outlook for our four end-user segments. The diagram on this page gives a visual summary of how all the main elements of our strategy fit together.



**Our company 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

**Strategy development**

<b>PHASE I</b> – 2012-2015: Focus on operational excellence and improvements in returns and cash flows	<b>PHASE 2</b> – Launched October 2015: More focus on organic growth, innovation and value generating acquisitions
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**Strategy framework:**  
 In the second phase of our strategy development we are focusing more on organic growth, innovation and pursuing value generating acquisitions.



## Reduction of product and process complexity

Continuous improvement continues to be embedded throughout our organization. To help us achieve this and simplify our operations, we leverage progress in technology and best practices across all three of our Business Areas. We have made progress in terms of reducing the number of manufacturing locations and optimizing our production footprint.

In support functions (Human Resources, Information Management (IM), Finance and non-product related Procurement), we are moving towards a more cohesive, centralized approach. Our central Global Business Services organization – which was set up to simplify the support functions by identifying common ways of working – is helping us to lower costs, improve quality and free up cash and critical resources to invest in growth and innovation.

## Strategic focus areas

In 2012, we identified five strategic focus areas to significantly drive value and position the company for the future. They summarize what is important to our continued success. To drive this on an operational level, we work with six key processes, supported by a series of actions to help us continue on our strategic path and take performance to the next level. Our five focus areas are as follows:

### Care for the customer

We aim to secure a leadership position in all the markets we serve. This is being achieved in nearly all our customer segments.

In 2016, we continued to implement our commercial excellence programs. These programs incorporate processes and tools to help us:

- Better understand all our customer segments
- Develop appropriate go-to-market models
- Enhance our sales force efficiency and effectiveness

We also concluded extensive customer surveys in all three Business Areas. These provided us with significant amounts of high quality data and enabled us to better understand customer needs, the performance areas they value and where we need to improve.

### Cash and return on investment

Since we developed our strategy in 2012, we have made progress in improving our return on investment and free cash flow. We are continuing 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 good track record with regard to operating working capital management, and take a disciplined approach to capital expenditure management.

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## Embedded safety and sustainability

Safety and sustainability are fully integrated in our business strategy and all aspects of operational management. We continue to drive our behavior-based safety (BBS) programs and Life-Saving Rules across the company. Our safety programs have resulted in major improvement in the total reportable rate of injuries per million hours worked, which has decreased from 2.4 in 2012 to 1.4 in 2016 – in line with the ambition level of 1.4 set for 2016. Further work is needed to meet our target of 1.0 by 2020.

To help achieve sustained business success, we continue to create shared value in economic, environmental and social terms. This involves adapting to the evolving context in which we operate, including the COP21 Paris agreement and the UN Sustainable Development Goals (see page 16).

Our efforts in this regard are recognized externally. In 2016, for example, we were included in the Dow Jones Sustainability World Index for the 11th year in a row (five of which saw us ranked as sector leader). Our Planet Possible 2020 sustainability agenda is also being updated with a view to 2025. This agenda is based on three main pillars (more details can be found in the Sustainability statements):

### Sustainable business

We work with value chain partners and customers to grow our business, based on innovative solutions that create more value from fewer resources. We focus in particular on developing and marketing eco-premium solutions – products and services that deliver environmental or social benefits for our customers when compared with competitive products. Our target of achieving 20 percent of revenue from eco-premium solutions by 2020 was reached in 2016.

### Resource efficiency

We are committed to continually increasing our resource efficiency and reducing carbon emissions in our own operations and value chain. This will help de-risk our value

chain, deliver environmental benefits and generate cost improvements. During 2016, our cradle-to-grave carbon footprint per ton of sold product was 6 percent lower than 2012, with absolute emissions falling 14 percent to 23.7 million tons (see Note 8 of the Sustainability statements). We do not limit our Planet Possible agenda to our own operations. We work with customers to drive a reduction in carbon emissions throughout the value chain and have organized dedicated sustainability meetings with suppliers. We have also laid solid foundations to potentially implement an advanced carbon pricing program in 2017.

### Capable, engaged people

In order to contribute to economic development, health and well-being, we need to build the capability and engagement of our employees and partners to deliver performance and growth. Our sustainability agenda aims to improve the well-being of our employees, of others in the value chain and of wider society through our innovative products and processes. This is particularly evident in the external partnerships we continue to establish and our involvement in community activities through our global Human Cities initiative. Other examples include the newly established Human Cities Coalition and the many local activities to assist refugees. For more information, see Note 17 of the Sustainability statements.

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## Diverse and inclusive talent development

Our sustainability agenda has always been a key element in our employee value proposition and the introduction of our new purpose has further emphasized this. Our company purpose has been well received, with new employees in particular referring to it as an important attractor and differentiator. It is playing a key role in helping to create a common culture as employees take pride in how they contribute to making people's lives more liveable and inspiring.

We aim to clearly link our employees' daily activities to our strategy and purpose and provide continuous learning and development opportunities. Since 2013, we have followed a clear roadmap towards building a high performance culture. With all the foundational elements now in place, we will turn our focus to building the capability we need to further deliver on our strategic goals. Highlights from 2016 include:

- Developing a new functional capability framework which helps us define, measure and improve capability (such as commercial excellence). In addition, we have continued to extend the AkzoNobel Academy, a multi-lingual platform offering basic and advanced skills training
- Introducing our new Leadership Behaviors, which clearly set expectations for leaders. To support this, we launched Leadership Essentials, an onboarding program for all new people managers combining classroom training with practical application of their new skills

Our annual employee engagement survey provides a valuable measure of our progress. The 2016 results show an improvement in the number of employees agreeing they had the chance to learn and grow over the past year. Our overall engagement score improved for the sixth year in a row. More details can be found in Note 11 of the Sustainability statements.

We are a global company serving a large and diverse customer base through extensive international operations. We believe a diverse and inclusive workforce is essential to achieve our ambitions. We aim to actively embrace diversity of thought and empower people to challenge each other to be more innovative and deliver better results. Progress is being made in the diversity of our executive population in terms of gender and nationality. In 2016, we had 19 percent female executives (up from 15 percent in 2012) and set a new ambition level of 25 percent by 2020. At the end of 2016, 14 percent of our executives were from Asia Pacific and Latin America. Our 2020 ambition is to have at least 20 percent of our executives from these regions. More details can be found in Note 11 of the Sustainability statements.



## Processes

We drive a number of processes across the company, with six identified as being core to our operations. They are briefly explained below.

### People, product and process safety

Safety is a core principle which engages and unites everyone in AkzoNobel, highlighted by the company-wide Safety Day we stage every year, in which all our locations participate.

The people safety process is aimed at increasing awareness of behaviors that put us at risk. The main focus moving forward is on culturally embedding the process and building capability.

Our process safety program is designed 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 through a disciplined audit process.

Product safety incorporates the traditional approach of reactive regulatory compliance, which we enhance with pro-active steps, enabling us to take the lead in sustainable product stewardship.

### Operational Control Cycle

Established in 2012, this forms the heartbeat of our operational performance management system. It involves a cycle of regular meetings, which incorporate structured and standardized operational discussions. By employing

this process, we review past performance, as well as forward planning activities. Increasingly, we use this cycle to deep-dive into specific topics, ranging from research and development to business growth reviews.

### Continuous improvement

In 2014, we launched a company-wide approach to continuous improvement for the Integrated Supply Chain function, known as the AkzoNobel Leading Performance System (ALPS). By the end of 2016, around 75 percent of our sites were running the program. It has enabled us to put in place strong foundations from which we intend to further improve through advanced manufacturing, automation and digital technologies. More than 100 experts are supporting our efforts. We have also built a continuous improvement curriculum for different levels of capabilities in the Supply Chain function.

### Innovation

Customer focused product and process innovation is at the heart of our four-stage innovation process (ideation; selection and prioritization; execution; implementation and support). To further improve the quality of input, we are deploying a front-end ideation process, as well as building a strong innovation and growth culture. We have systems in place to manage the innovation portfolio and assess resourcing and prioritization on a dynamic basis, while tracking the success of individual launches. Longer term planning of the portfolio ensures that resources are placed close to the markets, particularly in key locations in growth regions.

### Procurement

In 2015, we developed a new procurement strategy and are making good progress in our key processes, covering more than 100,000 suppliers. We target year-on-year total



We launched an updated version of our Visualizer decorating app, which has now been downloaded more than 13 million times.

cost of ownership reductions and leading performance from our suppliers in terms of quality, delivery, cost, innovation and sustainability. We have completed the roll-out of a new competency improvement program, while more than 200 procurement professionals have been trained in our new Strategic Sourcing Methodology.

### Talent management

Since 2013, we have been building a comprehensive integrated talent management process to ensure that we can get, grow and keep the talent we need for the future. All core processes are now deployed globally and the tools are in place to help managers effectively manage their people. Key developments during 2016 included:

- Strategic and operational workforce planning made mandatory at business unit level. This will ensure that we are identifying the capabilities and requirements needed to deliver on our shorter and longer term objectives
- Extending our program to identify, assess, develop and deploy high potential talents to all management levels to ensure a solid talent pipeline. In 2016, we increased the percentage of executive positions that we were able to fill internally





## Actions

In phase one of our strategy (2012-2015), we focused on operational excellence and improvement in returns and cash flows. Having made progress in getting the basics right, we are driving the second phase of our strategy, which is focused more on organic growth, innovation and value generating acquisitions. Five strategic actions are in place and are briefly outlined below.

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### Hardwire new organization model

In 2016, significant effort went into hardwiring our behaviors to the multiple new structures we have implemented since 2012. These efforts are crucial for our future success. The new organizations we have put in place are close to being fully embedded, and the fact that we were able to achieve cost savings of more than €200 million with limited restructuring costs shows our continuous improvement drive is delivering.

---

### Create a continuous improvement culture

We promote a culture of getting better every day, across all our operations. In 2016, continuous improvement training programs for all levels of the organization were incorporated into our AkzoNobel Academy learning platform. This culture

of continuous improvement is embedded through the performance discussions with employees. Having started in manufacturing and supply chain, we are now expanding the AkzoNobel Leading Performance System (ALPS) into other functions, including Procurement, Finance, IM and HR. As such, it will become part of our DNA.

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### Build further operational excellence

In the past year, we have made progress in creating and using disciplined processes. This is now how we do business within AkzoNobel. Combined with the continuous improvement culture, these form a foundation from which we aim to accelerate operational excellence. Digital opportunities are targeted to benefit our manufacturing and supply chain operations, as well as selected functions. These new technologies are designed to positively affect our commercial teams – sales staff will be more connected to each other and to our customers. The Global Business Services organization is also starting to deliver benefits and build further operational excellence. At the end of 2016, we announced further changes to our IM and HR functions. Some of the targeted savings will be re-directed to develop new capabilities and support our innovation and growth agenda.

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### Drive organic growth and innovation

We have many leading market positions. To maintain these, our ambition is to grow in line with, or faster than, our relevant market segments. In 2016, we re-assessed our differentiated strategies by segments and geographies, taking into account changing market circumstances and new opportunities. These differentiated mandates allow us to prioritize our resources to follow value in a standardized way across our diverse portfolio. Growth and innovation have been included more extensively in our operational cycles. In 2016, we delivered volume growth in two out of our three

Business Areas, in a challenging economic environment. Building on our digital success in the Decorative Paints business, we intend to expand our digital activities across all Business Areas. Market and business intelligence play a key role in supporting the identification of growth areas, driving these to success, and we will further professionalize this key capability.

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### Pursue value generating acquisitions

Over the last few years, we have built a stronger and more agile company. We aim to leverage our solid financial and operational foundation to grow through selected acquisitions, either expanding our existing business into new regions, or complementary markets. In 2016, we acquired BASF's Industrial Coatings business (see opposite page). On a continuous basis, we consider and pursue a large number of possible targets in order to review attractive growth opportunities. In addition to looking at market opportunities, we also target value generating technology acquisitions with an intention to further strengthen our innovation portfolio. In a low growth macro-economic environment, we see an abundance of capital chasing a limited number of opportunities. Given this market context, we will continue to be disciplined in reviewing possible acquisitions and ensure we pursue those that deliver attractive value for AkzoNobel.

# Acquisition of BASF's Industrial Coatings business demonstrates growth ambitions

**Our strategic objective of pursuing value generating acquisitions started to gather momentum during 2016 following the acquisition of BASF's Industrial Coatings business for €425 million (after closing adjustments and working capital requirements). Signed in February and completed in December, the deal strengthens our position as the number one global supplier of coil coatings.**

The business – which is expected to generate revenue of around €280 million in 2017 – supplies a wide range of products for various industries, including construction, furniture, domestic appliances, wind energy and commercial transport. The acquisition includes all relevant technologies, patents and trademarks, as well as two manufacturing plants in the UK and South Africa.

We have also welcomed around 350 new colleagues to AkzoNobel, who will bring valuable know-how and expertise, enabling us to serve an expanded customer base worldwide with new products and maintenance solutions.

The acquisition underlines our participation in the ongoing consolidation of the European coatings market, focusing on our core segments such as wood and metal coatings. It also means we are now a leading, full service coatings provider for the protection and maintenance of wind turbines, supplying products for the entire structure – including the blades. In addition, it will give us access to opportunities in the growing wind power sector, enabling us to support the global shift towards more sustainable energy sources.

We have dedicated teams in place to ensure business continuity and maintain the highest service levels for all customers. We are looking forward to serving new clients and expanding our offering to those we already work with. The full integration of the business is expected to be finalized by the end of 2018.







## End-user segments

We are present in a wide variety of markets, which brings resilience, stability and provides a range of opportunities to our company. Analyzing the 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:

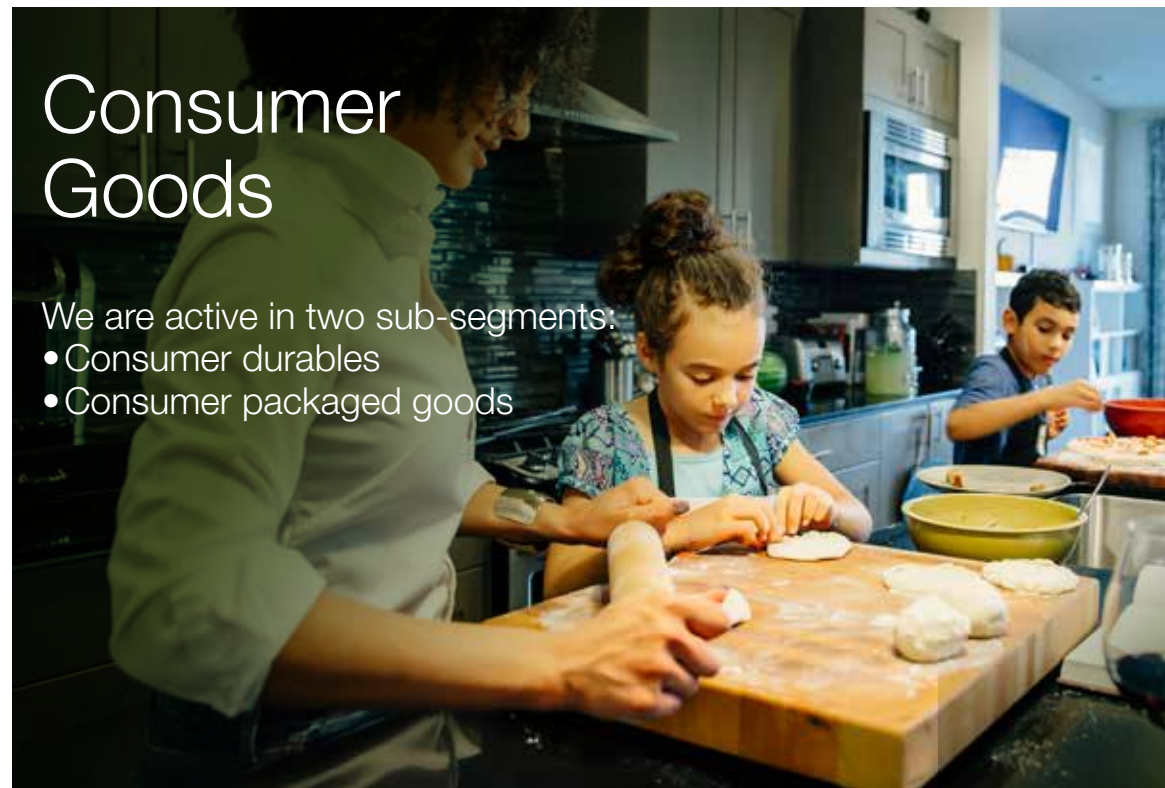
- New build projects
- Maintenance, renovation and repair
- Building products and components



# Consumer Goods

We are active in two sub-segments:

- Consumer durables
- Consumer packaged goods







44%  
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

21%  
of revenue



# Buildings and Infrastructure

We provide paints and coatings that are applied to building interiors and exteriors, as well as specialty chemicals used in the manufacture of building and infrastructure materials. The Maintenance, renovation and repair sub-segment is particularly important to our Decorative Paints Business Area and accounts for roughly 75 percent of revenue.

## Trends

Consumer confidence is an important driver of the Buildings and Infrastructure segment. Compared with last year, we see a slightly softer outlook. On a regional level, we see optimism in Asia Pacific and North America, although the latter is somewhat more volatile. Consumer confidence in Europe and Latin America still shows signs of pessimism.

Trends in construction will also affect the Buildings and Infrastructure end-user segment. The outlook is for good growth. US construction is still in a cyclical rebound after the multi-year post-financial crisis decline. Chinese construction continues to recover. Government stimulus efforts have impacted house prices, which has renewed demand for new construction, although major pockets of housing vacancies exist. In India, construction demand is high due to increasing urbanization. Overall, we expect a recovery in construction in Europe and Brazil to low single digit growth; high single digit growth in India; while North America and China are expected to slow down slightly.

The total construction market can be split into two sub-segments: New build projects; and Maintenance, renovation and repair. A downward adjustment is apparent in Chinese New build projects, and while steady growth is foreseen, it will be lower than in the past. This is important because Chinese new build is slightly larger than European new build and twice the size of the North American new build market. Growth expectations for the Chinese Maintenance, renovation and repair sub-segment have also been adjusted downwards. The European and North American regions are much larger in this sub-segment due to the size of the installed base. It remains to be seen what the effect may be of the new government in the US, where promises were made during the election campaign of a national stimulus of building and construction activity.

The Maintenance, renovation and repair sub-segment is particularly important to our Decorative Paints business, with Europe an important market. Growth rates are increasing, whereas the market has

been flat in recent years. There are positive effects in countries such as France, Italy and Germany. In the UK, the expectation is growth rates going forward will be low. This view may change as the possible impact of the UK leaving the European Union becomes clearer. Overall, we expect low single digit growth for this segment in Europe.

Outside 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 positive demand trends in Russia and expect growth in Brazil to slightly pick up again. In India, stronger growth rates are expected. In general, we see higher demand rates for products that provide functional benefits, such as those that keep buildings cool in hotter climates, insulate buildings to conserve energy or which make interiors feel brighter and more spacious.

## 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 impact product and service demand.

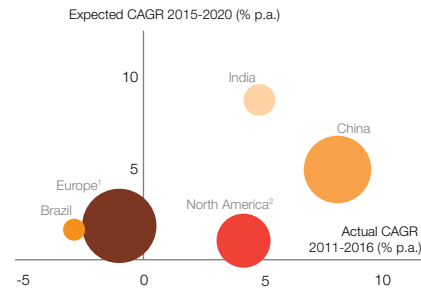
## Implications for strategy and actions

Although growth rates in China are expected to be lower than in the past, the market is large and there is major growth potential. We aim to continue building our brands and capability in this important region. We will also use product and margin management approaches to help achieve appropriate profitability levels. In Europe, North America and India, we intend to capitalize on growth opportunities as they arise. In Brazil, we will remain flexible and agile to enable us to capture the benefits of a return to growth as it occurs. Our innovation pipeline is targeting solutions that provide additional functionality to consumers and for companies that construct, maintain or repair buildings.



### Total construction

Bubble size based on 2015 output



Source: IHS

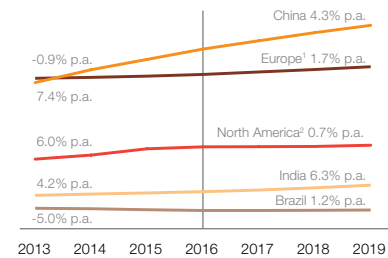
<sup>1</sup> Europe includes Turkey and Russia.

<sup>2</sup> North America excludes Mexico

<sup>3</sup> Real 2010

### Total market new build construction

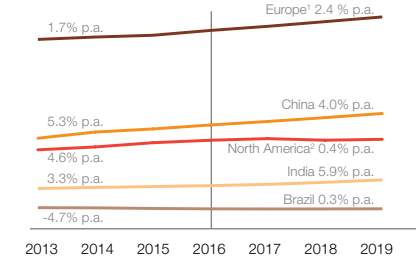
\$ billion<sup>3</sup>, output



Source: IHS / Construction IC

### Maintenance, renovation and repair

\$ billion<sup>3</sup>, output



Source: IHS / Construction IC





# Transportation

This end-user segment is particularly important for our Performance Coatings business. We supply a full 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 to make 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 strong globally with steady growth. We benefit from this, but not fully, as we do not participate in the mainstream automotive OEM coatings business. Automotive growth remains robust in China, while India is gaining momentum. South American automotive production is facing challenges, with little prospect of a rebound in Brazil in the short term. Growth expectations are modest in Europe, where we expect the UK referendum vote to only have a minor direct impact.

North America has a moderate medium-term outlook, despite some analysts forecasting demand may come off cycle during 2017. There has been a noticeable shift towards larger models due to lower fuel prices. However, manufacturers still aim to reduce car weights, supporting the continuous conversion to composites and 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 other automotive sub-segments. Key drivers for growth are the size of the vehicle car park, the accident rate and the repair rate. Higher growth is therefore expected in the BRIC countries, as well as South-East Asia. In the US and Europe, we see a consolidation trend in body shops and distributors. In Asia, changes in legislation regarding VOCs are taking place, steering towards more sustainable technologies.

Within the marine and air transport sub-sector, marine new build is facing a challenging time, following the lowest order intake for many decades in 2016. All main marine segments are down, although investments increased in the cruise and

ferry sectors. Market analysts suggest a recovery will begin in the second half of 2017, but we expect this to be very slow.

Demand for air travel is forecast to increase, with a growing population and steady income availability, mostly in developing regions such as Asia. Deliveries of new aircraft and, notably, orders for new airplanes have decreased as airlines try to control capacity. Lower fuel prices also mean they are able to keep operating older models for longer periods.

Airlines are increasingly using livery for promotion and advertising, moving to more sophisticated and colorful designs. This trend is balanced by more advanced coatings systems, which use less coatings and have longer durability, reducing the volume of coatings across all segments.

## Future sustainability developments

Based on the World Business Council for Sustainable Development's (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 transport. Further environmentally driven, tighter legislation will drive some growth in marine build towards the 2020 timeframe.

## Implications for strategy and actions

Products with sustainability and/or cost benefits – either during manufacturing or end use – continue to grow disproportionately. We actively seek to innovate and provide products that reduce carbon use and lower lifecycle costs.

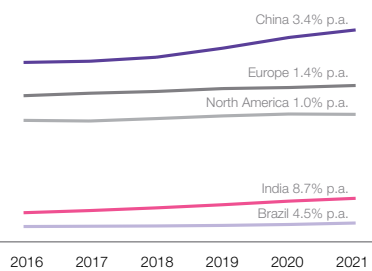
Aesthetics will also remain important and we will continue to innovate in terms of products and services that support differentiated color and finish, and support customization. In addition, we intend to be well positioned geographically as the vehicle car park continues to increase outside of mature markets.





### Light vehicle production

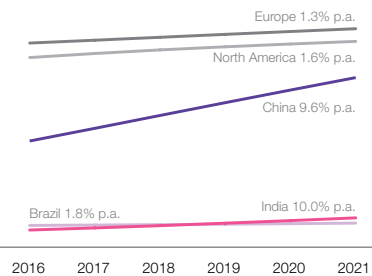
Passenger cars and light vehicles (units)



Source: IHS

### Vehicle car park

Passenger cars and light vehicles (units)



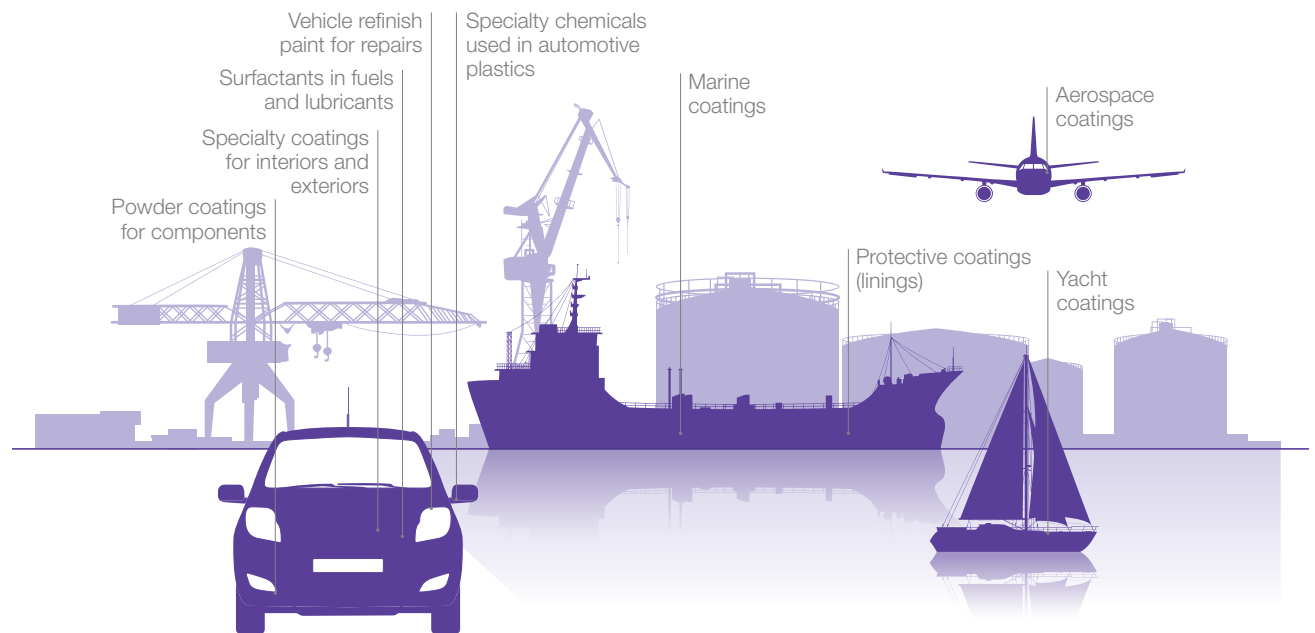
Source: IHS

### Marine new build

Compensated gross tonnage, indexed to January 2008



Source: Clarkson Research Services Limited



# Consumer Goods

This end-user segment is important for our Performance Coatings and Specialty Chemicals businesses. We supply liquid and powder coatings for furniture, consumer electronics, domestic appliances and food and beverage packaging. Our chemicals are either vital to the production process, or key functional ingredients in consumer durables, including cleaning, dishwashing, personal care and pharmaceutical products.

## Trends

As a general rule, expected growth in this end-user segment roughly follows GDP growth. This means solid growth in Asia and Eastern Europe, while North America and the rest of Europe will remain flat.

In the Consumer durables sub-segment, we see steady growth across all three key production categories – furniture, food and beverage and household appliances. But there are significant regional variations, with growth rates in the mature markets in North America and Europe being more moderate and Asian countries expected to deliver steady and attractive growth rates going forward.

The market for wireless devices is coming off a multi-year growth trajectory, with high saturation levels having been reached in many countries. Only India is expected to deliver real growth in this segment.

Commoditization of the technology enables the growth of many new players in China, changing the customer mix. The wireless market is expected to revert to a growth trend once new technologies (such as flexible phones) entice consumers to replace their current devices.

In general, we see an acceleration in design and product changes across all product categories. This does not only include changing colors and looks more frequently, but also a desire for additional functionality. Digital technologies are unlocking affordable mass-customization for some products, driving differentiation further.

## Future sustainability developments

Based on the World Business Council for Sustainable Development's (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

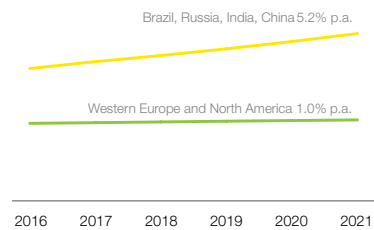
As demand growth shifts parts of the Consumer Goods end-user segment geographically, we will ensure we have the right production, sales and technical service organizations in the right geographic locations. These organizations will be designed to work effectively across regions in terms of design and key account management, where appropriate. Actively developing and offering new looks and functionality – through liquid as well as other coatings – is our focus to keep an innovative, fresh offering to our customers. Finally, we aim to ensure that our products provide new or better performance, particularly with regard to sustainability

levels. Examples are coatings and films replacing chemicals of concern (such as chrome) and polluting processes like electroplating.



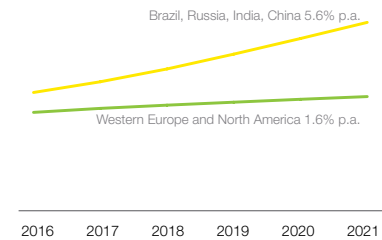


### Domestic appliance production \$ billion<sup>1</sup>, value added

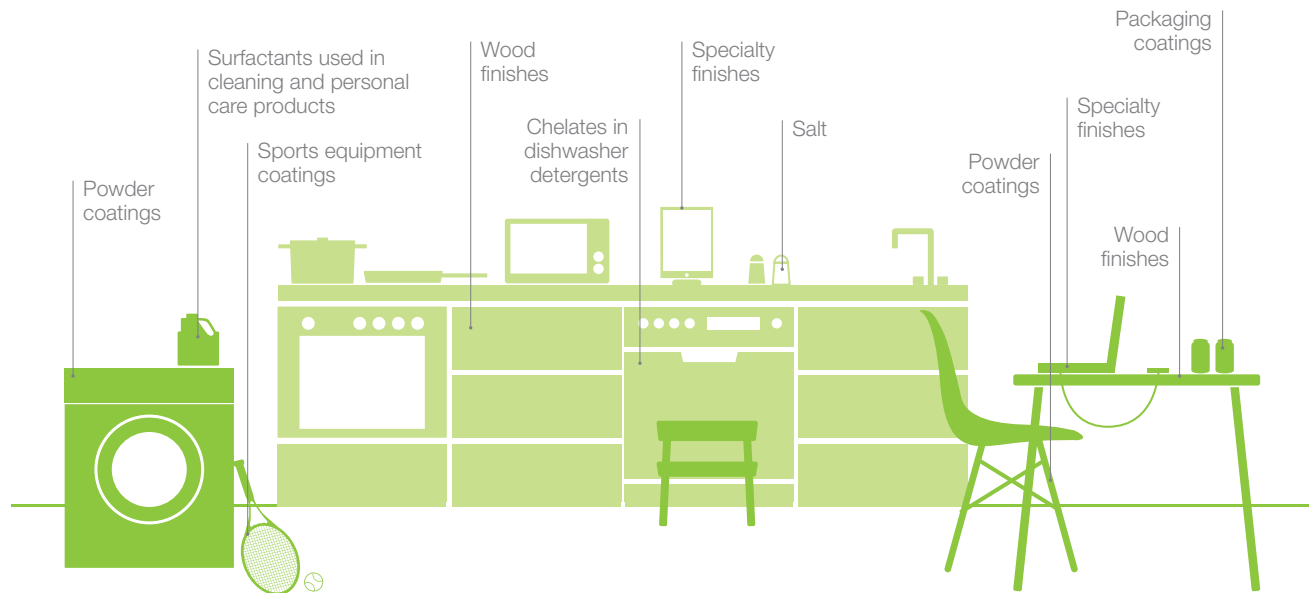
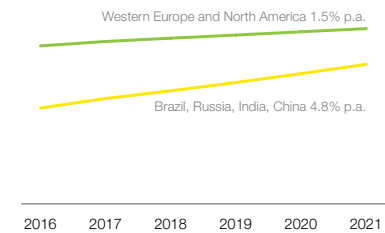


Source: Oxford Economics  
<sup>1</sup> Real 2010

### Furniture production \$ billion<sup>1</sup>, value added



### Food and beverage production \$ billion<sup>1</sup>, value added





# Industrial

This is the largest end-user segment for our Specialty Chemicals business. We sell chemicals for many applications, including metals and mining, agrochemicals, plastics (polymers) and pulp. We also sell liquid and powder coatings into the oil and gas, metals and mining and power industries. These coatings are largely used for fire and corrosion protection.

## Trends

Lower oil prices have had a significant impact on the outlook for this end-user segment. For example, in oil and gas new construction, we have seen a drastically reduced upstream investment. Meanwhile, certain upstream businesses are not profitable and some customers are having to shut down higher cost production units. However, the investment in downstream assets has remained robust and we see a shift towards significant investments in the power sector, meeting the rising demand for renewable energy globally. Investments in this respect are particularly strong in Europe and China.

Longer term, we expect higher growth in regions with access to low cost oil, gas and chemical feed stocks, 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. This is in line with all main markets.

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 industry 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-on-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 Latin America in pulp due to the cost competitiveness of the region.

## Future sustainability developments

The World Business Council for Sustainable Development's 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

While lower oil and gas prices continue, we will ensure that we focus our organic growth efforts on higher growth areas, such as power and pulp from a sector perspective and North America and Asia

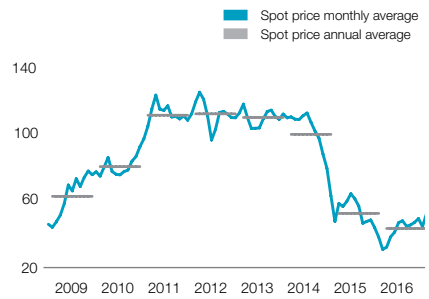
from a regional perspective. We also intend to optimize our cost position in Europe and China to deliver a robust long-term competitive position. While we do this, we aim to continue improving sustainability levels throughout the value chain, supporting the transition to a cleaner energy mix.





### Brent crude oil price

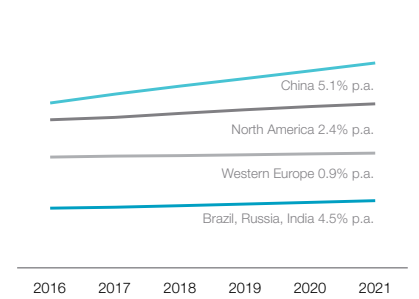
\$ per barrel, freight-on-board North Sea



Source: IHS

### Chemical production

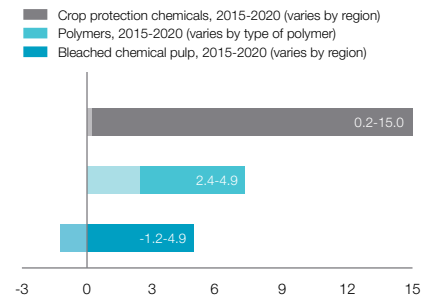
\$ billion<sup>1</sup>, value added



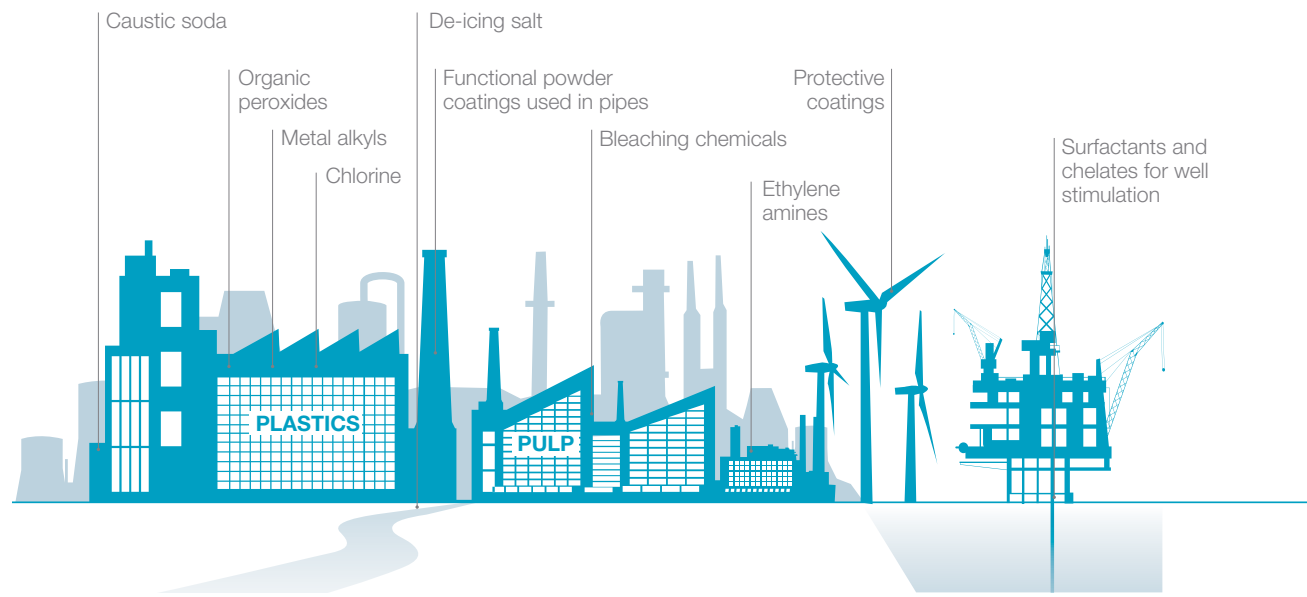
Source: Oxford Economics  
<sup>1</sup> Real 2010

### Key industrial sectors

growth rate % p.a.



Sources: PhillipsMcDougall, company sources for crop protection; ICIS Supply & Demand Database for polymers; RISI for bleached chemical pulp (BCP)





# 2016 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 financial guidance aims to focus management on delivery and quality of profits. ROS is defined as EBIT as percentage of revenue.

### Top end of the guidance

- Structurally improved the company with record levels of profitability
- Focus on growth is delivering with volume up
- Positive impact of 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 financial guidance aims to focus management on delivering value through returns in excess of our cost of capital. ROI is defined as EBIT of the last 12 months as percentage of average invested capital.

### Top end of the guidance

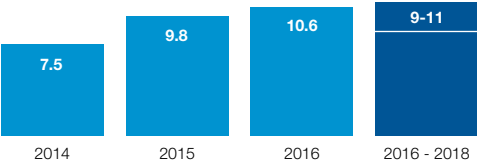
- Improved profitability as described in the ROS section
- Average invested capital decreased compared with 2015 due to currency effects and continued focus on operating working capital

Guidance 9-11%

### Return on sales (ROS) development

EBIT as % of revenue

■ Guidance

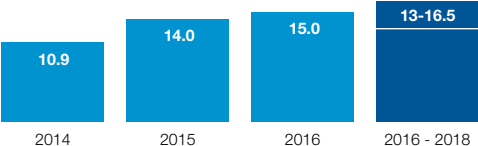


Guidance 13-16.5%

### Return on investment (ROI) development

EBIT/average invested capital in %

■ Guidance



■ Indicates a positive development  
 ■ Indicates a flat/negative development

# 2016 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. Only a proportion of our products that have sustainability benefits meet this strict definition.

### Achieved our 2020 target

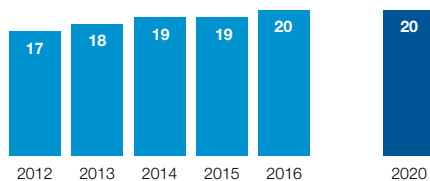
- Percentage of revenue from eco-premium solutions with downstream benefits increased to 20 percent
- Revenue increased from new and existing eco-premium solutions in all Business Areas
- This was offset by “mainstreaming” of some of our coatings products and revenue growth from products which are not eco-premium

Target **20%**

### Eco-premium solutions with customer benefits

in % of revenue

■ Target



For more details see Note 4 of the Sustainability statements.

## Cradle-to-grave carbon footprint

Our target 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

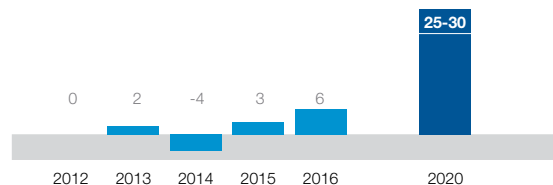
- Carbon footprint per ton of sold product has improved 6 percent since 2012. Solid improvements due to lower footprint energy sources and raw materials (including renewables), efficiency gains at energy intensive facilities, and increased sales of lower carbon footprint coatings products
- Absolute cradle-to-grave product footprint is down 14 percent across our total value chain
- Emissions from our production are 21 percent lower than 2012.
- Since 2012, our upstream emissions have improved around 14 percent and downstream by around 13 percent. Our 2020 target remains a challenge as we continue to focus on working with suppliers and customers to deliver improvements across the value chain

Target **25-30%**

### Cradle-to-grave carbon footprint

% reduction CO<sub>2</sub>(e) per ton of sales from 2012

■ Target



For more details see Note 8 of the Sustainability statements.

## Resource Efficiency Index (REI)

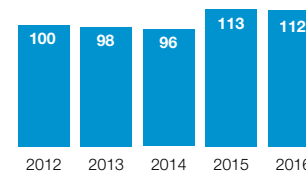
The Resource Efficiency Index is defined as gross margin divided by cradle-to-grave carbon footprint – reported as an index. We are monitoring this index, and our aim is to use it to drive further improvements in resource efficiency across the value chain.

### Stable performance

- REI was 112, broadly flat compared with 2015, having improved from the 2012 base of 100
- Some improvement in carbon footprint performance due to energy sourcing and efficiency gains, and sales of lower footprint products
- Margin decrease and currency effects had a negative effect on the REI

### Resource Efficiency Index

gross margin/CO<sub>2</sub>(e) indexed



For more details see Note 5 of the Sustainability statements.

# How we created value in 2016

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

## Economic value

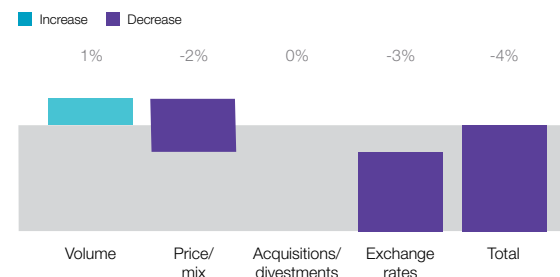
### Financial overview

We structurally improved the company with record levels of profitability and cash generation. Focus on growth saw volumes up 1 percent. Revenue was down 4 percent, due to unfavorable currency and price/mix effects. EBIT was up 3 percent at €1,502 million, reflecting the positive effects of volume growth, continuous improvement and lower costs. Profitability increased, with record levels of ROS at 10.6 percent (2015: 9.8 percent) and ROI at 15.0 percent (2015: 14.0 percent).

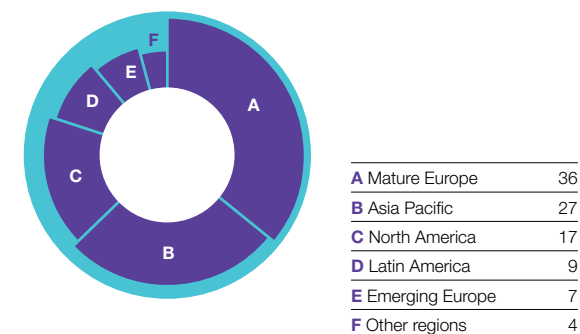
### Summary of financial outcomes

In € millions	2015	2016	Δ%
Revenue	14,859	14,197	(4)
EBIT	1,462	1,502	3
Operating income	1,573	1,519	(3)
ROS %	9.8	10.6	
OPI margin %	10.6	10.7	
Average invested capital	10,475	10,045	
Moving average ROI (in %)	14.0	15.0	
EBITDA	2,088	2,108	1
Capital expenditures	651	634	
Net cash from operating activities	1,136	1,297	14
Net debt	1,226	1,252	
Net income attributable to shareholders	979	970	(1)
Earnings per share from total operations (in €)	3.95	3.87	
Adjusted earnings per share (in €)	4.02	4.15	3
Number of employees	45,600	46,000	

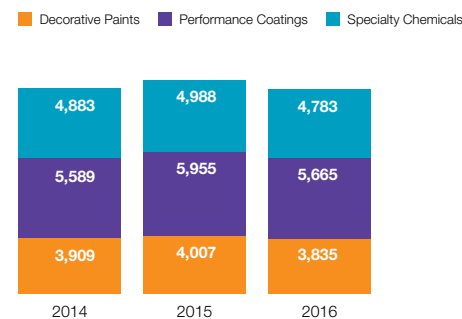
### Revenue development in % versus 2015



### Revenue by destination in %



### Revenue in € millions





## Revenue

Revenue was down 4 percent, due to unfavorable currency and price/mix effects.

- In Decorative Paints, volumes were up 3 percent overall, with positive developments in Asia and EMEA, while volumes in Latin America were down. Positive volumes were more than offset by unfavorable currency effects and adverse price/mix. Revenue was down 4 percent
- In Performance Coatings, volume growth in some segments was offset by adverse conditions in the marine and oil and gas industries. Demand trends differed per segment and region. Revenue was down 5 percent, driven by adverse currencies and price/mix
- In Specialty Chemicals, volumes were up 1 percent, with positive developments mainly driven by Asia and Europe. Revenue was down 4 percent, with positive volume developments more than offset by price deflation in several markets

## EBIT

EBIT increased 3 percent to €1,502 million, reflecting the positive effects of volume growth, continuous improvement and lower costs.

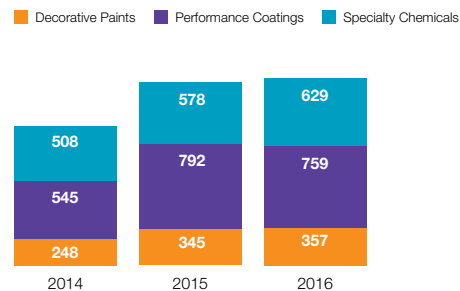
- In Decorative Paints, EBIT increased 3 percent as a result of the volume growth, continuous improvement and cost discipline, partly offset by currency impacts
- In Performance Coatings, EBIT decreased 4 percent due to adverse currencies and weakness in the marine and oil and gas industries, partly offset by continuous improvement
- In Specialty Chemicals, EBIT increased by 9 percent, driven by improved volumes and operational efficiencies

Raw material prices were lower at the beginning of the year compared with 2015, gradually increasing during the year to become roughly flat by year-end. In most regions, foreign currency effects adversely impacted raw material costs in local currencies.

## Operating income

Full-year operating income was net positively impacted by €17 million of incidental items, including adjustments to post-retirement provisions, asset impairments and integration-related costs, with respect to the acquisition of BASF's Industrial Coatings business. The incidental items impacted operating income of Decorative Paints, Performance Coatings and the operating income in other activities.

## EBIT in € millions



## Cash flows and net debt

Operating activities in 2016 resulted in cash inflows of €1,297 million, up 14 percent (2015: €1,136 million), mainly due to lower pension top-up payments and lower cash out flow with respect to restructuring projects and interest payments.

Net debt at year-end 2016 was slightly higher at €1,252 million compared with year-end 2015 (€1,226 million), as a result of the consideration paid for BASF's Industrial Coatings business.

In 2016, a €500 million bond was launched with a ten-year maturity, at a coupon of 1.125 percent, and a £250 million bond with 8 percent coupon was repaid from existing resources.

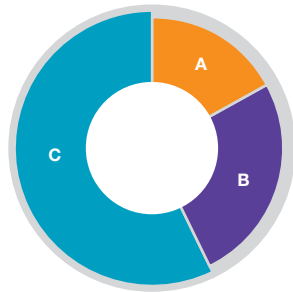
### Invested capital

Invested capital at year-end 2016 totaled €10.3 billion, up on year-end 2015. The acquisition of BASF's Industrial Coatings business impacted invested capital by €0.4 billion.

In 2016, we invested €634 million in property, plant and equipment.

### Allocation of 2016 capital expenditures of €634 million in % (4.5 percent of revenue)

A Decorative Paints	17
B Performance Coatings	26
C Specialty Chemicals	57

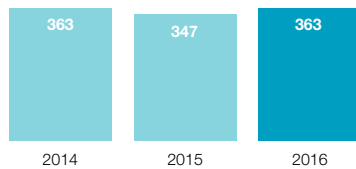


### Innovation

We continue to invest in research, development and innovation to help us fulfil 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

The percentage of revenue from eco-premium solutions with downstream benefits increased from 19 percent in 2015 to 20 percent in 2016. The increase resulted 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 may appear to have realized our 2020 target, however, we measure our performance across the whole value chain and against solutions available in the marketplace, making it a moving target.

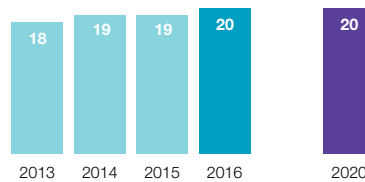
We use the strictest definition for our eco-premium solutions by excluding solutions that have sustainability benefits, but do not lead in the market. We have estimated, for example, that about half our sales are covered by the main drivers for carbon footprint reduction. In addition, our product development processes are designed to drive continuous sustainability improvement in the overall portfolio as products are updated or replaced.

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, of the products we sell and the processes we use to manufacture them. For more details, see Note 4 of the Sustainability statements.

### Eco-premium solutions with customer benefits

in % of revenue

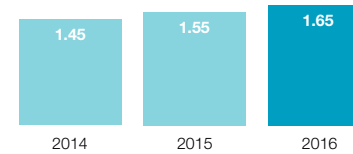
■ Target



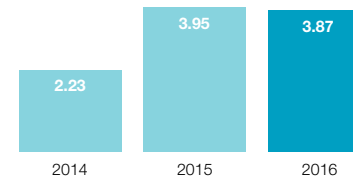
### Dividend

Our dividend policy is to pay a stable to rising dividend. We will propose a 2016 final dividend of €1.28 per share, which would make a total 2016 dividend of €1.65 (2015: €1.55) per share, up 6.5 percent. There will be a stock dividend option with cash dividend as default.

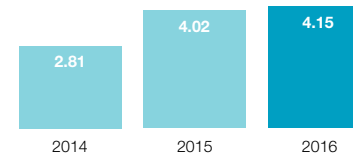
### Dividend in €



### Earnings per share total operations in €



### Adjusted earnings per share in €



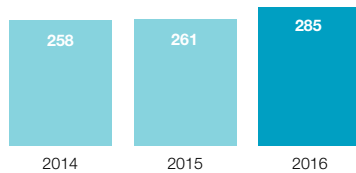
### Net financing income and expenses

For the full-year, the net financing income and expenses were in line with the previous year as reduced external interest expenses were offset by the effect of lower discount rates of provisions.

### Income tax

The full-year effective tax rate was 27 percent (2015: 28 percent), impacted by non-taxable gains, adjustments to previous years and geographical mix.

Income tax paid in € millions



### Outlook

In 2017, AkzoNobel anticipates positive developments for EMEA, North America and Asia, improving during the year, while Latin America is expected to stabilize. Some economic and political uncertainty is expected to continue. Market trends experienced in the second part of 2016, including for the marine and oil and gas industries, are expected to continue in the first half 2017.

The company has structurally improved its ability to respond to developments in its markets and is taking measures to deal with higher raw material prices in an inflationary environment. This stronger operational and financial foundation means AkzoNobel is more agile and better able to seize growth opportunities, including acquisitions. The company maintains its financial guidance for 2016-2018.

## Environmental value

### Cradle-to-grave carbon footprint

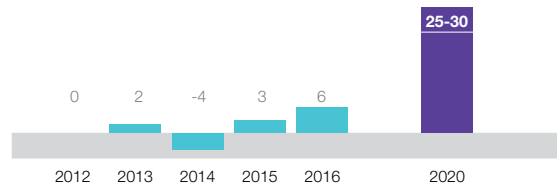
Cradle-to-grave carbon footprint is our prime measure of resource efficiency. Carbon footprint per ton of sold product has improved 6 percent since 2012. Absolute footprint is down 14 percent across our total value chain. Emissions from our own production were 21 percent lower than 2012. We achieved solid improvements due to lower footprint energy and raw material sources (including renewables), efficiency gains at energy intensive sites, and increased sales of lower footprint coatings. Since 2012, our upstream emissions have improved around 14 percent, and downstream by around 13 percent.

Our 2020 target – to reduce cradle-to-grave carbon footprint by 25-30 percent per ton of sales between 2012 and 2020 – remains a challenge. We are focused on working with suppliers and customers to deliver improvements across the value chain. For more details, see Note 8 of the Sustainability statements.

### Cradle-to-grave carbon footprint

% reduction CO<sub>2</sub>(e) per ton of sales from 2012

■ Target



### Energy

The energy we use at our sites contributes about 15 percent to our cradle-to-grave carbon footprint. Renewable energy is an important aspect of the improvements required to achieve our 2020 strategic carbon footprint target. The proportion of renewable energy in our operations increased to 40 percent (2015: 38 percent).

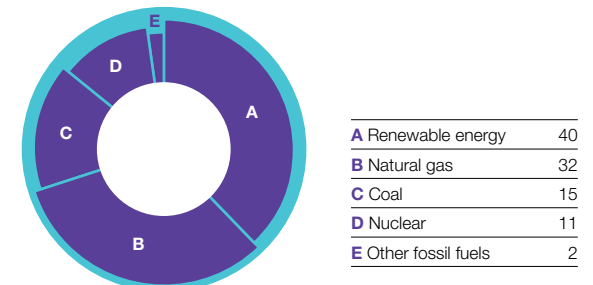
Our renewable energy supply strategy has three focus areas: protecting our current renewable share, participating in cost-effective, large energy ventures, and exploring commercially feasible on-site renewable energy generation.

In 2016, this included a number of significant programs in the Netherlands:

- A unique consortium with other corporations to source power from renewable energy projects, the first agreement being with the Krammer wind park
- The start of our renewable steam contract with Dutch energy supplier Eneco
- Additional solar panels installed at our main office and research locations in the Netherlands
- In addition, our power contract in the Nordics was extended to 60 percent renewable energy

For more details, see Note 8 of the Sustainability statements.

### Total energy in % by source





## Raw materials

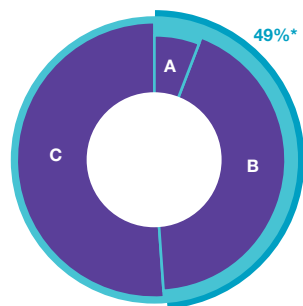
Bio-based (renewable) materials also contribute to our sustainability agenda. A considerable proportion of our environmental footprint results from the raw materials we buy, with most of the bio-based materials exhibiting lower footprints.

In 2016, 12 percent of all our organic raw materials came from bio-based (renewable) sources (2015: 11 percent). This is 6 percent (2015: 5 percent) of the total volume of raw materials purchased, including other raw materials such as salt, minerals and clays.

We made progress with our existing partnerships to tap into the alternative feedstock sources that are becoming available. We also announced additional collaborations involving a number of our key raw materials, and partnerships to produce chemicals from waste. For more details see Note 8 of the Sustainability statements.

### Total volume of raw materials

in % per source



\*12 percent of organic raw materials are from renewable sources.

A Renewable raw materials (bio-based)	6
B Fossil-derived materials (petrochemicals)	43
C Inorganic materials (e.g. salt, minerals, clays)	51

## Operational eco-efficiency program

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

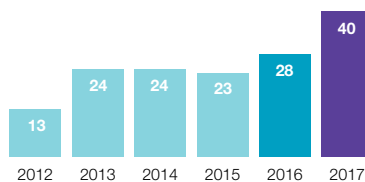
In 2016, we achieved a footprint measure improvement of 28 percent (since 2009). Many of our businesses achieved eco-efficiency footprint improvements, including many small site contributions, upgrading of existing processes, rationalization of the manufacturing footprint and application of best available technology for new investments.

In order to focus even more attention on this program and accelerate progress towards our 40 percent ambition, projects are now being integrated into the main supply chain improvement monitoring tool to quantify all site improvement activities. For more details, see Notes 8 and 9 of the Sustainability statements.

### OEE footprint improvement

% reduction from 2009

■ Ambition



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

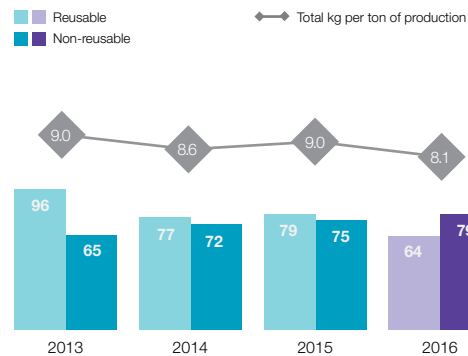
## Waste

Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both our environmental footprint and costs. Our target is to drive towards “zero waste to landfill” and a program is being developed to achieve this with specific projects.

Total waste per ton of production generated and leaving our sites was down by 10 percent to 8.1 kg/ton (2015: 9 kg/ton). The total waste volume was down to 143 kilotons, a decrease of 8 percent. The focus on waste over recent years has resulted in a reduction in waste at the majority of our sites. For more details, see Note 9 of the Sustainability statements.

### 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. Reusable waste is waste which is used, for example, for resource recovery, recycling, reclamation, direct re-use or alternative uses (e.g. composting). All other waste is non-reusable waste.

## Social value

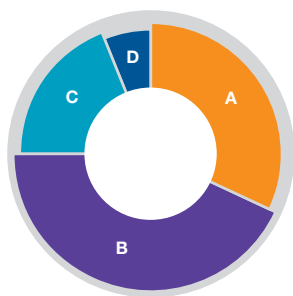
At year-end 2016, we employed a total of 46,000 people (year-end 2015: 45,600 employees). The increase was mainly due to new hires in emerging regions and people joining from the acquired BASF Industrial Coatings business. For more details, see Note 4 to the Consolidated financial statements.

### Employees

46,000 at year-end 2016

### Employees by Business Area in %

A	Decorative Paints	32
B	Performance Coatings	43
C	Specialty Chemicals	19
D	Other	6



### Employee engagement

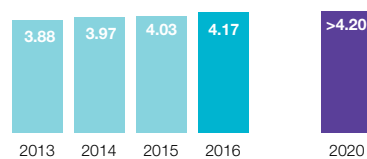
One of our key measures of progress in the area of culture is employee engagement, which we measure through an annual engagement survey. We've seen an increase in engagement score every year since we started the survey in 2010.

In 2016, our score was 4.17, an increase from 2015, with a positive trajectory at all levels of the company, indicating that we are continuing to transform the daily experience of working at AkzoNobel. For more details, see Note 11 of the Sustainability statements.

### Employee engagement score

0 to 5 scale

■ Ambition

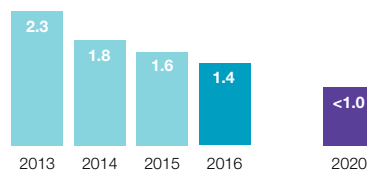


### Safety

The overall total reportable rate (TTR) for employees and supervised contractors decreased to 1.4 (2015: 1.6). Seventy-eight percent of our sites have been recordable-free for more than a year. This reduction in the number of injuries also extends to independent contractors and coincides with continued implementation of our people safety programs. For more details, see Note 12 of the Sustainability statements.

### Employee and supervised contractors total reportable injuries frequency rate

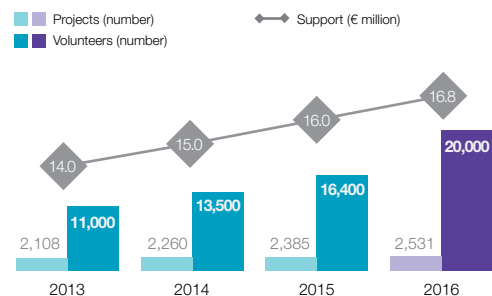
■ Target



### Human Cities

Everything we do for and with society is channeled through our global Human Cities initiative. It's an active expression of our purpose, which enables us to combine our expertise in sustainable innovation with our passion for working closely with local communities. It includes all the work we do through our Community Program and "Let's Colour" initiative. In 2016, this involved a total of more than 300 projects, impacting over nine million people. For more details, see Note 17 of the Sustainability statements.

### Cumulative Community Program involvement cumulative since 2005



Last year, we introduced our integrated materiality analysis for the first time. It was the result of a holistic review of our major risks, issues and opportunities, and how they relate to our strategic actions. The rationale behind this annual exercise is to ensure that we have actions and initiatives in place to capitalize on key opportunities, and have mitigation plans to address key issues and risks.

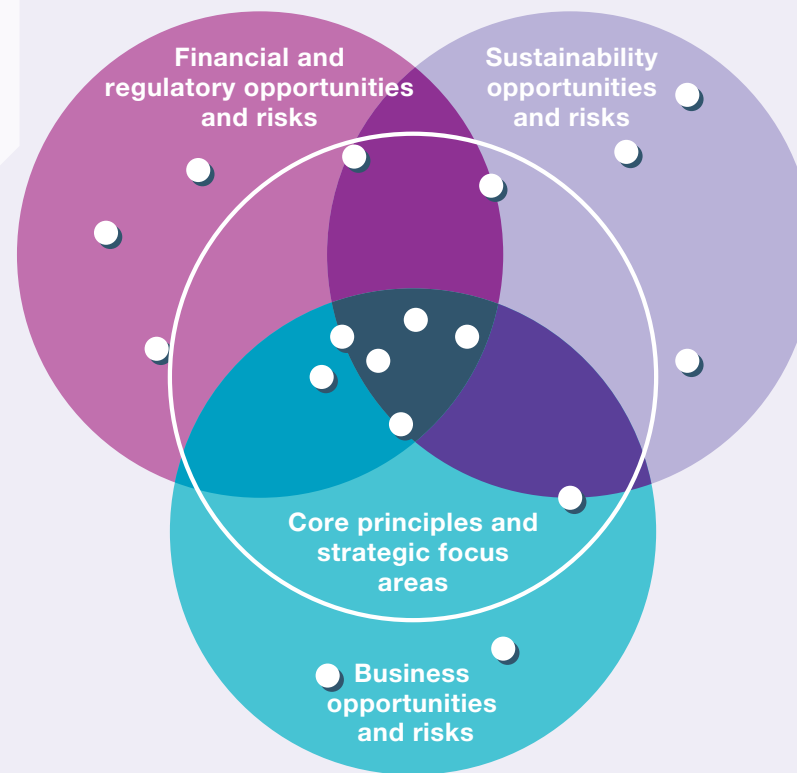
Our 2016 evaluation again incorporated insights from a wide group, including auditors, customers, shareholders and employees, as well as other stakeholders such as financial and regulatory bodies, non-governmental organizations (NGOs) and leaders in the communities in which we operate (see Note 2 of the Sustainability statements).

The integrated materiality analysis is not a static exercise. This year, we added a number of risks/issues, some of which are new. Others were included in previous years, but have now been elevated to a higher level of importance, while certain risks have moved to another category compared with last year's assessment. We have also reduced the number of key risks, confirming the view that in some areas our risk mitigation actions are now embedded. It also helps to keep the list shorter for added focus.

For example, we have identified the need to adapt our climate strategy, as this is an area of increasing concern following COP21. In the Sustainability statements more details are given about the plans we now have in place to

### Integrated materiality diagram

● Key opportunity, issue or risk



tackle this important issue. Another example is how we review the possible impacts of – and respond to – new developments in technology and society. Here, we have started to define our (digital) innovation roadmap.

The integrated materiality analysis indicates that our core principles and strategic focus areas take into account all the updated key opportunities and issues. The diagram above

offers a visual representation of this – illustrated by the white circle. It also shows that our three main risk areas have links and overlaps. So managing our key opportunities and risks in an integrated, holistic way, continues to make sense in an ever more complex and dynamic world.



# Risk management

Doing business inherently involves taking risks. By seeking to take 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. The 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 Audit Committee and the Supervisory Board.



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## 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. Return on investment in the development of innovative products and sustainable solutions is never certain. However, 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 a strong investment grade credit rating. Our financial risk management and risk appetite are explained in more detail in Note 23 to 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

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## Risk management in 2016

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 2016 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 106 enterprise risk management workshops. In these workshops, approximately 2,250 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.

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.

DURING 2016  
WE HELD 106  
ENTERPRISE RISK  
MANAGEMENT  
WORKSHOPS  
WHERE WE  
IDENTIFIED  
APPROXIMATELY  
2,250 UNIQUE  
RISK SCENARIOS

# 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.

<b>External – Strategic</b>		<b>Internal – Strategic</b>	
• Worsening of economic conditions	▲	• Innovation, identification and successful implementation of major transforming technologies	▲
• International operations	▲		
• Strategic moves in our value chain	▲		
<b>External – Operational</b>		<b>Internal – Operational</b>	
• Sourcing of raw materials and energy	■	• Attraction and retention of talent	■
• Product liability	■	• Production process risks	■
• Environmental risks and liabilities	■	• Management of change	■
• Information technology	■		
<b>External – Financial</b>			
• Post-retirement benefits	▼		
• Fluctuations in exchange rates	▲		
<b>External – Compliance</b>			
• 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 in its major markets, as well as in several specific end-user segments. The effects could lead to a decline in demand, deteriorating financial results, impairments and book losses, which in turn could result in the company not realizing its financial guidance.

#### Mitigating actions

- Continue our strategy to bring down our operational cost base and reduce complexity
- Leverage our Global Business Services organization to further standardize core functional processes in all regions
- Further deploy our 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 select number of scenarios, dealing with geographical or segment slowdowns
- Expand our innovation capabilities to develop and deliver faster differentiated customer value propositions

## 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, trade policies, regulations and standards could adversely affect our business, the value of our assets and results of our 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
- Decide all significant investments, and the countries and industry segments in which AkzoNobel conducts its business, via the Executive Committee
- Benefit from our combination of country organizations and service centers in order to address country-specific and local business risks
- Combine the implementation of international compliance standards with local transparency and accountability

### External - Strategic

## Strategic moves in our value chain

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. Further consolidation can negatively impact the landscape for strategic acquisitions in terms of their availability. This will result in higher multiples for acquisitions and make deals economically unattractive or synergy targets more difficult to achieve.

### Mitigating actions

- Continue our regular competitive intelligence analysis of strategic moves of (new) competitors, customers and suppliers
- Further strengthen our merger and acquisition and integration capabilities
- Enhance the pipeline of viable market and technology opportunities for mergers and acquisitions, focusing on strategic rationale with respect to the value chain
- Finalize and implement our digital strategy to anticipate future changes and drive for new sources of value

### External - Operational

## Sourcing of raw materials and energy

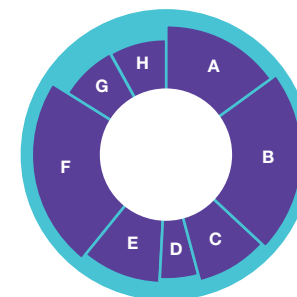
Prices for key raw materials and energy can be volatile and are affected by economic conditions and regulations. This can limit our ability to protect our margins. The chart to the right shows our relative spend on these key raw materials, excluding energy. The risk may further increase as a result of 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

- Our 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 is embedded in our sourcing strategy, selection and management process. This program not only ensures compliance of critical suppliers, but also drives continuous improvements. AkzoNobel also participates with several industry groups to conduct audits and improvement programs of common suppliers

### Breakdown of total raw material spend in %

A Additives	15
B Chemicals & intermediates	22
C Latex & monomers	9
D Pigments	5
E Packaging	10
F Resins	23
G Solvents	8
H Titanium dioxide	8



### External - Operational

## Product liability

Product liability claims could adversely affect our 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 and regulatory affairs is embedded in the company's RD&I, HSE and sustainability agenda. Product stewardship is also integrated into product slate decisions
- We have a central policy to optimize insurance coverage, including specific insurance coverage for product liability claims

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## External - Operational

### Environmental risks and liabilities

Due to the nature of our business, 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. We have been, and may still be, exposed to risks of environmental releases and contamination with associated risk of 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 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
- Environmental standards and regulations are integrated from the design phase of new plants onwards
- Recognize environmental clean-up cost or indemnifications against earnings where a potential liability has materialized, cash outflow is probable and can be reliably estimated
- Innovation efforts to remain at the forefront of new, sustainable product introductions

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## External - Operational

### Information technology

One effect of the company's longer term IT 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 our reputation.

#### Mitigating actions

- Continuously test and update the systems used for information security as part of the strategic IT security roadmap 2016-2017
- Improve and implement measures such as redundant design, back-up processes, virus protection, anti-spoofing and advance forensic scanning to protect and detect IT security vulnerabilities



Colleagues from our Technical Service and Quality Assurance groups in Europe and North America teamed up to devise new digital solutions that are making technical service reporting more efficient. As well as improving quality, customer issues can now be identified and resolved much faster.

- Centrally monitor access control processes to our key IT systems to improve protection of critical business data
- Improve end-user awareness and behavior via cyber security campaigns and IT security e-learning training to prevent and detect potential vulnerabilities
- Continue with the roll-out of the new IM security standard for industrial control systems to our manufacturing locations
- Further test and improve the IT security response and incident management process

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## 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 Akzo Nobel N.V. 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 15 to the Consolidated financial statements)

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## 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 23 to 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
- Further extend our hedging strategy based on risk analysis and market developments

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## 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

- Implementation of our Business Partner Compliance Framework
- 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
- Continue to embed company-wide standard setting and compliance awareness through activities and training programs, including training on the Code of Conduct

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## Internal - Strategic

### Innovation, identification and successful implementation 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 roadmaps and innovation strategies with appropriate research and development spend. In 2016, this amounted to 2.6 percent (€363 million) of total revenue
- Bring to market suitable new technologies using our innovation core process 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
- Explore acquisitions of/partnerships with innovative start-up companies

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## 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's employee value proposition, based on the company purpose and stronger brand strategy
- Further improve talent and succession action planning and follow up
- Fully embed the 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

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## 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.



# Long-term risks

## 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

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## 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 organic growth, and the quality of services, while reducing cost and complexity.

## Mitigating actions

- Pave the way to organic growth by embedding commercial excellence in all levels of the organization
- Ongoing focus on core principles and values to set desired behavioral changes in motion. Values and behaviors are 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 blueprints, including the operating model and Responsible, Accountable, Consulted, Informed (RACI) matrices

Long-term risks are existing risks associated with current trends that are anticipated to increase; or risks currently not material, but that could develop into major areas of concern for a business, or for society as a whole.

The most significant long-term risks we observe are:

The effect on business of increased instability due to a rise in national sentiment, increased geo-political tensions and failure of national and supranational governance. This could result in:

- Dwindling support for free trade relationships and flows of capital
- Potential differential legislation, resulting in regional competition and protectionist measures
- Insufficient structural reforms in emerging and mature economies

The continued development of digital technology poses a threat to business and reputation and could lead to:

- Business value chain disruption/destruction
- Cybercrime
- Concerns over privacy and the concentration of the influence and control over intelligence
- More stringent legal and regulatory requirements

The need to listen and engage with an ever-widening field of stakeholders in the area of environmental and corporate social responsibility, requiring extra attention to:

- Transparency on, for example, carbon footprint and renewable energy
- Social impact assessment of a company's activities
- Concerns over fair trade and under-age labor
- Concerns over tax avoidance by large corporations
- A persistent negative perception of the role of global corporations in society

Not being able to implement an ambitious sustainability strategy associated with economic value creation, tailored to markets with different levels of maturity. This could be caused by:

- Protectionism and a lack of global consensus triggering inter-regional competition
- The view that economic growth and sustainability are not mutually exclusive does not prevail
- Lack of a coordinated response to climate change

The risk of an acceleration in the emergence of new technologies in general, with the potential to:

- Disrupt existing business value chains
- Change the way in which our products are applied
- Force the re-engineering of supply chains
- Introduce changing working practices

The risk of increasing public concern over specific substances and their environmental impact, leading to:

- More strict classification of hazardous substances
- A ban on, or a reduction in, the use of plastics/synthetic polymers
- An accelerated phasing out of fossil fuels



GOING  
UP IN THE  
WORLD TO  
PRESERVE  
GLOBAL  
HERITAGE

# Business performance

The following section gives a detailed summary of how each of our Business Areas performed during 2016. Information on market characteristics is also provided.

Decorative Paints	56
Performance Coatings	66
Specialty Chemicals	76

We agreed a new three-year partnership during 2016 which involved painting the windmills at the Kinderdijk UNESCO World Heritage Site in the Netherlands. We're providing essential protection and essential color for the iconic structures by applying our high performance Sikkens paint.



# Decorative Paints

Our passion for bringing color to people's lives saw us continue to offer our customers new ideas and innovations during 2016.

This commitment to making life more liveable and inspiring is a source of pride, as it enables us to use our experience and expertise in ways that can make a real difference to individuals, entire communities and society as a whole.

We try to develop products that do a lot more than brighten up a wall or ceiling. We never stop looking for new and exciting ways of delivering essential color to our customers. One example was the Dulux Forest Breath range we introduced in China this year. It's a sustainable indoor paint with an anti-formaldehyde formulation, which addresses the country's focus on improving air quality. Put simply, it's paint that helps to clean the air in your home.

On a more global scale, our Visualizer app (which was upgraded in 2016 with improved features) has now been downloaded more than 13 million times. It makes choosing colors easier and has been a big success. We like to think of it as a fresh, modern and interactive way for us to share our love of color and allow people to share theirs.

We also launched a new digital initiative in the UK when we opened a virtual reality customer center at our Slough site. It's an industry first facility which enables retailers to immerse themselves in the customer experience and view product innovations before they go to market. It's situated next to the award-winning Dulux Academy, an initiative which has received a lot of positive feedback. This is a dedicated center which will give more than 4,000 decorators and apprentices the chance to upskill every year by gaining an advanced understanding of the essential principles of color, design and sustainability. In addition, it aims to address current skill gaps in the industry and help us to become a life-long learning partner.

Another project which has been very well received was launched in Rio de Janeiro, Brazil. The event took place at the Santa Marta favela, where our ongoing "Let's Colour" program has already transformed more than 300 buildings. This time we were there to launch a Human Cities project called Unexpected Courts. It enables children to test their sporting skills in surprising spaces through the creative use of paint. It's a simple concept which we plan to repeat in communities around the world so many more people can be inspired through color. Rio is also home to a new Cruyff Court for the blind and visually impaired, which was opened

the decorative paints industry to water-based products. Some markets are mature in this respect, but there is a lot of work to be done in certain parts of the world and we intend to continue playing an active role in helping to lead this change.

The Chengdu site has adopted the safety standards compulsory at all our facilities – both new and existing. We made good progress during 2016 with our safety performance as we move towards our aim of zero injuries. By focusing on what we do best, we were able to grow and

## “WE WERE ABLE TO GROW AND IMPROVE THE BUSINESS”

**Ruud Joosten**

Member of the Executive Committee  
responsible for Decorative Paints

in 2016 as part of our ongoing partnership with the Johan Cruyff Foundation. It was one of eight courts built during the year using our products.

The success of these projects shows innovation isn't restricted to products. Innovation can be applied in many different ways as we look to capture growth, which was another key theme during 2016. A highlight was the start of production at our fourth Decorative Paints plant in China. Located in Chengdu, the new facility represents a milestone in the company's growth plans for the west of the country. Chengdu will be at the forefront of our production of water-based products, which are becoming increasingly important in the Chinese market. The country's gradual switch to more sustainable paint supports our continuing drive to convert

improve the business during the year in line with our strategic goals. Our attention to growth and innovation, coupled with our resilience and the success of our continuous improvement programs, ensured we were able to manage the challenging environment we faced in 2016 and achieve profitable growth in key markets. We continued to make progress and drive volume growth during the year. We saw positive demand trends in many Asian markets and volumes were up in the region, including China, despite challenging conditions in the Chinese construction market. In EMEA, volumes were positive overall, but varied across the region. We saw good development in the Netherlands, Russia and the UK. In Latin America, challenging market conditions caused by economic instability and currency devaluations continued throughout the year. We therefore concentrated



The Decorative Paints Leadership team pictured (in a safe and controlled environment) at one of the company's Sikkens Center paint stores in Amsterdam, the Netherlands.

on improvement actions and cost control in the region, as well as focusing on customers and further strengthening our strong relationships with professional painters. Overall, despite uncertainty in some of our markets, we retain strong positions and intend to build on this further by investing

in our brands and through our strategy to win locally and leverage our scale.

As we head into 2017, although markets are likely to remain unpredictable, we have the right strategy in place and are

positioned to further drive innovation and stimulate organic growth while continuing to bring new ideas and essential color to our customers.

# Decorative Paints strategy



Having improved considerably since 2012, we continued to make progress in 2016. Both our return on sales (ROS) of 9.3 percent and return on investment (ROI) of 12.8 percent were in line with our performance range 2016-2018 (between 8-10 percent and more than 11.5 percent, respectively). As a result, we are moving closer to the company's vision of leading market positions delivering leading performance.

We updated our strategy in 2015 to better reflect our new organization, market approach and growth ambitions. The current strategy is based on winning locally, supported by selected global 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 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 these markets, we will continue to develop relevant and specific plans. Of particular importance to our overall success are the local plans. Listed below is a snapshot from four countries:

- The UK is one of Europe's largest markets and we are market leader. The UK referendum vote resulted in more economic uncertainty, and while the paint market is still expected to grow, it is likely to do so at a slower rate. Our focus is on inspiring and enabling people to decorate more often by improving the decorating experience for consumers and increasing loyalty with professional painters. One way we aim to achieve this is through the in-store experience with the Dulux MixLab and the Dulux Academy to train and accredit professionals. We are also continuing our strong focus on innovation, introducing new products with clear customer benefits in terms of energy savings and well-being and enhanced digital tools and services such as the highly successful Visualizer app
- China is a large market where the growth rate has been high. Although growth in China has slowed, we accelerated our own growth in the region compared with last year. We have a strong position and are growing our business in traditional trade and e-commerce. We have strengthened our product and services in the premium and mid-tier range. This included launching Dulux Forest Breath and repositioning the Easy Paint Service as a premium Renewal Service with a total solution

- South Africa is a vital market for success in Africa and we have a strong position. The market has been growing, despite some political unrest and currency fluctuations, and most analysts predict continued growth in the coming years. We intend to continue building our Dulux brand and be the best category partner with our large-scale outlet (LSO) customers, while expanding our assortment and increasing our physical availability in the small-scale outlet (SSO) channel
- Indonesia is the largest market in South-East Asia with good growth potential. We are market leader and continued to grow our share in 2016. We are focused on building the Dulux brand with innovations such as Dulux Weathershield Powerflex and Dulux Ambiance, as well as increasing our distribution and leveraging global capabilities in the growing LSO channel

### 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 include:

### 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 distinctive color offers. These needs translate into an innovation agenda which has a very strong sustainability orientation.

### Digital

With investments across multiple digital platforms, the star performer in our global digital agenda is our award-winning Visualizer app. Launched in 2014, it has been downloaded



more than 13 million times to date, in over 40 markets. In May 2016, we launched version 3.0, which includes additional features such as video visualization and social sharing. Linked with the improved user experience on our website and detailed analytics, we are now able to further commercialize these digital assets.

### 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. We work closely with painters to optimize our product offer in so-called “best-by-test” validation and then focus on marketing the “hero” products, which have strong and credible attributes relevant to painters. We also leverage global best practices to upskill and train existing painters and new apprentices, aiming to develop a strong partnership and loyalty. Some Dulux Academies, such as our new flagship facility in the UK, also give accreditation to further enhance the position of our partner, the professional painter. We also place an emphasis on building pride and a common sense of purpose.

### Supply chain

Our Integrated Supply Chain agenda has been firmly linked to our commercial strategy for some time now. The main focus areas include building operational excellence through deployment and activation of our company-wide AkzoNobel Leading Performance System (ALPS); care for our customers with superior service and quality; and our advanced technology program looking at breakthrough possibilities in the areas of process, packing and digitization.

### Brands

We continue to drive our brands with consumer tested communication and improved claims. At the same time, we are continuing to build and strengthen our regional professional brands, with a more clearly defined product offer, improved packaging and clear benefit claims. Our brands are fully in line with, and actively promote, the



UK Minister of State for Employment Priti Patel (pictured left), opened the Dulux Academy at our Slough site in the UK in March. The world's first academy for painters and decorators, the facility will give more than 4,000 professionals the chance to upskill every year. Also pictured are Dulux Academy instructor Matt Gray (center) and Matt Pullen, Managing Director of AkzoNobel UK and Ireland.

company's Planet Possible sustainability agenda. We also leverage our scale by aligning our “Let's Colour” programs with the company's Human Cities initiative.

### 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. We are continuing to drive this in our product portfolio through three key areas:

- Low impact – products with lower environmental impact
- More durable – products that last longer and need repainting less frequently
- Positive impact – products that positively contribute to sustainability, such as providing energy-saving benefits

We continue to reduce VOC levels in our products and are accelerating the adoption of low VOC water-based trim and woodcare products in all our regions. We continue

to invest in order to offer the best performing water-based technologies in the market and ensure an attractive product offer.

We are working hard with our suppliers on responsible sourcing and reducing the environmental footprint of the raw materials we procure through Together for Sustainability and our own supplier dashboards. In the UK, AkzoNobel has become the first paint company globally to achieve the coveted BES 6001 Responsible Sourcing accreditation. We have continued to play a leading role in the EU Product Environmental Footprint pilot, along with the European Paint Association. We have also now integrated carbon footprint data into our formulating system so our chemists can more easily select low carbon options as part of the work they do every day.

# Decorative Paints value creation summary 2016

## Economic value: Organization

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 both consumers and professional painters. In order to create more economic, environmental and social value, our innovation is geared towards reducing our upstream and downstream supply chain impact by changing formulations to water-based 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. The aim is to benefit the creation of more social value.

All these initiatives are designed to play a role in contributing to our financial performance and enable us to deliver more economic value for our investors.

**€3.8 billion**  
revenue

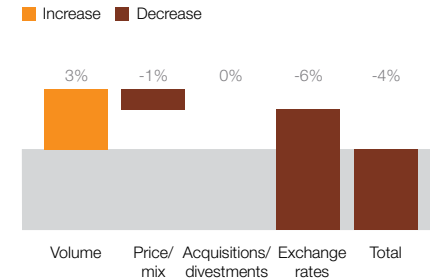
**€357 million**  
EBIT

**€2.6 billion**  
invested capital

**€107 million**  
capital expenditures

During 2016, we invested in growth markets (including our Chengdu site in China); in creating efficiency in Europe (in particular at our new Ashington site in the UK); and through optimization of our production footprint.

### Revenue development in % versus 2015



## Environmental value: Input

**2.4 million tons**  
upstream CO<sub>2</sub>(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

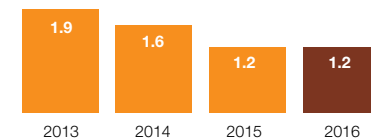
**14,700**  
employees at year-end 2016

## Organization

**1.2**  
total reportable rate of injuries  
(per million hours)

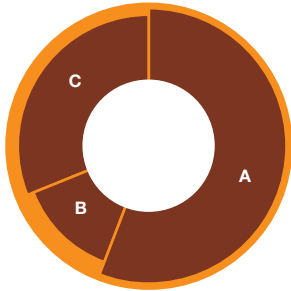
Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents.

### Total reportable rate of injuries per million hours worked



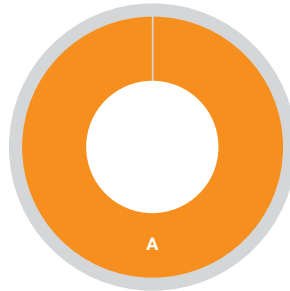
## Outcomes

Revenue breakdown by business unit  
in %



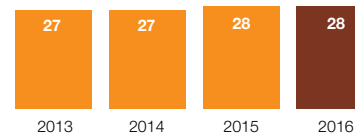
A	Decorative Paints Europe, Middle East and Africa	56
B	Decorative Paints Latin America	13
C	Decorative Paints Asia	31

Revenue breakdown by end-user segment  
in %



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

Eco-premium solutions with customer benefits  
% of revenue



↑ **9.3%** ROS

↑ **12.8%** 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<sub>2</sub>(e) emissions own operations

**1.2 million tons**  
downstream CO<sub>2</sub>(e) emissions

**3.7 million tons**  
CO<sub>2</sub>(e) emissions cradle-to-grave

↑ **9%**  
improvement CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

**32 kilotons**  
total waste

## Outcomes

**€622 million**  
employee benefits

**4.21**  
employee engagement score

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

**1,577**  
people trained as painters

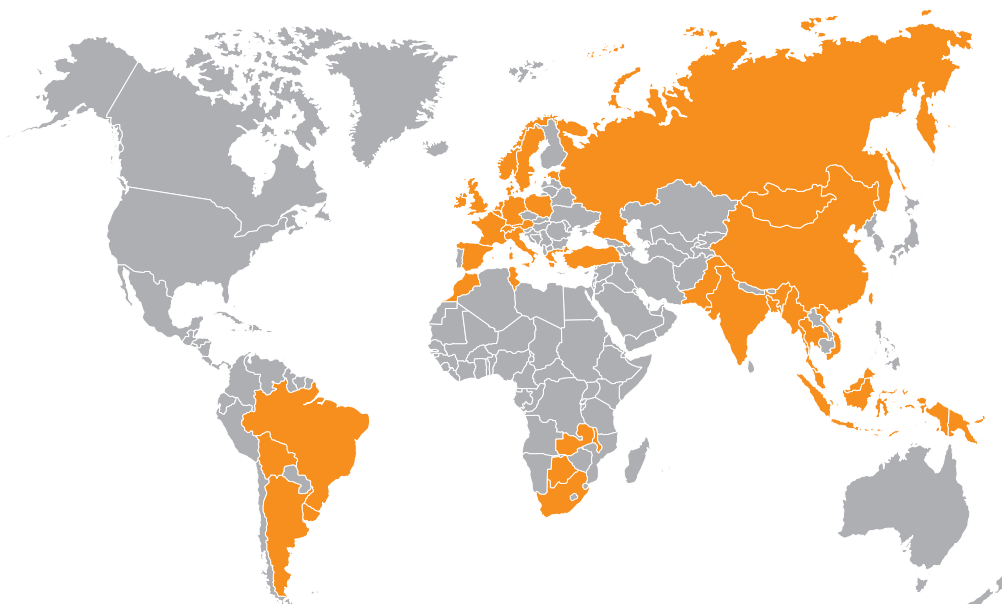
- Indicates a positive development
- Indicates a flat/negative development

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.

We participate in community programs and local sponsorships.



# Key business developments



## Decorative Paints Europe, Middle East and Africa

- Volumes were higher overall and trends varied across the region, with positive developments in the Netherlands, Russia and the UK
- We continued our focus on innovation, introducing new products with clear customer benefits in terms of energy savings, well-being and enhanced digital tools and services, such as the highly successful Visualizer app
- The roll-out of the Easycare/UltraResist washable wall paints concept continued. The product has now been successfully launched in ten markets, including Poland, Turkey, Russia and Spain
- Our Extreme Painting campaigns were rolled out across most European countries where Sikkens products are sold, as well as for the Nordsjö brand in the Nordics
- The livery for our Sikkens brand was refreshed as part of a revitalization strategy
- At our Slough site in the UK, we opened the Dulux Academy (which will help more than 4,000 decorators and apprentices to upskill every year) and inaugurated a hi-tech customer center, housing industry first virtual reality technology

### Some of our customers

- B&Q
- Bricomarche
- Leroy Merlin
- OBI

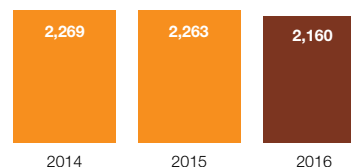
### Top raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

### Key cost drivers

- Oil price
- Energy prices
- Titanium dioxide

Revenue in € millions



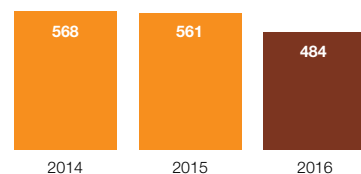
### Key brands



## Decorative Paints Latin America

- Challenging market conditions, due to economic instability and currency devaluation, continued throughout the year, impacting revenue and volumes
- Our Coral paint brand launched its award-winning Unexpected Courts project in Rio de Janeiro, Brazil. The initiative involves using paint and imagination to create sporting spaces in surprising places
- The Alba brand launched the company's Visualizer app in Argentina, with more than a million downloads to date
- The company continued to use the power of color to transform the Santa Marta favela in Rio de Janeiro, Brazil. Around 20,000 liters of Coral paint has been used so far to transform more than 300 buildings
- Coral sponsored Casa Cor São Paulo, the most important decorating exhibition in South America, which helped to strengthen the relationship with interior designers, architects and consumers
- In Uruguay, the Inca brand supported more than 50 artists as part of a Human Cities initiative

Revenue in € millions



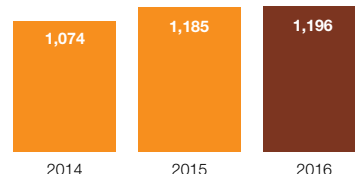
### Key brands



## Decorative Paints Asia

- We are continuing to grow in Asia, where we hold leading positions in various countries
- Our growth in China continues in the premium and mid-tier range, supported by a new plant
- The company's fourth Decorative Paints plant in China was inaugurated in Chengdu
- Vietnam was the fastest-growing business in the region during 2016
- The Dulux Forest Breath paint range received American Greenguard Gold certification and the French VOC A+ class certification
- The Dulux Easy Paint Service in China was repositioned
- In Indonesia, new innovations such as Dulux Weathershield Powerflexx and Dulux Ambiance were introduced
- As part of the company's Human Cities initiative, we began renovating four historic locations in Shanghai's Jing'an District

Revenue in € millions



### Key brands



# A BREATH OF FRESH AIR

COLOR IS USUALLY THE FIRST THING YOU ASSOCIATE WITH PAINT. WE LIKE TO GO MUCH FURTHER. BECAUSE THERE ARE SO MANY POSSIBILITIES FOR ESSENTIAL COLOR TO MAKE PEOPLE'S LIVES MORE LIVEABLE AND INSPIRING.



In China, for example, we recently launched our Dulux Forest Breath range of indoor decorative paints. As well as giving consumers an exciting selection of colors, it also meets growing demand in China for more sustainable paint products.

Forest Breath is designed to color and protect indoor walls and keep the air clean and fresh. It contains anti-bacterial properties that improve indoor air quality by absorbing and destroying atmospheric particles such as formaldehyde and benzene. This eco-premium solution has received both the American Greenguard Gold Certification and the French VOC A+ class certification.

Forest Breath's launch is part of an ongoing transformation within our Decorative Paints business to shift the portfolio more towards water-based and VOC-free. The business already offers a broad range of low VOC products, in line with our Planet Possible approach to sustainability, which is focused on doing radically more with fewer resources. The company also aims to generate 20 percent of total revenue from sustainable solutions by 2020 – in China this figure for our Decorative Paints business has already reached 30 percent.

The introduction of Forest Breath demonstrates how our innovation is designed to anticipate and respond to increasing demand and appropriate standards for more sustainable products. This ability to provide consumers with better choice – as well as even greater confidence in our products – will become increasingly important as customer and market demands continue to change.

The only thing that will not change is our commitment to providing essential color that makes people's lives more liveable and inspiring, which will continue to be embedded into all our future product advancements.





Click to watch video

# Performance Coatings

We continued to invest in our customers, markets and people in 2016 to deliver value from color and protection and help make people's lives more liveable and inspiring.

Building on the transformational changes completed in 2015 to structurally improve our profitability and operational performance, our focus became more customer and growth oriented in 2016, with good progress in driving innovation, sustainability and continuous improvement.

We launched several new technologies, stepped up the pace of our digital innovation and improved our safety record. We also completed the acquisition of BASF's Industrial Coatings business, welcoming around 350 new colleagues who bring broad and valuable expertise to AkzoNobel.

Throughout 2016, we continued to invest in production facilities near our customers, especially in key emerging markets. In India, we inaugurated a first-of-its-kind specialty coatings facility in Uttar Pradesh to better serve customers in the consumer electronics, automotive and cosmetics industries. We also started construction in Thane, near Mumbai, on a new powder coatings plant, our second in India. Meanwhile, we are building a manufacturing facility in Thailand to support growth markets in South-East Asia across all of our businesses.

Towards the end of the year, we completed the acquisition of BASF's Industrial Coatings business, which supplies a wide range of products to industries including construction, domestic appliances, wind energy and commercial transport. We are now able to offer new products and maintenance solutions for wind turbine blades and service a broader customer base. The acquisition also enables us to further expand our geographic reach in countries such as Japan,

Russia and South Africa. Confirming our strategy of pursuing value generating acquisitions, it will add around €280 million of revenue for Performance Coatings in 2017 and help to strengthen our position as the leading global supplier of coil coatings.

Our innovation expertise and commitment to sustainability will play a key role in enabling us to achieve organic growth as we continue to help customers resolve their technical and environmental challenges. In 2016, examples included the launch of Aquasilk in China, a water-based wood coating for the furniture industry which reduces VOC emissions for our customers. China is also home to the company's new

## “WE DELIVERED AT THE HIGHER END OF OUR PERFORMANCE RANGE”

**Conrad Keijzer**  
Member of the Executive Committee  
responsible for Performance Coatings

technology center, which was inaugurated in Songjiang, Shanghai. This is the company's largest research facility in the country, housing 150 scientists who support customers in all of our end-user segments.

Another key focus area for Performance Coatings is helping customers to become more profitable – as well as sustainable – through the introduction of products and services that reduce energy consumption. During 2016, our Vehicle Refinishes business developed new UV clear coat technology which enables car repair body shops to cut energy costs in the clear coat drying process by up to 80 percent. Another major launch saw our Marine Coatings

business introduce Intersleek 1000, a new biocide-free fouling control coating which offers fuel and CO<sub>2</sub> savings of up to 6 percent – an important contribution to our vision of more sustainable shipping. In addition, Intertrac Vision, continued to be well received by customers. The digital tool predicts hull performance, enabling ship owners to control costs by choosing the right coatings technology. You can read more on page 74.

Our carbon credits program also continued to do well during the year. The program rewards ship owners for converting to sustainable hull coatings, such as those available through our International brand. In October, a special ceremony was

held when we presented the Grimaldi Group with the largest number of carbon credits (almost 110,000) awarded so far through the award-winning initiative. More than 50 vessels have enrolled in our program to date.

2016 marked the first full operational year after our extensive reorganizations, which we completed in 2015. The changes have now been fully embedded and have enabled us to run our businesses more effectively. Our new structure facilitates increased customer responsiveness, yielding improved levels of customer service and satisfaction, with on-time in-full delivery now at industry-leading levels. Our annual employee engagement survey showed an improvement to





The Performance Coatings Leadership team pictured (in a safe and controlled environment and according to site rules) at the company's Vehicle Refinishes facility in Barcelona, Spain.

a record level from previous years, while we continued to further improve our safety performance, reducing our total reportable rate of injuries as we move towards our aim of zero injuries.

Our commitment to our customers and the delivery of our strategy enabled us to achieve a solid financial performance in 2016, effectively realizing a higher level of profitability and performance. We delivered at the higher end of our

performance range, with ROS at 13.4 percent and ROI at 29.4 percent. This was achieved in a deteriorating market environment in some of the key sectors we serve. The oil and gas sector has been especially challenging, while a significant downturn in the global shipbuilding industry impacted our revenue. We have therefore taken decisive action to align our cost structures, demonstrating our new agility, which gives us resilience where we need it most in our Marine and Protective Coatings businesses.

Looking ahead, despite the expected headwinds in the market, we remain confident in our capability to deliver organic growth through our continued focus on commercial excellence and innovation to better serve our customers with essential color and protection.



# Performance Coatings strategy



We delivered at the higher end of our 2016-2018 performance range, with return on sales (ROS) of 13.4 percent and return on investment (ROI) of 29.4 percent. Despite headwinds in the market, we remained focused on building on the solid performance foundation we have created and growing in line with, or faster than, our relevant market segments.

Although the year was not without its challenges, we managed to offset continued weakness in new ship construction and oil and gas capital spending, while we achieved growth in areas such as our Powder Coatings and Vehicle Refinishes businesses. It was also a year of exploration and growth – new additions to our product portfolio, new digital technologies to support our customers and new opportunities in growing segments and geographies.

We remain committed to our strategy of pursuing differentiated growth strategies, delivering business-specific innovation plans and driving overarching performance improvement initiatives.

## Actions

### Pursue differentiated growth strategies

We drive growth in Performance Coatings by assessing the attractiveness of market segments and our ability to win in those segments. This strategic segmentation allows us to identify and prioritize growth opportunities across our businesses. The priority segments in our portfolio are expected to outgrow their end-markets, while lower priority segments should grow in line with their underlying markets. Each year, we review and update our analysis of market segment growth potential in order to reallocate resources to those segments with the best growth prospects.

### Drive overarching performance improvement initiatives

#### Embed commercial excellence

During the period of restructuring that took place prior to 2016, we focused on sales force efficiency and margin management to support improvement in bottom line performance. With that process now complete, our commercial excellence focus is on sales force effectiveness. We have introduced a global program which incorporates:

- Best practice tools and processes for relevant go-to-market models
- Sales force training for both the front line sales force and first line managers
- Customer relationship management (CRM) processes
- Customer satisfaction measurement (including Net Promoter Score metric) and corresponding improvement action planning

A winning sales and marketing organization is being developed which aims to better serve our customers through strong relationships. In addition, we are continuously building the competencies of our sales organization. In 2016 alone, we reached more than 1,000 employees with our training programs – Selling Essentials and First Line Sales Management. Selling Essentials teaches basic consultative selling skills, covering our new sales process. First Line Sales

Management focuses on the Performance Coatings strategy, market segment planning, the use of our resource planner, coaching and performance management.

We are continuously identifying best practices to improve our go-to-market models, bringing us closer to our customers in all segments. We have launched a new Customer Relationship Management tool and way of working called OneCRM, involving all businesses in Performance Coatings and training all levels in the organization. Most importantly, we are listening to our customers and collecting their input through our customer satisfaction survey. Via online surveys and telephone interviews, we reached almost 23,000 customers worldwide and across all segments. The input of this survey is a key driver of our business plans and continued collaboration with our customers. Meanwhile, we continue to implement operational and process improvements to help elevate our businesses to world class levels.

#### Reduce external spend

In recent years, we have seized the opportunities created by implementing annual external spend reduction programs, and by having common raw materials and suppliers. In order to take further advantage of this, we are developing and implementing differentiated commodity strategies to maximize value and reduce risk. For example, for certain high margin impact products, we have prioritized the development of alternative sources, with a special focus on the best sources identified locally in our emerging markets.

#### Improve our operations

The last few years have seen a reduction in the number of manufacturing plants we operate, from 102 in 2013 to 87 by the end of 2016. Meanwhile, we are optimizing our manufacturing footprint for growth. For example, we invested in a new powder coatings plant in Chengdu, China, and are building a new production facility for powder coatings near Mumbai in India and another in Changzhou, China. A new site supporting all our businesses is being built in Thailand, which will serve as a manufacturing hub for nearby growth

markets in South-East Asia, such as Myanmar. Our footprint optimization is helping to drive higher asset utilization, as well as enabling us to shift production closer to our customers.

In addition, we continue to roll out our continuous improvement program, the AkzoNobel Leading Performance System (ALPS). Around half our sites are achieving a high maturity level, resulting in year-on-year operational improvements. Customer service (measured through on-time in-full delivery), remains a key priority, with significant improvements having been delivered to date through the implementation of a consistent approach to sales and operations planning. We also aim to make further improvements with the roll-out of globally consistent quality management processes. As one of our core principles, safety remains a top priority. Our performance further improved in 2016 as we made progress towards zero injuries.

### Deliver business-specific innovation plans

Innovation in products, services, processes and tools is fundamental to our success. We are prioritizing innovation around strategic segments. We target those innovations that specifically benefit key customers, either through offering them higher operational efficiency in their business (such as a higher production rate through product design or application process), or additional benefits in terms of sensory perception, substrate protection and coating functionality. When developing these innovations, we harness new technologies and address global trends such as digitization, connectivity, sustainability, climate change and scarcity of natural resources.

Where appropriate, we also carry out research and development work across the Business Area and across AkzoNobel. For example, we are seeing increased opportunities for innovations that take advantage of digitization, including digital tools such as Mixit (an online application for reliable vehicle refinish color retrieval), and the Interpon customer app (an online application for powder coatings customers). For this type of digital innovation, we build on successful platforms that have already been



Vehicle body shops can now cut their energy costs thanks to new ultraviolet clear coat technology developed by AkzoNobel. The technology, which is available in both Sikkens and Lesonal brands, cuts drying time to just 12 minutes without baking – enabling body shops to cut energy costs in the clearcoat drying process by up to 80 percent.

developed and are being used by our Decorative Paints business. There are also many cases where the specific areas for innovation differ, depending on the customer segment. In these instances, we develop tailored solutions. Examples include:

- Intercept 8500 LPP and Intersleek 1000 next generation fouling control technologies, which deliver sustainable, enhanced vessel performance
- Our Aquasilk water-based wood coating, designed to help the Chinese furniture industry transition from solvent-based systems
- Further development of our award-winning Intertrac Vision digital tool, which predicts hull performance and enables ship owners to control costs by making informed choices about the coatings technology they use
- Next generation Chartek technology, offering jet fire resistance and passive fire protection for structural steel
- New UV clear coat technology, which enables car repair body shops to cut their energy costs by up to 80 percent
- The Intergard 250g/ltr primer range of protective coatings, which have a higher volume of solids and help customers increase productivity by using less paint and reducing waste

- Our new Autocoat BT topcoat color platform for the commercial vehicles segment
- High performance products for the huge Yamal LNG project, located inside Russia's Arctic Circle, which will provide protection in some of the planet's harshest conditions
- A mobile app version of our boat paint guide to support IT savvy do-it-yourself customers with painting their boats
- Bisphenol-free spray coatings for protecting the inside of beverage cans
- Sustainable linings for underground storage tanks
- A new digital Bonding Process Manager system which helps customers in the structural wood segment to improve production efficiencies

Looking ahead, we intend to continue strengthening our innovation portfolio with a focus on sustainable and digital solutions. We also aim to build on the newly acquired technologies from BASF's Industrial Coatings business, and continue to monitor global trends and collaborate with our customers to drive our innovation agenda.

# Performance Coatings value creation summary 2016

## Economic value: Organization

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. The aim is to help us create economic, environmental and social 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 are designed to play a role in contributing to our financial performance and enable us to deliver more economic value for our investors.

**€5.7 billion**  
revenue

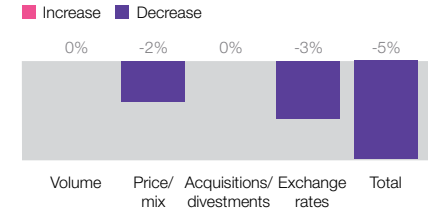
**€759 million**  
EBIT

**€2.7 billion**  
invested capital

**€159 million**  
capital expenditures

During 2016, we invested in production facilities in mature and growth markets, to increase capacity and to improve efficiency, including a new powder coatings plant in Chengdu, China. We are also building a new production facility for powder coatings near Mumbai in India and another in Changzhou, China, while a new site supporting all our businesses is being built in Thailand.

### Revenue development in % versus 2015



## Environmental value: Input

**3.9 million tons**  
upstream CO<sub>2</sub>(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

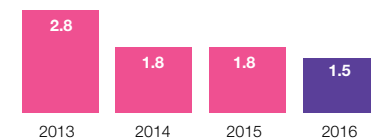
**19,700**  
employees at year-end 2016

## Organization

**1.5**  
total reportable rate of injuries  
(per million hours)

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

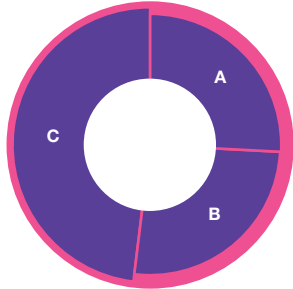
### Total reportable rate of injuries per million hours worked





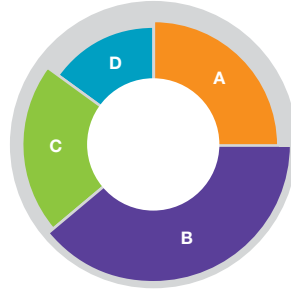
## Outcomes

Revenue breakdown by business unit  
in %



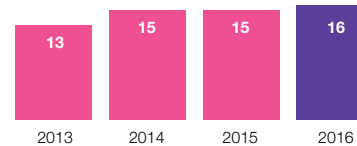
A Marine and Protective Coatings	26
B Automotive and Specialty Coatings	26
C Industrial and Powder Coatings	48

Revenue breakdown by end-user segment  
in %



A Buildings and Infrastructure	25
B Transportation	39
C Consumer Goods	21
D Industrial	15

Eco-premium solutions with customer benefits  
% of revenue



↗ **13.4%** ROS

≡ **29.4%** ROI

↗ **16%**  
of revenue from eco-premium solutions

RD&I investments have resulted in 16 percent of revenue derived from eco-premium solutions with customer benefits.

## Outcomes

**0.3 million tons**  
CO<sub>2</sub>(e) emissions own operations

**53 kilotons**  
total waste

**7.4 million tons**  
downstream CO<sub>2</sub>(e) emissions

**11.6 million tons**  
CO<sub>2</sub>(e) emissions cradle-to-grave

↘ **2%**  
increase CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

## Outcomes

**€985 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.

- Indicates a positive development
- Indicates a flat/negative development

# Key business developments

## Marine and Protective Coatings

- Revenue was down 7 percent, with increased volumes more than offset by adverse currency and price/mix effects
- Two next generation fouling control technologies were launched – Intercept 8500 LPP and Intersleek 1000 – which are designed to deliver sustainable, enhanced vessel performance
- We continue to launch more digital solutions, such as our Event Reporting System, to provide rapid inspection and reporting capabilities during maintenance at dry dockings
- Protective Coatings continued to outgrow the market in the oil and gas (upstream and downstream) and power segments. We also defended our market position in mining
- Significant sales were made to the huge Yamal LNG project inside Russia's Arctic Circle. Our products will provide protection in some of the planet's harshest conditions
- We developed the Intergard 250g/ltr primer range, which is higher in volume solids, helping customers increase their productivity by using less paint and reducing waste
- Our certified engineers developed structural analysis techniques supported by bespoke in-house fire testing to design fire resistance packages for several iconic buildings

### Key brands



### Some of our customers

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

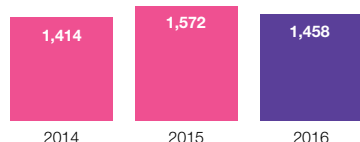
### Top raw materials

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

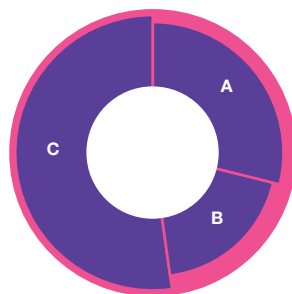
### Key cost drivers

- Oil feedstock chain
- Metals, base chemical prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	29
B Americas	19
C Asia Pacific	52

## Automotive and Specialty Coatings

- Volumes increased for both Automotive Coatings and Specialty Coatings in most regions
- We supplied a leading smartphone OEM with an anodized look coating and gained a strong position in functional coatings used to improve the operation of mobile devices
- Our leading position in the aerospace market improved as we gained a stronger position at a number of key global commercial airlines
- A mobile version of our boat painting guide was launched to help IT savvy do-it-yourself customers paint their own boats
- Vehicle Refinishes (VR) successfully converted many customers to advanced digital color tools for the color search process. Customers are now better positioned to handle the ever-increasing color demand complexity they face when repairing cars
- We are now specified to provide coatings to key suppliers of a number of well-known automotive brands for their new car models
- VR strengthened the brand proposition of its mid-market Wanda and Dynacoat brands to fully capture growth opportunities, especially in developing economies
- The new Autocoat BT topcoat color platform was rolled out to further grow our position in the commercial vehicles segment

### Key brands



### Some of our customers

- Airbus
- BBG
- Boeing
- Dell
- General Motors
- Gold Coast Marine
- HP
- KMC/HMC
- Leonardo
- Plastic Omnium
- Samsung

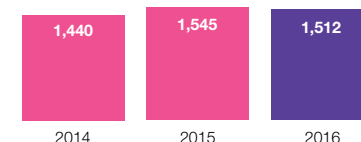
### Top raw materials

- Acrylic resins
- Effect pigments
- Ester solvents
- Isocyanates

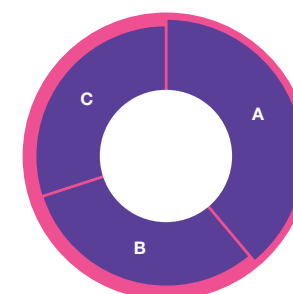
### Key cost drivers

- Metals, base chemicals prices
- Oil, energy prices

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	39
B Americas	31
C Asia Pacific	30

## Industrial and Powder Coatings

- Revenue decreased 5 percent, with volume growth more than offset by adverse currencies and price/mix
- We completed the acquisition of BASF's Industrial Coatings business, which will help to strengthen our leading position in coil coatings
- Construction began on a new €31 million site in Thailand, which will manufacture products from across our Performance Coatings businesses
- Our Packaging Coatings business converted major customer lines to BPA-ni in North America to comply with newly implemented regulations in California
- We continued to strengthen our number one position in the powder coatings market
- We broke ground on a new plant for powder coatings near Mumbai in India and commissioned the construction of the world's largest powder coatings plant in China
- Aquasilk, an innovative water-based wood coating, was launched in China to help the Chinese furniture industry transition from solvent-based systems
- The Wood Coatings business improved profitability in a relatively soft market, thanks to continuous operational efficiencies

### Key brands



### Some of our customers

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

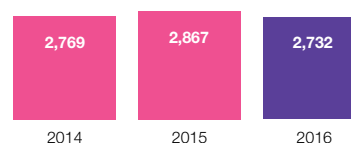
### Top raw materials

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

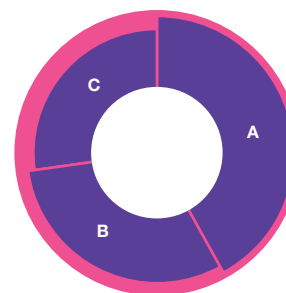
### Key cost drivers

- 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	42
B Americas	31
C Asia Pacific	27



# MAKING SHIPPING MORE SUSTAINABLE

FUEL COSTS ARE THE SINGLE BIGGEST OPERATING EXPENSE FOR ALL MAJOR SHIP TYPES. IT'S A FINANCIAL CONUNDRUM THE SHIPPING INDUSTRY HAS NEVER BEEN ABLE TO PROPERLY RESOLVE. UNTIL NOW.

Our Marine Coatings business has pioneered Intertrac Vision, an award-winning digital tool which predicts hull performance. It enables ship owners to control costs by making informed choices about the coatings technology they use in order to provide the essential protection they need.

Here's how it works. The software package uses 3.5 billion datasets to provide accurate and transparent predictions on the fuel and CO<sub>2</sub> savings potential of fouling control coatings, prior to their application. It enables our trained consultants to advise owners on multiple coating and application scenarios, clearly explaining the financial and performance benefits of available options before important investment decisions are made.

What's also unique is that predictions are bespoke to specific vessels and are entirely dependent on vessel type, trading route, speed and activity. It therefore offers options to influence all major investment choices, such as preparation levels, coatings preference, scheme selection and even days in dry dock. In an era when big data analytics are powering a shift to outcome-based models, Intertrac Vision has the ability and intelligence to explore and remove performance prediction uncertainties – which is exactly what ship operators want.

Working this closely with customers is fundamental to the way we do business. In Intertrac Vision's case, as well as being able to identify their individual needs, it also helps us to improve our customers' sustainability performance. This aligns perfectly with our Planet Possible sustainability agenda, which puts a clear emphasis on becoming more energy and resource efficient.

Barely a year old, Intertrac Vision is just one example of how advances in digital technology are becoming increasingly relevant to all our businesses. It demonstrates our ambition to lead the market in digital innovation so that we can continue to create everyday essentials that make people's lives more liveable and inspiring.



Click to watch video

# Specialty Chemicals

Our dedication to customers is fundamental to our growth ambitions. It also inspires our commitment to delivering essential ingredients and helped drive our performance and innovation throughout 2016.

Our products are essential ingredients for many aspects of daily life and we thrive on the opportunity to grow with our customers by supplying sustainable solutions that contribute to our mutual success. It's an approach that delivered a series of innovative new products in 2016, all focused on helping to make people's lives more liveable and inspiring.

One of the highlights was our Expancel microspheres being officially approved by the US Food and Drug Administration as a constituent in wine corks. The function within the cork is simple, but crucial – it's the secret ingredient that helps keep wine fresh and tasting as good as possible. It's also good to see positive trends developing for Expancel in various other applications.

Another innovation was Dissolvine M-40. A chelating agent with a readily biodegradable active ingredient (known as MGDA), it will enable detergent makers to meet stringent rules requiring the removal of phosphate builders in their formulations – without affecting performance. Helping customers to develop more sustainable products was also key to the launch of Berol DR-B1. An additive for cleaning products, it's suitable for a wide range of outdoor applications where very low environmental impact is a priority (such as car washes). An additional benefit is that it meets stringent US environmental standards.

It was also pleasing to see our Chelates business make an important contribution to our Human Cities project in Quito,

Ecuador, as part of the UN Habitat III Conference on Housing and Sustainable Urban Development. A large vertical urban garden was created to help transform a bleak expanse of concrete into a colorful and more attractive space for local residents. The garden has no soil and is based on a hydroponic system, which uses our micronutrients to provide essential minerals for the plants.

Two contrasting developments occurred in the Netherlands. Our Salt business discovered issues at its brine field in Hengelo. We are working closely with the authorities and the community and corrective actions are being taken.

Meanwhile, we progressed with preparations for the Deventer Open Innovation Center. Deventer is home to

## “ALL OUR EFFORTS ENABLED US TO FURTHER IMPROVE OUR RESULTS”

**Werner Fuhrmann**  
Member of the Executive Committee  
responsible for Specialty Chemicals

Innovations such as these help to fuel growth and we made good progress, notably in China. Polymer Chemistry announced two investments. A new organic peroxides plant being constructed in Tianjin is due to be operational in late 2018. It will replace our existing plant and increase our capacity. Our other investment was made in Ningbo, where we opened the world's largest unit for making organic peroxides used in the production of crosslinked rubber. Surface Chemistry also opened a new alkoxylation facility in Ningbo. It will provide surfactants for the agrochemical, cleaning, viscose and animal feed industries. In addition, Industrial Chemicals announced a partnership with Atul to construct a new MCA plant in India. This investment is in line with our ambition to grow our geographical footprint.

Safety remains on top of our agenda and it was encouraging that we achieved further improvements in the three key areas of people safety, process safety and product safety as we moved further towards our aim of zero injuries.

Specialty Chemicals' largest RD&I facility and we intend to develop it into one of the country's largest open innovation centers.

Progress was also made in the Netherlands with regard to reducing our carbon footprint. We inaugurated a steam pipeline – based on renewable materials from energy provider Eneco – at our Delfzijl site for the manufacturing of vacuum salt. In addition, we engaged in a long-term commitment to source power from the Krammer wind park being constructed in the Dutch province of Zeeland.

All our efforts enabled us to further improve results, driven by continued emphasis on operational excellence and volume growth. Polymer Chemistry benefited from increased demand in the Americas and Asia and we made good progress in realigning the business' global manufacturing footprint. In Industrial Chemicals, chlor-alkali benefited from the good productivity rates of our factories, including





The Specialty Chemicals Leadership team pictured (in a safe and controlled environment) in the chemistry lab of the St. Nicolaas Lyceum school in Amsterdam, the Netherlands.

the new plant in Frankfurt, Germany. Having completed restructuring and portfolio measures, Pulp and Performance Chemicals is focused on growing its bleaching and performance chemicals activities, while we further strengthened value chains in Surface Chemistry, Polymer Chemistry and Ethylene and Sulfur Derivatives. Having made steady progress in a low-to-no-growth environment, we

are focused on continuous improvement and accelerating our growth momentum as we continue to create everyday essentials for our customers.

Finally, we were pleased to welcome Thierry Vanlancker to AkzoNobel. He succeeded Werner Fuhrmann on February 1, 2017, as Executive Committee member for Specialty

Chemicals, following Werner's decision to retire after 37 years with the company. More details about Mr. Vanlancker's career and experience can be found on our corporate website.



We achieved a return on sales (ROS) of 13.2 percent and return on investment (ROI) of 17.9 percent. These figures were at the upper end of our performance range for 2016-2018 (11.5 to 13 percent and more than 16 percent, respectively).

We delivered our stated objective of growing in line with, or faster than, our markets, although volume growth has been modest. Our volumes saw an upward momentum in the second half of the year. Markets showed very mixed growth levels and the overall sector was stable at best. In this business environment, we remain highly focused and will continue with our approach to build on the foundations we have created. We aim to deliver our performance range by continuing to focus on our strategic actions.

## Actions

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

We prioritize resources and investment capital towards the most attractive opportunities in each of our chemicals platforms. These are based on where we have strong competitive positions, with a specific focus on faster growing geographical markets, such as Latin America, India and China. In these businesses, we are investing to outgrow the market. Examples include:

- Our Bleaching Chemicals platform is expected to benefit from continued growth in the chemically bleached pulp segment in Latin America. Although there are challenges in many sectors of the Brazilian economy, our unique Chemical Island business model delivers a robust performance from both a cost and sustainability perspective. In our niche technologies of expandable microspheres (Expancel) and colloidal silica (Levasil), we are targeting attractive growth and expect this to continue as new applications are being researched and developed
- We are investing selectively in the Surfactants platform. In 2016, the continued low oil prices affected demand in the oil and gas drilling sector. At the same time, in sectors such as personal care and cleaning, we experienced solid growth. Because our surfactants are centered on a few key technology platforms, we can effectively and efficiently leverage our production capacity across all segments and redirect towards growth
- Our north-western Europe Salt-Chlorine platform has a strong position, albeit in a stable market. In this reality, our main strategic focus is on efficient capital expenditure, successful plant utilization and operational excellence. We are also pursuing creative growth opportunities to reinforce our position, particularly where we can utilize our process technology know-how in an asset-light construction. A recent example is our cooperation for salt in Spain, which will enable us to further improve our leadership position in chemical transformation salt, while also offering specialty salt growth opportunities. The business also offers a strong 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 Germany from mercury to membrane technology for the production of potassium hydroxide, chlorine and hydrogen. In MCA (monochloroacetic acid), we signed an agreement for a new joint venture in India

- We have a number of leading positions in our Polymer Chemistry platform. Here we aim to grow and improve our performance by focusing on specific applications 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
- In the Ethylene Oxide platform, our emphasis is on increasing the operational leverage of existing assets to further improve performance. We have been successful in investing for growth in specific applications, such as specialty chelates and Bermocoll cellulosic products

### Drive functional excellence

We focus on increasing productivity and efficiency across our business, both in supply chain and operations, as well as commercial excellence. A strong talent management approach utilizing AkzoNobel's global HR processes underpins our efforts. Having delivered significantly on efficiency in recent years, we are redirecting our functional excellence programs to also drive organic growth:

- Specialty Chemicals continues to implement the AkzoNobel Leading Performance System (ALPS) in supply chain and operations. This operational excellence program drives targeted improvements in customer satisfaction and safety, as well as key value metrics, and also creates increased capabilities at our capacity constrained operations to unlock new volumes
- Our commercial excellence program supports our organic growth strategy. We target four commercial growth drivers: customer retention, key account management, higher growth markets and new channels to (new) customers



- We recruit and engage high quality individuals and drive programs to develop a strong and diverse talent pipeline. We see tangible gains from new learning and development programs and our new performance management approach. Across all functions and geographies, there are increasing levels of professionalism and diversity. Our employees are highly engaged, which is underpinned by our further improved score in the annual ViewPoint engagement survey

### Strengthen product and process innovation

Our product and process innovation agenda is robust and builds on a number of key trends and customer requirements. These include resource preservation, increasing end-use demands, accelerated technology development and changing demographics/spending patterns. We have overarching technology programs around process technology, shared applications and bio-based chemicals, as well as specific development programs supporting our platforms. Our R&D approach has a major sustainability focus, in line with our Planet Possible agenda. We also foster collaborative approaches. A letter of intent for the creation of a multi-stakeholder Deventer open innovation center in the Netherlands was signed on June 16, 2016.

Some examples of product and process innovations are:

- Improved agricultural adjuvants (Surfactants platform) that enhance the effectiveness and eco-profiles of crop protection to key customers
- An enhanced production, properties and environmental profile for our Expancel product range. For example, adding Expancel microspheres to wine corks delivers the water-tight barrier, elasticity and resilience of natural cork, with lower impurities and absorption, reducing cork taint and helping wine last longer



In 2016, a consortium of four companies in the Netherlands – led by AkzoNobel – agreed to source power from the Krammer wind park once it becomes operational in 2019. The partners (including Google, Philips and DSM) will purchase a total of 350 million kWh a year, equivalent to the total annual consumption of 100,000 Dutch households.

### Capitalize on industry changes

We are externally focused and adjust our strategy and footprint to respond to changing environments, including the following:

- Although growth rates are lower than they have been, China is still growing at high levels. We are responding to changes by strengthening our existing local production capacity with new investments to serve local markets
- We are continuing to respond to growth in pulp production in Brazil by constructing closed loop, highly sustainable, local production capacity for our Bleaching Chemicals business
- We are building a stronger local organization and presence in India to capitalize on new demand

### Continued drive for stronger sustainability profile

We aim to reduce 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. We have also engaged in a long-term commitment to source power from the Krammer wind park being constructed in the Netherlands. Renewable energy accounts for 40 percent of AkzoNobel's overall energy consumption.



# Specialty Chemicals value creation summary 2016

## Economic value: Organization

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.

The aim is to help us create economic, social and environmental value. Social value can be increased by our continued focus on safety, as well as our talent development programs and our contribution to various community activities.

All these initiatives are designed to play a role in contributing to our financial performance and enable us to deliver more economic value for our investors.

**€4.8 billion**

revenue

**€629 million**

EBIT

**€3.5 billion**

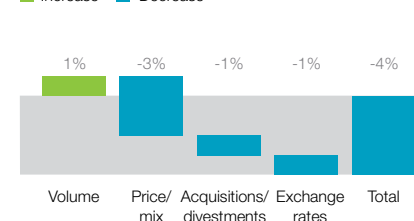
invested capital

**€356 million**

capital expenditures

During 2016, we invested in several asset integrity and efficiency improvement projects, as well as growth projects for specific segments. In 2016, we officially opened two new plants at our Ningbo multi-site, where Polymer Chemicals commissioned the world's largest dicumyl peroxide (DCP) plant and Surface Chemistry inaugurated a new finishing (alkoxylation) plant.

Revenue development in % versus 2015



## Environmental value: Input

**3.2 million tons**

upstream CO<sub>2</sub>(e) emissions

**90,600 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

**9,000**

employees at year-end 2016

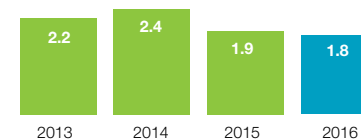
## Organization

**1.8**

total reportable rate of injuries (per million hours)

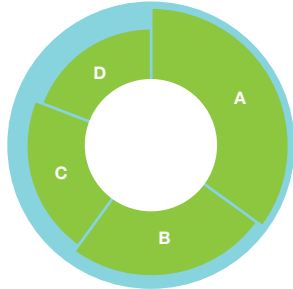
Employee safety is a key priority and we are actively driving towards a reduction in the number of incidents.

Total reportable rate of injuries per million hours worked



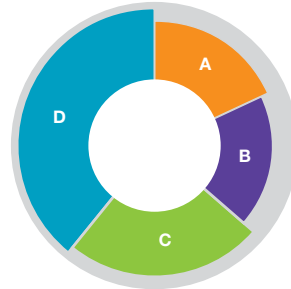
## Outcomes

Revenue breakdown by business unit  
in %



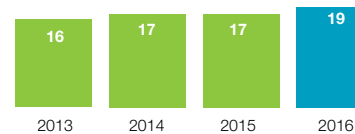
A Functional Chemicals	35
B Industrial Chemicals	25
C Surface Chemistry	21
D Pulp and Performance Chemicals	19

Revenue breakdown by end-user segment  
in %



A Buildings and Infrastructure	21
B Transportation	6
C Consumer Goods	28
D Industrial	45

Eco-premium solutions with customer benefits  
% of revenue



↑ **13.2% ROS**

↑ **17.9% ROI**

↑ **19%**  
of revenue from eco-premium solutions

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

## Outcomes

**3.3 million tons**  
CO<sub>2</sub>(e) emissions own operations

**1.9 million tons**  
downstream CO<sub>2</sub>(e) emissions

**8.4 million tons**  
CO<sub>2</sub>(e) emissions cradle-to-grave

↑ **9%**  
improvement CO<sub>2</sub>(e) per ton of sales from 2012 cradle-to-grave carbon footprint

**58 kilotons**  
total waste

## Outcomes

**€761 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.

**4.22**  
employee engagement score

We participate in community programs and local sponsorships.

- Indicates a positive development
- Indicates a flat/negative development

# Key business developments

## Functional Chemicals

- Positive volume development, especially in Asia, where logistical issues in Tianjin, China, were resolved. We also delivered strong growth in building and construction related segments
- We inaugurated the largest dicumyl peroxide (DCP) facility in the world at our Ningbo site in China. It will serve the global market for the crosslinking of plastics and rubbers
- Signed investment agreement with Tianjin government in China to relocate and expand our existing operations in the area. We are building a new €90 million facility
- We continued to invest in our sites at Los Reyes (Mexico) and Pasadena and Battleground in the US to enhance supply reliability and create more value for customers
- A partnership agreement was signed to license our carbon disulfide technology for the viscose staple fiber industry in Indonesia, which will help to further strengthen our position in the region
- Several innovations were introduced offering sustainable advantages for our customers, including Dissolvine M-40 for the detergent industry

### Key brands



### Chemical platforms

Polymer Chemistry and Ethylene Oxide Network

### Some of our customers

- Air Products
- Fenzi
- FMC Corporation
- Formosa
- Henkel
- Procter & Gamble
- SABIC
- Yara

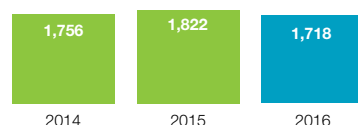
### Top raw materials

- Ethylene
- Acid chlorides, chloroformates
- Polymer emulsions
- Ammonia, hydrogen cyanide
- Sulfur

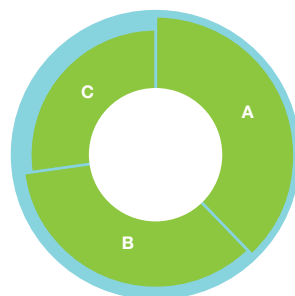
### Key cost drivers

- Ethylene
- Energy
- Sulfur

### Revenue in € millions



### Geo-mix revenue by destination in %

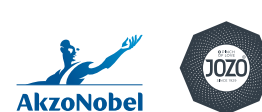


A EMEA	38
B Americas	35
C Asia Pacific	27

## Industrial Chemicals

- We achieved volume growth, despite challenging market conditions
- Chlor-alkali and chloromethanes benefited from increased capacity in Frankfurt, Germany, and gaining European market leadership in chloromethanes
- Our cooperation in Spain – to convert a salt-based waste stream from a potassium mine into high quality vacuum salt – started. This will enable our industrial and specialty salt businesses to grow significantly
- We formed a joint venture with chemical company Atul to build a world-scale MCA plant in Gujarat, India. The first phase will start up in 2018
- Our sustainability profile improved as a result of steam off-take from waste wood in Delfzijl, the Netherlands. We're also working on a waste-to-chemicals project in Rotterdam

### Key brands



### Chemical platform

Salt-Chlorine chain

### Some of our customers

- Covestro
- Huntsman
- Shin-Etsu

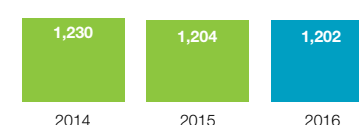
### Top raw materials

- Energy
- Acetic acid
- Salt

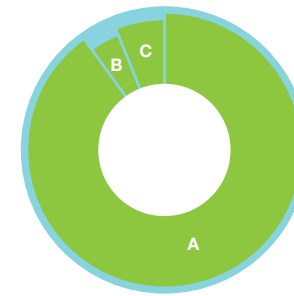
### Key cost drivers

- Energy
- Methanol

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	90
B Americas	4
C Asia Pacific	6



## Pulp and Performance Chemicals

- Bleaching chemicals volumes were slightly down, due to downtime at several major pulp customers in Brazil. Performance chemicals volumes were up
- Following a successful joint venture acquisition, the EkO Peroxide activities were integrated into our North American Bleaching Chemicals business for the production of hydrogen peroxide
- Major product launches included a new Expancel application for use in wine corks, which received approval from the US Food and Drug Administration
- A sustainability pilot study focused on printed books was carried out using the company's four-dimensional profit and loss (4D P&L) reporting methodology. The results formed the foundation for our company-wide 3D P&L assessment
- A large scale transformation of the integrated supply chain has taken place. It is designed to make us more efficient in production, logistics and supply, as well as enabling cost reduction and increased productivity

### Key brands



### 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

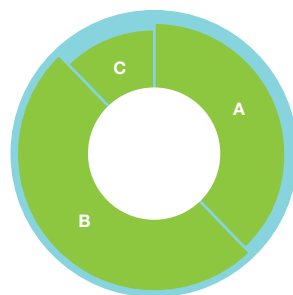
### Key cost drivers

- Energy
- Logistic costs

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	38
B Americas	50
C Asia Pacific	12

## Surface Chemistry

- Developments in various market segments saw volume gains in many markets being offset by decreases in oil-related segments
- Sales in Europe increased, continuing their positive development, while growth in Asia also improved significantly
- Low oil prices impacted our North American business
- We launched an essential ingredient for a lubes and fuels customer which improves the efficiency of large ships
- A new alkoxylation plant was opened in Ningbo, China, which will enable us to better serve our customers in the region

### Key brands



### Chemical platform

Surfactants

### Some of our customers

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

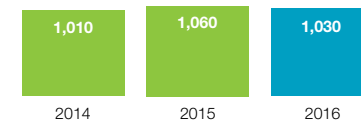
### Top raw materials

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

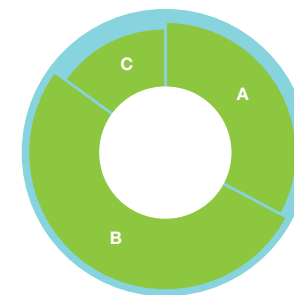
### Key cost drivers

- Natural oils and fat
- Ethylene
- Oil and gas

### Revenue in € millions



### Geo-mix revenue by destination in %



A EMEA	33
B Americas	52
C Asia Pacific	15

# SERVING OUR CHEMICALS CUSTOMERS **IN CHINA**

AS ONE OF THE BIGGEST AND MOST VIBRANT MARKETS IN THE WORLD, CHINA IS AT THE FOREFRONT OF MANY OF TODAY'S MOST EXCITING NEW DEVELOPMENTS. IT'S A CENTER FOR INNOVATION AND A MAJOR GLOBAL BUSINESS HUB.

It's an irresistible combination, one which has seen the country become firmly established as one of the world's most attractive investment opportunities. The chemical industry in particular has been drawn to China, where the demand for more innovative products and solutions has never been stronger.

Our Specialty Chemicals business continues to have a strong and growing presence in China, having adapted to today's fast-paced business environment to build a manufacturing base that's focused on meeting ever-changing customer needs.

With demand for the essential ingredients we create increasing all the time, being closer to your customers is becoming ever more important. Our footprint in China reflects this, with Specialty Chemicals having invested more than half a billion euros in the region over the last eight years.

The business' biggest facility in China is the Ningbo multi-site, which has quickly developed into one of the country's most strategic chemical production hubs. First opened in 2008, around 500 people now work at the site and produce essential ingredients including chelates, ethylene amines and organic peroxides.

During 2016, two new plants were inaugurated in Ningbo – an alkoxylation facility which will primarily cater to the domestic demand in China's agrochemical and personal care markets; as well as the world's largest unit for making organic peroxides that are used to crosslink plastics and rubbers.

We also announced the relocation and expansion of a large organic peroxides factory in the Tianjin region. The €90 million facility – to be located in the Nangang Chemical Park – will utilize state-of-the-art technology that meets new and more stringent safety and environmental standards introduced by the Chinese government. The new plant will see capacity increases in all of its production units, which will help us to match the increase in customer demand we expect in the next five years. It's expected to be operational in late 2018.

Our investments in China this year underline our commitment to accelerating our organic growth ambitions and strengthening our competitive edge. As one of our most strategically important markets, it will continue to play a vital role in helping our customers make people's lives more liveable and inspiring.





Click to watch video



# A WORLD CLASS EXAMPLE OF MARITIME HERITAGE CONSERVATION



# 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 2016.

Our Board of Management and Executive Committee	88
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Our Supervisory Board	91
Supervisory Board Chairman's statement	92
Report of the Supervisory Board	94

An icon of Scottish shipbuilding was restored in 2016 with help from our International marine coatings. Our products were used to protect the famous TS Queen Mary steamship, which is being transformed into one of the UK's largest interactive maritime exhibits.



# Our Board of Management and Executive Committee

## 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's in Business Administration from IMD in Lausanne. His early career in the oil and gas construction industry involved roles at Allseas Engineering and AkerKvaerner. He is a non-executive Director of Novartis AG.

## 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 a degree in Engineering at Ecole Centrale Paris. She also has a Master's 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.

## Ruud Joosten

**Member of the Executive Committee responsible for Decorative Paints** (1964, Dutch)  
After graduating from Amsterdam Free University with a Master's 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.

## 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.

## Werner Fuhrmann<sup>1</sup>

**Member of the Executive Committee responsible for Specialty Chemicals** (1953, German)  
Werner Fuhrmann was appointed as an executive committee member in 2012. He was previously Head of Integrated Supply Chain, and before that he was 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 to 2015. Currently he is a Board member of both the European Chemicals Association (Cefic) and American Chemistry Council.

<sup>1</sup> As of February 1, 2017, Thierry Vanlancker succeeded Werner Fuhrmann.

## 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.

## 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.



For further information please visit our website: [akzonobel.com/management](http://akzonobel.com/management)



**From left to right:**  
Standing – Conrad Keijzer, Marten Booisma, Ton Büchner, Werner Fuhrmann.  
Sitting – Ruud Joosten, Sven Dumoulin, Maëlys Castella.





# 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 2016 report, 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 2016 give a true and fair view of our assets and liabilities; our financial position on December 31, 2016; and the result of our consolidated operations for the financial year 2016
- The management report in this Report 2016 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, is 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 2016 does not contain any errors of material importance
- Have worked properly during the year 2016

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

In 2017, AkzoNobel anticipates positive developments for EMEA, North America and Asia, improving during the year, while Latin America is expected to stabilize. Some economic and political uncertainty is expected to continue. Market trends experienced in the second part of 2016, including for the marine and oil and gas industries, are expected to continue in the first half of 2017.

The company has structurally improved its ability to respond to developments in its markets and is taking measures to deal with higher raw material prices in an inflationary environment. This stronger operational and financial foundation means AkzoNobel is more agile and better able to seize growth opportunities, including acquisitions. The company maintains its financial guidance for 2016-2018.

Amsterdam, February 14, 2017  
The Board of Management

# 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.; Former Chairman of TNT Express N.V.; Former Non-Executive Director BP plc.; Member of the Supervisory Board of Jumbo Group Holding B.V.; Member of the Supervisory Board of SHV Holdings N.V.

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



**Sari Baldauf**

(1955, Finnish)

**Initial appointment: 2012**

**Current term of office: 2016-2020**

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

- Chairman of the Remuneration Committee
- Chairman 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; Former non-executive Director Axfood A.B.; Non-executive Director of 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**

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

- Deputy Chairman of the Supervisory Board
- Chairman of the Audit Committee



**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 Boards of Directors of ABB group and Nokia Corporation; Executive Advisor of Wind Point Partners

- Member of the Audit Committee



**Pamela Kirby**

(1953, British)

**Initial appointment: 2016**

**Current term of office: 2016-2020**

Non-executive Director at Reckitt Benckiser plc.; Non-executive Director at Hikma Pharmaceuticals plc.; Non-executive Director at DCC plc.; Senior Independent Director Victrex plc.

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



**Dick Sluimers**

(1953, Dutch)

**Initial appointment: 2015**

**Current term of office: 2015-2019**

Former CEO of APG Group; Member of the Supervisory Boards of Atradius N.V., NIBC Bank N.V. and Euronext N.V.; Trustee of the Erasmus University Trust; Member of the Board of Governors of the State Academy of Finance and Economics

- 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.; Non-executive Director of Ofcom

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



# Supervisory Board Chairman's statement

AkzoNobel can reflect on a year of progress on several fronts as the company continued to supply everyday essentials for customers and consumers while helping to create a more sustainable world. There was a keen focus on innovation and starting to accelerate the digital agenda, while sustainability was further embedded into all aspects of the company's global activities. The next phase of the strategy – announced in late 2015 – is proving to be effective as AkzoNobel continues to create value for shareholders and move towards its vision of leading market positions delivering leading performance.

As a Supervisory Board, we are committed to the company's long-term value creation and focus on accelerating its growth and achievements in areas such as innovation, product stewardship, climate strategy and employee engagement. Accordingly, sustainability remains fundamental to AkzoNobel's business strategy. Following the COP 21 Paris Agreement to limit global temperature rises and corresponding carbon emissions, we consider the company to be well placed to contribute to the achievement of low carbon and climate resilient development. AkzoNobel prioritizes carbon footprint management throughout the value chain and leverages social and environmental value creation to drive economic performance. The Supervisory Board views this as a competitive advantage, particularly as demand for eco-premium solutions increases within the company's end-user segments, and as competitors begin to internalize the costs associated with the environmental impact of their operations.

AkzoNobel's sustainability agenda is a key element of the next phase of the company's strategy, which was explained in detail at the 2016 Annual General Meeting of shareholders (AGM). As the company pursues its growth strategy and progress continues to be made towards the vision of leading market positions delivering leading performance, the Supervisory Board has a constructive, advisory and analytical role in overseeing management's formulation and implementation of this strategic goal. This includes monitoring the company's contribution to the UN Sustainable Development Goals (see page 16) and the progress being made with both the Planet Possible sustainability agenda and the global Human Cities initiative.

Establishing strong market positions will become increasingly important in light of the uncertainties of the global economic environment. In 2016, we witnessed a number of global events which contributed to the complexity of this environment and the markets in which the company operates. Such events reinforce the need for comprehensive risk awareness on the part of the Supervisory Board.

Throughout the year, we paid particular attention to AkzoNobel's preparedness to meet future developments and uncertainties as and when they arise. A thorough review of management's five-year outlook for the company took place, along with a complete budget review process for 2017. In addition, we continued to review and scrutinize the most significant risks facing the businesses, with the Supervisory Board's Audit Committee continuing to oversee and monitor the company's systems of internal control and risk management. The Supervisory Board also considered ongoing compliance matters and reviewed and approved the company's business partner compliance framework. Another area of particular focus during 2016 was cyber security. Both the Audit Committee and the Supervisory Board have received regular updates from the company's Information Management function on its digital strategy and cyber security roadmaps.

When assessing performance, the Supervisory Board has taken a 360 degree approach, both generally and in terms of management's progress against specified targets. We continued to receive Business Area performance updates at each Supervisory Board meeting, and these were discussed and analyzed, along with regular updates on the performance of the various functions. In addition, the Supervisory Board has assessed progress against the company's peers through regular in-depth competitor analyses and assessment of the key performance indicators. We received the condensed financial statements of the company on a quarterly basis and, following review and comment from the Audit Committee, the Supervisory Board approved quarterly financial result publications.

The resulting confidence which the Supervisory Board holds in the company's current performance, and its readiness for the future, is reflected in the recommendation of an increased dividend for shareholders for the financial year 2016. This will be the second year in succession we have proposed increasing dividend distributions. It also reflects our commitment to the stated dividend policy of delivering stable to rising dividends. The share buyback announced

at the end of 2016 will neutralize the dilutive effect of stock dividends paid in 2016. The Supervisory Board believes this dividend policy remains appropriate in light of the company's financial position and the corporate strategy. We continue to take a diligent approach in assessing the dividend policy and balancing its attainment with the need for growth-oriented investments.

With regard to its own performance and effectiveness, in 2016 the Supervisory Board underwent training on compliance and human rights. The Supervisory Board also elected to undergo a second consecutive external evaluation with regard to its performance. This external evaluation further developed the feedback which the Supervisory Board and its committees received in their 2015 evaluation, as well as providing a follow-up on the actions derived from that evaluation. This year's evaluation highlighted the importance of Supervisory Board involvement in matters of cyber security and specific areas of the corporate strategy. Its findings were taken forward and incorporated into the work and agenda of the Supervisory Board throughout the year.

During 2016, the Nomination and Remuneration Committee also assessed the performance of individual members of the Board of Management and Executive Committee and issued recommendations to the Supervisory Board accordingly. Our positive appraisal of the current management profile was demonstrated by our nomination of Mr. Ton Büchner for reappointment at the 2016 AGM for a second term as CEO of AkzoNobel. In addition, the continued commitment and contributions of Ms. Baldauf and Mr. Verwaayen were secured for a further four years by their individual reappointments as members of the Supervisory Board at the AGM.

At the same meeting, following a comprehensive candidate search and subsequent recommendations from the Nomination Committee, the Supervisory Board proposed Dr. Pamela Kirby for appointment as a new Supervisory Board member. Dr. Kirby has a strong background in the chemicals and pharmaceutical industries, among others.

Following her appointment and induction, the Supervisory Board chose to assign her as a member of the Supervisory Board's Remuneration and Nomination Committees. The Supervisory Board also welcomed the CEO's appointment of Mr. Thierry Vanlancker to the Executive Committee as successor to Mr. Werner Fuhrmann. Mr. Fuhrmann will retire from the company in 2017 and, following approval from the Supervisory Board, Mr. Vanlacker assumed responsibility for the Specialty Chemicals Business Area in February 2017.

To underpin a consistent and structured approach to succession planning, the Supervisory Board and Nomination Committee continue to oversee the company's talent management initiatives and their development. Both the Nomination Committee and the Supervisory Board have received updates from Human Resources on talent management during the year and, in particular, have promoted the development of a talent pool for internal management succession.

With regard to Supervisory Board succession planning, the Nomination Committee proposed the introduction of a Supervisory Board skills matrix to assist gap analyses of the Supervisory Board profile. Recommendations for succession and reappointment were made after careful consideration of both the profile and the skills matrix (see page 102). During 2016, these succession processes resulted in the appointment of Ms. Baldauf as Chair of the Nomination Committee and Mr. Byron Grote as Deputy Chairman. In case of my absence or inability to act, Mr. Grote will perform the tasks and exercise the powers associated with my role, in accordance with the company's corporate governance framework. You can find full details of the company's corporate governance framework – including information on the remuneration policy, compliance codes and systems, integrity management and shareholder relations – in the Governance and compliance section of this Report 2016.

The Supervisory Board has taken first steps to assess the scope of the changes required by the new Dutch Corporate Governance Code, including the impact they may have on

AkzoNobel's current corporate governance framework. I am confident that the company is either already meeting the new requirements, or is adequately prepared to make relevant changes in order to meet them. Where changes are made, these will be reported in the annual report for the relevant year and discussed at the subsequent AGM.

I would like to conclude by expressing my gratitude for the diligence, cooperation and teamwork demonstrated by my fellow Supervisory Board members during 2016. Together, we would also like to thank the company's CEO, Ton Büchner, the CFO, Maëlys Castella, the other members of the Executive Committee and all employees for their commitment and hard work throughout 2016.



**Antony Burgmans**  
Chairman of the Supervisory Board

# Report of the Supervisory Board

## Meetings

The Supervisory Board held eight meetings during 2016. Six were plenary sessions with the full Executive Committee present for all or part of the meetings. The Board of Management attended all eight meetings, while two meetings were held without the full Executive Committee present. 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. The Supervisory Board also regularly held executive sessions without the CEO present. 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 responsible 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	7/8	–	3/3	5/5
Sari Baldauf	8/8	–	3/3	5/5
Peggy Bruzelius	6/8	5/6	–	–
Byron E. Grote	8/8	6/6	–	–
Louis Hughes	8/8	6/6	–	–
Pamela Kirby*	5/5	–	2/2	2/2
Dick Sluimers	8/8	6/6	–	–
Ben Verwaayen	7/8	–	1/3	4/5

The table indicates the meeting attendance for the Supervisory Board (SB), the Audit Committee (AC), the Remuneration Committee (RC) and the Nomination Committee (NC).  
\* Appointed April 2016

## Supervisory Board activities 2016

Q1	Q2	Q3	Q4
<ul style="list-style-type: none"> <li>Review Q4 2015 financials and performance</li> <li>Financial statements and profit allocation</li> <li>Final dividend 2015</li> <li>Business Area reviews</li> <li>Review acquisition of BASF's Industrial Coatings business</li> <li>Remuneration target setting</li> <li>Risk management: Risk session outcomes</li> <li>Talent management and succession planning</li> <li>Nomination of Supervisory Board candidate Dr. Kirby</li> <li>Nomination of CEO Mr. Büchner for reappointment to the Board of Management</li> <li>CEO, CFO and Executive Committee evaluation and target setting</li> <li>Competitor analyses</li> </ul>	<ul style="list-style-type: none"> <li>Review Q1 2016 financials and performance</li> <li>Business Area reviews</li> <li>Annual General Meeting 2016</li> <li>Strategy reviews: Human Resources, Information Management (including cyber security)</li> <li>Market update and Business Area strategy updates</li> <li>Sustainability strategy review</li> <li>Review forward planning and five-year outlook</li> <li>Risk management: Enterprise risk management update</li> <li>External evaluation of Supervisory Board and Committees</li> <li>Competitor analyses</li> </ul>	<ul style="list-style-type: none"> <li>Review Q2 2016 financials and performance</li> <li>Business Area reviews</li> <li>Strategic scenarios analysis and potential M&amp;A activities</li> <li>Functional and business strategy review</li> <li>Sustainability update and review of DJSI performance</li> <li>Risk management: implementation of risk mitigating measures</li> <li>Country visit to UK, including Brexit analysis and site visits</li> <li>Competitor analyses</li> </ul>	<ul style="list-style-type: none"> <li>Review Q3 2016 financials and performance</li> <li>Business Area reviews</li> <li>Remuneration policy review</li> <li>Performance and budget planning</li> <li>Interim dividend 2016</li> <li>Supervisory Board succession planning</li> <li>Appointment Mr. Grote as Deputy Chairman of Supervisory Board</li> <li>Appointment Ms. Baldauf as Chairman of Nomination Committee</li> <li>Executive succession planning</li> <li>Strategy reviews: Digital, Supply Chain</li> <li>Talent management</li> <li>Compliance training: Human rights</li> <li>Budget and operational plan 2017</li> <li>Competitor analyses</li> <li>Strategic scenario analysis</li> <li>Review share buyback program</li> </ul>

The table provides an overview of relevant topics discussed and reviewed in Supervisory Board meetings in 2016



## Strategy reviews

During 2016, the Supervisory Board continued to allocate adequate time at each Supervisory Board meeting to discuss strategic activities. This included detailed Business Area analyses and functional and operational strategy updates.

The company's continued pursuit of operational excellence and efficiencies, the implementation of the Global Business Services (GBS) model and restructuring of functional departments were all areas of focus. In addition, the company's digital strategy was reviewed and strategy updates were received from Information Management, Human Resources and Sustainability.

The Supervisory Board received comprehensive market updates, considered the company's five-year outlook and advised, reviewed and approved the transition to the next phase of the company's long-term strategy. During the 2016 AGM, it was highlighted that this strategy included the pursuit of value generating acquisitions and the Supervisory Board has had a diligent analytical role to play in the company's assessment of such acquisition opportunities during the year.

In February 2016, after a period of careful consideration and detailed analysis by the Supervisory Board, the company announced its intention to acquire the Industrial Coatings business of BASF for an amount of €425 million (after closing adjustments and working capital requirements). The Supervisory Board supported the proposed acquisition in light of the synergies with AkzoNobel's Performance Coatings business and the market positions it would help to deliver.

## Sustainability

The Supervisory Board wishes to draw specific attention to sustainability as an aspect of its work during the year. Although an integral part of all elements of the company's business, it is particularly relevant in light of the United Nations Conference of the Parties (COP21) Paris agreement

to limit global temperature rises and carbon emissions. This agreement, reached in late 2015, was a substantial achievement and specified Nationally Determined Contributions which have the potential to impact the markets in which the company operates. The Supervisory Board considers it likely that the agreement will lead to increased demand for carbon reducing products, technologies and innovations, and that it will enhance the competitive advantages of resource efficiency and carbon footprint reduction. For this reason, the Supervisory Board has continued its long-standing incorporation of eco-premium solutions, resource efficiency and cradle-to-grave carbon reduction in its target setting, its assessment of corporate strategy and initiatives, and its assessment of investment opportunities proposed by management.

Given its integral importance, AkzoNobel's sustainability program is both cross-Business Area and cross-functional, impacting all segments of the company's business. The Supervisory Board's reviews of sustainability therefore address both functional and Business Area management teams, including Procurement, Supply Chain, and Research, Development and Innovation, in addition to all three Business Areas. The company also maintains a Sustainability Council led by the CEO. The council advises the Executive Committee on sustainability developments. More information on its role can be found in the Governance and compliance section and the Sustainability statements of this Report 2016.

During the year, the Supervisory Board received updates on eco-premium solutions, cradle-to-grave carbon footprint, the Resource Efficiency Index, eco-efficiency, safety performance, diversity and talent management. It also assessed whether all functions have targets that complement and promote sustainability and long-term business viability.

A particular feature of the Supervisory Board's sustainability agenda during 2016 has been to address, oversee and review management's actions in light of the company's

position in the Dow Jones Sustainability Index rankings. The company's lower ranking in 2016 must be considered in light of its 11 consecutive years on the index, and its four consecutive years as the top performer. Nevertheless, the Supervisory Board is keen to see management addressing the decline during the year and accordingly will continue to pursue improved performance in areas such as eco-efficiency.

The company's sustainability performance drives AkzoNobel to be an industry leader in areas such as innovation, product stewardship, climate strategy and employee engagement. This comprehensive and rounded approach to sustainability and long-term value creation is a feature of AkzoNobel's business and is engrained in the company's 2020 sustainability strategy, its Planet Possible agenda and Human Cities initiative. During 2017, the Supervisory Board will also assess the company's 2025 sustainability targets and strategy in this regard.

## Performance and budget planning

The Supervisory Board pursued a detailed approach to assessing corporate and management performance during the year. Individual Board of Management and Executive Committee performance was addressed in Supervisory Board meetings following recommendations from the Remuneration Committee. Further details can be found in the report of the Remuneration Committee in this section.

Discussions on corporate performance are held at each Supervisory Board meeting. These discussions include Business Area reviews and performance updates from corporate functions. Forward-looking targets were also addressed in light of these reviews and both the proposed budget and operational plan for 2017 were provided for the Supervisory Board's review and approval in the final quarter of the year. The Supervisory Board took a diligent approach to assessing these plans, taking into account the prevailing market conditions and the five-year outlook. Following this assessment, the Supervisory Board has approved the proposed budget and operational plan for 2017.

During 2016, the Supervisory Board was pleased to see the company continuing to benefit from management's strategic initiatives, including cost reductions through enhanced efficiencies and operational excellence. This led to profitability improvements during the year, despite adverse and uncertain economic market conditions. The nature of this performance provided a basis for the Supervisory Board's approval of the proposal to increase the dividend for the year 2016. Further details on the 2016 dividend proposal are provided in the Financial statements and profit allocation paragraph on page 98.

### Risk management

The Supervisory Board views risk management as an essential mechanism, not only for safeguarding the business and assets of AkzoNobel, but also for securing versatility and long-term performance and value creation. Risk management updates were received throughout the year as the Supervisory Board sought to assure itself of the robustness of the company's risk mitigation and internal controls. As an aspect of these assurances, the Supervisory Board considered the company's business continuity planning and information technology continuity plans. Cyber security has been an increasing focus for the company and, during the year, the Supervisory Board received and scrutinized updates on the implementation of the company's cyber security roadmap as an aspect of its information management strategy.

The Board of Management and Executive Committee maintain the risk management framework and system of internal controls. The company's governance risk and compliance functions, including its in-control team and enterprise risk management function, undertake comprehensive global risk assessment processes and workshops. The results of these have been used to prepare risk scenarios, which in turn were used to assess the appropriateness of the controls and mitigation measures for the top risks facing the company. Implementation of risk mitigating measures was subsequently monitored by the Supervisory Board during the year by means of risk updates

and reviews at proceeding Supervisory Board meetings. Further details are included in the Risk management chapter in the Strategic performance section.

### Corporate governance

The Supervisory Board is aware of the forthcoming revisions to the Dutch Corporate Governance Code (the Code). The potential impact of any changes in preparation for the implementation of the revised Code has been assessed. The Supervisory Board is satisfied that the company is either already meeting the requirements of the revised Code, or is well placed to implement the revisions on a "comply or explain" basis. Where changes to the corporate governance framework of the company are undertaken by virtue of the requirements of the revised Code or otherwise, they will be reported in the annual report for the relevant financial year and discussed at the subsequent AGM.

### Country visit

In 2016, a visit to Newcastle in the UK took place. The visit was also attended by the Board of Management and Executive Committee. It provided an opportunity for the Supervisory Board to meet and hear from company leaders and receive updates on Business Area operations in the UK. It also included visits to the new Decorative Paints facility in Ashington and the Performance Coatings site and laboratories in Felling. This visit took place in September and was all the more relevant given the recent UK referendum decision to leave the European Union (or so-called Brexit). The Supervisory Board used this occasion to receive detailed analysis on operational and market risks resulting from the UK referendum vote decision. This input has subsequently been incorporated into the Supervisory Board's ongoing risk awareness. It will continue to form a backdrop to our oversight of management's preparedness for the ultimate departure of the UK from the European Union.

### Talent management and succession planning

Throughout 2016, the Supervisory Board continued its focus on talent management. Analysis of executive succession planning was carried out and, following a recommendation

from the Nomination Committee, an extensive review of the executive talent pool was undertaken. The aim of the talent pool is to promote senior level talent development and secure executive level succession over the long term. Further details can be found in the report of the Nomination Committee on page 101. This talent pool will continue to be monitored by the Nomination Committee and the full Supervisory Board.

During the year, following a recommendation from the Nomination Committee, the Supervisory Board was pleased to nominate the CEO, Mr. Ton Büchner, for reappointment at the AGM in April. Mr. Büchner was appointed for a second four-year term by the AGM.

The Supervisory Board also considered the CEO's appointment of Mr. Thierry Vanlancker as Executive Committee member responsible for Specialty Chemicals. Following the Supervisory Board's approval, Mr. Vanlancker joined the company in October 2016 and succeeded Mr. Werner Fuhrmann as the Executive Committee member responsible for Specialty Chemicals in February 2017. Mr. Fuhrmann decided to retire after 37 years with AkzoNobel.

The Supervisory Board also took the time to discuss its own composition and succession plans in order to ensure appropriate candidates are nominated for appointment and succession at the AGM. In support of these discussions, the Supervisory Board has approved the preparation and publication of a Supervisory Board skills matrix under recommendation from the Nomination Committee. The Supervisory Board skills matrix can be found on page 102.

The Supervisory Board's discussions led to the appointment of Mr. Byron Grote as Deputy Chairman of the Supervisory Board and Ms. Sari Baldauf as Chairman of the Nomination Committee, as well as the nomination of Dr. Pamela Kirby as a candidate for appointment as member of the Supervisory Board. Dr. Kirby has a background of scientific and business expertise and leadership spanning a variety of industries, notably chemicals and pharmaceuticals. Her appointment

was approved by the AGM in April. She underwent a comprehensive induction to AkzoNobel – including one-on-one meetings with the CEO, CFO and all other Executive Committee members. The Supervisory Board appointed Dr. Kirby to the Remuneration and Nomination Committees upon recommendation from the Nomination Committee.

### Supervisory Board evaluation

The Supervisory Board continued to engage in its own ongoing development and an important preparatory aspect of this was the Supervisory Board evaluation. The evaluation provides an assessment of its effectiveness, that of its committees and its individual members. In general, this process is undertaken through an internal evaluation of performance. Once every three years, instead of an

internal evaluation, the Supervisory Board undergoes an independent external assessment facilitated by a specialist consultant. (This can take place more frequently if required).

In 2016, the Supervisory Board resolved to undergo its evaluation by means of an external assessment of performance with regard to the year 2015. This was the second year in a row in which the Supervisory Board evaluation was undertaken externally. The external assessment provided a follow up to the findings of the external assessment undertaken during 2015 with regard to the year 2014. The approach to the assessment had two aspects: all members of the Supervisory Board were asked to complete a questionnaire; subsequently, using the results of the questionnaire as a platform for a more in-depth

discussion regarding the effectiveness and performance of the Supervisory Board, its committees, the Chairman and the chair of the relevant committees, a personal interview was conducted with each individual by an external consultant. Items addressed during the evaluation included overall performance, the approach to risk identification, governance structure, composition, succession and talent management.

Following the evaluation process, the Supervisory Board discussed the results and the functioning of the Supervisory Board, the Board of Management, the Executive Committee and the performance of their individual members. As with last year, the Supervisory Board also invited the Board of Management to join part of the evaluation discussion, which was led by the independent external consultant. Conclusions and actions were then 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 progressed in areas such as improved board dynamics, greater emphasis on the Supervisory Board's role in the review of strategy and strengthened interaction, communication and confidence between the Supervisory Board and the whole Executive Committee. Continuous improvement is also a matter for the Supervisory Board and the evaluation highlighted the need for continuous focus on board dynamics on an ongoing basis, and the potential for greater focus from the Supervisory Board on the company's innovative potential. Areas which the evaluation highlighted for improvement will be taken forward in 2017.



The Supervisory Board, accompanied by members of the Board of Management and Executive Committee, visited the company's new Decorative Paints site in Ashington, UK, in September.



## Financial statements and profit allocation

The financial statements of Akzo Nobel N.V. for the financial year 2016 were audited by PricewaterhouseCoopers 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 auditors, to the Supervisory Board.

The financial statements, the report and management letter of the external auditors were discussed by the Audit Committee 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 2016 financial statements of Akzo Nobel N.V. form an adequate basis to account for the supervision provided (see the Financial information section). The Audit Committee monitors the follow-up by management of the recommendations made by the external auditor.

The Supervisory Board recommends that the AGM adopts the financial statements as presented in this Report 2016 and, as proposed by the Board of Management, the proposed total dividend for 2016 of €1.65 per common share outstanding. This represents an increase of 6.5 percent over the previous year and the second year in a row where the Supervisory Board has proposed an increased dividend. This reflects the continued commitment to the company's aim of providing a stable to rising dividend. It is proposed that this amount, less the interim dividend of €0.37 per common share – which was paid in November 2016 – be made payable on May 24, 2017. The dividend will, at the shareholders' discretion within the limits and on the conditions set by the Board of Management, 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 2016 and the members of the Supervisory Board for their supervision in 2016.

To neutralize the dilutive effect of stock dividends paid in 2016, the Supervisory Board approved proposals by the Board of Management to initiate a program of buying back up to 2.5 million common shares.

The program has been approved in accordance with the authorization of the shareholders at the 2016 AGM, whereby the Board of Management has been authorized, subject to the approval of the Supervisory Board, to acquire common shares in the company's share capital. The maximum number of shares that the company is authorized to hold in its own share capital at any one time shall not exceed 10 percent of its issued share capital.

This repurchase program started on January 2, 2017, and is anticipated to be concluded by the end of April 2017. Subject to shareholder approval, it is intended the shares will be cancelled during the course of 2017.



Thierry Vanlancker was named as successor to Werner Fuhrmann as the company's Executive Committee member responsible for Specialty Chemicals, effective February 1, 2017. A Belgian national, he was most recently President of Fluoroproducts for Chemours and has held a number of senior positions both in Europe and the US.

## Audit Committee activities 2016

Q1	Q2	Q3	Q4
<ul style="list-style-type: none"> <li>Review Q4 financial statements and annual results</li> <li>Review annual report and accounts</li> <li>External audit report</li> <li>Review risk management and internal control</li> <li>Final dividend 2015</li> <li>Sustainability and HSE audit findings</li> <li>Welcome of new Internal Auditor</li> <li>Audit Committee evaluation</li> <li>Review full-year compliance report</li> </ul>	<ul style="list-style-type: none"> <li>Review Q1 2016 report</li> <li>Review five-year outlook and planning</li> <li>Review delegations of authority</li> <li>Engagement of external auditor</li> <li>Review year-to-date audit findings</li> <li>Review compliance cases year-to-date</li> <li>Follow up on management letter of KPMG</li> <li>Update on cyber security roadmap</li> <li>Strategy reviews: Treasury, Investor Relations</li> <li>Financial update: Performance Coatings Business Area</li> <li>External audit plan 2016</li> </ul>	<ul style="list-style-type: none"> <li>Review Q2 2016 report</li> <li>Review updates to IFRS and corporate governance standards</li> <li>Review human resource trends year-to-date</li> <li>Update on the company's post-retirement benefit plans</li> <li>Post CAPEX project reviews</li> <li>Review mid-year compliance report</li> </ul>	<ul style="list-style-type: none"> <li>Review Q3 2016 report</li> <li>Recommendation on interim dividend 2016</li> <li>Post CAPEX project reviews</li> <li>Update IM including cyber security</li> <li>Financial update: Decorative Paints Business Area</li> <li>Review compliance cases year-to-date</li> <li>Strategy review Tax</li> <li>Review 2017 outlook and budget</li> <li>Review audit findings year-to-date and hard close audit report</li> <li>Internal Audit plan 2017</li> <li>Dividend direction review</li> <li>Review share buyback program</li> <li>Review of legal liability report</li> </ul>

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## Audit Committee

Mr. Grote has been the chairman of the Audit Committee since his appointment in 2015. The other members of the Audit Committee in 2016 were Mrs. Bruzelius, Mr. Hughes and Mr. Sluimers. All members of the Audit Committee have extensive accounting and financial management expertise. The Audit Committee held six meetings during 2016. The attendance record of the members can be seen in the Supervisory Board attendance chart on page 94. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings.

### External audit

At the 2014 AGM, PricewaterhouseCoopers Accountants N.V. were mandated as external audit firm to audit our annual financial statements, effective January 1, 2016. During the year, they started their work in succession of KPMG Accountants N.V. The transition has been a focus for the Audit Committee during recent years and it has monitored the work of the external auditors closely during this first audit. The Audit Committee held independent meetings with the external auditors and critically reviewed and constructively challenged their audit approach, engagement letter, fees, risk assessment and audit plan for the year ahead. The new external auditors 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 report. Other topics discussed included:

- Follow-ups on the management letter of the departing auditors KPMG Accountants N.V. including progress on the company's cyber security roadmap
- 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, 2016
- The quality of the external audit
- Impact of new accounting standards

The Audit Committee performed the annual review of the services of the external auditor, and at each meeting it considered and assessed the status of the auditor's independence. Further details on the external auditors can be found in the Governance and compliance section.

### Risk management and internal control systems

The Audit Committee reviewed AkzoNobel's overall approach to governance, risk management and internal control framework, its processes, outcomes, financial reporting and disclosures. Regular updates were received from the Board of Management, the Executive Committee, the Auditors and functions in this regard. The Audit Committee was also provided with comprehensive risk and internal control reporting during the year.

During its discussions, the Audit Committee reflected on external risk factors such as the global economic climate and market conditions. In 2016, the Audit Committee was particularly conscious of the company's sustainability reporting and controls in light of the UN COP21 Paris Agreement, which will emphasize the importance of cradle-to-grave carbon footprint analysis, eco-efficiency and resource efficiency. These and other factors are taken into consideration by the Audit Committee when assessing the adequacy of the company's governance, risk management and internal control framework.

### Business Area and function reviews

In fulfilling its oversight responsibilities in relation to risk management and internal control systems, the Audit Committee also received updates from functions throughout the year. These updates also inform the Audit Committee's review of the annual operational plan, including budget. During the year, updates were provided from Accounting and Control, Treasury, Investor Relations, Information Management and Tax. The General Counsel reported regularly to the Audit Committee on compliance and legal matters and activities, including major litigation and liability exposure. The Audit Committee continued to monitor functional initiatives, such as progress on the company's

cyber security road map as an aspect of updates received from Information Management. The Audit Committee also met regularly with other senior executives. The Internal Auditor attended Audit Committee meetings and reported on the assessment of the system of risk management and internal controls.

A feature of the Audit Committee's work in 2016 has also been its attention to Business Area specific financial updates. Updates were received from Business Area financial directors regarding, particular, financial performance and the structuring of internal control processes. This approach to Business Area analysis will be maintained by the Audit Committee in 2017.

### Internal audit plan

In 2016, the Audit Committee reviewed and welcomed the appointment of a new Corporate Director of Internal Audit. This Director reports to the Board of Management, but also directly to the Audit Committee and presents all main audit findings. The Audit Committee was therefore closely consulted on the appointment and oversaw the transition and process of handover to the new Director.

During the year, the Audit Committee approved the internal audit plan and strategy based on assessments of risk and control processes, and agreed on the budget and resource requirements for the department. The Audit Committee also met independently with the Corporate Director of Internal Audit during the year and discussed the results of the audits performed. In 2016, the Audit Committee was satisfied with the effectiveness of the Internal Audit function.

### Results and financial statements

Before each publication of the quarterly results and annual financial statements, the Audit Committee reviewed the financial results. The Audit Committee also reviewed the interim and final dividend proposals and reports and press releases to be published. These were reviewed in addition to the work undertaken by the company's Disclosure Committee in reviewing the company's disclosures of

potentially price sensitive information. Based on these discussions, advice was provided by the Audit Committee to the Supervisory Board in regard to the publications and disclosures, and to the interim and final dividends. All quarterly and annual releases of financial results and any potentially price sensitive public disclosures are approved by the full Supervisory Board prior to publication and release.

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

### Audit Committee evaluation

Every year, the Audit Committee undergoes an 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 (unless it is decided to do so more frequently), the Audit Committee instead undergoes an independent external assessment of its effectiveness and performance facilitated by a specialist consultant.

In 2016, it was decided that the Audit Committee would undergo an external evaluation of its effectiveness and performance with regard to the year 2015. This is the second year in a row in which the evaluation was undertaken externally. The external assessment provided a follow-up to the findings of the external assessment undertaken during 2015 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 emphasized the importance of the Audit Committee's role with regard to cyber security; a matter which the Audit Committee has incorporated into its ongoing agenda. The evaluation also determined that inter-committee communications and the communication between the Audit Committee and the Executive Committee had improved.



In early 2016, we inaugurated a new €6.5 million technology center in Songjiang, Shanghai. The company's largest research facility in China, it supports product innovation and the development of next generation paints, coatings and specialty chemicals. The center currently employs 150 scientists, which is expected to rise to 200 by 2020. The majority of the products supported by the new facility will be water-based and powder-based, in line with the company's ambitions to develop more eco-premium solutions.

## Remuneration Committee

Following the appointment of Dr. Kirby as a Remuneration Committee member in September 2016, it now consists of four members and is chaired by Ms. Baldauf. Other members of the Remuneration Committee are Mr. Verwaayen and Mr. Burgmans. The Remuneration Committee held three meetings in 2016. The attendance record of the members can be seen in the Supervisory Board attendance chart on page 94.

### Review of 2015 management performance

The work of the Remuneration Committee during the first quarter focused on performance for the year 2015 and the individual performance reviews of the Board of Management members and other members of the Executive Committee. The Remuneration Committee assessed the adequacy of the peer group used for benchmarking purposes. Ahead of his nomination for reappointment at the 2016 AGM, the Remuneration Committee gave particular attention to assessing the performance of the CEO during 2015 and prior years. The performance of the CFO and the other members of the Executive Committee were also reviewed for the year 2015.

### Revision of Remuneration Policy

During 2016, the Remuneration Committee's review of the Remuneration Policy resulted in a proposed amendment. The Remuneration Committee proposed to the AGM 2016 the addition of revenue growth to the current list of financial metrics from which the Supervisory Board may choose to determine performance for the purpose of short-term

### Remuneration Committee main 2016 activities

Q1	Q2 & Q3	Q4
<ul style="list-style-type: none"> <li>• Review of management performance 2015</li> <li>• Target-setting 2016, including CEO targets</li> <li>• Review of management base salaries for 2016</li> <li>• 2015 Remuneration report</li> <li>• Remuneration Committee evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Review remuneration strategy including LTI and STI plans</li> <li>• Revision of Remuneration policy</li> <li>• 2016 AGM adoption of Remuneration policy</li> </ul>	<ul style="list-style-type: none"> <li>• Forward-looking 2017 target-setting</li> <li>• Detailed scenario analysis</li> <li>• Remuneration policy review</li> </ul>



incentives (STI). At the same time, the proposal was made to increase the number of metrics which the Supervisory Board may choose, from three to four metrics. These amendments were considered to align well with the next phase of the corporate strategy and reflected the Remuneration Committee's comprehensive approach to assessing performance.

Following support from the full Supervisory Board, the proposed revisions to the remuneration policy were subsequently submitted to, and adopted by, the 2016 AGM. More details and information on the remuneration policy, together with the current benchmark peer group, can be found in the Remuneration report of this Report 2016.

### Review of 2016 management base salaries

The reappointment of the CEO was also a focus area for the Remuneration Committee in its assessment of base salaries. The Remuneration Committee provided recommendations on the CEO base salary ahead of his reappointment. The base salary will continue to be assessed in light of market conditions, the reward structures of peer group companies and the CEO's performance. In addition, the Remuneration Committee considered the pay ratios within the company and how these compare with peer group companies. The Remuneration Committee reviewed the base salaries of the CFO and the other members of the Executive Committee. Forward-looking target ranges for variable remuneration of the Board of Management were discussed and 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 22 to the Consolidated financial statements.

### Remuneration Committee evaluation

The Remuneration Committee's evaluation of performance and effectiveness forms part of the overall Supervisory Board evaluation undertaken during 2016. Once every three years (unless it is decided to do so more frequently), this evaluation

takes the form of an independent external assessment of the Remuneration Committee's effectiveness and performance, facilitated by a specialist consultant.

In 2016, it was decided that the Remuneration Committee, together with the Supervisory Board, should undergo this external evaluation with regard to the year 2015. This is the second year in a row in which the evaluation was undertaken externally. The external assessment provided a follow-up to the findings of the external assessment undertaken during 2015 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 2016 evaluation of the performance and effectiveness of the Remuneration Committee found that the Remuneration Committee is operating effectively and had improved in regard to areas such as inter-committee communication and the dynamics of committee discussions. The evaluation also highlighted the need to ensure that the focus on inter-committee dynamics is maintained in the future.

## Nomination Committee

The Nomination Committee now consists of four members following the appointment of Dr. Kirby in September 2016. During the year, the Nomination Committee was chaired by Mr. Burgmans until he was succeeded by Ms. Baldauf, also in September. Mr. Burgmans continues to be a member of the Nomination Committee. The other member of the Nomination Committee is Mr. Verwaayen. The Nomination Committee held five meetings in 2016. The attendance record can be found in the previous attendance chart, shown under the Supervisory Board attendance record on page 94.

### Board of Management and executive succession

In 2016, following the review, assessment and discussion of the performance of Mr. Büchner as CEO, the Nomination Committee recommended to the Supervisory Board his nomination for reappointment as member of the Board of Management at the 2016 AGM. The Nomination Committee was closely involved in the discussions around the CEO's contract and provided the Supervisory Board with its recommendations on the final terms of Mr. Büchner's engagement. At the 2016 AGM, Mr. Büchner was reappointed for a further four-year term.

### Nomination Committee main 2016 activities

Q1	Q2 & Q3	Q4
<ul style="list-style-type: none"> <li>Supervisory Board profile review</li> <li>Supervisory Board succession planning</li> <li>Board of Management evaluation</li> <li>Identification and nomination of Dr. Kirby for appointment to the Supervisory Board</li> <li>Nomination Committee evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Nomination of Ms. Baldauf for reappointment to the Supervisory Board at the 2016 AGM</li> <li>Nomination of Mr. Verwaayen for reappointment to the Supervisory Board at the 2016 AGM</li> <li>Nomination of Mr. Büchner for reappointment to the Board of Management at the 2016 AGM</li> <li>Establish and propose Supervisory Board skills matrix</li> <li>Review talent management</li> <li>Development of talent pool</li> </ul>	<ul style="list-style-type: none"> <li>Review Supervisory Board (re)appointment scheme</li> <li>Recommend appointment of Mr. Grote as Deputy Chairman of Supervisory Board</li> <li>Recommend appointment of Dr. Kirby to the Remuneration Committee</li> <li>Recommend appointment of Dr. Kirby to the Nomination Committee</li> <li>Recommend appointment of Ms. Baldauf as Chairman of Nomination Committee</li> <li>Appointment of Mr. Vanlancker</li> <li>Supervisory Board succession planning</li> </ul>

## Supervisory Board skills and profiles

	A. Burgmans	S. Baldauf	P. Bruzelius	B. Grote	L. Hughes	P. Kirby	D. Sluimers	B. Verwaayen
Independent	●	●	●	●	●	●	●	●
Consumer Goods end-user segment	●	●	●	●	●	●		
Industrial end-user segment	●	●	●	●	●	●	●	●
Buildings and Infrastructure end-user segment			●		●			
Transportation end-user segment	●	●		●	●	●	●	●
(International) business, commerce, finance/economics	●	●	●	●	●	●	●	●
Scientific/Information technology experience		●		●	●	●		●
Public sector experience					●		●	
Management experience	●	●	●	●	●	●	●	●
Business strategy planning	●	●	●	●	●	●	●	●
Manufacturing experience	●	●		●	●	●		
Supply chain/logistics experience	●			●		●		●
Social, environmental or sustainability experience	●	●	●	●	●	●	●	●
Finance expert	●	●	●	●	●		●	
Four or less external directorships	●	●	●	●	●	●	●	●
Dutch/EU national	●	●	●	●		●	●	●
Non-EU national				●	●			
Post-retirement benefit experience							●	
Business-to-business sales experience	●	●				●		●
R&D experience	●	●		●	●	●		
Legal experience						●		●
Industrial/employment relations	●				●	●		
Risk management		●	●	●			●	
Consulting	●	●	●	●	●	●	●	●

The Nomination Committee also considered the topic of executive succession planning more generally. The Nomination Committee was consulted and gave their advice regarding the CEO's appointment of Mr. Thierry Vanlancker as Executive Committee member responsible for Specialty Chemicals. The Supervisory Board approved the appointment of Mr. Vanlancker, who joined the company in October 2016 and succeeded Mr. Werner

Fuhrmann as Executive Committee member responsible for Specialty Chemicals in February 2017.

### Talent management and talent pool development

To supplement the Nomination Committee's discussions on executive succession, the Nomination Committee was presented with talent management updates from Human Resources during the year. Both the Supervisory Board

and the Nomination Committee also continued their work in defining and identifying a talent pool for future development and the purposes of executive succession planning.

### 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



Members of the company's executive leadership visited a digital production facility as part of a day of external visits focused on digital innovation and exploring potential growth opportunities.

accordingly. In 2016, the Nomination Committee sought to more thoroughly detail the process which it engages for Supervisory Board succession planning. The Nomination Committee has therefore drawn up and recommended to the Supervisory Board the introduction of a Supervisory Board skills matrix. This matrix was adopted by the Supervisory Board and, together with the Supervisory Board profile, provides a foundation for the Nomination Committee in its review of the skills required on the Supervisory Board, the identification of gaps and the development of criteria for proposed nominations. In turn, they provide a guideline for nominations and recommendations to the shareholders. The Supervisory Board skills and profile can be found on the opposite page.

The Nomination Committee's analysis of the Supervisory Board profile and skills led to the nomination of Ms. Baldauf and Mr. Verwaayen for reappointment to the Supervisory Board at the 2016 AGM. The Nomination Committee also engaged an external search agency for the fielding of candidates for succession and nomination to the Supervisory Board. A rigorous search process is undertaken by the agency after first gaining a thorough understanding of the

culture of AkzoNobel, its strategy, leadership roles and the competencies needed. Based on the results of the Nomination Committee's gap analysis, discussions and the work of the external search agency, the Nomination Committee was able to recommend to the Supervisory Board the nomination of Dr. Kirby as a new Supervisory Board member at the 2016 AGM. Following her appointment to the Supervisory Board, the Nomination Committee recommended the appointment of Dr. Kirby as a member of the Nomination and Remuneration Committees during the year.

During 2016, the Supervisory Board also dedicated time to consider the succession planning for key Supervisory Board positions, and to the consideration of the nomination of a Deputy Chairman of the Supervisory Board. Following an analysis of the current profiles and skills matrix of Supervisory Board members, the Nomination Committee recommended the appointment of Mr. Grote as Deputy Chairman of the Supervisory Board. This recommendation was endorsed by the Supervisory Board in October. Full details of the current Supervisory Board composition, the schedule of Supervisory Board succession and the profiles of the members can be found on our website.

### 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 (unless it is decided to do so more frequently), this evaluation takes the form of an independent external assessment of the Nomination Committee's effectiveness and performance, facilitated by a specialist consultant.

In 2016, it was decided that the Nomination Committee would undergo this external evaluation with regard to the year 2015. This is the second year in a row in which the evaluation was undertaken externally. The external assessment provided a follow-up to the findings of the external assessment undertaken during 2015 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. Areas highlighted for improvement will be taken forward in 2017.

## Additional remarks

All members of the Supervisory Board would like to express their thanks to the Board of Management and Executive Committee, as well as to all employees, for their dedication and hard work for the company in 2016. In particular, the Supervisory Board would like to extend its gratitude to Mr. Werner Fuhrmann for his 37 years of service to AkzoNobel and to wish him all the best in his retirement.

Amsterdam, February 2017  
The Supervisory Board





# BRINGING HOPE TO REMOTE VILLAGERS

# Governance and compliance

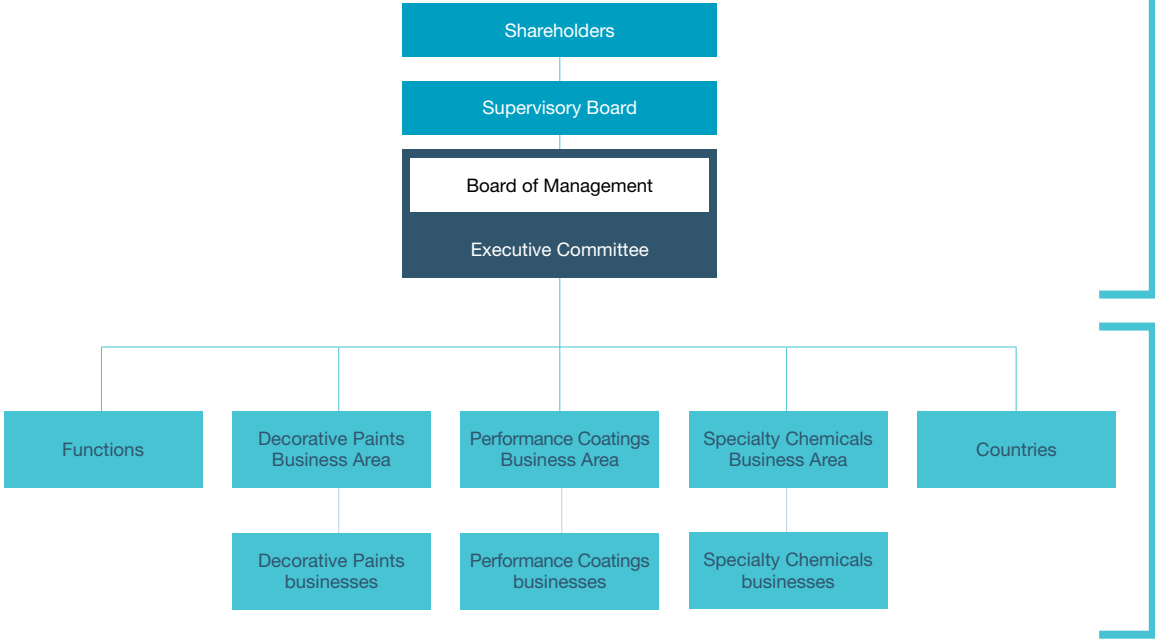
In this section, we outline our corporate governance structure and explain the remuneration of our Board of Management. Information about compliance and integrity management and AkzoNobel on the capital markets is also included.

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People in two Indonesian villages are leading a more liveable life after we helped construct a “Bridge of Hope” across the Ciliman River. The company donated all the paint for the project, which ensures that the villagers now have easier and safer access.

# Corporate governance statement

AkzoNobel aspires to the highest standards of corporate governance and seeks to consistently enhance and improve corporate governance performance, emphasizing transparency and embedding a sustainable culture of long-term value creation.



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 OTCQX International platform in the US.

The company's management and supervision are organized under Dutch law in a so-called two-tier system, comprising a combined Board of Management and Executive Committee,

solely composed of executive directors, and a Supervisory Board, solely composed of non-executive board members. The Supervisory Board supervises the Board of Management 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 shareholders of the company 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 "comply or explain" principle. The Code can be found on the website of the Dutch Corporate Governance Code Monitoring Commission.

With the exception of those aspects of our governance which can only be amended following approval at a general meeting of shareholders, the Board of Management and Supervisory Board may make adjustments to how the Code is applied, if this is considered to be in the interest of the company. Where changes are made, these will be reported and explained in the annual report for the relevant year and discussed at the next AGM.

In 2016, a revised version of the Code was published by the Corporate Governance Code Monitoring Committee. The revised Code was implemented with effect from January 1, 2017. It is more thematically oriented, with greater focus on culture and long-term value creation. The company has assessed the proposed changes and will implement revisions to current practices, where needed. We are confident the company is either already in compliance with the proposed Code, or is well placed to implement the revised Code on a "comply or explain" basis. The revised Code will be reflected in the Rules of Procedure of the Board of Management and the Supervisory Board (available on our website). They will also be reported and explained in the annual report for the relevant year. Adjustments will include the requirements of the revised Code. In particular, the relationship between management and the external and internal auditors will be explained in more detail, including the role of the Audit Committee and Supervisory Board in the event of irregularities being identified by the auditors. The current diversity statements contained in the Supervisory Board Rules of Procedure will be drawn out and developed as a separate Diversity Policy, applicable to the Supervisory Board and Board of Management.



The Kelpies horse head sculptures in Scotland won the Pioneer Award at the inaugural World Canals Award, announced in September. As tall as a nine-storey building and weighing 300 tons each, the steel supporting structures are coated with our Interfine 979 protective coating system. Around 10,000 liters of paint was used in total. The sculptures attract more than 1.4 million visitors a year.

Photo: The Helix

## 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 additional functions currently represented in the Executive Committee directly are Human Resources and Legal.

Among other responsibilities, the Board of Management and the Executive Committee define the strategic direction.

They establish and maintain internal policies and procedures for effective risk management and control, manage the realization of the company's operational and financial guidance, its sustainability performance, and its pursuit of long-term value creation. In fulfilling 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 Board of Management and Executive Committee promote openness and engagement through a so-called SpeakUp! policy and have established a Code of Conduct, directives, rules, guidelines and manuals, which are incorporated in the company's directives framework. They drive a culture of good governance, consistency and functional excellence throughout the company.

The Board of Management takes precedence, with all Executive Committee decisions requiring 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 members of the Board of Management remain jointly and individually accountable for all decisions made by the Executive Committee.

The Board of Management is accountable for its performance to the Supervisory Board and is answerable to the shareholders of the company at the AGM. The Executive Committee members who are not also members 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. He is the main point of liaison with the Supervisory Board. The CFO is responsible for overseeing AkzoNobel's finances, its corporate control, investor relations and information management. The tasks, responsibilities and procedures of the Board of Management and Executive Committee are set out in their Rules of Procedure. 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.

## “THE BOARD OF MANAGEMENT IS ACCOUNTABLE FOR ITS PERFORMANCE TO THE SUPERVISORY BOARD”

### Appointment

Board of Management members are appointed and removed from office by the AGM. 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 a four-year term (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 requirements of the Dutch Civil Code, 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. Supervisory Board approval is required for decisions to enter into transactions under which Board of Management or Executive Committee members have a conflict of interest of material significance to the company and to the relevant member. 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 declaring that the relevant best practice provisions of the Code have been complied with.

During 2016, no transactions are to be 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 and to the relevant member.

### Remuneration

The remuneration of the members of the Board of Management is set in line with the remuneration policy adopted by the AGM. The Supervisory Board is responsible for determining the remuneration of the members of the Board of Management on the advice of its Remuneration

Committee. The Supervisory Board also decides on the remuneration of the other members of the Executive Committee on the proposal of the CEO. The components of Board of Management remuneration, as well as the remuneration policy itself, are described in the Remuneration report and the Consolidated financial statements (see Note 22). 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 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 (OCC), which is conducted once per month. For each Business Area, the OCC consists of Operational Review Meetings comprising the CEO, the CFO, the General Counsel and the leadership of the relevant Business Area. 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; Research Development and Innovation; and Integrated Supply Chain are each discussed at least 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. Additional meetings are held to discuss strategy and other specific topics.

The Board of Management and Executive Committee have 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 and councils.



We unveiled Denim Drift as Color of the Year for 2017. Announced during the launch of our annual trends forecast (known as ColourFutures), Denim Drift is the foundation for an inspirational palette of paint colors centered on the year's expected global social and design trends. Working with a group of leading international architects, interior designers and trend watchers, the company used extensive research to define the tones and styles that best represent how we will live our lives in 2017.



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## 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, Integrated Supply Chain/ Research, Development and Innovation, Procurement, and Communications.



To celebrate the tenth year of one of our Dulux partner programs, 1,000 painters simultaneously painted ten historic buildings in ten cities in Indonesia. The Human Cities project has since been recognized by the Indonesian World Records Museum.

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 PricewaterhouseCoopers Accountants 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 Corporate 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, Group Controller, two senior business managers and corporate directors of Internal Audit, Compliance, Human Resources, Sustainability and HSE. Other members may be added 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 of this Report 2016.

### Executive Committee Pensions

The Executive Committee Pensions oversees the general post-retirement benefit policies of the various plans of the company and their financial consequences for AkzoNobel. The committee is chaired by the CFO and includes the Executive Committee member responsible for Human Resources, the General Counsel, and representatives from the Treasury function, Pensions, and Rewards.

### Disclosure Committee

The Board of Management has established a Disclosure Committee comprising the Director of Legal Strategy, the Corporate Secretary, the Group Controller and the Director of Investor Relations. The Disclosure Committee's task is to establish and maintain disclosure controls and procedures and to advise the Board of Management and a committee comprising the CEO, CFO and General Counsel on the

accurate and timely disclosure of material financial and non-financial information.

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## Supervisory Board

### General

This section provides an overview of the responsibilities and governance of the Supervisory Board. For an understanding of the activities of the Supervisory Board over the past year, please refer to the Supervisory Board 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 the company 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 AGM, monitors the proper functioning of the Supervisory Board and its committees, arranges for 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, individual members and the functioning of the Board of Management. Throughout the year, the Chairman of the Supervisory Board ensures that regular updates are provided to the Supervisory Board on the company's businesses, sustainability, legal matters, social and corporate

governance, accounting, investor relations, compliance, risk management and internal controls.

The Supervisory Board is governed by its Rules of Procedure, which are available on the company's 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.

business to business sales and research and development. The Supervisory Board maintains a skills matrix which provides an overview of the skills and experience of individual Supervisory Board members. This matrix can be found in the Leadership section. When nominating and selecting new candidates for the Supervisory Board in future, the Supervisory Board profile and skills matrix, relevant regulation, and the principles and provisions of a (new) Code will be taken into account.

its corporate governance and compliance requirements. The induction includes meetings with the CEO, the CFO, all other Executive Committee members and relevant members of senior management. This enables new Supervisory Board members to quickly 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.

## THE CURRENT MEMBERS REPRESENT FIVE NATIONALITIES AND HAVE EXPERIENCE WITH THE MARKETS IN WHICH AKZONOBEL OPERATES

### Composition

The list of Supervisory Board members, including their biographies, can be found in the Leadership section. The Supervisory Board has a balanced composition consisting of more than 30 percent female and more than 30 percent male members and reflects the nature and variety of the company's businesses, their international spread and expertise in fields such as finance, economic, information technology, societal, environmental and legal aspects of business, government and public administration. Consequently, the current members represent five nationalities and have a diverse and appropriate experience with the markets in which AkzoNobel operates, as well as knowledge of different markets and non-operational areas. Their expertise includes also international business, general and strategic management, employment and industrial relations, risk management, commercial management,

### 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 website. In 2016, one appointment and two reappointments to the Supervisory Board were proposed to, and made by, the AGM.

### 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

### 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 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 or their closely associated persons 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 2016, no transactions are to be 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 22 to the Consolidated financial statements.

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## 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. 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, Group Controller, 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 Corporate Director of Internal Audit present, a separate meeting with only the external auditor present, and sessions with only Audit Committee members in attendance. In addition, there are regular meetings with only Audit Committee members and 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 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 and skills matrix, relevant regulation and the principles and provisions of the Code.

### 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 other 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.

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## Shareholders and the Annual General Meeting (AGM)

The Annual General Meeting of shareholders (AGM) is an integral part of the governance of the company and its system of checks and balances. The 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 is convened by public notice and the agenda, notes to the agenda, and the procedure for attendance and voting at the meeting are published in advance and posted on the company's website. Matters proposed for consideration, approval or adoption are tabled as separate agenda items and explained in writing in advance of the meeting.





Young people in Virginia are learning about climate change and sustainability at EBase USA, an off-grid, self-powered classroom set up by AkzoNobel employees. The initiative was led by James Bray (Regional Sales Manager – Cabinets, North America for our Wood Coatings business) who drew inspiration from a leadership expedition to Antarctica in 2008. A 99-year-old railway boxcar was converted over a period of four years to create the unique learning resource, which highlights the community focus of our global Human Cities initiative.

one-third of a common share). On December 31, 2016, a total of 252,176,412 common shares and 48 priority shares had been issued. The company has been informed that by December 31, 2016, 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. These 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 20, 2016, 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, for a period of 18 months or if earlier, until the date on which the AGM again extends it, authorization was granted to the Board of Management to acquire common shares in the company's share capital at any time during this period. The number of common shares to be acquired being limited to the maximum number of shares – as permitted within the limits of the law and the Articles of Association – the company may at any time hold in its own share capital. The maximum number of shares the company will hold in its own share capital at any one time shall not exceed 10 percent of its issued share capital. A resolution of the Board of Management to acquire shares in the company's share capital is subject to the approval of the Supervisory Board.

These proposals include where relevant:

- The adoption of the financial statements
- The dividend proposal
- The discharge of the members of the Supervisory Board and the Board of Management
- The appointment of members of the Board of Management and the Supervisory Board
- The remuneration of Supervisory Board members
- Material changes to the remuneration policy of the Board of Management
- Other important matters, such as major acquisitions or the sale of a substantial part of the company, as required by law
- The authorization of the Board of Management to issue new shares, buy back shares or cancel shares
- Amendments to the Articles of Association

The company provides remote voting possibilities to its shareholders. Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the AGM. 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.

Holder of common shares in aggregate representing at least 1 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 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

### Anti-takeover provisions and control

According to 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.

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## Auditors

The external auditor is appointed by the AGM on proposal of the Supervisory Board. The appointment is reviewed at least 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, 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.

Pursuant to European law, the lead partner of the external audit firm has to change after no more than five years and the audit firm must change after no more than ten years. At the 2014 AGM, PricewaterhouseCoopers Accountants N.V. was appointed as external auditors, effective January 1, 2016.

### 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 website.

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## Internal Audit

The Internal Audit function is mandated to provide the Board of Management, the 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 Board of Management and has direct access to the Audit Committee and its Chairman. The function performs its mandate based on a risk-based audit plan, which is approved by the Board of Management and the Audit Committee. It reports a summary of the audit findings bi-annually to the Board



A team of 38 military veterans who sailed 2,000 miles around the British Isles received support from AkzoNobel. The voyage was organized by the Turn to Starboard charity, which helps military personnel suffering with physical injuries or mental trauma. Their 92-foot replica tall ship was coated with products supplied by our International brand.

of Management and 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

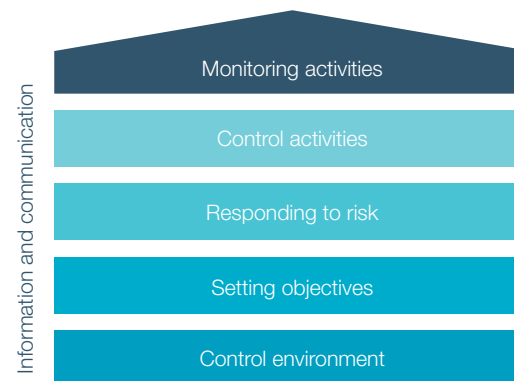
The company has strict procedures for internal controls. The Board of Management and Executive Committee have established an Internal Control Committee to facilitate and oversee aspects of these procedures. The Internal Control Committee monitors the adequacy and the effectiveness of the company's internal control framework. In 2016, we continued to work on the implementation of system-embedded, automated controls and tightened system access procedures through standard role design and segregation of duty monitoring. The design of the internal control self-assessment process was adapted to the changes in the company structure and we further embedded internal control in functions and service centers, in addition to businesses.

### Share Dealing Rules and Rules on Disclosure Control

In accordance with Dutch law and regulations (including the European Market Abuse Regulation), the company maintains insider lists and exercises controls around the dissemination and disclosure of potentially price sensitive information.

### 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.



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 (including their closely associated persons) are, as and when required, notified to the Dutch Authority for the Financial Markets.

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. In 2016, we took several initiatives to bring our compliance framework to the next level, including the development of our human rights and business partner compliance programs, the establishment of a dedicated compliance manager organization and the strengthening of our export control and privacy frameworks.

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## Risk assessment

We are committed to complying with national and international laws and regulations that apply to our operations. Our legal and regulatory experts and our compliance managers monitor legal developments and advise our businesses and functions how their operations can remain compliant. We assess compliance risks through several processes, including Enterprise Risk Management (see page 47), the Non-Financial Letter of Representation (NFLoR), the internal control self-assessment (see page 115), internal audits and our SpeakUp! grievance mechanism.

In 2016, we introduced a system which helps us assess the compliance risks associated with engaging new business partners. We also studied data relating to existing suppliers to establish compliance risks, particularly those relating to respect for human rights. This information was used as input for our human rights program, see Note 16 of the Sustainability statements.

Annually, deficiencies, risks and weaknesses in the compliance framework in every business and function are discussed in the NFLoR review meetings between the business or functional leader and the responsible Executive Committee member, Director of Compliance and Legal Counsel. The outcomes of those meetings are reviewed by the CEO and the General Counsel and reported to the Board of Management, the Executive Committee, the Audit Committee and the external auditor.

During 2016, the main inherent compliance risks identified were related to competition law, export control, business partner compliance and data security. While controls are in place to mitigate these risks, further actions were defined and initiated.

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## Compliance governance

### Board of Management, Executive Committee and Audit Committee

The Board of Management and Executive Committee are responsible for an effective compliance management framework across the AkzoNobel group entities. The Audit Committee supervises this responsibility on behalf of the Supervisory Board.

### Corporate Compliance Committee

The Corporate Compliance Committee supports the Board of Management and Executive Committee in establishing, monitoring and assessing the company's compliance framework. The Corporate Compliance Committee consists of the General Counsel (chair), the Corporate Secretary Group Controller and Directors of Compliance, Internal Audit, Human Resources, Sustainability and Health Safety and Environment. In 2016, two managing directors of AkzoNobel businesses were added as members to the committee to add further business expertise to its decision-making.

### Human Rights Committee

In 2016, the Executive Committee established a Human Rights Committee which supports the Board of Management and Executive Committee in establishing, monitoring and assessing the company's human rights policies and framework. It consists of the Directors of Compliance (chair), Internal Audit (co-chair), People Development, Occupational Health, Purchasing, Health, Safety and Environment, and Operations Decorative Paints, and the Business Partner Compliance, the Manager of Sustainability Reporting and the Human Rights Legal Counsel. The committee is tasked with further improving the company's human rights policies and framework to identify, mitigate and report on human rights risks in the company's operations and value chain. The committee has identified four initial salient issues to focus on: health and safety, working conditions, discrimination and harassment, and under-age labor in the value chain. See Note 16 of the Sustainability statements.

### Privacy Committee

The Privacy Committee supports the Board of Management and Executive Committee in establishing, monitoring and assessing the company's privacy policies and compliance framework. The committee consists of the members of the Corporate Compliance Committee and representation from Information Management, Sales and Legal. In 2016, the Director of Compliance was appointed as Corporate Privacy Officer and Chairman of the Privacy Committee.

In 2016, a privacy governance framework was put in place with privacy officers for each of the businesses and major functions. In addition, a Privacy Impact Assessment process was put in place. As part of our Privacy-by-design process, new applications and processes containing personal

data are subjected to a Privacy Impact Assessment. Any shortcomings identified in the assessment must be addressed. As regards existing systems, an inventory was made and they are being assessed based on their risk priority.

### Sensitive Country Committee

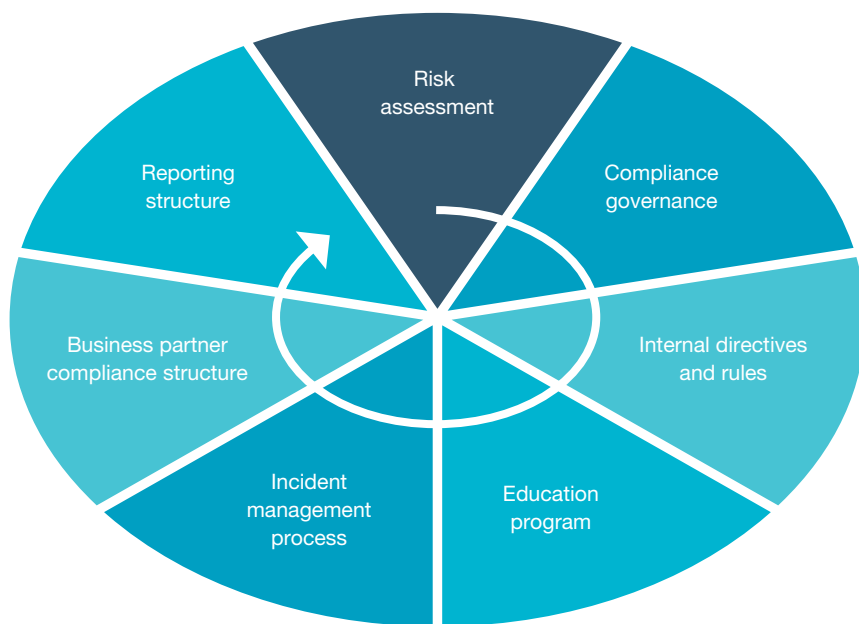
The Sensitive Country Committee supports the Board of Management and Executive Committee in establishing, monitoring and assessing the company's export compliance framework. It consists of the General Counsel (chair), an Executive Committee member with business responsibility and the Director of Compliance. It reviews countries relating to export controls, corruption, human rights, safety and security and finance transactions, and it advises the Board

of Management and the Executive Committee on trade restrictions and decides on additional controls needed.

In 2016, with the easing of international sanctions on Iran, under supervision of the Sensitive Country Committee, an Iran gateway was implemented providing a single controlled gate at the AkzoNobel regional headquarters in Dubai for export and import of products to and from Iran. Also in 2016, the export control manual was updated, further expanding and specifying the licensing and sanctions controls for the export of products and technology. In addition, online training was made available to more than 13,000 employees and automated screening for sanctions and license requirements was implemented across several businesses.

The above four committees all meet at least four times per year and on an incidental basis, if and when required.

### Compliance framework



### Compliance function

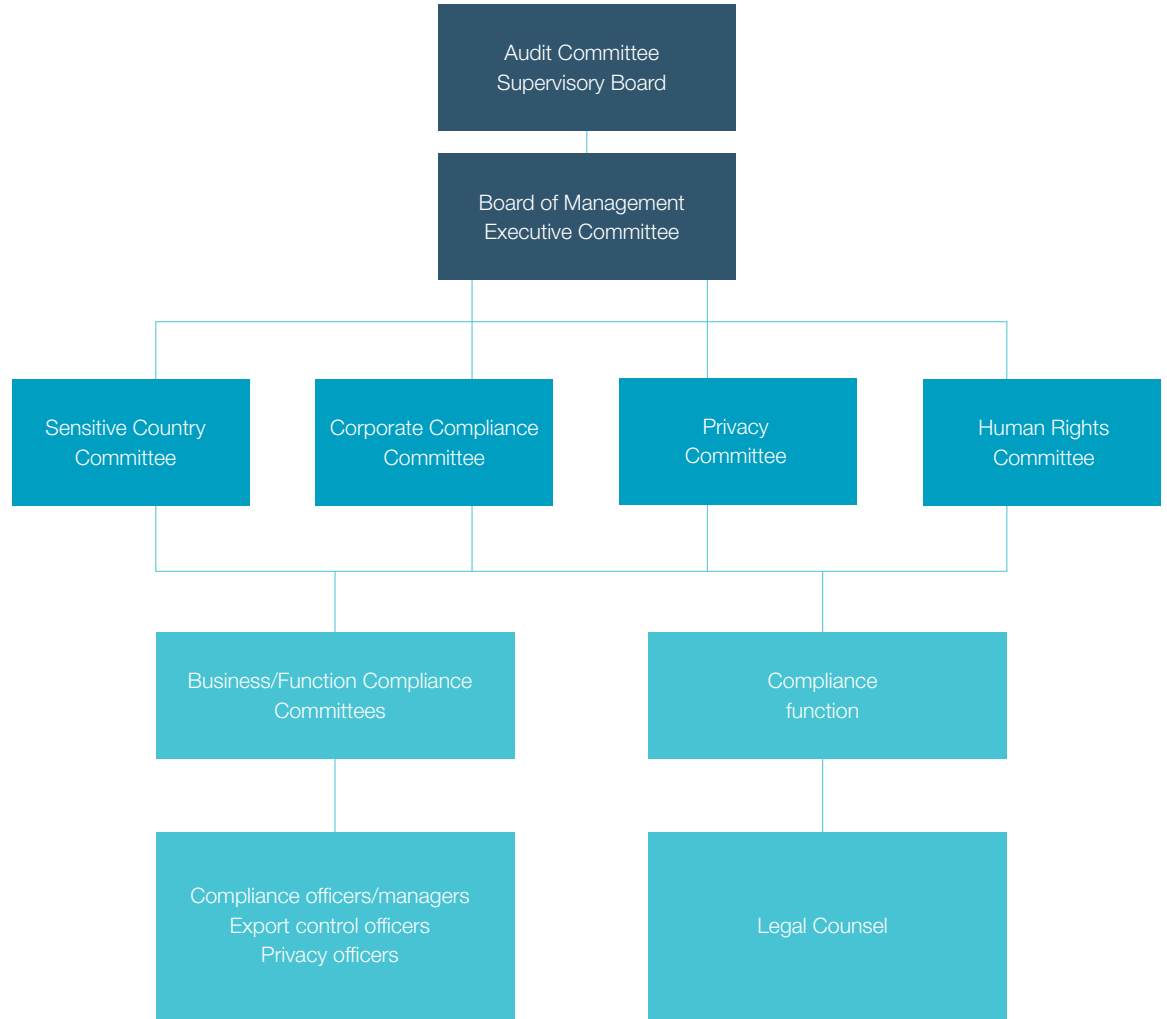
The Compliance function manages the compliance framework on behalf of the Corporate Compliance Committee, Human Rights Committee, Sensitive Country Committee and Privacy Committee. It makes the Code of Conduct and directives available, manages the compliance education program, develops and communicates rules and procedures necessary to implement compliance programs, manages and supervises investigations of compliance incidents and manages compliance risk management and self-assessment processes such as the NFLoR and Competition Law Compliance Declaration. The Compliance function has legal expertise in such fields as competition law, export control, anti-bribery, privacy and human rights and monitors legal developments, develops compliance rules, programs and training materials and provides advice to businesses and functions. Twice per year, the Compliance function, through the Corporate Compliance Committee, reports to the Board of Management, the Executive Committee and the Audit Committee on compliance risks and trends, compliance breaches and progress in implementing compliance programs.

### Business/Function compliance governance

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, chaired by the managing director, responsible for managing the compliance programs and processes in their business or function. These committees meet quarterly to review training completion and progress on compliance actions, and to decide on compliance breaches in their areas of responsibility.

Every business and function has appointed a management team member as its compliance officer. The compliance officer is responsible for managing the programs and processes required under the compliance framework of the business or function. In 2016, dedicated compliance managers were appointed in Performance Coatings, Decorative Paints and the corporate functions. The compliance managers are located in six AkzoNobel regional hubs and support the Compliance Committee and compliance officer in identifying compliance risks, implementing compliance programs, coordinating compliance risk mitigating actions, monitoring compliance training completion and conducting investigations. In Specialty Chemicals, the internal control managers act as compliance manager. The compliance managers and Specialty Chemicals internal control managers also act as privacy officer for the business or function. A dedicated privacy officer is in place for Germany. The new framework enables the three Business Areas and the functions to put more focus on compliance management and have regional resources closer to day-to-day operations.

### Compliance organization





## Internal directives and rules

### Code of Conduct

We are committed to conducting our business in accordance with three core principles: safety, integrity, sustainability. Our Code of Conduct tells employees and external stakeholders what we stand for. It explains our three core principles and what they mean in practice. Our Business Partner Code of Conduct explains these core principles to our business partners and shows what we expect from them when they do business with us. These codes are available in 32 languages and were introduced in 2015 through an extensive communication and education campaign across the company. In 2016, Code of Conduct workshops were held throughout the entire organization as part of the Code of Conduct learning plan. The workshops helped employees and teams familiarize themselves with the core principles and to learn how to deal with practical dilemmas and how to speak up. As part of the 2016 performance evaluation sign-off, all employees were required to confirm their understanding and compliance with the Code of Conduct in the Performance and development dialog (P&DD) system.

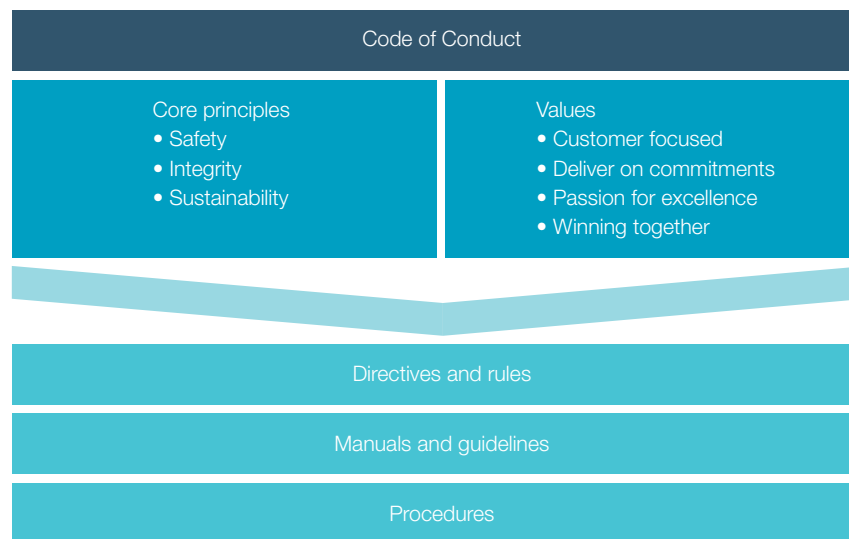
### Directives framework

The Code of Conduct is incorporated in the directives portal, an online resource for all directives, rules, manuals, guidelines and procedures that make up our directives framework. In 2016, updated directives and rules were introduced on inside information, share dealing and disclosure control, new manuals were launched on competition law compliance, export control and anti-bribery and several updated guidelines were introduced in relation to export control.

## Education program

Our compliance training program is an important pillar of our compliance framework. The e-learning curriculum, face-to-face training program and compliance communications are aimed at educating defined groups of employees on

### Directives portal



compliance rules and procedures relevant to their day-to-day work. E-learning is mandatory for all employees on the core principles as explained in our Code of Conduct. In 2016, more than 90 percent of online employees completed the Code of Conduct e-learning. Processes are in place to follow up with employees who have not completed the e-learning. In addition, mandatory e-learning are provided on compliance areas such as competition law, export control, anti-bribery, fraud, Life-Saving Rules and privacy.

As part of the Code of Conduct learning program, workshops were held by our people managers across the organization. Compliance experts and legal counsel provided face-to-face training on several compliance topics to hundreds of employees. For example, more than 750 designated employees received face-to-face training on competition law. In addition to training, several compliance

newsletters and bulletins were issued on a variety of compliance topics such as gifts and entertainment in the engineering industry and developing business in Africa.

## 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 educating our employees on 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.

## 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. 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 2016, 324 reports and alerts of alleged Code of Conduct violations were registered. In total, 187 of these were received through our formal SpeakUp! channels. Of the 324 reports and alerts, 89 were (partially) substantiated, while 22 were Category 1 matters, as the reported allegations met certain materiality criteria. These reports and alerts led to 48 dismissals. Other sanctions and remedial actions in (partially) substantiated matters included: coaching/training (21); warnings (6); review of procedures/controls (2); other disciplinary actions (9).

During the year, an analysis was performed examining several years of data relating to the handling of Code of Conduct violations. This analysis identified the potential for inconsistent handling of Code of Conduct cases across various businesses and regions. In response to this analysis, several initiatives were undertaken to improve the investigation framework. We appointed a global head of investigations and dedicated compliance managers in Performance Coatings, Decorative Paints and the corporate functions. All compliance managers received extensive investigations training. Improvements were also made to the reporting and decision-making of investigations. As a result of these initiatives, the quality, consistency and completion time of investigations has improved.

## Integrity management

	2014	2015	2016
<b>Code of Conduct reporting</b>			
Code of Conduct number of alleged breaches reported	170	224	324
Breakdown:			
Health and safety/Safety <sup>1</sup>	15	6	37
Business integrity/Integrity <sup>1</sup>	90	123	140
Treatment of employees/Sustainability <sup>1</sup>	65	95	147
<b>Code of Conduct investigation</b>			
Code of Conduct alleged breaches investigated (in %)	100	100	100
Code of Conduct alleged breaches handled by the Corporate Compliance Committee (in numbers)	11	10	22
Code of Conduct alleged breaches handled by the relevant businesses (in numbers)	159	214	302
Partially substantiated Code of Conduct breaches (within year)	67	89	89
Number of dismissals for Code of Conduct breaches (within year)	46	52	48
<b>Compliance monitoring</b>			
Competition Law Compliance Declaration (number of confirmations)	12,184	13,614	12,661
Non-Financial Letter of Representation (% of operational managers)	100	100	100
<b>Code of Conduct training</b>			
Code of Conduct trained (% online employees)	90	66	92

<sup>1</sup> In 2016, categories were aligned with the set-up of the Code of Conduct.

## Business partner compliance

### Business Partner Code of Conduct

We have a Business Partner Code of Conduct, which informs our business partners such as suppliers, agents and distributors that we expect them to comply with the law and our core principles or apply equivalent business principles. Since the second half of 2015, all new business partners are required to confirm their commitment by signing the code.

### Business partner compliance framework

In 2016, a new business partner compliance framework was developed and approved by the Board of Management and Executive Committee for roll-out in 2017. It provides for mandatory risk-based due diligence investigations prior to appointing a new business partner. It also provides for training to business partners on what is expected of them with regard to compliance with our core principles and for monitoring that they act in accordance with the core principles. A due diligence screening process was put in place, enabling business colleagues and compliance

managers to screen candidate business partners for compliance irregularities prior to their appointment.

In view of numerous global merger/acquisition (M&A) initiatives and business development initiatives in Africa, compliance standards were developed and made available for M&A transactions and for doing business in Africa.

As in the previous year, in 2016 we performed a compliance review on agents in a region – this time Latin America – when agent relationships were reviewed. The review did not reveal any irregularities, other than in a few relationships no contracts were in place, which will be addressed in 2017.

## 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. An NFLoR declaration was submitted by more than 1,000 managers. Results were rolled-up to business and function leaders and subsequently discussed in review meetings between the business and function leaders and their responsible Executive Committee member, in the presence of the Director of Compliance and Legal Counsel. At the review meetings, deficiencies and risks in the compliance and control framework were discussed and actions agreed upon. The responsible Executive Committee member then reported the results of the review meetings to the CEO and the General Counsel, who reviewed the same. A final report was presented to the Board of Management, the Executive Committee, the Audit Committee and the external auditor. The outcome of this NFLoR process, in combination with the internal control self-assessment process and the internal audit results forms a basis for the Statement of the Board of Management in this Report 2016.

### Risk, compliance and control review meetings

In 2016, pilots were held with three businesses and one function to combine the internal control self-assessment, compliance and audit reporting into one report and one meeting that would take place three or four times per year. By combining these reports, business leadership gets one overview of all compliance and control deficiencies and weaknesses and is better able to coordinate and prioritize actions across functions. The results of the pilots will be evaluated in 2017.

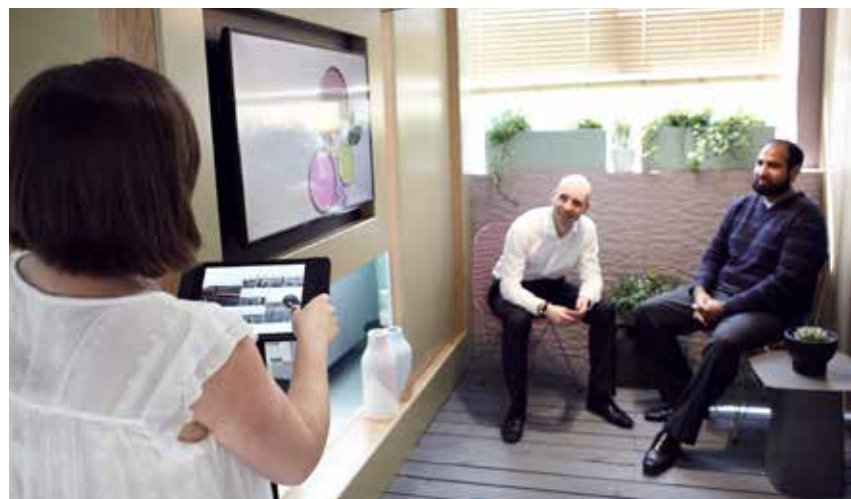
### Compliance reports

The General Counsel reports to the Executive Committee and the Audit Committee on important compliance matters, developments and initiatives. Twice per year, the General Counsel and the Director of Compliance submit an extensive written report on the progress of all compliance programs and on compliance matters from the preceding period to the

Board of Management, the Executive Committee and the Audit Committee, 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 the competition laws as articulated in our competition law compliance manual through our annual Competition Law Compliance Declaration program. In 2016, more than 12,500 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. Any possible concerns are reported to the General Counsel and appropriate action is taken.



Retailers in the UK can now immerse themselves in the customer experience and view decorative paints product innovations before they go to market at a new hi-tech customer center in the UK. Located in Slough, the facility houses industry first virtual reality technology which enables visitors to explore different store environments and experiment with product layout.



# Remuneration report

This report describes our remuneration policy and the remuneration paid to members of the Board of Management in 2016.

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 2016. 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 2016. The performance share plan for the Board of Management was approved by the AGM in 2004. This plan has been amended several times by the AGM, in accordance with Article 135 of Book 2 of the Dutch Civil Code, 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 engage members of the Board of Management as top managers of a major international company, while protecting and promoting the company's objectives. The design of the remuneration structure supports both our short and long-term objectives, whereas the emphasis is on long-term value creation. The remuneration policy for the Board of Management is aligned with the executive remuneration policy of the company overall. Our policy seeks to provide market competitive remuneration, where we use the median level of the external market as a reference point.

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

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 chooses three to four financial metrics and determines their relative weighting from the following list:

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

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 is made. 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

- 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 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.

### Pay mix

The ratio between fixed and performance-based compensation (pay mix) for the CEO and CFO, under various levels of performance, is illustrated below. The fixed pay component only refers to base salary, excluding post-

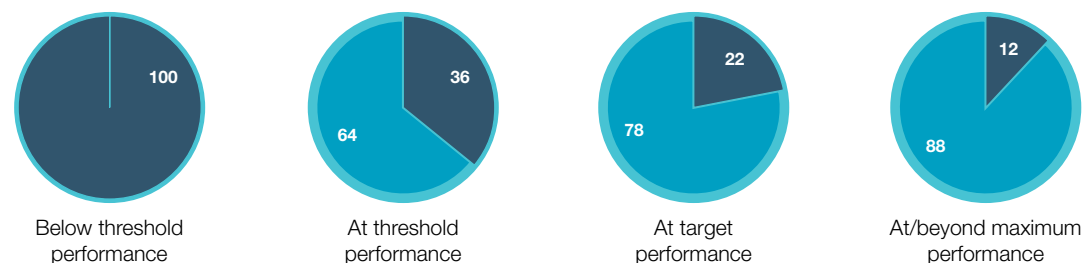
contract benefits and other benefits. The variable component includes the aforementioned short-term incentive, long-term incentive and share-matching feature. Share price developments are not taken into account.

### Post-contract benefits

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

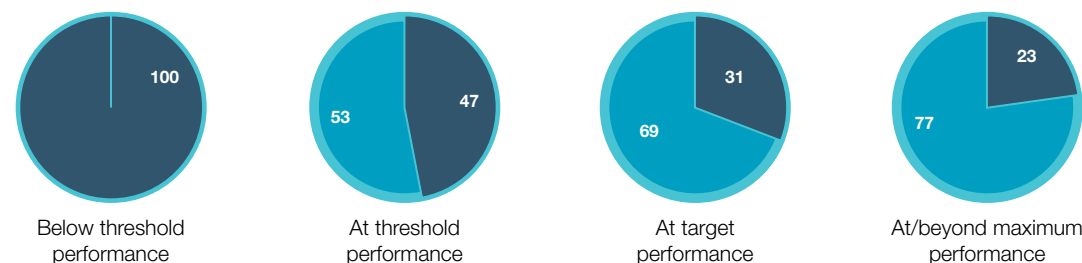
CEO pay mix 2016 in %

■ Fixed pay ■ Variable pay



CFO pay mix 2016 in %

■ Fixed pay ■ Variable pay



### 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, advance payments or guarantees to its Board members.

## Implementation of the remuneration policy in 2016

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. In addition, 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, before setting proposed targets for Supervisory Board approval, the Remuneration Committee 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.

The overall remuneration levels are aimed at the median level of the external market. For benchmarking purposes, a peer group has been defined by the Supervisory Board. In 2016, the peer group consisted of the following companies:

- Air France-KLM
- Air Liquide
- ASML
- Clariant
- DSM
- Evonik
- Heineken
- Henkel
- Johnson Matthey
- KPN
- LafargeHolcim
- The Linde Group
- Philips
- Randstad
- RELX Group
- 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 below presents an overview of the remuneration of the members of the Board of Management who were in office in 2016. See Note 22 to the Consolidated financial statements for more details. The implementation of the remuneration policy in 2016 will be a separate agenda item at the 2017 AGM.

### Base salary

The base salary of the CEO increased by 9 percent in 2016, to an annual base salary of €936,500, effective from the date of reappointment. The base salary of the CFO increased by 4.3 percent in 2016, to an annual base salary of €610,000 effective from January 1, 2016.

### Short-term incentive

The objectives of the short-term incentive in 2016 were to reward performance on ROI, OPI, OCF and revenue growth; to measure individual and collective performance; and to encourage progress in the achievement of long-term strategic objectives. On the outcome of the

## Compensation Board of Management 2016

in €	Ton Büchner Chief Executive Officer	Maiëlys Castella Chief Financial Officer
Base salary	913,300	610,000
Short-term incentive	966,900	431,700
Share awards <sup>1</sup>	1,177,700	370,200
Post-contract benefits <sup>2</sup>	416,900	91,500
Other emoluments <sup>3</sup>	44,100	83,000
<b>Total remuneration</b>	<b>3,518,900</b>	<b>1,586,400</b>

<sup>1</sup> Costs relating to share awards (performance-related share plan and share-matching plan) are non-cash and relate to the expenses following IFRS 2.

<sup>2</sup> Post-contract benefits refers to payments intended to prepare for retirement.

<sup>3</sup> Other emoluments include employer's charges (social contributions) and other compensations, such as representation allowances, insurances, car arrangements and educational expenses.



short-term incentive elements (ROI, OPI, OCF, revenue growth and personal targets), the Supervisory Board applied a reasonableness test in which the actual level of the performance was critically assessed 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 2016, the targets for ROI, OPI, OCF and revenue growth were 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 2016 included goals set in relation to delivering on the company's communicated performance improvement and organic growth ambition.

ROI is calculated by determining the ratio of operating income over 12 months average 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 2015. OCF was calculated as EBITDA minus the change in operating working capital and capital expenditures, all in constant currencies. The revenue growth target was defined as the total revenue change versus the previous year, corrected for divestments and acquisitions, in constant currencies. In 2016, the performance against the targets set for ROI, OPI, OCF, revenue growth and qualitative targets was as follows: On the qualitative targets, the CEO performed slightly above target and the CFO above target.

#### 2016 performance on STI metrics

Metric	Payout as % of target
ROI	127
OPI	127
OCF	111
Revenue	-

#### 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 2014 under the performance-related share plan (in respect of which the performance period ended on December 31, 2016), the Supervisory Board set the ROI to be achieved by the end of 2016 as follows:

#### ROI performance range series 2014-2016

	Threshold	Target	Maximum
Vesting (as % of 35% of conditional grant)	50%	100%	150%
Target	13%	15%	17%

AkzoNobel's ROI performance at the end of the performance period was reviewed by the Supervisory Board and adjusted for currency effects and exceptional items. This resulted in a vesting of 104.3 percent for this part of the long-term incentive.

For the 2014 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 2014:

#### 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's sustainability performance during the period 2014 to 2016 resulted in a vesting of 100 percent for this part of the long-term incentive.

For the 2014 conditional grant, the remaining 35 percent was linked to AkzoNobel's relative total shareholder return (TSR) performance compared with the companies in a defined industry 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 an industry peer group as determined by the Supervisory Board.

The industry 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 industry 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 industry peer group is taken over. The Supervisory Board will monitor and ensure 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 2014:

#### 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 2014 to 2016 resulted in a ninth 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 2014 conditional grant – after including the dividend yield during the performance period (determined to be 7.63 percent) – equaled 71.56 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 2016 plan amounted to 23,397 for the CEO and 15,240 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 2016, there was no cause for a claw back or value adjustment by the Supervisory Board.

#### Shareholding requirements and share-matching

The table on the right summarizes the shares acquired by the relevant members of the Board of Management in 2016 that would, subject to the conditions of the share-matching plan, qualify for matching by the company. See also Note 22 to the Consolidated financial statements.

#### Qualifying shares

Board members	Qualifying shares acquired in 2016
Ton Büchner	1,529
Maëlys Castella	1,354

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.

At year-end 2016, the CEO held 72,736 shares and the CFO held 3,318 shares. Both members are compliant with the remuneration policy's shareholding requirement. For the CEO, the shares purchased in 2012 and 2013 under the applicable share-matching plans were matched by the company following the Supervisory Board's decision, recognizing consistent and sustainable performance.

#### 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 for the next financial year

No changes in the remuneration policy are currently foreseen. The Supervisory Board will continue to closely monitor whether the policy and its implementation are in line with the objectives of the company. The metrics applied for the STI in 2016 were ROI, OPI, OCF, and revenue growth. In 2017 OPI will be replaced by EBIT as this better aligns with our external reporting. The metrics applied for the LTI

(ROI, TSR and sustainability) will continue to be applied in 2017. 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<sup>1</sup> shares Board of Management

### Unconditional shares, vested

Board member	Series	Conditional share grant		Number of vested shares		End of lock-up period (five years after grant)	
		Number	Value at grant in €	Number	Value at vesting in €	Number	Value in €
Ton Büchner	Series 2012 - 2014	31,900	1,191,784	26,228	1,512,055	18,278	1,085,530
	Series 2013 - 2015	24,200	1,203,829	23,590	1,455,041	–	NA
	Series 2014 - 2016	22,300	1,256,382	15,958	947,746	–	NA
	Matching shares 2012 (vesting 2016)	11,582	500,016	11,582	714,378	–	NA
	Matching shares 2013 (vesting 2016)	1,429	71,086	1,429	88,141	–	NA

### Conditional shares, not vested

Board member	Series	Number	Conditional share	Vesting at min	Vesting at max
			grant at target Value at grant in €	performance Number	performance Number
Ton Büchner	Series 2015 - 2017	22,500	1,297,125	–	33,750
	Series 2016 - 2018	23,397	1,443,127	–	35,096
	Matching shares 2014 (vesting 2017)	2,450	133,782	–	2,450
	Matching shares 2015 (vesting 2018)	2,252	166,062	–	2,252
	Matching shares 2016 (vesting 2019)	1,529	97,070	–	1,529
Maälys Castella	Series 2015 - 2017	15,300	882,045	–	22,950
	Series 2016 - 2018	15,240	940,003	–	22,860
	Matching shares 2015 (vesting 2018)	305	22,491	–	305
	Matching shares 2016 (vesting 2019)	1,354	85,960	–	1,354

<sup>1</sup> Values for LTI series are based on the share price on the last trading day of the relevant prior year and for the matching shares are based on the date of purchase.



# AkzoNobel on the capital markets

Proposed dividend of €1.65  
(up 6.5 percent on 2015)

In April, we repaid a £250 million bond (coupon rate 8 percent) and issued a €500 million bond (coupon rate 1.125 percent)

AkzoNobel's credit rating was upgraded to A- by Standard & Poor's

## A strong case for investment

With well-established global brands and a portfolio of businesses with leadership positions in many markets, we offer a strong case for investment.

## 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 attended a number of conferences during the year, as well as holding meetings with investors and analysts. These meetings took place at AkzoNobel's Amsterdam Center and in a number of countries around the world. Our Investor Relations team also attended various conferences across the globe. In addition, CEO Ton Büchner and our Corporate Director of Sustainability, André Veneman, hosted a sustainability update call in May, while members of our sustainability team – along with Investor Relations – attended two SRI conferences during the year.

## 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 3.31 percent at year-end 2016. During the year, 168 million AkzoNobel shares were traded on Euronext Amsterdam (2015: 174 million). AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the OTCQX international 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

	2014	2015	2016
Year-end (share price in €)	57.65	61.68	59.39
Year-high (share price in €) <sup>1</sup>	60.77	74.81	64.74
Year-low (share price in €) <sup>1</sup>	47.63	55.65	50.17
Year-average (share price in €)	54.87	64.91	58.83
Average daily trade (in € millions)	36.9	44.1	38.8
Average daily trade (in millions of shares)	0.7	0.7	0.7
Number of shares outstanding at year-end (in millions)	246	249	252
Market capitalization at year-end (in € billions)	14.1	15.4	15.0
Net income per share (in €)	2.23	3.95	3.85
Dividend per share (in €)	1.45	1.55	1.65
Dividend yield (in %) <sup>2</sup>	2.5	2.5	2.8

<sup>1</sup> Based on close value.

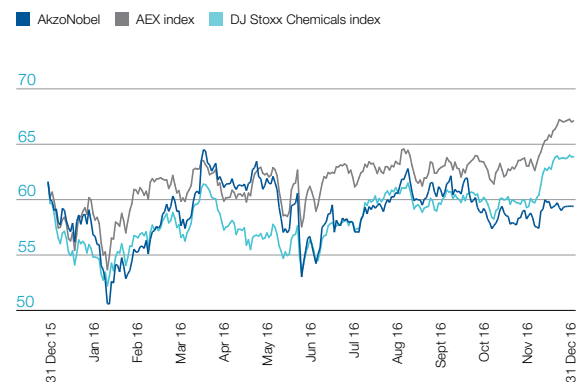
<sup>2</sup> Based on year-end share price.

## Share price performance 2016

Our share price decreased 4 percent in 2016, underperforming both the DJ Stoxx Chemicals and AEX indices. For more details about our share price performance, please refer to the following graph.

### Share price performance 2016

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 €1.65 per share

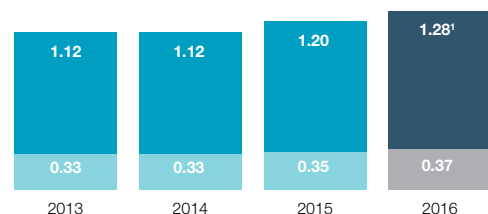
The Board of Management proposes a total dividend of €1.65 per common share. AkzoNobel's shares will be trading ex-dividend as of April 27, 2017. In compliance with the listing requirements of Euronext Amsterdam, the record date will be April 28, 2017. The dividend as proposed to the 2017 Annual General Meeting of shareholders will be payable

as of May 24 2017. The dividend paid over the last three years is shown in the graph below.

### Dividend paid in € per share

■ Interim dividend  
■ Final dividend

Total	2013	2014	2015	2016
1.45	1.45	1.55	1.65	
Increase	0%	0%	+7%	+6.5%



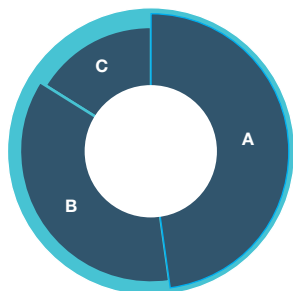
<sup>1</sup> Proposed.

## Analyst recommendations

At year-end 2016, AkzoNobel was covered by 25 equity brokers and the following analyst recommendations were applicable (see diagram).

### Analyst recommendations in %

A Buy	48
B Hold	36
C Sell	16



## 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 ID carried out in November 2016, the chart below shows the geographical spread. Around 7 percent of the company's share capital is held by private investors, many of whom are resident in the Netherlands.

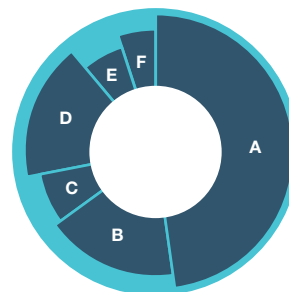
Approximately 9 percent of the company's share capital is held by sustainable and responsible investors\* and 63 percent is held by investors who are UN PRI signatories.

\* 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 2016

A North America	48
B UK/Ireland	17
C The Netherlands	7
D Rest of Europe	17
E Rest of world	6
F Undisclosed	5



## AkzoNobel in key sustainability indices

AkzoNobel is included in many sustainability indices. See Note 3 of the Sustainability statements.

## 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 the table below for the present rating and outlook.

Rating agency	Long-term rating	Outlook
Moody's <sup>1</sup>	Baa1	Stable
Standard & Poor's <sup>2</sup>	A-	Stable

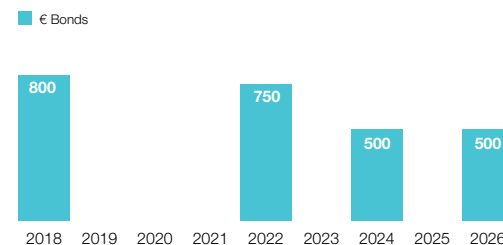
<sup>1</sup> Rating affirmed on November 9, 2016.

<sup>2</sup> Rating affirmed on October 21, 2016.

## Bonds

On April 6, 2016, a £250 million bond was repaid, while a €500 million bond was issued on April 8, 2016. These transactions have improved the overall debt profile of AkzoNobel, further reducing future refinancing risk and improving its maturity profile.

### Debt maturity<sup>1</sup> in € millions (nominal amounts)



<sup>1</sup> At year-end 2016.

For further information please visit our website: [akzonobel.com/investors](http://akzonobel.com/investors)





ARTISTS  
“BRING LOVE”  
TO LOCAL  
COMMUNITY



# Financial information

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Eighty artists helped transform a neighborhood in Montevideo, Uruguay, as part of a Human Cities project developed by our Inca paint brand. After consulting with local residents, more than 40 walls were painted to help make their surroundings more liveable and inspiring.



## Consolidated statement of income

In € millions	Note	2015	2016
<b>Continuing operations</b>			
Revenue		14,859	14,197
Cost of sales	3	(8,784)	(8,189)
<b>Gross profit</b>		<b>6,075</b>	<b>6,008</b>
Selling expenses	3	(3,021)	(2,947)
General and administrative expenses	3	(1,245)	(1,196)
Research and development expenses	3	(347)	(363)
Other results	3	111	17
		<b>(4,502)</b>	<b>(4,489)</b>
<b>Operating income</b>		<b>1,573</b>	<b>1,519</b>
Financing income and expenses	5	(114)	(114)
Results from associates and joint ventures	10	17	43
<b>Profit before tax</b>		<b>1,476</b>	<b>1,448</b>
Income tax	6	(416)	(394)
<b>Profit for the period from continuing operations</b>		<b>1,060</b>	<b>1,054</b>
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	2	6	(2)
<b>Profit for the period</b>		<b>1,066</b>	<b>1,052</b>
<b>Attributable to</b>			
Shareholders of the company		979	970
Non-controlling interests		87	82
<b>Profit for the period</b>		<b>1,066</b>	<b>1,052</b>
<b>Earnings per share, in €</b>			
Total operations			
Basic	7	3.95	3.87
Diluted	7	3.92	3.85

## Consolidated statement of comprehensive income

In € millions	2015	2016
<b>Profit for the period</b>	<b>1,066</b>	<b>1,052</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to statement of income:</b>		
Post-retirement benefits	(191)	(748)
Income tax	(2)	151
<b>Net effect</b>	<b>(193)</b>	<b>(597)</b>
<b>Items that may be reclassified subsequently to statement of income:</b>		
Exchange differences arising on translation of foreign operations	137	(104)
Cash flow hedges	(30)	59
Income tax	9	(43)
<b>Net effect</b>	<b>116</b>	<b>(88)</b>
<b>Other comprehensive income for the period</b>	<b>(77)</b>	<b>(685)</b>
<b>Comprehensive income for the period</b>	<b>989</b>	<b>367</b>
<b>Comprehensive income attributable to</b>		
Shareholders of the company	887	290
Non-controlling interests	102	77
<b>Comprehensive income for the period</b>	<b>989</b>	<b>367</b>

# Consolidated balance sheet at December 31, before allocation of profit

In € millions	Note	2015	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	4,156	4,413
Property, plant and equipment	9	4,003	4,190
Deferred tax assets	6	1,057	1,017
Investments in associates and joint ventures	10	165	161
Other financial non-current assets	11	903	558
<b>Total non-current assets</b>		<b>10,284</b>	<b>10,339</b>
<b>Current assets</b>			
Inventories	12	1,504	1,532
Current tax assets	6	69	59
Trade and other receivables	13	2,741	2,787
Cash and cash equivalents	17	1,365	1,479
<b>Total current assets</b>		<b>5,679</b>	<b>5,857</b>
<b>Total assets</b>		<b>15,963</b>	<b>16,196</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Shareholders' equity	14	6,484	6,553
Non-controlling interests	14	496	481
<b>Group equity</b>		<b>6,980</b>	<b>7,034</b>
<b>Non-current liabilities</b>			
Post-retirement benefit provisions	15	1,285	1,380
Other provisions	16	580	558
Deferred tax liabilities	6	360	367
Long-term borrowings	17	2,161	2,644
<b>Total non-current liabilities</b>		<b>4,386</b>	<b>4,949</b>
<b>Current liabilities</b>			
Short-term borrowings	17	430	87
Current tax liabilities	6	243	229
Trade and other payables	18	3,473	3,475
Current portion of provisions	15, 16	451	422
<b>Total current liabilities</b>		<b>4,597</b>	<b>4,213</b>
<b>Total equity and liabilities</b>		<b>15,963</b>	<b>16,196</b>

# Consolidated statement of cash flows

In € millions	Note	2015	2016
<b>Profit for the period</b>		<b>1,066</b>	<b>1,052</b>
Income from discontinued operations	2	(6)	2
<b>Adjustments to reconcile earnings to cash generated from operating activities</b>			
Amortization and depreciation	8,9	626	606
Impairment losses	8,9	22	63
Financing income and expenses	5	114	114
Results from associates and joint ventures	10	(17)	(43)
Pre-tax result on acquisitions and divestments	2	(70)	(31)
Income tax	6	416	394
Changes in working capital	19	46	1
Changes in provisions	19	(658)	(504)
Interest paid		(151)	(87)
Income tax paid		(261)	(285)
Other changes		9	15
<b>Net cash from operating activities</b>		<b>1,136</b>	<b>1,297</b>
Capital expenditures	9	(651)	(634)
Interest received		22	21
Dividends from associates and joint ventures		11	23
Acquisition of consolidated companies	2	(9)	(416)
Proceeds from divestments		160	53
Other changes		(41)	(26)
<b>Net cash from investing activities</b>		<b>(508)</b>	<b>(979)</b>
Proceeds from borrowings	17	829	916
Borrowings repaid	17	(1,518)	(776)
Dividends paid		(281)	(336)
Buy-out of non-controlling interests		(2)	(7)
<b>Net cash from financing activities</b>		<b>(972)</b>	<b>(203)</b>
<b>Net cash from continuing operations</b>		<b>(344)</b>	<b>115</b>
Cash flows from discontinued operations	2	(6)	(6)
<b>Net change in cash and cash equivalents of continued and discontinued operations</b>		<b>(350)</b>	<b>109</b>
Cash and cash equivalents at January 1	17	1,649	1,317
Effect of exchange rate changes on cash and cash equivalents		18	15
<b>Net cash and cash equivalents at December 31</b>		<b>1,317</b>	<b>1,441</b>



# Consolidated statement of changes in equity

## Attributable to shareholders of the company

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Cumulative translation reserve	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
<b>Balance at January 1, 2015</b>	<b>492</b>	<b>463</b>	<b>(19)</b>	<b>(43)</b>	<b>4.897</b>	<b>5.790</b>	<b>477</b>	<b>6.267</b>
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
<b>Comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>(23)</b>	<b>124</b>	<b>786</b>	<b>887</b>	<b>102</b>	<b>989</b>
Dividend	4	137	–	–	(363)	(222)	(86)	(308)
Equity-settled transactions <sup>1</sup>	–	–	–	–	32	32	–	32
Issue of common shares	2	(2)	–	–	–	–	2	2
Acquisitions and divestments	–	–	–	–	(3)	(3)	1	(2)
<b>Balance at December 31, 2015</b>	<b>498</b>	<b>598</b>	<b>(42)</b>	<b>81</b>	<b>5.349</b>	<b>6.484</b>	<b>496</b>	<b>6.980</b>
Profit for the period	–	–	–	–	970	970	82	1.052
Reclassification into the statement of income	–	–	21	–	–	21	–	21
Other comprehensive income	–	–	38	(99)	(748)	(809)	(5)	(814)
Tax on other comprehensive income	–	–	(14)	(29)	151	108	–	108
<b>Comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>45</b>	<b>(128)</b>	<b>373</b>	<b>290</b>	<b>77</b>	<b>367</b>
Dividend	5	149	–	–	(393)	(239)	(93)	(332)
Equity-settled transactions <sup>1</sup>	–	–	–	–	20	20	–	20
Issue of common shares	1	(1)	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	(2)	(2)	1	(1)
<b>Balance at December 31, 2016</b>	<b>504</b>	<b>746</b>	<b>3</b>	<b>(47)</b>	<b>5.347</b>	<b>6.553</b>	<b>481</b>	<b>7.034</b>

<sup>1</sup> Includes a tax charge of €3 million (2015: €1 million)

# Segment information

## Decorative Paints

Whether our customers are professionals or DIY-ers, they want great paint that gives a great finish. We supply a 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. Our specialty coatings for metal, wood and other building materials lead the market.

## Performance Coatings

We are a leading supplier of performance coatings with strong brands and technologies. Our high quality products are used 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.

## Specialty Chemicals

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

### Information per Business Area

In € millions	Revenue from third parties		Group revenue		Amortization and depreciation		Incidentals		Operating income		ROS% <sup>1</sup>	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Decorative Paints	3,954	3,792	4,007	3,835	(150)	(134)	–	9	345	366	8.6	9.3
Performance Coatings	5,938	5,640	5,955	5,665	(146)	(140)	–	(24)	792	735	13.3	13.4
Specialty Chemicals	4,965	4,760	4,988	4,783	(320)	(324)	31	–	609	629	11.6	13.2
Corporate and other	2	5	(91)	(86)	(10)	(8)	80	32	(173)	(211)	–	–
<b>Total</b>	<b>14,859</b>	<b>14,197</b>	<b>14,859</b>	<b>14,197</b>	<b>(626)</b>	<b>(606)</b>	<b>111</b>	<b>17</b>	<b>1,573</b>	<b>1,519</b>	<b>9.8</b>	<b>10.6</b>

In € millions	Invested capital		Total assets		Total liabilities		Capital expenditures		ROI% <sup>2</sup>	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Decorative Paints	2,643	2,595	4,588	4,511	1,741	1,687	158	107	11.7	12.8
Performance Coatings	2,510	2,713	4,359	4,674	1,624	1,811	147	159	29.4	29.4
Specialty Chemicals	3,352	3,494	4,570	4,755	1,252	1,315	331	356	16.3	17.9
Corporate and other	1,324	1,464	2,446	2,256	4,366	4,349	15	12	–	–
<b>Total</b>	<b>9,829</b>	<b>10,266</b>	<b>15,963</b>	<b>16,196</b>	<b>8,983</b>	<b>9,162</b>	<b>651</b>	<b>634</b>	<b>14.0</b>	<b>15.0</b>

<sup>1</sup> ROS% is calculated as EBIT (operating income excluding incidentals) as percentage of group revenue.

<sup>2</sup> ROI% is calculated as EBIT (operating income excluding incidentals) of the last 12 months as percentage of average invested capital of the last 12 months. Invested capital is calculated as total assets (excluding cash and cash equivalents, investments in associates, the receivable from pension funds in an asset position and assets held for sale) less current tax liabilities, deferred tax liabilities and trade and other payables.

### Regional information

In € millions	Revenue by region of destination		Intangible assets and property, plant and equipment		Invested capital		Capital expenditures	
	2015	2016	2015	2016	2015	2016	2015	2016
The Netherlands	693	651	1,681	1,805	2,070	2,214	102	114
Other European countries	5,687	5,456	2,256	2,369	3,035	3,229	258	210
US and Canada	2,494	2,351	1,208	1,278	1,865	1,844	100	103
Latin America	1,483	1,338	401	500	580	721	34	42
Asia	3,796	3,710	2,515	2,539	2,099	2,064	146	157
Other regions	706	691	98	112	180	194	11	8
<b>Total</b>	<b>14,859</b>	<b>14,197</b>	<b>8,159</b>	<b>8,603</b>	<b>9,829</b>	<b>10,266</b>	<b>651</b>	<b>634</b>

## 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 Article 379 and 414 of Book 2 of the Dutch 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 Title 9 of Book 2 of the Dutch Civil Code, as far as applicable. The Consolidated financial statements have been prepared on a going concern basis.

The Management report within the meaning of Article 391 of Book 2 of the Dutch Civil Code consists of the following parts of the annual report:

- AkzoNobel at a glance
- How AkzoNobel performed in 2016
- How AkzoNobel created value in 2016
- 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 23 Financial risk management

The section Strategic performance provides information on the developments during 2016 and the results. This section also provides information on cash flow and net debt, capital expenditures, innovation activities and employees.

On February 14, 2017, 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 2016, 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 8, 9)
- Post-retirement benefits (Note 15)
- Provisions (Note 16)

## 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) based on the information that is provided to the Executive Committee, our chief operating decision-maker during 2016, 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		
	2015	2016	%	2015	2016	%
US dollar	1.092	1.052	3.8	1.111	1.107	0.3
Pound sterling	0.736	0.856	(14.0)	0.726	0.821	(11.5)
Swedish krona	9.175	9.562	(4.0)	9.355	9.471	(1.2)
Chinese yuan	7.177	7.339	(2.2)	7.002	7.368	(5.0)
Brazilian real	4.326	3.425	26.3	3.700	3.854	(4.0)

## 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, 15)

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. We also provide post-retirement benefits other than pensions to certain employees, which 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 net interest on the net defined benefit liability/asset. 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. Remeasurement gains and losses, which arise in calculating our obligations, 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.

Net interest on the net defined benefit liability is included in financing expenses related to pensions. Other charges and benefits recognized are reported in Operating income, unless recorded in Other comprehensive income.

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## Other employee benefits (Note 4, 16)

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.

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## Share-based compensation (Note 4)

We have a performance-related share plan and a share-matching 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 Total Shareholders Return (TSR)-linked vesting condition is measured using a Monte Carlo simulation model. 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.

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## 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 or equity.

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 liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated financial statements. 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.

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## Earnings per share (Note 7)

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding during the year for the diluting effect of the shares of the performance-related shareplan and for the share-matching plan.

Adjusted earnings per share represents the basic earnings per share from continuing operations excluding incidentals in operating income, amortization of intangible assets and income tax on these adjustments.

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## Government grants

Government grants related to costs are deducted from the relevant costs 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.

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## Intangible assets (Note 8)

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, emission 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 for brands with finite useful lives, five to 25 years for customer lists and three to 15 years for other intangibles. Amortization methods, useful lives and residual values are reassessed annually.

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## Property, plant and equipment (Note 9)

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 borrowing cost 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 to 15 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.

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## Impairments (Note 8, 9)

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 at least 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.

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## Leases (Note 9, 17, 20)

Lease contracts in which we have substantially all the risks and rewards of ownership are classified as financial 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 depreciated using a straight-line method, based on the lower of the estimated useful life or the lease term. The interest expenses are recognized as other financing expenses over the lease term.

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

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## Associates and joint ventures (Note 10)

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 any impairment losses.

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## Inventories (Note 12)

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.

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## Provisions (Note 16)

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. Provi-

sions 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 Financing income and 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 23)

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 11) and Trade and other receivables (Note 13)

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 17)

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 and expenses.

### Long-term and short-term borrowings (Note 17, 23) and Trade and other payables (Note 18)

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 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 2017 and beyond have been assessed for their potential impact. The most important upcoming changes are:

### Other new IFRS accounting standards

Standard	Published	Implementation date of the standard	Endorsed by the European Union	Anticipated impact
IFRS 9, "Financial Instruments"	2009-2014	January 1, 2018	November 22, 2016	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 and continued in 2016. Based on the assessment performed we do not expect this new standard to have a significant impact on our Consolidated financial statements.
IFRS 15, "Revenue from Contracts with Customers"	May 28, 2014	January 1, 2018	September 22, 2016	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, and continued in 2016. Based on the assessment performed so far we do not expect this new standard to have a significant impact on our Consolidated financial statements.
IFRS 16, "Leases"	January 13, 2016	January 1, 2019	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. Based on the results of our assessment so far, we expect total assets to increase between 5 and 10 percent. It should be noted that the actual impact will depend on the number, size and remaining duration of lease contracts and any expected renewals at the moment of implementation. We do not expect the impact on operating income to be significant.

### Acquisition of BASF's Industrial Coatings business

On December 14, 2016, we acquired BASF's Industrial Coatings business. The transaction included two manufacturing plants, technologies, patents and trademarks, as well as securing supply to customers worldwide. The business supplies products for a number of end uses, including coil, furniture foil and panel coatings, wind energy and general industry, and commercial transport. The acquisition strengthened our position in the important coil coatings market and fits well with our existing business, allowing us to offer essential solutions to our customers.

#### Recognized fair values at acquisition

In € millions	BASF's Industrial Coatings business	Other acquisitions	Total
Goodwill	221	2	223
Other intangibles	165	–	165
Property, plant and equipment	4	46	50
Investment in associates and joint ventures	–	(9)	(9)
Inventories	18	7	25
Trade and other receivables	1	3	4
Cash and cash equivalents	–	2	2
Provisions	(17)	–	(17)
Deferred tax assets/(liabilities)	(3)	(9)	(12)
Trade and other payables	–	(2)	(2)
<b>Net identifiable assets and liabilities</b>	<b>389</b>	<b>40</b>	<b>429</b>
Recognized in the statement of income	–	(17)	(17)
<b>Purchase consideration</b>	<b>389</b>	<b>23</b>	<b>412</b>
Cash and cash equivalents acquired	–	(2)	(2)
To be received/(paid) in 2017 and later years	9	(3)	6
<b>Net cash outflow</b>	<b>398</b>	<b>18</b>	<b>416</b>

The goodwill is attributable to the expected synergies of combining the BASF's Industrial Coatings business with our existing business. The total amount of goodwill that is expected to be deductible for tax purposes is €164 million.

As a result of the closing date of December 14, 2016, the revenue and operating income contribution of the acquired business was insignificant. As the purchase price allocation is provisional it was deemed impracticable to disclose information on the consolidated pro-forma revenue and operating income for 2016 as if the acquisition had occurred on January 1, 2016.

Acquisition related costs of €13 million are included in Other results in the statement of income and in the Net cash from operating activities in the statement of cash flows.

#### Other acquisitions

Other acquisitions are deemed to be individually immaterial. Other acquisitions include the acquisition of the remaining 50 percent stake in EkO Peroxide LLC in January 2016, which mainly impacted the statement of income on the line Results from associates and joint ventures. EkO Peroxide LLC was treated as consolidated company thereafter.

In March 2015, we obtained the remaining 50 percent stake in Delesto B.V., which was treated as consolidated company thereafter.

#### Divestments

In 2016, no significant divestments occurred.

#### Discontinued operations

The results and net cash out from operating activities both in 2015 and 2016 mainly relate to settlements for previously divested businesses.

#### Discontinued operations

In € millions	2015	2016
Results related to discontinued operations in previous years	(3)	(3)
Tax related to discontinued operations in previous years	9	1
<b>Profit for the period</b>	<b>6</b>	<b>(2)</b>

#### Cash flows from discontinued operations

In € millions	2015	2016
Net cash from operating activities	(6)	(6)
<b>Cash flows from discontinued operations</b>	<b>(6)</b>	<b>(6)</b>

#### Material subsidiaries

The Consolidated financial statements comprise the assets, liabilities, income and expenses of approximately 360 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) or based on qualitative aspects. Material subsidiaries included in the table are 100 percent owned and meet these criteria.

#### 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
Imperial Chemical Industries Limited	United Kingdom



### EBIT (operating income excluding Incidentals)

In 2016, EBIT increased 3 percent to €1,502 million (2015: €1,462 million), reflecting the positive effects of volume growth, continuous improvement and lower costs.

- In Decorative Paints, EBIT increased 3 percent as a result of volume growth, continuous improvement and cost discipline, partly offset by currency impacts
- In Performance Coatings, EBIT decreased 4 percent driven by adverse currencies and price/mix effects and weakness in the marine and oil and gas industries, partly offset by continuous improvement
- In Specialty Chemicals, EBIT increased by 9 percent due to improved volumes and operational efficiencies

- EBIT in Corporate and other improved due to lower costs, driven by improvement programs and the implementation of the Global Business Services (GBS) model, and favorable one-time adjustments on legacy provisions, partly offset by higher restructuring expenses

Raw material prices were lower at the beginning of the year compared to the same period in 2015. In Q4, raw material costs were roughly flat versus the previous year, due to increases throughout the year. In most regions foreign currency effects adversely impacted raw material costs in local currencies.

### Operating income

In 2016, operating income was positively impacted by Incidentals of €17 million, including adjustments to post-retirement benefit provisions, asset impairments and acquisition-related costs. The Incidentals impacted operating income of Decorative Paints by positive €9 million, Performance Coatings by negative €24 million and operating income in Corporate and other by positive €32 million.

In 2015, operating income was positively impacted by €111 million Incidentals. 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 Incidentals. Operating income in Corporate and other was impacted by Incidentals, including a recovery related to the 2014 fraud case (€42 million) and several adjustments to provisions, mainly for post-retirement benefits and legacy items.

### Costs by nature 2015

In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(1,004)	(7)	(361)	(7,412)	(8,784)
Selling expenses	(1,022)	(97)	(74)	(1,828)	(3,021)
General and administrative expenses	(564)	(28)	(35)	(618)	(1,245)
Research and development expenses	(230)	(7)	(17)	(93)	(347)
Other results	92	–	–	19	111
<b>Total</b>	<b>(2,728)</b>	<b>(139)</b>	<b>(487)</b>	<b>(9,932)</b>	<b>(13,286)</b>

### Costs by nature 2016

In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(1,014)	(6)	(365)	(6,804)	(8,189)
Selling expenses	(998)	(88)	(66)	(1,795)	(2,947)
General and administrative expenses	(532)	(23)	(33)	(608)	(1,196)
Research and development expenses	(241)	(7)	(18)	(97)	(363)
Other results	103	–	–	(86)	17
<b>Total</b>	<b>(2,682)</b>	<b>(124)</b>	<b>(482)</b>	<b>(9,390)</b>	<b>(12,678)</b>

### Salaries, wages and other employee benefits in operating income

In € millions	2015	2016
Salaries and wages	(2,188)	(2,152)
Post-retirement costs	(128)	(112)
Other social charges	(412)	(418)
<b>Total</b>	<b>(2,728)</b>	<b>(2,682)</b>

### Average number of employees

Average number during the year	2015	2016
Decorative Paints	15,100	14,800
Performance Coatings	19,700	19,300
Specialty Chemicals	9,300	9,000
Corporate and other	2,000	2,700
<b>Total</b>	<b>46,100</b>	<b>45,800</b>

The average number of employees working outside the Netherlands was 40,900 (2015: 41,200).

### Employees

At year-end	2015	2016
Decorative Paints	14,900	14,700
Performance Coatings	19,300	19,700
Specialty Chemicals	9,100	9,000
Corporate and other	2,300	2,600
<b>Total</b>	<b>45,600</b>	<b>46,000</b>

At year-end 2016, the number of employees increased by 1 percent to 46,000 people (year-end 2015: 45,600 people), mainly due to acquisition of BASF's Industrial Coatings business. With the introduction of our GBS organization as of January 1, 2016, some employees are now reported at corporate level instead of within the Business Areas.

## Share-based compensation

Share-based compensation relates to the equity-settled performance-related share plan, as well as the share-matching plan. Charges recognized in the 2016 statement of income for share-based compensation amounted to €23 million and are included in salaries and wages (2015: €33 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 2016 was 579 (2015: 593).

The shares of the series 2013-2015 have vested and were delivered to the participants in 2016.

The 2014 conditional grant of shares is linked for 35 percent to the relative TSR performance of the company compared with the peer group, 35 percent to the return on investment (ROI) performance of the company and the remaining 30 percent to the ranking of the company in the RobecoSAM benchmark.

The conditional shares of the 2014-2016 series vested as follows:

### Performance-related shares

Series	Balance per January 1, 2016	Granted in 2016	Vested in 2016	Forfeited in 2016	Dividend in 2016 <sup>1</sup>	Balance at December 31, 2016	Vested on January 1, 2017
2013 – 2015	662,929	–	(662,929)	–	–	–	–
2014 – 2016	606,959	4,176	–	(226,292)	14,098	398,941	398,941
2015 – 2017	599,094	15,418	–	(39,510)	14,482	589,484	–
2016 – 2018	–	616,697	–	(24,922)	15,445	607,220	–
<b>Total</b>	<b>1,868,982</b>	<b>636,291</b>	<b>(662,929)</b>	<b>(290,724)</b>	<b>44,025</b>	<b>1,595,645</b>	<b>398,941</b>

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

- Our TSR performance over the period 2014-2016 resulted in a ninth 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 2016 resulted in a vesting of 104.3 percent for this part of the long-term incentive
- The average position in the RobecoSAM benchmark resulted in a vesting of 100 percent for this part of the long-term incentive

As a result, the conditional shares of the 2014-2016 series vested for 66.49 percent (series 2013-2015: 90.29 percent), including dividend shares of 7.63 percent, the final vesting percentage amounted to 71.56 percent (series 2013-2015: 97.48 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 share price of a common AkzoNobel share at year-end amounted to €59.39 (2015: €61.68). For further details on our performance-related share plan, refer to the Remuneration report.

### Fair value of performance-related shares

The fair value of the performance-related shares was €53.69 (2015: €54.11) and was for 35 percent based on a market condition (TSR: €40.20) and for 65 percent based on non-market based performance conditions (€60.96).

## 5 Note 5: Financing income and expenses

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.

The parameters applied for the fair value calculations are: share price at date of grant (opening of January 4, 2016): €60.96, expected volatility: 23.82 percent, and risk-free interest rate: negative 0.09 percent.

Expected volatility was determined based on the share price development of the past three years of AkzoNobel. The risk-free interest rate was based on a Dutch zero-coupon government bond.

### 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 incentive in AkzoNobel shares may have such shares matched by the company. The investment in AkzoNobel shares in 2016 resulted in a total of 6,734 granted potential matching shares. During 2016, 14,402 potential matching shares were matched, leading to a total of potential matching shares at December 31, 2016 of 16,468 shares.

The fair value of the potential matching shares at the date of the share investment is amortized as a charge against income over the vesting period.

### Fair value of matching shares

The fair value of the matching shares (€59.43) was based on the share price on the investment date, discounted for expected dividends over the holding period (2015: €67.81).

The parameters applied for the fair value calculations are: share price at purchase date of voluntary investment (April 19, 2016): €63.49, expected dividend yield: 2.18 percent.

For an overview of the matching shares outstanding for the members of the Board of Management as of December 31, 2016, we refer to Note 22.

### Financing income and expenses

In € millions	2015	2016
Financing income	28	28
Financing expenses	(125)	(98)
<b>Net interest on net debt</b>	<b>(97)</b>	<b>(70)</b>
<b>Other interest</b>		
Financing expenses related to post-retirement benefits	(13)	(10)
Interest on provisions	(17)	(40)
Other items	13	6
<b>Net other financing charges</b>	<b>(17)</b>	<b>(44)</b>
<b>Net financing expenses</b>	<b>(114)</b>	<b>(114)</b>

Net financing expenses for the year were €114 million (2015: €114 million). Significant variances are:

- Net interest on net debt decreased by €27 million to €70 million (2015: €97 million), mainly due to lower financing expenses as a result of the repayment of high interest bonds which were partly replaced by a lower interest bond
- Net other financing charges increased by €27 million to €44 million (2015: €17 million) as the decrease of discount rates on provisions in 2016 exceeded the decrease in 2015

The average interest rate used for capitalized interest was 2.9 percent (2015: 3.9 percent) and amounted to €8 million (2015: €12 million).

The average interest rate on total debt was 3.5 percent (2015: 4.0 percent).

## 6 Note 6: Income tax

Pre-tax income from continuing operations amounted to a profit of €1,448 million (2015: €1,476 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	2015	2016
<b>Current tax expense for</b>		
The year	(332)	(286)
Adjustments for previous years	27	13
<b>Total current tax expense</b>	<b>(305)</b>	<b>(273)</b>
<b>Deferred tax expense for</b>		
Origination and reversal of temporary differences and tax losses	(82)	(105)
(De)recognition of deferred tax assets	(20)	(18)
Changes in tax rates	(9)	2
<b>Total deferred tax expense</b>	<b>(111)</b>	<b>(121)</b>
<b>Total</b>	<b>(416)</b>	<b>(394)</b>

The total deferred tax charge, including discontinued operations was €120 million (2015: €109 million). The total tax charge, including discontinued operations, was €393 million (2015: €407 million).

### Effective tax rate reconciliation

The effective income tax rate based on the statement of income is 27.2 percent.

Effective tax rate		
In %	2015	2016
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	1.9	(0.1)
<b>Weighted average statutory income tax rate</b>	<b>26.9</b>	<b>24.9</b>
Non-taxable (income)/expenses	0.4	0.8
(De)recognition of deferred tax assets	1.4	1.3
Non-refundable withholding taxes	0.7	1.3
Other	(1.2)	(1.1)
<b>Effective tax rate</b>	<b>28.2</b>	<b>27.2</b>

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.

### Deferred tax assets and liabilities

From the total amount of recognized net deferred tax assets, €321 million (2015: €496 million) is related to entities that have suffered a loss in either 2016 or 2015 and where utilization is dependent on future taxable profit in excess of the charges arising from the reversal of existing taxable temporary differences. For these entities, net deferred tax assets were recognized based on management's long-term projections and tax planning strategies.

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	2015	2016
Currency exchange differences on intercompany loans of a permanent nature	2	(29)
Cash flow hedges	7	(14)
Share-based compensation	(1)	(3)
Post-retirement benefits	(2)	151
<b>Total</b>	<b>6</b>	<b>105</b>
Current tax	–	(1)
Deferred tax	6	106
<b>Total</b>	<b>6</b>	<b>105</b>

### Expiration year of loss carryforwards

In € millions	2017	2018	2019	2020	2021	Later	Unlimited	Total
Total loss carryforwards	45	54	46	43	33	544	2,623	3,388
Loss carryforwards not recognized in deferred tax assets	(27)	(36)	(34)	(33)	(23)	(34)	(68)	(255)
<b>Total recognized</b>	<b>18</b>	<b>18</b>	<b>12</b>	<b>10</b>	<b>10</b>	<b>510</b>	<b>2,555</b>	<b>3,133</b>

A deferred tax liability is recognized for taxable temporary differences related to investments in subsidiaries, branches and associates and interests in joint ventures, to the extent that it is probable that these will reverse in the foreseeable future. The expected net tax impact of the remaining differences for which no deferred tax liabilities have been recognized is €30 million.

The income tax recognized in equity in 2016 includes the positive impact of the re-recognition of certain post-retirement benefits related deferred tax assets.

### Unrecognized deferred tax assets

In € millions	2015	2016
Tax losses and tax credits	165	172
Deductible temporary differences	267	203
<b>Total</b>	<b>432</b>	<b>375</b>



**Deferred tax assets and liabilities**

In € millions	2015	2016
Deferred tax assets	1,152	1,057
Deferred tax liabilities	(412)	(360)
<b>Balance at January 1</b>	<b>740</b>	<b>697</b>
<b>Movement in deferred tax:</b>		
Changes in exchange rates	62	(21)
Recognized in income	(109)	(120)
Recognized in Equity/Other comprehensive income	6	106
Other	(2)	(12)
<b>Balance at December 31</b>	<b>697</b>	<b>650</b>
Deferred tax assets	1,057	1,017
Deferred tax liabilities	(360)	(367)

**Deferred tax assets and liabilities per balance sheet item**

In € millions	Net balance	December 31, 2015		December 31, 2016		
		Assets	Liabilities	Net balance	Assets	Liabilities
Intangible assets	(354)	61	415	(358)	66	424
Property, plant and equipment	(39)	78	117	(45)	75	120
Post-retirement benefit provisions	194	310	116	309	313	4
Other provisions	135	159	24	107	208	101
Other items and tax credits	332	396	64	310	375	65
Tax loss carryforwards	861	861	–	702	702	–
Deferred tax assets not recognized	(432)	(432)	–	(375)	(375)	–
<b>Tax assets/liabilities</b>	<b>697</b>	<b>1,433</b>	<b>736</b>	<b>650</b>	<b>1,364</b>	<b>714</b>
Set-off of tax	–	(376)	(376)	–	(347)	(347)
<b>Net deferred taxes</b>	<b>697</b>	<b>1,057</b>	<b>360</b>	<b>650</b>	<b>1,017</b>	<b>367</b>

**Profit for the period**

In € millions	2015	2016
Profit before tax from continuing operations	1,476	1,448
Income tax	(416)	(394)
<b>Profit from continuing operations</b>	<b>1,060</b>	<b>1,054</b>
Profit for the period attributable to non-controlling interests	(87)	(82)
<b>Profit for the period from continuing operations attributable to shareholders of the company</b>	<b>973</b>	<b>972</b>
Profit for the period from discontinued operations	6	(2)
<b>Profit for the period attributable to shareholders of the company</b>	<b>979</b>	<b>970</b>

**Weighted average number of shares**

Number of shares	2015	2016
<b>Issued common shares at January 1</b>	<b>246,043,094</b>	<b>248,976,428</b>
Effect of issued common shares during the year	1,777,510	1,937,945
<b>Shares for basic earnings per share for the year</b>	<b>247,820,604</b>	<b>250,914,373</b>
<b>Effect of dilutive shares</b>		
For performance-related shares	1,826,898	1,054,797
For share-matching plan	24,136	16,468
<b>Shares for diluted earnings per share</b>	<b>249,671,638</b>	<b>251,985,638</b>

**Earnings per share**

In €	2015	2016
Continuing operations		
Basic	3.93	3.88
Diluted	3.90	3.86
Discontinued operations		
Basic	0.02	(0.01)
Diluted	0.02	(0.01)
Total operations		
Basic	3.95	3.87
Diluted	3.92	3.85

**Adjusted earnings per share****Adjusted profit from continuing operations**

In € millions	2015	2016
Profit before tax from continuing operations	1,476	1,448
Incidentals reported in operating income	(111)	(17)
Amortization of intangible assets	139	124
Adjusted income tax	(421)	(431)
Non-controlling interests	(87)	(82)
<b>Adjusted profit from continuing operations attributable to shareholders of the company</b>	<b>996</b>	<b>1,042</b>
<b>Adjusted earnings per share (in €)</b>	<b>4.02</b>	<b>4.15</b>

**Intangible assets**

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
<b>Balance at January 1, 2015</b>					
Cost of acquisition	1,340	2,267	1,027	401	5,035
Cost of internally developed intangibles	–	–	–	255	255
Accumulated amortization/impairments	(94)	(146)	(564)	(344)	(1,148)
<b>Carrying value</b>	<b>1,246</b>	<b>2,121</b>	<b>463</b>	<b>312</b>	<b>4,142</b>
<b>Movements in 2015</b>					
Acquisitions through business combinations	3	–	–	–	3
Investments – including internally developed intangibles	–	–	–	37	37
Divestments	(2)	–	–	(8)	(11)
Amortization	–	(12)	(70)	(57)	(139)
Impairments	–	–	–	(1)	(1)
Changes in exchange rates	77	3	29	16	125
<b>Total movements</b>	<b>78</b>	<b>(9)</b>	<b>(42)</b>	<b>(13)</b>	<b>14</b>
<b>Balance at December 31, 2015</b>					
Cost of acquisition	1,423	2,260	1,071	409	5,163
Cost of internally developed intangibles	–	–	–	246	246
Accumulated amortization/impairments	(99)	(148)	(650)	(356)	(1,253)
<b>Carrying value at December 31, 2015</b>	<b>1,324</b>	<b>2,112</b>	<b>421</b>	<b>299</b>	<b>4,156</b>
<b>Movements in 2016</b>					
Acquisitions through business combinations	223	4	137	24	388
Investments – including internally developed intangibles	–	–	–	17	17
Divestments	–	–	(1)	(5)	(6)
Amortization	–	(12)	(64)	(48)	(124)
Impairments	–	(3)	(37)	(4)	(44)
Changes in exchange rates	6	24	–	(4)	26
<b>Total movements</b>	<b>229</b>	<b>13</b>	<b>35</b>	<b>(20)</b>	<b>257</b>
<b>Balance at December 31, 2016</b>					
Cost of acquisition	1,652	2,290	1,204	399	5,545
Cost of internally developed intangibles	–	–	–	221	221
Accumulated amortization/impairments	(99)	(165)	(748)	(341)	(1,353)
<b>Carrying value at December 31, 2016</b>	<b>1,553</b>	<b>2,125</b>	<b>456</b>	<b>279</b>	<b>4,413</b>

## Goodwill and other intangibles per segment

In € millions	Goodwill		Brands with indefinite useful lives		Other intangibles with finite useful lives		Total intangibles	
	2015	2016	2015	2016	2015	2016	2015	2016
Decorative Paints	36	40	1,907	1,928	265	228	2,208	2,196
Performance Coatings	731	954	–	–	278	372	1,009	1,326
Specialty Chemicals	557	559	–	–	382	332	939	891
<b>Total</b>	<b>1,324</b>	<b>1,553</b>	<b>1,907</b>	<b>1,928</b>	<b>925</b>	<b>932</b>	<b>4,156</b>	<b>4,413</b>

## Average revenue growth rates

In % per year	2017-2021
Decorative Paints	3.4%
Performance Coatings	2.6%
Specialty Chemicals	2.1%

Brands with indefinite useful lives are almost fully related to Dulux, which is the major brand, 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 2016 and 2015, there were no purchase commitments for individual intangible assets. No intangible assets were registered as security for bank loans.

### Impairment

In 2016, we recorded incidental impairment charges of €43 million for brands, customer lists and other intangibles to align with the value in use as a result of a revised business outlook for certain activities in Performance Coatings. The discount rates used for the fair value calculations range from 10.3 percent to 13.8 percent.

### Impairment testing

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 in principle based on cash flow projections of the five-year plan. Elements considered to determine if a different approach would be more appropriate are, among others, high growth/emerging economies, geo expansion opportunities, introduction of new product ranges and opportunities from market consolidation. In 2016, the above exception was applied for Decorative Paints Asia and Decorative Paints Latin America, for which the revenue growth and

EBITDA-margin development projections were extrapolated beyond the five-year explicit forecast period for another five years, applying reduced average growth rates.

The key assumptions used in the projections are:

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

For all business units, a terminal value was calculated based on the long-term inflation expectations of 1.2 percent. The estimated pre-tax cash flows are discounted to their present value using a pre-tax weighted average cost of capital. The discount rates are determined for each business unit and range from 8.3 percent to 11.4 percent, with a weighted average of 9.3 percent.

A sensitivity test for growth assumptions (a 50 percent reduction of the growth rate), EBITDA-margin development assumptions (a one percentage point decrease) as well as for the weighted average cost of capital (a one percentage point increase) confirms sufficient headroom in all businesses.

No impairment charges were recognized in relation to the annual impairment test, both in 2015 and 2016.

## 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
<b>Balance at January 1, 2015</b>						
Cost of acquisition	2,319	6,261	922	813	70	10,385
Accumulated depreciation/impairments	(1,193)	(4,533)	(695)	(68)	(61)	(6,550)
<b>Carrying value</b>	<b>1,126</b>	<b>1,728</b>	<b>227</b>	<b>745</b>	<b>9</b>	<b>3,835</b>
<b>Movements in 2015</b>						
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
<b>Total movements</b>	<b>20</b>	<b>91</b>	<b>15</b>	<b>44</b>	<b>(2)</b>	<b>168</b>
<b>Balance at December 31, 2015</b>						
Cost of acquisition	2,403	6,670	999	863	66	11,001
Accumulated depreciation/impairments	(1,257)	(4,851)	(757)	(74)	(59)	(6,998)
<b>Carrying value at December 31, 2015</b>	<b>1,146</b>	<b>1,819</b>	<b>242</b>	<b>789</b>	<b>7</b>	<b>4,003</b>
<b>Movements in 2016</b>						
Acquisitions	6	44	–	–	–	50
Divestments	(12)	(3)	(3)	(1)	–	(19)
Capital expenditures	31	99	36	468	–	634
Transfer between categories	80	207	46	(333)	–	–
Depreciation	(74)	(326)	(81)	–	(1)	(482)
Impairments	(7)	(6)	(3)	(3)	–	(19)
Other	–	28	–	–	–	28
Changes in exchange rates	15	16	(4)	(32)	–	(5)
<b>Total movements</b>	<b>39</b>	<b>59</b>	<b>(9)</b>	<b>99</b>	<b>(1)</b>	<b>187</b>
<b>Balance at December 31, 2016</b>						
Cost of acquisition	2,529	6,987	1,052	976	57	11,601
Accumulated depreciation/impairments	(1,344)	(5,109)	(819)	(88)	(51)	(7,411)
<b>Carrying value at December 31, 2016</b>	<b>1,185</b>	<b>1,878</b>	<b>233</b>	<b>888</b>	<b>6</b>	<b>4,190</b>

## Capital expenditures

- In Decorative Paints, we continued to invest in growth markets, with investments in our Chengdu Plant, China, in creating efficiency in Europe, in particular in Ashington, UK, and through optimization of our manufacturing footprint
- In Performance Coatings, we invested in production facilities in mature and growth markets to increase capacity and improve efficiency. In 2016, we started building a new production facility for powder coatings near Mumbai, India and another in Changzhou, China
- In Specialty Chemicals, we invested in several asset integrity and efficiency improvement projects as well as growth projects for specific segments. In 2016, we officially opened two new plants at our Ningbo multi-site in China, where Polymer Chemicals commissioned the world's largest DCP plant and Surface Chemistry inaugurated a new finishing (alkoxylation) plant

## Impairments

The impairments recorded in 2016 were mainly related to assets of Performance Coatings. In 2015, several 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 €63 million (2015: €39 million) of which €36 million is related to Buildings and land and €27 million to Plant equipment and machinery.

In 2016, we entered into new financial leases of €28 million, which were reported on the line Other.



## 10 Note 10: Investments in associates and joint ventures

At year-end 2016, the carrying value of investments in associates amounted to €108 million (2015: €107 million) and in joint ventures €53 million (2015: €58 million). In 2016, the results from associates and joint ventures amounted to a profit of €43 million (2015: €17 million).

No significant contingent liabilities exist related to associates and joint ventures.

In 2016, we acquired the remaining 50 percent stake in EkO Peroxide LLC and obtained control. As a result

EkO Peroxide LLC changed from a joint venture into a consolidated company.

The largest associates and joint ventures of AkzoNobel are Metlac S.p.a. (44 percent) and Delamine B.V. (50 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

In € millions	Associates		Joint ventures	
	2015	2016	2015	2016
<b>Condensed statement of income</b>				
Revenue	103	111	126	119
Profit before tax	18	27	12	13
Profit from continuing operations	11	19	6	24
Other comprehensive income	1	–	2	–
<b>Total comprehensive income</b>	<b>12</b>	<b>19</b>	<b>8</b>	<b>24</b>
<b>Condensed balance sheet</b>				
Non-current assets	60	63	42	40
Current assets	85	84	46	33
<b>Total assets</b>	<b>145</b>	<b>147</b>	<b>88</b>	<b>73</b>
Shareholders' equity	107	108	58	53
Non-current liabilities	4	3	11	2
Current liabilities	34	36	19	18
<b>Total liabilities and equity</b>	<b>145</b>	<b>147</b>	<b>88</b>	<b>73</b>

## 11 Note 11: Other financial non-current assets

### Other financial non-current assets

In € millions	2015	2016
Loans and receivables	189	135
Other than financial instruments	714	423
<b>Total</b>	<b>903</b>	<b>558</b>

The loans and receivables include the subordinated loan of €90 million (2015: €90 million) granted to the Pension Fund APF in the Netherlands. In 2015, it also included the non-current part of an escrow account of the AkzoNobel (CPS) Pension Scheme in the UK of €59 million.

Other financial non-current assets include an amount of €220 million related to pension plans in an asset position (2015: €528 million). See Note 15.

## 12 Note 12: Inventories

### Inventories

In € millions	2015	2016
Raw materials and supplies	450	480
Work in progress	87	82
Finished products and goods for resale	967	970
<b>Total</b>	<b>1,504</b>	<b>1,532</b>

Of the total carrying value of inventories at year-end 2016, €54 million is measured at net realizable value (2015: €51 million). In 2016, €66 million was recognized in the statement of income for the write-down of inventories (2015: €63 million), while €17 million of write-downs were reversed (2015: €15 million). There are no inventories subject to retention of title clauses.

## 13 Note 13: Trade and other receivables

### Trade and other receivables

In € millions	2015	2016
Trade receivables	2,267	2,272
Prepaid expenses	62	55
Tax receivables other than income tax	155	180
Receivables from associates and joint ventures	29	13
FX and commodity contracts	24	29
Other receivables	204	238
<b>Total</b>	<b>2,741</b>	<b>2,787</b>

Trade receivables are presented net of an allowance for impairment of €107 million (2015: €102 million). In 2016, €48 million of impairment losses were recognized in the statement of income (2015: €43 million), whilst €26 million was reversed (2015: €17 million).

Other receivables include the current part of the escrow account of the Akzo Nobel (CPS) Pensions Scheme in the UK amounting to €54 million (2015: €34 million), see Note 15.

### Ageing of trade receivables

In € millions	2015	2016
Performing accounts receivable	2,026	2,058
<b>Past due accounts receivables and not impaired</b>		
< 3 months	200	185
> 3 months	25	13
Impaired accounts receivables	118	123
Allowance for impairment	(102)	(107)
<b>Total trade receivables</b>	<b>2,267</b>	<b>2,272</b>

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	2015	2016
<b>Balance at January 1</b>	<b>95</b>	<b>102</b>
Additions charged to income	43	48
Release of unused amounts	(17)	(26)
Utilization	(18)	(19)
Currency exchange differences	(1)	2
<b>Balance at December 31</b>	<b>102</b>	<b>107</b>

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. 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
<b>Total</b>	<b>1,600,019,200</b>	<b>497,972,056</b>

**Composition of share capital at year-end 2016**

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	504,352,824
<b>Total</b>	<b>1,600,019,200</b>	<b>504,372,024</b>

**Outstanding common shares**

	2015	2016
Number of shares		
<b>Outstanding at January 1</b>	<b>246,043,094</b>	<b>248,976,428</b>
Issued in connection to performance-related shareplan and share-matching plan	825,102	676,073
Stock dividend	2,108,232	2,523,911
<b>Balance at December 31</b>	<b>248,976,428</b>	<b>252,176,412</b>

**Weighted average number of shares**

	2015	2016
Number of shares		
<b>Weighted average number of shares</b>	<b>247,820,604</b>	<b>250,914,373</b>

For further details on weighted average number of shares, see Note 7.

**Non-controlling interests**

Group entity	Partner	2015		2016	
		%	Equity stake in € millions	%	Equity stake in € millions
Akzo Nobel Swire Paints (Shanghai) Ltd, Shanghai, China	Swire Duro (Holdings) Ltd, China	30.00	191	30.00	181
Akzo Nobel India Limited, Kolkata, India	Privately held, India	27.04	55	27.04	49
PT ICI Paints Indonesia, Jakarta, Indonesia	PT DWI Satrya Utama, Indonesia	45.00	29	45.00	31
Akzo Nobel Paints (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	Privately held, Malaysia	40.05	27	40.05	26
Akzo Nobel Swire Paints (Guangzhou) Limited, Guangzhou, China	Swire Duro (Holdings) Limited, Industrial Development Co. Ltd of Guangzhou, China	46.00	38	46.00	37
International Paint (Korea) Ltd, Busan, South-Korea	Noroo Holdings, South Korea	40.00	24	40.00	20
Akzo Nobel UAE Paints LLC, United Arab Emirates	Kanoo Group, United Arab Emirates	40.00	10	40.00	13
Akzo Nobel Kemipol A.S., Izmir, Turkey	Privately held, Turkey	49.00	18	49.00	18
International Paints Saudi Arabia, Saudi Arabia	Yousuf Bin Ahmed Kanoo Co. Ltd, Saudi Arabia	40.00	12	40.00	15
International Paints of Shanghai Co. Ltd, Shanghai, China	Huayi Fine Chemical Co. Ltd, China; China National Shipbuilding Equipment & Materials Corp.	49.00	14	49.00	12
Akzo Nobel Pakistan Limited, Karachi, Pakistan	Privately held, Pakistan	24.19	13	24.19	13
Akzo Nobel Oman SAOC, Muscat, Oman	Omar Zawawi establishment LLC, Oman	50.00	14	50.00	14
Others			51		52
<b>Total</b>			<b>496</b>		<b>481</b>

**Subscribed share capital**

For further details on subscribed share capital, see Note E 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.

**Dividend**

Our dividend policy is to pay a stable to rising dividend. We will propose a 2016 final dividend of €1.28 per share, which would make a total 2016 dividend of €1.65 (2015: €1.55) per share, up 6.5 percent. There will be a stock dividend option with cash dividend as default.

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 Akzo Nobel (CPS) Pension Scheme (CPS) in the UK which together account for 82 percent of defined benefit obligations (DBO) and 90 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 Executive Committee Pensions. 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 and a smaller UK plan, the ICI Specialty Chemicals Pension Fund (ISCPF), have also invested in annuity contracts that aim to hedge all key risks related to their pensioner populations. CPS has an insurance contract 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 2016, the Trustee of the ICIPF entered into five more annuity buy-in agreements. Three of the agreements are with Legal & General Assurance Society Limited, the other two are with Scottish Widows Limited. Together they cover, in aggregate, £2.7 billion (€3.1 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 £512 million (€612 million). The Trustee of the ISCPF transacted one more buy-in in November 2016 with Pension Insurance Corporation covering their remaining pensioner liabilities totaling £138 million (€162 million) (local plan value), the accounting impact of which is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £21 million (€25 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. In 2016, a total past service credit of €109 million was recognized, as plan amendments to defined benefit pension plans were implemented, mainly in the UK.

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 2016 were €7 million (2015: €8 million). Alecta's target funding ratio in 2016 was 140 percent. The most recently quoted ratio at September 2016 stood at 142 percent. There is also a small number



of multi-employer plans in Germany in which AkzoNobel participates with annual contributions totaling €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 €152 million in 2016 (2015: €132 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.

### Reconciliation balance sheet

The adjacent table details the annual movements for the total post-retirement benefit provisions. The closing net balance sheet provision comprises: Pension plans €990 million (2015: €627 million) and Other post-retirement benefit plans €278 million (2015: €256 million).

### Reconciliation balance sheet

In € millions	2015			2016		
	DBO	Plan assets	Total	DBO	Plan assets	Total
<b>Balance at the beginning of the period</b>	<b>(17.165)</b>	<b>15.989</b>	<b>(1.176)</b>	<b>(16.960)</b>	<b>16.080</b>	<b>(880)</b>
<b>Statement of income</b>						
Current service cost	(65)	–	(65)	(55)	–	(55)
Past service cost	92	–	92	109	–	109
Settlements	2	(1)	1	10	(9)	1
Net interest (charge)/income on net defined benefit (liability)/asset	(597)	584	(13)	(523)	513	(10)
<b>Cost recognized in statement of income</b>	<b>(568)</b>	<b>583</b>	<b>15</b>	<b>(459)</b>	<b>504</b>	<b>45</b>
<b>Remeasurements</b>						
Actuarial gain/(loss) due to liability experience	404	–	404	122	–	122
Actuarial gain/(loss) due to liability financial assumption changes	394	–	394	(2.624)	–	(2.624)
Actuarial gain/(loss) due to liability demographic assumption changes	(126)	–	(126)	6	–	6
Actuarial loss due to buy-in	–	(384)	(384)	–	(637)	(637)
Return on plan assets greater/(less) than discount rate	–	(473)	(473)	–	2.394	2.394
<b>Remeasurement effects recognized in Other comprehensive income</b>	<b>672</b>	<b>(857)</b>	<b>(185)</b>	<b>(2.496)</b>	<b>1.757</b>	<b>(739)</b>
<b>Cash flow</b>						
Employer contributions	–	480	480	–	421	421
Employee contributions	(3)	3	–	(2)	2	–
Benefits and administration costs paid from plan assets	1.061	(1.061)	–	946	(946)	–
<b>Net cash flow</b>	<b>1.058</b>	<b>(578)</b>	<b>480</b>	<b>944</b>	<b>(523)</b>	<b>421</b>
<b>Other</b>						
Acquisitions/divestments/transfers	9	(8)	1	(3)	(2)	(5)
Changes in exchange rates	(966)	951	(15)	2.039	(2.145)	(106)
<b>Total other</b>	<b>(957)</b>	<b>943</b>	<b>(14)</b>	<b>2.036</b>	<b>(2.147)</b>	<b>(111)</b>
<b>Balance at the end of the period</b>	<b>(16.960)</b>	<b>16.080</b>	<b>(880)</b>	<b>(16.935)</b>	<b>15.671</b>	<b>(1.264)</b>
Asset restriction			(3)			(4)
<b>Net balance sheet provision</b>			<b>(883)</b>			<b>(1.268)</b>
<b>In the balance sheet under</b>						
Other financial non-current assets			528			220
Post-retirement benefit provisions			(1.285)			(1.380)
Current portion of provisions			(126)			(108)
<b>Net balance sheet provision</b>			<b>(883)</b>			<b>(1.268)</b>

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 €15 million (2015: €24 million), which are included in Operating income. In addition, we directly incurred asset management expenses of €9 million (2015: €5 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 post-retirement benefits of €10 million (2015: €13 million), see Note 5.

#### DBO at funded and unfunded pension plans

In € millions	2015	2016
Wholly or partly funded plans	16,380	16,311
Unfunded plans	324	346
<b>Total</b>	<b>16,704</b>	<b>16,657</b>

contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

#### Cash flows

In 2017, we expect to contribute €376 million (2016: €399 million) to our defined benefit pension plans. This includes €101 million (2016: €102 million) of regular pension contributions and €275 million (2016: €297 million) for top-ups, of which an estimated £46 million (€54 million) will be paid out of the CPS escrow account on its maturity (see explanation in Key plan details). We expect to pay a further €22 million (2016: €22 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.

#### Future benefit payments

In € millions	Pensions	Other post retirement benefits
2017	902	22
2018	898	21
2019	902	21
2020	912	20
2021	914	19
2022-2026	4,673	88

#### Plan assets

In € millions	2015		2016	
	Total	Percentage of total	Total	Percentage of total
Equities	1,166	7	1,091	7
Debt - fixed interest government bonds	950	6	768	5
Debt - index-linked government bonds	4,028	25	1,782	11
Debt - corporate and other bonds	1,069	7	915	6
Insurance contracts	6,250	39	8,514	54
Cash and cash equivalents	238	1	593	4
Other	2,379	15	2,008	13
<b>Total</b>	<b>16,080</b>	<b>100</b>	<b>15,671</b>	<b>100</b>

The insurance contracts in the table above include the values of the UK buy-in annuity policies totaling €8,357 million (2015: €6,044 million) representing 53 percent (2015: 38 percent) of the total plan assets. 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, totaled €971 million (2015: €997 million). Unquoted plan assets include investments in real estate, totaling €322 million (2015: €362 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 plans in asset position

Pension balances recorded under Other financial non-current assets totaled €220 million (2015: €528 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

## Key figures and assumptions by plan

In € millions or %	2015					2016				
	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%		61%	21%	16%	2%	
Defined Benefit Obligation	(10,544)	(3,568)	(2,592)	(256)	(16,960)	(10,317)	(3,623)	(2,717)	(278)	(16,935)
Fair value of plan assets	10,821	3,764	1,495	–	16,080	10,317	3,818	1,536	–	15,671
Plan funded status	277	196	(1,097)	(256)	(880)	–	195	(1,181)	(278)	(1,264)
Restriction on asset recognition	–	–	(3)	–	(3)	–	–	(4)	–	(4)
<b>Amounts recognized on the balance sheet</b>	<b>277</b>	<b>196</b>	<b>(1,100)</b>	<b>(256)</b>	<b>(883)</b>	<b>–</b>	<b>195</b>	<b>(1,185)</b>	<b>(278)</b>	<b>(1,268)</b>
Percentage of total current service cost	16%	21%	56%	7%		16%	18%	62%	4%	
Current service cost	10	14	36	5	65	9	10	34	2	55
Employer contributions	253	102	97	28	480	217	73	109	22	421
Discount rate	3.6%	3.7%	3.1%	3.6%	3.5%	2.5%	2.5%	2.3%	3.4%	2.5%
Rate of compensation increase	3.9%	4.0%	2.7%	–	3.8%	1.4%	1.4%	1.8%	–	1.6%
Inflation	2.9%	3.0%	1.9%	–	2.8%	3.3%	3.3%	2.0%	–	3.1%
Pension increases	2.8%	2.1%	2.0%	–	2.5%	3.0%	2.3%	2.0%	–	2.7%
Healthcare cost trend rate for next year				5.2%	5.2%				5.1%	5.1%
Rate to which cost trend rate is assumed to decline				3.8%	3.8%				4.0%	4.0%
Year that rate reaches the ultimate trend				2024	2024				2024	2024
<b>Life expectancy (in years)</b>										
<b>Currently aged 60</b>										
Males	27.0	26.9	25.6	26.2	26.8	27.1	27.0	25.6	26.2	26.8
Females	29.5	29.4	28.6	28.2	29.3	29.6	29.5	28.6	28.3	29.4
<b>Currently aged 45, from age 60</b>										
Males	28.3	28.3	27.1	27.5	28.1	28.4	28.4	27.2	27.4	28.2
Females	31.0	30.9	30.3	29.5	30.8	31.1	31.0	30.2	29.5	30.9

## Sensitivity of DBO to change in assumptions 2016

In € millions	ICIPF UK	CPS UK	Other pension plans	Other post- retirement benefits	Total
Discount rate: 0.5% decrease	741	316	205	13	1,275
Price inflation: 0.5% increase <sup>1</sup>	430	167	121	–	718
Life expectancy: one year increase from age 60	476	129	104	11	720
Healthcare cost trend rate: 0.5% increase	–	–	–	5	5
<b>Maturity information</b>					
Weighted average duration of DBO (years)	13.6	16.4	15.1	10.1	14.4

<sup>1</sup> The sensitivity to price inflation assumption includes corresponding changes to all inflation-related compensation increases, pensions in payment and pensions in deferment.

The sensitivity 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 approximately 96 percent of pensioner liabilities (2015: 66 percent) and 76 percent of total liabilities at ICIPF and the longevity hedge contract covers approximately 66 percent of pensioner liabilities (2015: 66 percent) and 38 percent of total liabilities at CPS.



## Key plan details for the two largest pension plans<sup>1</sup>

	ICI Pension Fund, UK	Akzo Nobel (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 member-nominated trustees Five appointed with the agreement of Law Debenture One independent (Law Debenture)	Trustee directors: Four member-nominated trustees Four company-nominated trustees 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, 2015
Funding deficit <sup>2</sup> at latest valuation	£850 million (€993 million)	£84 million (€98 million) including the escrow account
Recovery plan	£150 million (€175 million) per annum in 2017 and £125 million (€146 million) per annum in 2018 to 2021, paid in January each year	£21 million (€25 million) per annum, to 2019, with £13 million (€15 million) in 2020, plus a final payment on the maturity of the escrow account in 2017 whose value at year-end 2016 is £46 million (€54 million).
Next funding review	March 31, 2017 with recovery plan to be agreed by June 30, 2018	March 31, 2018 with recovery plan to be agreed by June 30, 2019
Estimated funding deficit <sup>2</sup> at March 31, 2016	£661 million (€772 million)	£126 million (€147 million) including the escrow account
Asset allocation at March 31, 2016		
Matching:	90%	58%
Return seeking:	10%	42%
	Buy-in annuity contracts cover approximately 96% of pensioner liabilities and 76% of total liabilities	The longevity hedge contract covers approximately 66% of pensioner liabilities and 38% of total liabilities
Escrow account	Not applicable	Pre-funded account established in 2007 to fund existing deficit. It has since been paying a minimum of £25 million (€29 million) per annum to CPS with the final payment of the balance due in 2017. Its value at year-end 2016 is £46 million (€54 million)
Membership at March 31, 2016		
Active	308	511
Deferred	8,699	8,579
Pensioner	44,821	19,048
Total	53,828	28,138

<sup>1</sup> Amounts in euro are a convenience translation using the December 31, 2016, exchange rate.

<sup>2</sup> Based on local valuation regulations.

**Movements in other provisions**

In € millions	Restructuring of activities	Environmental costs	Sundry	Total
<b>Balance at January 1, 2016</b>	<b>142</b>	<b>305</b>	<b>458</b>	<b>905</b>
Additions made during the year	67	15	123	205
Utilization	(66)	(29)	(74)	(169)
Amounts reversed during the year	(17)	(58)	(22)	(97)
Unwind of discount	1	22	15	38
Acquisitions/divestments	8	–	3	11
Changes in exchange rates	(2)	(3)	(16)	(21)
<b>Balance at December 31, 2016</b>	<b>133</b>	<b>252</b>	<b>487</b>	<b>872</b>
Non-current portion of provisions	44	210	304	558
Current portion of provisions	89	42	183	314
<b>Balance at December 31, 2016</b>	<b>133</b>	<b>252</b>	<b>487</b>	<b>872</b>

**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.

**Environmental liabilities**

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.

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.

The provisions for environmental costs amounted to €252 million at year-end 2016 (2015: €305 million). The provision has been discounted using an average pre-tax discount rate of 2.0 percent (2015: 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.

**Sundry provisions and other contingent liabilities**

Sundry provisions relate to a 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 2.1 percent (2015: 2.8 percent) has been used.

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.

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. Akzo Nobel 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. 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.

#### Current portion of provisions

Current portion of post-retirement benefit provisions (€108 million) and other provisions (€314 million) adds up to €422 million (2015: €451 million), as reflected in the balance sheet.

#### Discount rates

The discount rates used in calculating the provisions recognized at December 31, 2016 are mentioned in the paragraphs on environmental and sundry provisions. Changes in the discount rate will affect our consolidated financial position. A sensitivity test showed that a one percentage point increase or decrease of discount rates will have an impact of approximately €20 million on the provisions recognized at December 31, 2016.

#### Analysis of net debt by category

In € millions	2015	2016
Bonds issued	2,034	2,531
Other borrowings	127	113
<b>Long-term borrowings</b>	<b>2,161</b>	<b>2,644</b>
Current portion of long-term borrowings	378	45
Debt to credit institutions	48	38
Other	4	4
<b>Short-term borrowings</b>	<b>430</b>	<b>87</b>
<b>Total borrowings</b>	<b>2,591</b>	<b>2,731</b>
Cash and cash equivalents	(1,365)	(1,479)
<b>Net debt</b>	<b>1,226</b>	<b>1,252</b>

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 23.

#### Bonds issued

In € millions	2015	2016
4% 2011/18 (€800 million)	796	797
2 5/8% 2012/22 (€750 million)	742	743
1 3/4% 2014/24 (€500 million)	496	497
1 1/8% 2016/26 (€500 million)	–	494
<b>Total</b>	<b>2,034</b>	<b>2,531</b>

The average effective interest rate of the bonds outstanding at year-end 2016 was 2.6 percent (year-end 2015: 2.9 percent).

#### Aggregated maturities of long-term borrowings

In € millions	2018 – 2021	After 2021
Bonds issued	797	1,734
Other borrowings	49	64
<b>Total</b>	<b>846</b>	<b>1,798</b>

#### Long-term borrowings

We have a €1.8 billion multi-currency revolving credit facility, which was extended in 2016 by one additional year to 2021. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or material adverse change. At year-end 2016 and 2015, this facility has not been drawn.

At year-end 2016 and 2015, none of the borrowings was secured by collateral.

In April 2016, a bond was issued with a nominal value of €500 million maturing in 2026 at a coupon of 1.125 percent.

Financial lease liabilities are included in Other borrowings and aggregated €70 million (2015: €46 million). An amount of €9 million (2015: €5 million) will mature within one year, €30 million will mature in the period 2018 through 2021 and €31 million after 2021.

#### Short-term borrowings

In April 2016, a bond of £250 million matured. In 2017, no bonds will mature.

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 2016 and 2015.

**Cash and cash equivalents**

In € millions	2015	2016
Cash on hand and in banks	771	925
Short-term investments	594	554
<b>Included under cash and cash equivalents in the balance sheet</b>	<b>1,365</b>	<b>1,479</b>
Debt to credit institutions	(48)	(38)
<b>Total per cash flow statement</b>	<b>1,317</b>	<b>1,441</b>

**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 23.

At December 31, 2016, an amount of €30 million in cash and cash equivalents was restricted (2015: €68 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

**Trade and other payables**

In € millions	2015	2016
Suppliers	2,137	2,137
Amounts payable to employees	400	418
FX and commodity contracts	65	10
Taxes and social security contributions	252	243
Customer-related payables	250	272
Dividends	34	30
Payable to associates and joint ventures	3	2
Other liabilities	332	363
<b>Total</b>	<b>3,473</b>	<b>3,475</b>

**Net debt**

In € millions	Long-term	Short-term	Cash	Net debt
<b>Net debt equivalents at January 1, 2015</b>	<b>2,527</b>	<b>811</b>	<b>(1,732)</b>	<b>1,606</b>
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)
<b>Net debt equivalents at December 31, 2015</b>	<b>2,161</b>	<b>430</b>	<b>(1,365)</b>	<b>1,226</b>
Net cash from operating activities	–	–	(1,297)	(1,297)
Net cash from investing activities	–	–	979	979
Proceeds from borrowings	498	418	(916)	–
Borrowings repaid	–	(776)	776	–
Transfers from long-term to short-term	(46)	46	–	–
Dividends	–	–	336	336
Buy-out of non-controlling interests	(7)	–	7	–
New financial leases	24	4	–	28
Changes in exchange rates	6	(27)	(14)	(35)
Other changes	8	(8)	15	15
<b>Net debt equivalents at December 31, 2016</b>	<b>2,644</b>	<b>87</b>	<b>(1,479)</b>	<b>1,252</b>



**19** Note 19: Cash flow

Operating activities in 2016 resulted in cash inflows of €1,297 million (2015: €1,136 million).

**Changes in working capital per cash flow statement**

In € millions	2015	2016
Trade and other receivables	(29)	(11)
Inventories	56	16
Trade and other payables	19	(4)
<b>Total</b>	<b>46</b>	<b>1</b>

**Changes in provisions per cash flow statement**

In € millions	2015	2016
Post-retirement provisions	(474)	(442)
Restructuring provisions	(132)	(13)
Environmental and sundry provisions	(52)	(49)
<b>Total</b>	<b>(658)</b>	<b>(504)</b>

The above amounts cannot be reconciled directly to the respective balance sheet positions as they reflect changes in balance sheet positions only to the extent they have a cash flow impact, such as utilization, or they reverse the non-cash impact as included in Profit for the period. These amounts exclude non-cash movements such as unwind of discount, movements through Other comprehensive income, acquisitions and divestments, and changes in exchange rates.

**20** Note 20: Commitments

Purchase commitments for property, plant and equipment aggregated €22 million (2015: €31 million).

Lease payments during 2016 amounted to €223 million (2015: €193 million). Our operational lease portfolio mainly consists of leases related to land and property, employee cars and certain specific assets in Specialty Chemicals.

**Maturity operational lease contracts**

In € millions	2015	2016
Payments due within one year	152	172
Payments between one and five years	335	338
Payments due after more than five years	150	212
<b>Total</b>	<b>637</b>	<b>722</b>

Guarantees related to associates and joint ventures at year-end 2016 totaled €5 million (2015: €5 million).

**21** Note 21: 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 2016, 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 22. 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 2016. Likewise, there have not been any transactions with members of the Supervisory Board or Executive Committee, or any family member of such persons. Also no loans, advance payments or guarantees have been extended to members of the Supervisory Board or Executive Committee, or any family member of such persons. For related party transactions with pension funds, see Note 11, 13 and 15. For receivables from and payables to related parties, see Note 13 and 18.

**22** Note 22: Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €14.5 million (2015: €13.5 million). An amount of €8.6 million relates to short-term employee benefits (2015: €7.8 million); €1.1 million to post-contract benefits and other post-contract compensation (2015: €1.1 million); and €4.8 million to share-based compensation (2015: €4.6 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. Travel expenses and facilities for members of the Supervisory Board are borne by the company and reviewed by the Audit Committee.

### Shares held by the members of the Supervisory Board

Number of shares at year-end	2015	2016
Antony Burgmans	551	551
Sari Baldauf	–	–
Peggy Bruzelius	500	500
Byron Grote <sup>1</sup>	1,333	2,008
Louis Hughes	548	548
Pamela Kirby	–	–
Dick Sluimers	–	–
Ben Verwaayen	–	–

<sup>1</sup> In the form of ADRs.

The shares in the company owned by Supervisory Board members serve as a long-term investment in the company.

## 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. 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.

### 2015 performance on STI metrics

Metric	Payout as percentage of target
ROI	126%
OPI	127%
OCF	87%

### 2016 performance on STI metrics

Metric	Payout as percentage of target
ROI	127%
OPI	127%
OCF	111%
Revenue growth	–%

### Supervisory Board

In €	Total remuneration 2015	Remuneration	Attendance fee	Committee allowance fees	Employer's charges	Total remuneration 2016
Antony Burgmans, Chairman	160,000	130,000	15,000	20,000	–	165,000
Sari Baldauf	97,500	65,000	17,500	25,000	–	107,500
Peggy Bruzelius	110,300	65,000	12,500	20,000	16,300	113,800
Byron Grote, Deputy Chairman <sup>2</sup>	103,300	68,300	12,500	25,000	–	105,800
Louis Hughes	120,300	65,000	30,000	20,000	1,200	116,200
Pamela Kirby <sup>1</sup>	–	43,300	10,000	3,750	–	57,050
Dick Sluimers	59,100	65,000	2,500	20,000	–	87,500
Ben Verwaayen	98,600	65,000	10,000	15,000	1,200	91,200
<b>Total</b>	<b>749,100</b>	<b>566,600</b>	<b>110,000</b>	<b>148,750</b>	<b>18,700</b>	<b>844,050</b>

<sup>1</sup> As of May 1, 2016

<sup>2</sup> Deputy Chairman as of October 18, 2016

### Short-term incentive

The short-term incentives for 2016 are linked to ROI (20 percent), OPI (20 percent), OCF (20 percent), Revenue growth (10 percent) and the individual and qualitative targets of the members of the Board of Management (30 percent).

On the qualitative targets, the CEO performed slightly above target and the CFO above target.

### Other short-term benefits

Other short-term benefits include employer's charges (social contributions) and other compensations, such as representation allowances, insurances, car arrangements and educational expenses.

### 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 2016 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. Further details on the fair value of the performance-related share plan and the share-matching plan are provided in Note 4.

## Board remuneration 2015

In €	Salary	Short-term incentives <sup>1</sup>	Other short-term benefits <sup>2</sup>	Post-contract compensation	Share-based compensation	Total remuneration
Ton Büchner	859,000	915,800	43,500	356,700	1,303,600	3,478,600
Maëlys Castella	585,000	405,400	80,700	87,800	236,300	1,395,200
<b>Total</b>	<b>1,444,000</b>	<b>1,321,200</b>	<b>124,200</b>	<b>444,500</b>	<b>1,539,900</b>	<b>4,873,800</b>

<sup>1</sup> This concerns the short-term incentive amounts over 2015, to be paid in 2016.

<sup>2</sup> 2015 was amended to include other compensations, such as: representation allowances, insurances, car arrangements and educational expenses.

## Board remuneration 2016

In €	Salary	Short-term incentives <sup>1</sup>	Other short-term benefits	Post-contract compensation	Share-based compensation	Total remuneration
Ton Büchner	913,300	966,900	44,100	416,900	1,177,700	3,518,900
Maëlys Castella	610,000	431,700	83,000	91,500	370,200	1,586,400
<b>Total</b>	<b>1,523,300</b>	<b>1,398,600</b>	<b>127,100</b>	<b>508,400</b>	<b>1,547,900</b>	<b>5,105,300</b>

<sup>1</sup> This concerns the short-term incentive amounts over 2016, to be paid in 2017.

### Performance-related shares

With regard to the performance-related shares granted to the members of the Board of Management in 2014, the final vesting percentage of the series 2014-2016 equaled 66.49 percent (series 2013-2015: 90.29 percent), including dividend shares 71.56 percent (series 2013-2015: 97.48 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

For the CEO, the shares purchased in 2012 and 2013 under the applicable share matching plans were matched by the company following the Supervisory Board's decision recognizing consistent and sustainable performance.

## Former members of the Board of Management

In 2016, no charges for former members of the Board of Management were recognized (2015: €0.6 million).

### Number of performance-related shares

	Series	Balance at January 1, 2016	Granted in 2016	Vested in 2016	Forfeited in 2016	Dividend in 2016	Balance at December 31, 2016	Vested on January 1, 2017
Ton Büchner	2013 – 2015	23,590	–	(23,590)	–	–	–	–
	2014 – 2016	23,390	–	–	(8,043)	611	15,958	15,958
	2015 – 2017	22,993	–	–	–	601	23,594	–
	2016 – 2018	–	23,397	–	–	611	24,008	–
Maëlys Castella	2015 – 2017	15,635	–	–	–	409	16,044	–
	2016 – 2018	–	15,240	–	–	398	15,638	–

### Number of potential matching shares

	Year of share investment	Potential match	Matched in 2016	Forfeited in 2016	Balance at year-end 2016
Ton Büchner	2012	11,582	(11,582)	–	–
	2013	1,429	(1,429)	–	–
	2014	2,450	–	–	2,450
	2015	2,252	–	–	2,252
	2016	1,529	–	–	1,529
Maëlys Castella	2015	305	–	–	305
	2016	1,354	–	–	1,354

### Shares held by the Board of Management

Number of shares at year-end	2015	2016
Ton Büchner	44,683	72,736
Maëlys Castella	610	3,318



## 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, hedging and monitoring 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 2016, we had €1.5 billion available as cash and cash equivalents (2015: €1.4 billion), see Note 17. In addition, we have a €1.8 billion multi-currency revolving credit facility, which was extended in 2016 with one additional year to 2021. 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 2016 and 2015, this facility had not been drawn. We have US dollar and euro

## Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
<b>At December 31, 2015</b>			
Borrowings	425	845	1,275
Interest on borrowings	71	186	65
Finance lease liabilities	5	18	23
Trade and other payables	3,408	–	–
<b>Fx contracts (hedges)</b>			
Outflow	2,630	–	–
Inflow	(2,641)	–	–
<b>Other derivatives</b>			
Outflow	28	27	–
Inflow	(2)	–	–
<b>Total</b>	<b>3,924</b>	<b>1,076</b>	<b>1,363</b>
<b>At December 31, 2016</b>			
Borrowings	78	816	1,767
Interest on borrowings	75	191	65
Finance lease liabilities	9	30	31
Trade and other payables	3,465	–	–
<b>Fx contracts (hedges)</b>			
Outflow	1,949	–	–
Inflow	(1,955)	(3)	–
<b>Other derivatives</b>			
Outflow	–	–	–
Inflow	4	2	–
<b>Total</b>	<b>3,625</b>	<b>1,036</b>	<b>1,863</b>

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 2016 and 2015. 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 13. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets in the balance sheet.

At year-end 2016, the credit risk on consolidated level was €4.4 billion (2015: €4.3 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 €289 million at year-end 2016 (2015: €249 million).

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## 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 group level.

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 on forecasted transactions is applied on a limited scale. Derivative transactions with external parties are bound by limits per currency.

In general, our forward exchange contracts 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.

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### Hedged notional amounts at year-end

In € millions	Buy 2015	Sell 2015	Buy 2016	Sell 2016
US dollar	211	324	112	473
Pound sterling	554	66	281	48
Swedish krona	304	53	490	22
Chinese yuan	19	171	12	62
Other	562	705	284	331
<b>Total</b>	<b>1,650</b>	<b>1,319</b>	<b>1,179</b>	<b>936</b>

### Investments in foreign subsidiaries, associates and joint ventures

During 2016 net investment hedge accounting was applied on hedges of Brazilian real, Chilean peso, Chinese yuan, Indian rupee and US dollar net investments in foreign operations which were hedged with forward exchange contracts. During 2016 these hedges were fully effective. At year-end 2016, the hedge of Chilean peso net investments in foreign operations was outstanding.

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## 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 forwards to gradually cover the expected use over future periods. We apply cash flow hedge accounting to these forwards. All contracts qualified as effective for hedge accounting. The fair value of the contracts outstanding at year-end 2016 amounted to a gain of €2 million, net of tax recorded in equity (year-end 2015: a loss of €20 million, net of tax), which are expected to affect profit within the next four years.

In order to hedge the oil price risk, we have entered into oil/gas swap contracts. The fair value of the contracts at year-end 2016 was virtually nil (year-end 2015: €2 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 through Vattenfall AB, gradually increasing over time based on expected use of electricity over the period 2017–2021. 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 gain of €2 million net of tax recorded in equity (2015: a loss of €22 million, net of tax), which are expected to affect operational cost within the next five years. All hedges were effective.

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## 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. We treat fixed rate debt maturing within one year as floating rate debt for debt portfolio purposes. At the end of 2016, the fixed/floating rate of our outstanding bonds was 100 percent fixed as we have no outstanding bonds maturing within one year. During 2016, we have not used any interest rate derivatives.

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## 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 April 2016, a bond of €250 million matured. Also in April 2016, a bond was issued with a nominal value of €500 million maturing in 2026 at a coupon of 1.125 percent.

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 2016 at year-end amounted to 0.55 (2015: 0.58). 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

In the table “Fair value per financial instrument category” insight is provided in the recognition of the respective financial instruments per IAS 39 category. The total carrying value is based on the accounting principles as outlined in Note 1. The loans, receivables and other liabilities are recognized at amortized cost, using the effective interest method. 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)

For the purpose of determining the fair value per financial instrument category, shown in the column “fair value” we estimated the fair value of our long-term borrowings based on the quoted market prices (level 1) 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

### Fair value per financial instrument category

In € millions	Carrying amount	Out of scope of IFRS 7	Carrying value per IAS 39 category		Total carrying value	Fair value
			Loans and receivables/ other liabilities	At fair value through profit or loss		
<b>2015 year-end</b>						
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
<b>Total financial assets</b>	<b>5,009</b>	<b>883</b>	<b>2,737</b>	<b>1,389</b>	<b>4,126</b>	<b>4,144</b>
<b>2016 year-end</b>						
Other financial non-current assets	558	363	195	–	195	216
Trade and other receivables	2,787	235	2,469	83	2,552	2,552
Cash and cash equivalents	1,479	–	–	1,479	1,479	1,479
<b>Total financial assets</b>	<b>4,824</b>	<b>598</b>	<b>2,664</b>	<b>1,562</b>	<b>4,226</b>	<b>4,247</b>
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
<b>Total financial liabilities</b>	<b>6,064</b>	<b>1,271</b>	<b>4,728</b>	<b>65</b>	<b>4,793</b>	<b>4,974</b>
Long-term borrowings	2,644	61	2,583	–	2,583	2,801
Short-term borrowings	87	9	78	–	78	78
Trade and other payables	3,475	963	2,502	10	2,512	2,512
<b>Total financial liabilities</b>	<b>6,206</b>	<b>1,033</b>	<b>5,163</b>	<b>10</b>	<b>5,173</b>	<b>5,391</b>

for impairment, short-term borrowings and other current liabilities approximate fair value due to the short maturity period of those instruments and were determined using level 2 fair value methods. For €112 million of Other financial non-current assets a level 3 fair valuation method (discounted cash flow) was used resulting in a deviation between the fair value and the carrying value.

## 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.

**Sensitivities on financial instruments at year-end 2016**

Sensitivity object	Sensitivity	Hypothetical impact
<b>Foreign currencies:</b>		
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	Profit: €11 million (2015: profit €2 million), Other comprehensive income €2 million (2015: €nil)
	A 20 percent (2015: 10 percent) strengthening of the euro versus the pound sterling	Profit: €3 million (2015: profit €2 million)
	A 10 percent strengthening of the euro versus Swedish krona	Profit: €1 million (2015: €nil)
	A 5 percent strengthening of the euro versus Chinese yuan	Profit: €nil million (2015: €nil)
<b>Commodity prices:</b>		
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.	<b>Electricity price Specialty Chemicals Netherlands:</b> A 10 percent change in the forward price of electricity (€4 per MWh) as compared with the market prices (up/down)	Equity: €11 million (2015: €11 million) We apply cash flow hedge accounting to the fair value changes of electricity futures
	<b>Electricity price Specialty Chemicals Sweden and Finland:</b> A 10 percent change in the forward price on the Nord Pool exchange electricity (€3 per MWh) as compared with market prices (up/down)	Equity: €7 million (2015: €6 million) We apply cash flow hedge accounting to the fair value changes of electricity futures
	<b>Oil price Specialty Chemicals Netherlands and Denmark:</b> A 10 percent change in price of oil (€4 per barrel) as compared with market prices (up/down)	Profit/(loss): €nil million (2015: €1 million)
<b>Interest rate:</b>		
At the end of 2016, the fixed/floating rate of our outstanding bonds was 100 percent fixed as we have no outstanding bonds maturing within one year. As a result we are, for our debt position, not sensitive to interest rate changes. In Note 16 we explained how changes in discount rates will affect our consolidated financial position and showed the impact that a one percentage point increase or decrease of discount rates will have on the provisions recognized at December 31, 2016		

AkzoNobel has repurchased 960,000 of its own common shares in the period from January 9, 2017, up to and including February 11, 2017, at an average price of €61.98 per share. The consideration of the repurchase was €60 million. This is part of a repurchase program announced on December 12, 2016. The purpose of the program is to neutralize the dilutive effect of stock dividends paid in 2016.



# Company financial statements

## Statement of income

In € millions	Note	2015	2016
Other income		60	58
<b>Gross profit</b>		<b>60</b>	<b>58</b>
General and administrative expenses		(52)	(43)
		<b>(52)</b>	<b>(43)</b>
<b>Operating income</b>		<b>8</b>	<b>15</b>
Financing income and expenses	B	(47)	(33)
Net income from subsidiaries, associates and joint ventures		1,018	988
<b>Profit before tax</b>		<b>979</b>	<b>970</b>
Income tax		-	-
<b>Net income</b>		<b>979</b>	<b>970</b>

## Balance sheet as of December 31, before allocation of profit

In € millions	Note	2015	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Financial non-current assets	C	11,310	11,366
<b>Total non-current assets</b>		<b>11,310</b>	<b>11,366</b>
<b>Current assets</b>			
Trade and other receivables	D	111	229
Cash and cash equivalents	F	373	641
<b>Total current assets</b>		<b>484</b>	<b>870</b>
<b>Total assets</b>		<b>11,794</b>	<b>12,236</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Subscribed share capital		498	504
Additional paid-in capital		598	746
Cash flow hedge reserve		(42)	3
Other legal reserves		313	272
Cumulative translation reserves		81	(47)
Other reserves		4,057	4,105
Profit for the period		979	970
<b>Shareholders' equity</b>	E	<b>6,484</b>	<b>6,553</b>
<b>Non-current liabilities</b>			
Long-term borrowings	F	4,751	5,431
<b>Total non-current liabilities</b>		<b>4,751</b>	<b>5,431</b>
<b>Current liabilities</b>			
Short-term borrowings	F	373	36
Other current liabilities	G	186	216
<b>Total current liabilities</b>		<b>559</b>	<b>252</b>
<b>Total equity and liabilities</b>		<b>11,794</b>	<b>12,236</b>

## Movement in shareholders' equity

In € millions	Subscribed share capital	Additional paid-in capital	Legal reserves			Other reserves	Profit for the period	Shareholders' equity
			Cash flow hedge reserve	Other legal reserves	Cumulative translation reserves			
<b>Balance at January 1, 2015</b>	<b>492</b>	<b>463</b>	<b>(19)</b>	<b>335</b>	<b>(43)</b>	<b>4,016</b>	<b>546</b>	<b>5,790</b>
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
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(23)</b>	<b>-</b>	<b>124</b>	<b>(193)</b>	<b>979</b>	<b>887</b>
Dividend	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)	-	568	(546)	-
<b>Balance at December 31, 2015</b>	<b>498</b>	<b>598</b>	<b>(42)</b>	<b>313</b>	<b>81</b>	<b>4,057</b>	<b>979</b>	<b>6,484</b>
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	-	-	-	-	(128)	-	-	(128)
Changes in fair value of derivatives	-	-	45	-	-	-	-	45
Post-retirement benefits	-	-	-	-	-	(597)	-	(597)
Net income	-	-	-	-	-	-	970	970
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>45</b>	<b>-</b>	<b>(128)</b>	<b>(597)</b>	<b>970</b>	<b>290</b>
Dividend	5	149	-	-	-	(393)	-	(239)
Equity-settled transactions	-	-	-	-	-	20	-	20
Issue of common shares	1	(1)	-	-	-	-	-	-
Acquisitions and divestments	-	-	-	-	-	(2)	-	(2)
Addition to other reserves	-	-	-	(41)	-	1,020	(979)	-
<b>Balance at December 31, 2016</b>	<b>504</b>	<b>746</b>	<b>3</b>	<b>272</b>	<b>(47)</b>	<b>4,105</b>	<b>970</b>	<b>6,553</b>

**A** Note A: General information

The financial statements of Akzo Nobel N.V. have been prepared using the option of Article 362 of Book 2 of the Dutch 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 of the Consolidated financial statements. For the Company financial statements, Other income mainly concerns intercompany royalty income. Subsidiaries of Akzo Nobel N.V. are accounted for using the equity method, based on the pronouncements of the Dutch Accounting Standards Board.

The remuneration paragraph is included in Note 22 of the Consolidated financial statements.

**B** Note B: Financing income and expenses

**Financing income and expenses**

In € millions	2015	2016
Financing income	39	27
Financing expenses	(85)	(58)
Other items	(1)	(2)
<b>Total</b>	<b>(47)</b>	<b>(33)</b>

**C** Note C: Financial non-current assets

**Movements in financial non-current assets**

In € millions	Subsidiaries		Other financial non-current assets	Total
	Share in capital	Loans <sup>1</sup>		
<b>Balance at January 1, 2015</b>	<b>8,554</b>	<b>4,389</b>	<b>94</b>	<b>13,037</b>
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 subsidiaries	(147)	–	–	(147)
<b>Balance at December 31, 2015</b>	<b>8,379</b>	<b>2,834</b>	<b>97</b>	<b>11,310</b>
Acquisitions/capital contributions	37	–	–	37
Divestments/capital repayments	–	–	(2)	(2)
Net income from subsidiaries, associates and joint ventures	988	–	–	988
Post-retirement benefits	(595)	–	–	(595)
Equity-settled transactions	15	–	–	15
Loans granted	–	571	–	571
Repayment of loans	–	(487)	–	(487)
Changes in exchange rates	(125)	76	–	(49)
Dividends received	(448)	–	–	(448)
Other changes	26	–	–	26
<b>Balance at December 31, 2016</b>	<b>8,277</b>	<b>2,994</b>	<b>95</b>	<b>11,366</b>

<sup>1</sup> Loans to these companies have no fixed repayment schedule.

## D Note D: Trade and other receivables

### Trade and other receivables

In € millions	2015	2016
Receivables from subsidiaries	57	189
Receivable from associates and joint ventures	13	–
FX contracts	21	22
Other receivables	20	18
<b>Total</b>	<b>111</b>	<b>229</b>

## E Note E: 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 2016

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 2016 or 2015.

Of the shareholders' equity of €6.6 billion, an amount of €5.8 billion (2015: €5.7 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law. The reserves for actuarial gains and losses and cash flow hedges are individually considered to be restricted if they lead to an increase of Shareholders' equity at year-end.

Statutory reserves have been recognized following Article 373 paragraph 4 of Book 2 of the Dutch 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

### Unrestricted reserves at year-end

In € millions	2015	2016
Shareholders' equity at year-end	6,484	6,553
Subscribed share capital	(498)	(504)
Subsidiaries' restrictions to transfer funds	(224)	(188)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(23)	(23)
Cash flow hedge reserve	–	(3)
<b>Unrestricted reserves</b>	<b>5,678</b>	<b>5,774</b>

cumulative preferred shares to €2. As the revised nominal values are lower than the original par values, in accordance with Article 67a of Book 2 of the Dutch 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.

### Dividend

We will propose to the Annual General Meeting of shareholders on April 25, 2017, a 2016 final dividend of €1.28 of shareholders, which would make a total 2016 dividend of €1.65 per share (2015: €1.55). There will be a stock dividend option with cash dividend as default.

During 2016, we paid the 2015 final dividend of €1.20 and the 2016 interim dividend of €0.37 per share. For both dividends there were stock dividend options.

## F Note F: Net debt

### Analysis of net debt by category

In € millions	2015	2016
Bonds issued	1,292	1,788
Debt from subsidiaries	3,429	3,643
Other borrowings	30	–
<b>Long-term borrowings</b>	<b>4,751</b>	<b>5,431</b>
Current portion of debenture loans	339	–
Current portion of other long-term borrowings	30	30
Short-term loans	4	6
<b>Short-term borrowings</b>	<b>373</b>	<b>36</b>
<b>Total borrowings</b>	<b>5,124</b>	<b>5,467</b>
Cash and cash equivalents	(373)	(641)
<b>Net debt</b>	<b>4,751</b>	<b>4,826</b>



### Long-term-borrowings

For the fair value of the bonds issued, see Note 23 of the Consolidated financial statements.

#### Bonds issued

In € millions	2015	2016
4% 2011/18 (€800 million)	796	797
1 3/4% 2014/24 (€500 million)	496	497
1 1/8% 2016/26 (€500 million)	–	494
<b>Total</b>	<b>1,292</b>	<b>1,788</b>

We have a €1.8 billion multi-currency revolving credit facility, which was extended in 2016 by one additional year to 2021. 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 2016 and 2015, this facility had not been drawn. At year-end 2016 and 2015, none of the borrowings was secured by collateral. In April 2016, a bond was issued with a nominal value of €500 million maturing in 2026 at a coupon of 1.125 percent.

### Short-term borrowings

In April 2016, a bond of £250 million matured. In 2017, no bonds will mature. 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 2016 and 2015.

### Cash and cash equivalents

#### Cash and cash equivalents

In € millions	2015	2016
Cash on hand and in banks	53	264
Short-term investments	320	377
<b>Total</b>	<b>373</b>	<b>641</b>

### G Note G: Other current liabilities

#### Other current liabilities

In € millions	2015	2016
Payables to subsidiaries	23	51
Payables to associates and joint ventures	–	1
FX contracts	10	10
Debt related to pensions	6	7
Other suppliers	43	30
Other liabilities	104	117
<b>Total</b>	<b>186</b>	<b>216</b>

### H Note H: Financial instruments

At year-end 2016, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.2 billion (year-end 2015: €1.6 billion), while contracts to sell currencies totaled €0.9 billion (year-end 2015: €1.3 billion). The contracts mainly related to US dollars, Swedish krona, pound sterling and Chinese yuan 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 23 of the Consolidated financial statements.

### I Note I: Contingent liabilities

Akzo Nobel N.V. is parent of the group's fiscal unit in the Netherlands, and is therefore liable for the liabilities of said fiscal unit as a whole.

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Dutch consolidated companies (Article 403 of Book 2 of the Dutch Civil Code). These debts, at year-end 2016, aggregating €0.7 billion (2015: €0.8 billion), are included in the Consolidated balance sheet. Additionally, at year-end 2016, guarantees were issued on behalf of consolidated companies for an amount of €1.2 billion (2015: €1.2 billion).

The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated balance sheet or in the amount of commitments in respect of operational lease contracts as disclosed in Note 20 of the Consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €5 million (2015: €5 million).

### J Note J: Auditor's fees

#### Fees KPMG

In € millions	2015		
	In the Netherlands	Network outside the Netherlands	Total
Audit	3.2	6.8	10.0
Audit-related	0.5	0.3	0.8
Tax	–	0.2	0.2
Other services	–	–	–
<b>Total</b>	<b>3.7</b>	<b>7.3</b>	<b>11.0</b>

#### Fees PricewaterhouseCoopers

In € millions	2016		
	In the Netherlands	Network outside the Netherlands	Total
Audit	3.4	5.6	9.0
Audit-related	–	0.2	0.2
Tax	–	–	–
Other services	–	–	–
<b>Total</b>	<b>3.4</b>	<b>5.8</b>	<b>9.2</b>

# Other information

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## Proposal for profit allocation

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €554 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 €416 million (to be increased by dividend on shares issued in 2017 before the ex-dividend date and decreased by dividend on shares acquired through the share buyback program in 2017 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.65 per share, of which €0.37 was paid earlier as an interim dividend. The final dividend of €1.28 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 24, 2017.

Amsterdam, February 14, 2017

### The Board of Management

Ton Büchner  
Maëlys Castella

### The Supervisory Board

Antony Burgmans  
Sari Baldauf  
Peggy Bruzelius  
Byron Grote  
Louis Hughes  
Pamela Kirby  
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 Financial statements 2016

### Our opinion

In our opinion:

- the accompanying Consolidated financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Title 9 of Book 2 of the Dutch Civil Code
- the accompanying Company financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2016 and of its result for the year then ended in accordance with Title 9 of Book 2 of the Dutch Civil Code

### What we have audited

We have audited the accompanying financial statements 2016 of Akzo Nobel N.V., Amsterdam ('the company'). The financial statements include the Consolidated financial statements of Akzo Nobel N.V. and its subsidiaries (together: 'the group') and the Company financial statements.

The Consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2016
- the following statements for 2016: the consolidated statement of income and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information

The Company financial statements comprise:

- the company balance sheet as at December 31, 2016
- the company statement of income for the year then ended
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Title 9 of Book 2 of the Dutch Civil Code for the Consolidated financial statements and Title 9 of Book 2 of the Dutch Civil Code for the Company financial statements.

### The 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 section 'Our responsibilities for the audit of the financial statements' of our report.

### Independence

We are independent of Akzo Nobel N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

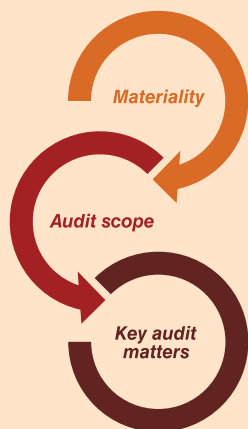
#### Overview and context

Akzo Nobel N.V. is a global paints and performance coatings company and a major producer of specialty chemicals headquartered in the Netherlands. The group comprises of multiple components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section below. We paid specific attention to the areas of focus driven by the operations of the company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Board of Management made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that

are inherently uncertain. In Note 1 of the Consolidated financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty in the impairment testing of goodwill and other intangibles with indefinite useful lives, calculation of the post-retirement benefit provisions and accounting for income tax positions, we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, as this is our first year as auditor of Akzo Nobel N.V., we identified the transition as auditors including the audit of the opening balances as key audit matter because initial audit engagements involve a number of considerations not associated with recurring audits to establish an appropriate audit plan and strategy.

Besides the key audit matters, other areas of focus were provisions, the acquisition of BASF's Industrial Coatings business and information technology general controls (ITGC). The ITGC are the policies and procedures used by the company to ensure information technology (IT) operates as intended and provides reliable data for financial reporting purposes. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board of Management that may represent a risk of material misstatement due to fraud.



The outlines of our audit approach were as follows:

**Materiality**

- Overall materiality: €65 million which represents approximately 5 percent of profit before tax

**Audit scope**

- We conducted audit work at 61 components in 17 countries
- Site visits by the group team were conducted to seven countries – US, China, Sweden, UK, Brazil, Germany and the Netherlands
- Audit coverage: 77 percent of consolidated revenue, 77 percent of consolidated total assets and 81 percent of profit before tax

**Key audit matters**

- Impairment testing of goodwill and other intangibles with indefinite useful lives
- Post-retirement benefit provisions
- Valuation of deferred tax assets and uncertain tax positions
- Transition as auditors including audit of the opening balances

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €3 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**The scope of our group audit**

Akzo Nobel N.V. is the parent company of a global group of entities managed by the Board of Management and Executive Committee, with an Executive Committee member responsible for each Business Area. The financial information of this group is included in the Consolidated financial statements of Akzo Nobel N.V.

Considering our ultimate responsibility for the opinion we are responsible for the direction, supervision and performance of the group audit. In this context, we tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. We took into account the size and the risk profile of the group entities or operations and how Akzo Nobel N.V. is organized and monitors the business through the Business Areas and related business units and functions. We selected group entities or operations of each Business Area or function for which an audit or specified audit procedures had to be carried out on either the complete set of financial information or specific financial statement line items. We also ensured that the audit teams both at group and at component levels included the appropriate skills and competencies which are needed for the audit of Akzo Nobel N.V. This included specialists such as actuaries, tax, valuation, treasury specialists and IT auditors.

**Materiality**

The scope of our audit is influenced by the application of materiality which is further explained in the section ‘Our responsibilities for the audit of the financial statements’.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations including our first year as auditor, key audit matters and other areas of focus, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	
Overall group materiality	€65 million
How we determined it	Approximately 5 percent of profit before tax
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company
Component materiality	To each component in our audit scope, we, based on our judgment, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €6 and €40 million



We include components of Akzo Nobel N.V. in scope for the group audit where they are significant in size, impose significant risks to the group or are considered significant for any other reasons. As this scoping does not provide adequate coverage over the financial statements as a whole, we used our judgment to scope-in additional components. This resulted in 61 components in scope in 17 countries across all Business Areas, with components being operating companies and operating business units in our group audit. We further performed central audit procedures at group level on the areas that to a large extent are controlled and monitored centrally by Akzo Nobel N.V. such as goodwill and other assets impairment testing, post-retirement benefit provisions, tax positions, legal and environmental provisions, treasury, IT, the group consolidation and financial statement disclosures. For all components in scope we performed hard close audit procedures on the interim October positions and results and year-end audit procedures on the December positions and results. For the remaining components not in our group scope we performed, among others, analytical procedures to corroborate our assessment that there were no risks of material misstatements within those components. This also included central procedures over the controls performed by the Business Areas and other central functions, where relevant for our audit.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

#### Coverage on the financial line items

Revenue	77%
Total assets	77%
Profit before tax	81%

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Consolidated financial statements as a whole. The group engagement team visited the component teams and local management in the local operations in the US, China, Sweden, UK, Brazil, Germany and the Netherlands and conference/ video calls were held with the all the component auditors on various moments during the year. During these visits and calls, the audit approach, findings and observations reported to the group audit team were discussed in more detail. Furthermore, we performed detailed reviews of the component team audit files and any further work considered necessary by the group audit team.

By performing the procedures above at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the Consolidated financial statements.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

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## Key audit matters

### Key audit matter

#### Impairment testing of goodwill and other intangibles with indefinite useful lives

##### Note 8 – page 148

At December 31, 2016, the company's goodwill and other intangibles with indefinite useful lives are valued at €3.5 billion. The key assumptions and sensitivities are disclosed in Note 8 of the Consolidated financial statements. The annual impairment test for goodwill and indefinite life intangible assets is significant to our audit because the assessment process is complex, involves significant management judgment and is based on assumptions that are affected by expected future market and economic conditions, revenue growth, margin developments, the discount rates and terminal growth rates. Based on the annual goodwill impairment test, including sensitivity tests, the Board of Management concluded that no impairment of goodwill and other intangibles with indefinite useful lives was necessary.

#### Post-retirement benefit provisions

##### Note 15 – page 154

The post-retirement benefit provisions consist of defined benefit obligations (€16.9 billion) offset by plan assets (€15.7 billion). The largest pension plans are the ICI Pension Fund (ICIPF) and the AkzoNobel Pension Scheme (CPS) in the UK which together account for 82 percent of defined benefit obligations (DBO) and 90 percent of plan assets. The procedures over the post-retirement benefit provisions, specifically the procedures on the DBO and de-risking transactions during the year, were significant to our audit because the assessment process is complex, involves significant management judgment and is based on actuarial assumptions, including discount rates, compensation increase, expected inflation rates, mortality tables and indexation percentages, as disclosed in Note 15 of the Consolidated financial statements. Technical expertise is required to determine these amounts and significant de-risking transactions occurred.

#### Valuation of deferred tax assets and uncertain tax positions

##### Note 6 – page 145

The Group operates in various countries and is subject to income taxes in various tax jurisdictions. The assessment of the valuation of deferred tax assets, resulting from net operating losses and temporary differences, and provisions for uncertain tax positions is significant to our audit as the calculations are complex and depend on sensitive and judgmental assumptions. These include, amongst others, long-term future profitability and local fiscal regulations and developments. The company's disclosures concerning income taxes are included in Note 6 of the Consolidated financial statements.

#### Transition as auditors including the audit of the opening balances

Initial audit engagements involve a number of considerations not associated with recurring audits. We identified the audit transition, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy. This includes:

- Gaining an initial understanding of the company and its business including its control environment and information systems, sufficient to make an audit assessment and develop the audit strategy and plan
- Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles
- Communicating with the previous auditors

### How our audit addressed the matter

Our audit procedures included, among others, an assessment of the mathematical accuracy of the calculations and a reconciliation to the 2017 five-year plan as approved by the Board of Management. We evaluated the assumptions and methodologies used in the annual impairment test prepared by the company. We have challenged management, primarily on their assumptions applied to which the outcome of the impairment test is the most sensitive, in particular, the projected revenue growth, margin developments, discount rates and terminal growth rates. We performed independent testing and analysis of the basic peer group composition, among others, and challenged management by comparing the assumptions to historic performance of the company and local economic developments, taking into account the sensitivity tests of the goodwill balances for any changes in the respective assumptions. We also focused on the adequacy of the company's disclosures in Note 8 of the Consolidated financial statement concerning those key assumptions to which the outcome of the impairment test is most sensitive.

We evaluated the Board of Management's actuarial assumptions and valuation methodologies and we assessed the objectivity and competence of the company's external pension experts used for the calculation of the post-retirement benefit positions. We have challenged management, primarily on their assumptions applied to which the post-retirement benefit provisions are the most sensitive, by performing independent testing and comparing to the published actuarial tables, amongst other. We also tested the participant census data and the valuation of the plan assets through independent price testing. Further, we tested the de-risking transactions and plan amendments made by AkzoNobel to the UK pension plans and we verified the appropriate accounting. We also assessed the adequacy of the company's disclosure in Note 15 of the Consolidated financial statements.

Our audit procedures included, among others, procedures on the completeness and accuracy of the deferred tax assets and uncertain tax positions recognized. We challenged and tested the Board of Management's assessment of the recoverability of the deferred tax assets, including the project revenue growth and margin development based on the 2017 five-year plan as approved by the Board of Management, and the probability of future cash outflows of the uncertain tax risks identified by the company. We also assessed the applicable local fiscal regulations and developments, in particular those related to changes in the statutory income tax rate and of the statutes of limitation since, as these are key assumptions underlying the valuation of the deferred tax assets and uncertain tax positions. We analysed the tax positions and evaluated the assumptions and methodologies used by the company. In addition, we also focused on the adequacy of the company's disclosures on deferred tax assets and uncertain tax positions and assumptions used.

Prior to becoming the company's auditors, we developed a comprehensive transition plan commencing in November 2015 to understand the connection between the company's strategy, the related business risks and the way these impact the company's financial reporting and internal controls framework. Our transition plan included, among other:

- Close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards
- Active knowledge sharing with Business, Finance, Risk and Internal Audit functions to understand their perspectives on the business, (emerging) risks and key findings from their work
- Attendance as observers of a number of meetings between the previous auditors and senior management and Audit Committee during the hard close 2015 and year-end 2015 financial closing and reporting process
- Evaluation of key accounting positions and audit matters from prior years
- Review of management's control documentation to assist us in obtaining and understanding of the company's financial reporting and business processes

We discussed and agreed our audit plan with the Audit Committee in June 2016 and we discussed the status, progress and key findings from our audit process on a quarterly basis.

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### Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The report of the Board of Management, as defined in Note 1 of the Consolidated financial statements
- The other information pursuant to Title 9 of Book 2 of the Dutch Civil Code
- Other parts of the annual report: How AkzoNobel performed in 2016, How AkzoNobel created value in 2016, CEO statement, Our purpose, Strategic performance, Business Performance, Leadership, Governance and compliance, Sustainability statements, Index, Financial calendar and Glossary

Based on the procedures performed as set out below, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains all information that is required by Title 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Title 9 Book 2 of the Dutch Civil Code and the Dutch Standard of Auditing 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Title 9 Book 2 of the Dutch Civil Code.

### Report on other legal and regulatory requirements

#### Our appointment

We were appointed for the first year as auditors of Akzo Nobel N.V. by the Supervisory Board following the passing of a resolution by the shareholders at the Annual General Meeting held on April 29, 2014 for the audit of the financial statements as of 2016.

#### Responsibilities for the financial statements and the audit

#### 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 Title 9 of Book 2 of the Dutch Civil Code; and 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 fraud or error

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 frameworks 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 the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, February 14, 2017

**PricewaterhouseCoopers Accountants N.V.**

R. Dekkers RA

## Appendix to our auditor's report on the financial statements 2016 of Akzo Nobel N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### **The auditor's responsibilities for the audit of the financial statements**

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management
- Concluding on the appropriateness of the Board of Management's use of the going concern basis of accounting, and based on the audit evidence obtained,

concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Considering our ultimate responsibility for the opinion on the company's Consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.



# Profit allocation and distributions

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## 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.

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## 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	2007	2008 <sup>1</sup>	2009	2010 <sup>2</sup>	2011	2012	2013	2014	2015	2016
Revenue	10,217	15,415	13,028	13,605	14,604	15,390	14,590	14,296	14,859	14,197
EBIT <sup>6</sup>	916	1,315	1,131	1,325	1,154	972	897	1,072	1,462	1,502
Operating income	778	(577)	855	1,293	1,157	(1,198)	958	987	1,573	1,519
Financing income and expenses	(151)	(232)	(405)	(329)	(311)	(205)	(200)	(156)	(114)	(114)
Income tax	(166)	(260)	(141)	(176)	(241)	(203)	(111)	(252)	(416)	(394)
Results from associates and joint ventures	(20)	25	21	25	24	13	14	21	17	43
<b>Profit for the period from continuing operations</b>	<b>441</b>	<b>(1,044)</b>	<b>330</b>	<b>813</b>	<b>629</b>	<b>(1,593)</b>	<b>661</b>	<b>600</b>	<b>1,060</b>	<b>1,054</b>
Non-controlling interests	(31)	(65)	(77)	(83)	(64)	(63)	(68)	(72)	(87)	(82)
Discontinued operations	9	23	32	58	(59)	(436)	131	18	6	(2)
<b>Net income, attributable to shareholders</b>	<b>419</b>	<b>(1,086)</b>	<b>285</b>	<b>788</b>	<b>506</b>	<b>(2,092)</b>	<b>724</b>	<b>546</b>	<b>979</b>	<b>970</b>
Common shares, in millions at year-end	262.3	231.7	232.3	233.5	234.7	239.0	242.6	246.0	249.0	252.2
Dividend <sup>4</sup>	472	417	325	320	304	214	210	212	222	239
Number of employees at year-end	42,600	60,000	54,700	55,600	52,020	50,610	49,600	47,200	45,600	46,000
Average number of employees	42,600	61,300	56,300	55,100	51,100	52,200	50,200	48,200	46,100	45,800
Employee benefits	2,215	3,022	2,955	2,980	2,765	3,018	2,950	2,824	2,728	2,682
Average revenue per employee (in €1,000)	240	251	231	247	286	295	291	297	322	310
Average Operating income per employee (in €1,000)	18	(9)	15	23	23	(23)	19	20	34	33
<b>Ratios</b>										
ROS <sup>7</sup>	9.0	8.5	8.7	9.7	7.9	6.3	6.1	7.5	9.8	10.6
ROI <sup>7</sup>	13.8	14.1	9.0	11.6	10.0	8.2	9.0	10.9	14.0	15.0
Net income in % of shareholders' equity	122.9	- <sup>3</sup>	3.7	8.8	5.6	- <sup>3</sup>	12.9	9.5	15.1	14.8
Employee benefits in % of revenue	21.7	19.6	22.7	21.9	18.9	19.6	20.2	19.8	18.4	18.9
Interest coverage <sup>5</sup>	5.2	- <sup>3</sup>	2.1	6.8	4.7	- <sup>3</sup>	5.1	8.6	16.2	13.3
<b>Per share information</b>										
Net income	33.82	(4.38)	1.23	3.23	2.04	(8.82)	3.00	2.23	3.95	3.85
Adjusted earnings per share			2.06	3.71	3.10	2.55	2.62	2.81	4.02	4.15
Shareholders' equity	42.06	32.21	33.47	38.48	39.25	24.12	23.06	23.53	26.04	25.99
Highest share price during the year	65.56	57.11	46.52	47.70	53.74	49.75	56.08	60.77	74.81	64.74
Lowest share price during the year	44.41	22.85	26.01	37.18	29.25	35.16	42.65	47.63	55.65	50.17
Year-end share price	54.79	29.44	46.40	46.49	37.36	49.75	55.71	57.65	61.68	59.39

<sup>1</sup> Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.

<sup>2</sup> Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.

<sup>3</sup> Not meaningful as operating income and net income were losses.

<sup>4</sup> Cash dividend paid to shareholders of AkzoNobel.

<sup>5</sup> Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.

<sup>6</sup> EBIT = operating income excluding incidentals.

<sup>7</sup> ROS and ROI have been restated and are based on EBIT instead of operating income.

## Consolidated balance sheet

In € millions	2007	2008 <sup>1</sup>	2009	2010 <sup>2</sup>	2011	2012	2013	2014	2015	2016
Intangible assets	669	7,172	7,388	6,568	7,392	4,454	3,906	4,142	4,156	4,413
Property, plant and equipment	2,203	3,357	3,474	3,191	3,705	3,739	3,589	3,835	4,003	4,190
Financial non-current assets	1,402	1,848	1,783	2,105	2,664	2,628	2,219	2,148	2,125	1,736
<b>Total non-current assets</b>	<b>4,274</b>	<b>12,377</b>	<b>12,645</b>	<b>11,864</b>	<b>13,761</b>	<b>10,821</b>	<b>9,714</b>	<b>10,125</b>	<b>10,284</b>	<b>10,339</b>
Inventories	1,177	1,781	1,441	1,482	1,924	1,545	1,426	1,545	1,504	1,532
Receivables	2,164	2,977	2,666	2,740	3,035	2,789	2,622	2,831	2,810	2,846
Cash and cash equivalents	11,628	1,595	2,128	3,133	1,635	1,752	2,098	1,732	1,365	1,479
Assets held for sale	–	4	–	–	–	921	203	66	–	–
<b>Total current assets</b>	<b>14,969</b>	<b>6,357</b>	<b>6,235</b>	<b>7,355</b>	<b>6,594</b>	<b>7,007</b>	<b>6,349</b>	<b>6,174</b>	<b>5,679</b>	<b>5,857</b>
Shareholders' equity	11,032	7,463	7,775	8,397	9,031	5,764	5,594	5,790	6,484	6,553
Non-controlling interests	97	450	470	525	529	464	427	477	496	481
<b>Total equity</b>	<b>11,129</b>	<b>7,913</b>	<b>8,245</b>	<b>8,922</b>	<b>9,560</b>	<b>6,228</b>	<b>6,021</b>	<b>6,267</b>	<b>6,980</b>	<b>7,034</b>
Provisions	1,598	2,072	1,919	1,958	2,392	2,677	1,938	2,143	1,865	1,938
Long-term borrowings	1,954	2,341	3,641	2,727	3,035	3,388	2,666	2,527	2,161	2,644
Other non-current liabilities	133	715	674	556	541	434	389	412	360	367
<b>Total non-current liabilities</b>	<b>3,685</b>	<b>5,128</b>	<b>6,234</b>	<b>5,241</b>	<b>5,968</b>	<b>6,499</b>	<b>4,993</b>	<b>5,082</b>	<b>4,386</b>	<b>4,949</b>
Short-term borrowings	1,635	1,338	384	904	494	662	961	811	430	87
Current liabilities	2,276	3,510	3,220	3,575	3,782	3,632	3,438	3,634	3,716	3,704
Current portion of provisions	518	845	797	577	551	455	601	494	451	422
Liabilities held for sale	–	–	–	–	–	352	49	11	–	–
<b>Total current liabilities</b>	<b>4,429</b>	<b>5,693</b>	<b>4,401</b>	<b>5,056</b>	<b>4,827</b>	<b>5,101</b>	<b>5,049</b>	<b>4,950</b>	<b>4,597</b>	<b>4,213</b>
Average Invested capital <sup>3</sup>	6,629	9,311	12,578	11,467	11,537	11,817	10,007	9,871	10,475	10,045
Capital expenditures	359	534	513	534	658	826	666	588	651	634
Depreciation	330	453	424	435	419	463	472	477	487	482
OWC		2,359	1,691	2,016	1,891	1,572	1,384	1,418	1,385	1,405
Net debt	(8,039)	2,084	1,897	500	1,894	2,298	1,529	1,606	1,226	1,252
<b>Ratios</b>										
Equity/non-current assets	2.60	0.64	0.65	0.75	0.69	0.58	0.62	0.62	0.68	0.68
Inventories and receivables/current liabilities	1.47	1.36	1.28	1.18	1.31	1.19	1.18	1.20	1.16	1.18
Operating working capital as % of revenue <sup>4</sup>		16.5	13.7	13.9	13.2	10.7	9.9	10.1	9.7	10.2

<sup>1</sup> Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.

<sup>2</sup> Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.

<sup>3</sup> Restated to current definition as from 2010.

<sup>4</sup> Operating working capital is measured against four times fourth quarter revenue.

## Business Area statistics

In € millions	2008	2009 <sup>1</sup>	2010	2011 <sup>2</sup>	2012	2013	2014	2015	2016
<b>Decorative Paints</b>									
Revenue	5,006	4,573	4,968	4,201	4,297	4,174	3,909	4,007	3,835
EBIT	401	298	336	237	108	199	248	345	357
Operating income	(669)	133	275	235	(2,012)	398	248	345	366
ROS (in %) <sup>4</sup>	8.0	6.5	6.8	5.6	2.5	4.8	6.3	8.6	9.3
Average invested capital <sup>3</sup>	6,515	6,169	4,908	5,032	4,701	2,896	2,824	2,959	2,783
ROI (in %) <sup>4</sup>	6.2	4.8	6.8	4.7	2.3	6.9	8.8	11.7	12.8
Capital expenditures	120	112	154	155	206	171	143	158	107
Average number of employees	24,600	22,900	21,800	17,100	17,200	16,800	15,500	15,100	14,800
Average revenue per employee	203	200	228	246	250	248	252	265	259
Average Operating income per employee	(27)	6	13	14	(117)	24	16	23	25
<b>Performance Coatings</b>									
Revenue	4,575	4,112	4,786	5,170	5,702	5,571	5,589	5,955	5,665
EBIT	467	492	503	456	542	525	545	792	759
Operating income	444	433	487	458	542	525	545	792	735
ROS (in %) <sup>4</sup>	10.2	12.0	10.5	8.8	9.5	9.4	9.8	13.3	13.4
Average invested capital <sup>3</sup>	2,010	1,868	2,063	2,267	2,499	2,463	2,480	2,692	2,586
ROI (in %) <sup>4</sup>	23.2	26.3	24.4	20.1	21.7	21.3	22.0	29.4	29.4
Capital expenditures	89	61	87	116	123	143	143	147	159
Average number of employees	21,000	20,200	20,600	21,300	21,700	21,300	21,000	19,700	19,300
Average revenue per employee	218	204	232	243	263	262	266	302	294
Average Operating income per employee	21	21	24	22	25	25	26	40	38
<b>Specialty Chemicals</b>									
Revenue	5,687	4,359	4,943	5,335	5,543	4,949	4,883	4,988	4,783
EBIT	605	490	655	628	524	418	508	578	629
Operating income	130	422	604	622	500	297	508	609	629
ROS (in %) <sup>4</sup>	10.6	11.2	13.3	11.8	9.5	8.4	10.4	11.6	13.2
Average invested capital <sup>3</sup>	3,797	3,435	3,464	3,406	3,678	3,609	3,442	3,540	3,507
ROI (in %) <sup>4</sup>	15.9	14.3	18.9	18.4	14.2	11.6	14.8	16.3	17.9
Capital expenditures	305	319	273	365	484	346	297	331	356
Average number of employees	12,900	11,400	11,100	11,300	11,800	10,600	10,000	9,300	9,000
Average revenue per employee	441	382	445	472	470	467	488	536	531
Average Operating income per employee	11	37	54	55	42	28	51	65	70

<sup>1</sup> Excluding National Starch, divested in 2010.

<sup>2</sup> Restated to present Decorative Paints North America as a discontinued operation.

<sup>3</sup> From 2010 restated to current definition.

<sup>4</sup> ROS and ROI have been restated and are based on EBIT instead of operating income.



## Regional statistics

In € millions	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
<b>The Netherlands</b>						<b>Other European countries</b>					<b>Other Asian countries</b>				
Revenue by destination	745	765	762	693	651	3,647	3,531	3,341	3,226	3,164	2,087	1,733	1,739	1,968	1,942
Revenue by origin	1,601	1,600	1,662	1,563	1,405	2,400	2,330	2,246	2,062	2,147	1,779	1,463	1,438	1,613	1,554
Capital expenditures	110	94	72	102	114	85	66	57	60	64	71	40	34	31	55
Average invested capital	1,326	1,175	1,631	2,154	2,076	2,127	1,406	1,117	1,024	886	727	612	600	671	634
Number of employees <sup>1</sup>	5,200	5,300	5,000	4,900	4,900	8,500	8,000	7,700	7,300	7,400	6,800	7,100	6,900	6,700	7,000
<b>Germany</b>						<b>US and Canada</b>					<b>Other regions</b>				
Revenue by destination	1,258	1,176	986	1,036	995	2,294	2,155	2,193	2,494	2,351	728	674	677	706	691
Revenue by origin	1,219	1,143	920	903	921	2,413	2,287	2,306	2,644	2,457	463	436	419	466	480
Capital expenditures	69	87	106	52	38	70	62	68	100	103	9	18	17	11	8
Average invested capital	861	736	764	854	893	1,742	1,739	1,778	1,949	1,842	210	178	159	87	133
Number of employees <sup>1</sup>	3,600	3,100	2,300	2,100	2,300	5,100	5,000	4,800	4,600	4,600	2,100	2,500	2,200	2,200	2,200
<b>Sweden</b>						<b>Latin America</b>									
Revenue by destination	486	473	436	414	395	1,623	1,553	1,485	1,483	1,338					
Revenue by origin	1,505	1,411	1,289	1,329	1,243	1,343	1,282	1,252	1,210	1,128					
Capital expenditures	70	38	40	55	65	138	83	45	34	42					
Average invested capital	539	471	428	542	611	784	713	707	679	661					
Number of employees <sup>1</sup>	3,200	3,000	2,900	2,700	2,600	4,600	4,500	4,400	4,100	4,100					
<b>UK</b>						<b>China</b>									
Revenue by destination	901	887	947	1,011	902	1,621	1,643	1,730	1,828	1,768					
Revenue by origin	967	948	950	1,109	971	1,699	1,690	1,814	1,960	1,891					
Capital expenditures	68	74	74	91	43	135	104	75	115	102					
Average invested capital	1,433	1,314	1,008	833	759	1,295	1,330	1,380	1,683	1,550					
Number of employees <sup>1</sup>	3,800	3,700	3,600	3,500	3,300	7,700	7,400	7,400	7,500	7,600					

<sup>1</sup> At year-end.



MAKING  
OUR  
FACILITIES  
SMARTER

# Sustainability statements

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## Our website ([akzonobel.com/sustainability](http://akzonobel.com/sustainability))

includes 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:	Economic value creation
Notes 8-10:	Environmental value creation
Notes 11-17:	Social value creation

This Sustainability statements section of the Report 2016 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 agenda, activities and results can be found on our website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

After relocating our Strongsville Technology Center in Ohio, US, the new facility was recognized under the worldwide LEED (Leadership in Energy and Environmental Design) green building certification program. The center is only a third the size of the former location and is designed to use less than a third of the natural gas, electricity and water.

# Consolidated Sustainability statements



Sustainability topics have been integrated into all sections of the AkzoNobel Report 2016. 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 website: [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

## Consolidated Sustainability statements

	Note	2013	2014	2015	2016	Target 2020
<b>Economic</b>						
Eco-premium solutions with downstream benefits (% of revenue)	4	18	19	19	20	20
Resource Efficiency Index (REI) (2012 baseline =100)	5	98	96	113	112	-
Customer delivery efficiency index	6	92	93	94	96	-
Critical PR <sup>1</sup> spend covered by supplier management framework (% of spend)	7	80	83	87	91	90 (2018)
<b>Environmental</b>						
Carbon footprint cradle-to-grave per ton of product sales (% reduction from 2012)	8	2	-4	3	6	25-30
Renewable energy own operations (%)	8	31	34	38	40	45
Renewable raw materials (% of organic)	8	13	13	11	12	-
Operational eco-efficiency footprint measure (% reduction from 2009)	9	24	24	23	28	40 (2017)
<b>Social</b>						
Employee engagement score (0-5 scale)	11	3.88	3.97	4.03	4.17	>4.20
Female executives (%)	11	16	17	19	19	25
Total reportable injury rate employees/supervised contractors (per million hours)	12	2.3	1.8	1.6	1.4	<1.0
Loss of primary containment (Level 1)	13	-	-	-	16	-
Priority substances with management plan (%)	14	62	82	100	33 <sup>2</sup>	100 <sup>2</sup>
Cumulative Community Program involvement (number of projects)	17	2,108	2,260	2,385	2,531	-

Note: Some 2020 projections are ambitions

<sup>1</sup> PR = Product related (raw materials and packaging).

<sup>2</sup> Phase 2 started 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.

The Sustainability statements of this Report 2016 address our strategic sustainability objectives in the context of value creation across our value chains in economic, environmental and social dimensions.

**Sustainable business:** Details of our focus areas across the value chain can be found in the Economic section, Notes 4 to 7.

**Resource efficiency:** Details of our focus areas across the value chain can be found in the Environmental section, Notes 8 to 10.

**Capable, engaged people:** Details of our focus areas across the value chain can be found in the Social section, Notes 11 to 17.



## Our purpose and 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 our purpose and AkzoNobel's 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 Code of Conduct. In addition, sustainability is being embedded into our company-wide processes, including Innovation, Commercial Excellence, Procurement and Talent Management. Sustainability helps us to enhance and grow our existing business, create new business opportunities, reduce operational costs 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 economy.

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 2016.

The societal aspects of our sustainability agenda are being strengthened through the company's Human Cities initiative.

Our strategy has three sustainability focus areas designed to deliver more value from fewer resources, with targets for 2020. Our progress 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). The three focus areas are as follows:

- **Sustainable business:** Creating business value through products and solutions that effectively carry out their primary function and provide other environmental or social sustainability benefits, as well as cost savings from operational efficiencies.  
Target: 20 percent of revenue from eco-premium solutions with downstream benefits 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. There are objectives at Business Area and functional level

By focusing on the full value chain, we aim to drive business, resource and engagement benefits



Energy/resource benefits in use				
<b>Sustainable business</b>	Cost savings	Cost savings	Improved revenue and margin	Improved revenue and margin
<b>Resource efficiency</b>	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
<b>Capable, engaged people</b>	Engaged suppliers	Engaged employees	Engaged customers	Engaged customers and users

Foundations: HSE, product stewardship, employee practices, community involvement, Code of Conduct

## Sustainability foundations

These strategic objectives are underpinned by 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, talent management, employee engagement, learning and development, community involvement, environmental management, integrity management and human rights. These foundation elements are monitored using key performance indicators with 2020 targets. Other short-term and long-term objectives are set at functional and business level.

The Notes in these Sustainability statements and other elements of this Report 2016 illustrate our performance against the strategic 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 economic, environmental, 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 (Invent level), alongside continued integration of sustainability in all aspects of the value chain (Manage level).

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 2016.

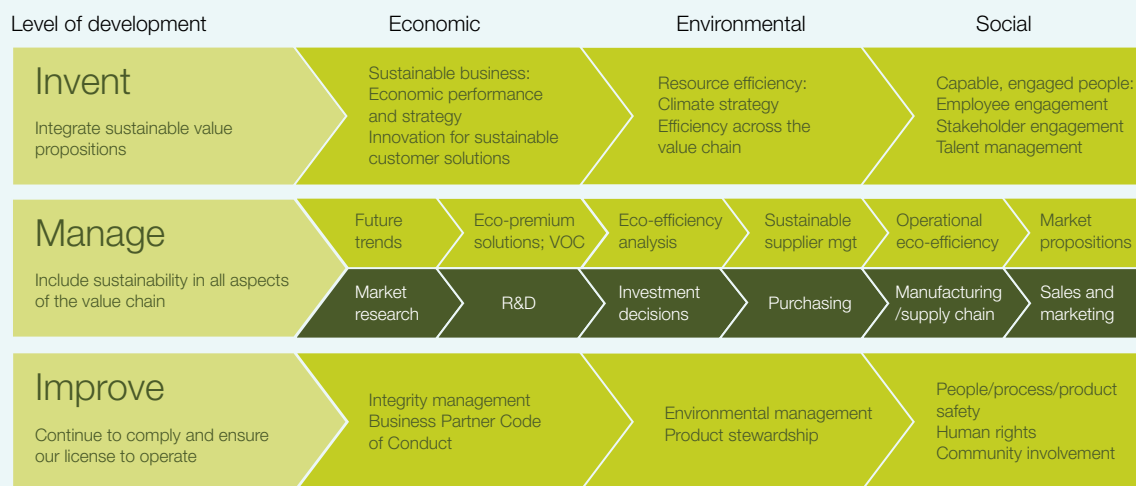
## Management accountability

### 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, Integrated Supply Chain/Research and Development, Procurement, Human Resources, Sustainability and Communications. The Council maintains an external perspective by including input from value chain partners and thought leaders during regular meetings. AkzoNobel also takes part in leading external organizations.

### Sustainability framework



- Examples of material issues
- Value chain aspects

The Corporate Director of Sustainability reports directly to the CEO and has a sustainability expertise team, including a group focusing on lifecycle and sustainability assessments, as well as members with experience in other functions. 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 operations. 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.

The foundation elements are managed by processes in the Human Resources and Health, Safety and Environment functions. The compliance framework and the management structure for integrity, human rights and compliance aspects are detailed in the Governance and compliance section under Compliance and integrity management.

## Management processes

### Material aspects

The management of each Business Area has identified sustainability priorities in line with the company strategy and market drivers. They have also 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.

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.

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. Examples of challenges and dilemmas we have managed this year include:

- AkzoNobel is aware that the production of certain natural mica in particular parts of the world is associated with child labor. We are engaging with suppliers and NGOs in order to contribute to the eradication of child labor and improve the livelihood of communities that are dependent on the production of natural mica, while at the same time applying responsible sourcing practices. For more information on how we manage human rights in our supply chain, see Notes 7 and 16
- Nanomaterials: We support the responsible development and use of nanomaterials, as they can bring positive benefits to society. However, as a new technology, we recognize there is public concern over their safety. We thoroughly assess the risks and

ensure nanomaterials are managed safely. In addition, we contributed to discussions with government policy makers and industry groups that encouraged sensible and effective regulation

- Chromates: Although coatings containing these substances are widely used in certain markets to prevent corrosion, we actively promoted the use of chromate-free products to customers in our metal coatings business – including in countries where their regulation is not planned or anticipated in the future. See Note 14 for more details

### 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.

### Global standards and programs – foundation elements

Global functions oversee the foundation elements of our sustainability agenda. 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.

### 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 2016. See Strategic performance and Governance and compliance.

### Improvement plans and programs

Improvement programs for strategic objectives are developed at business, Business Area or company level. In 2016, for example, there was a company level review of the forward program for operational eco-efficiency led

by the Integrated Supply Chain function, reviewed by the Sustainability Council and Executive Committee.

During the year, we also refined our 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 on where they are needed most. Each business carries out a self-assessment of the current situation, sets ambition levels based on company requirements and business priorities, and develops focused 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 have made good progress on the improvement areas that were identified in 2015, including supplier engagement/procurement training, operational eco-efficiency improvement plans and capability development in marketing and sales teams. The outcomes from the 2016 assessment reflect this progress, and are reported in Notes 6, 7 and 9.

Priorities for 2017 include:

- Accelerated work with suppliers
- Increased focus on operational improvements identified in each Business Area
- Business-specific priorities with customers
- Capability development for marketing, sales and procurement activities

### Incentives

We aim to equip all employees to contribute and be accountable for our sustainability performance, using training and other engagement processes, which include business and site level activity and web-based resources. This responsibility continues to become anchored in the personal targets and remuneration packages of managers and employees. 30 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 least every six months by Business Areas and the Executive Committee 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.

## Reporting scope

This Report 2016 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.

Our reporting principles are based on the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, supported by internally developed guidelines as described in this Note.

The information in this Report 2016 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 2016. 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, and details on all reporting processes, are available on our 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 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 and the Compliance and integrity management chapter of the Governance and compliance section have been reviewed by independent, external auditors. We have also requested reasonable assurance to be provided on Note 1: Managing our sustainability agenda. See Independent assurance report at the end of these Sustainability statements.

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## Reporting policies

### Reporting boundaries

This Report 2016 integrates sustainability aspects of our processes and business operations in each section, in particular the How AkzoNobel created value in 2016, 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 on the calendar year 2016 and comparative data for 2015, 2014, 2013 and 2012.

We report on consolidated data from entities (more than 50 percent ownership) and joint ventures where we have management control, but exclude all data from entities in which we participate, but 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:

- 2016 data excludes the acquisition of BASF's Industrial Coatings business, which was completed on December 14, 2016
- 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 15 and Note 11 respectively. It also includes the result of the divestment of our Building Adhesives business
- We include data from Decorative Paints North America until April 1, 2013, when it was divested

A change in process safety management (PSM) KPIs in 2016 lowered the impact thresholds for reporting, so a higher number of loss of primary containment (LoPC) are reported compared with the prior reporting thresholds. This was done to align AkzoNobel for comparability with other leading PSM companies. See Note 13.

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. 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<sub>2</sub>(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 against our 2020 targets (per ton of sales) based on comparable 2012 data.

We include “as reported” data for all previous years and use these numbers to compare our absolute emissions. The changes to the GHG Protocol guidance in 2015 on Scope 2 reporting do not impact comparability – we have applied the market based method since before 2012. We have developed a restatement policy, which is available on our website.

We identify issues that affect comparability in the text or footnotes. More information can be found in the Global Reporting Initiative (GRI) G4 additional information document, which is available on our website.



In 2016, 49 percent of our sites improved their relative footprint with regards to energy use, compared with 2015. In total, 40 percent of the energy we use now comes from renewable sources.



For further information please go to [www.akzonobel.com/sustainability](http://www.akzonobel.com/sustainability)

## Materiality matrix

■ Economic ■ Environmental ■ Social

### Materiality

We have used the principle of materiality for assessing the topics to include in this Report 2016, 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:

- Shareholder discussions
- Customer discussions and surveys
- Employee discussions and surveys
- AkzoNobel strategy
- AkzoNobel Report 2015
- Sustainability organizations such as the World Business Council for Sustainable Development (WBCSD), WWF and Oxfam
- Issues raised in discussions with thought leaders
- 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 CDP
- Peer reporting
- Media analysis

This long list was then reduced by reviewing the dominance of the topics in the key sources and ranking them. The highest ranked topics were then clustered into 16 final topics, prioritized and plotted in the matrix.

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 Risk Management chapter in the Strategic performance section and page 46.

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](http://www.akzonobel.com/sustainability)

**Sustainability topics** (alphabetical within importance categories)

<b>Economic</b>	<b>Importance internal</b>	<b>Importance external</b>	<b>Qualitative information</b>	<b>Quantitative information</b>	<b>Reported</b>
1 Economic performance and strategy	High	Low	Market segmentation; Description of economic performance	Economic performance and strategy	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements: Creating shared value across three dimensions
2 Fair taxes	Low	Medium	Responsible tax policy	Geographic tax reconciliation	Report 2016: Consolidated financial statements Note 6; Corporate website
3 Innovation for sustainable customer solutions	High	Medium	Value chain assessments; Innovation process; Commercial excellence process; Product portfolio assessment	Value creation across three dimensions; Eco-premium solutions with downstream benefits; Eco-premium solutions; VOC in product; Customer efficiency index	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements: Creating shared value across three dimensions, Notes 4 and 6
4 Integrity	Medium	Medium	Insight on policies and procedures	Code of Conduct reporting; Code of Conduct investigation; Compliance monitoring; Code of Conduct training	Report 2016: Compliance and integrity management; Sustainability statements Notes 11 and 16; Corporate website
5 Resource scarcity/material availability risks	Low	Medium	Risk description and mitigation actions; Renewable energy and raw material programs	Bio-based raw materials; Renewable energy	Report 2016: Risk management, Business performance; Sustainability statements Notes 4, 7 and 8
6 Sustainability in the supply chain	High	Medium	Supplier sustainability framework programs; Human rights commitment program	Third party assessments and audits; Supplier Support Visits; Business Partner Code of Conduct compliance; Environmental and social supply chain aspects	Report 2016: Sustainability statements Notes 7 and 16
<b>Environmental</b>					
7 Biodiversity	Low	Low	Climate change; Pollution control	-	Report 2016: Sustainability statements: Environmental value creation, Notes 8 and 9
8 Climate strategy	High	High	Insight on impacts throughout the value chain; Climate change risk management, mitigation and adaption policies	Environmental value creation; Resource Efficiency Index; Cradle-to-grave carbon footprint; Bio-based raw materials; Energy use; Renewable energy; Greenhouse gas emissions	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements Notes 4, 5, 8, 9; Corporate website
9 Operational eco-efficiency	Medium	High	Insight on impacts in our own operations	Environmental value creation; Energy use; Renewable energy; Fresh water use; Sustainable fresh water management; Emissions to air, land and water: Greenhouse gases, VOCs, NOx, SOx, total waste, hazardous waste, COD	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements Notes 8 and 9; Corporate website
10 Radical resource efficiency across the value chain	High	High	Value chain descriptions; Insight on impacts throughout the value chain; Environmental value creation; Renewable energy and raw material programs; Waste reuse; Carbon pricing	Environmental value creation; Resource Efficiency Index; Cradle-to-grave carbon footprint; Bio-based raw materials; Renewable energy	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements: Creating shared value across three dimensions, Notes 5 and 8
<b>Social</b>					
11 Community involvement	Low	Low	Human Cities initiative; Community Program; Business activities; Social value creation	Projects involved; Volunteers; Donations; Social value creation	Report 2016: Our purpose, Case studies, Strategic performance; Sustainability statements: Social value creation, Note 17; Corporate website
12 Employee engagement	Medium	Medium	Insight on policies and procedures	Employees by level and region; Employee engagement score; Engagement score by level	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements: Social value creation, Note 11
13 Human rights	Medium	Medium	Insight on policies, governance, issues and due diligence; Social value creation	Code of Conduct reporting; Code of Conduct investigation; Compliance monitoring; Code of Conduct training	Report 2016: Compliance and integrity; Sustainability statements: Social value creation, Notes 11 and 16; Corporate website
14 People, process and product safety	Medium	High	Insight on policies and procedures; Priority substance management; Regulatory affairs; Social value creation	Social value creation; Reportable injury rate; Lost time injury rate; Behavior-based safety program; Life-Saving Rules; Regulatory actions; Loss of primary containment; Priority substances with management plan; REACH compliance	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements: Social value creation, Notes 12,13 and 14; Corporate website
15 Stakeholder engagement	Medium	Low	Framework activities	Sustainability ratings; Agency rankings	Report 2016: Sustainability statements Note 3; Corporate website
16 Talent management	High	Low	Insight on policies and procedures; Social value creation	Social value creation; Employees by level and region; Employee engagement score - learn and grow; Female executives; Female executive potential pool; Gender diversity by level; Executives from key regions; Executive vacancies filled internally; High potential turnover	Report 2016: How AkzoNobel created value in 2016, Strategic performance, Business performance; Sustainability statements: Social value creation, Note 11

# New business models driving fresh approaches to **sustainability**

Sustainability has long been embedded in everything we do at AkzoNobel – it has become an integral part of the way we do business. As the world changes, however, our approach to sustainability adapts, improves and changes with it.

For example, being sustainable today goes far beyond simply generating more sustainable product solutions. Truly innovative companies are embracing ever-evolving business models that offer a clear link to longer term economic success.

So there's now a much stronger focus on developing sustainable business models across the value chain – with both private and public sector partners. It's a new way of thinking which is stimulating fresh approaches to service delivery and partnerships, as well as driving leadership in market transition.

These new models represent an evolution in how sustainability is driving innovation and generating revenue growth. They are accelerating the belief that sustainability represents the only way to do business, building on the more traditional model of sustainable product and process innovation.

We made good progress with three innovative business models during 2016. They not only harness the value-creating potential of sustainable innovation, but also tackle some of the unresolved economic, environmental and social challenges the world is facing. Explained in detail below, they demonstrate how true leadership in sustainability can benefit balance sheets and at the same time help to transform entire industries.

## Service models

Our customers fully understand that we don't just sell products – we also provide product performance, such as insulation, heat reflection and antifouling. But we are always striving to do more.

Many of our businesses already deliver additional services to the products they sell. For example, in Vehicle Refinishes, we are helping bodyshops to become more efficient by recycling solvents and reducing both drying time and energy costs. Our Intersleek marine coatings also offer several benefits, such as fuel savings of up to 10 percent.



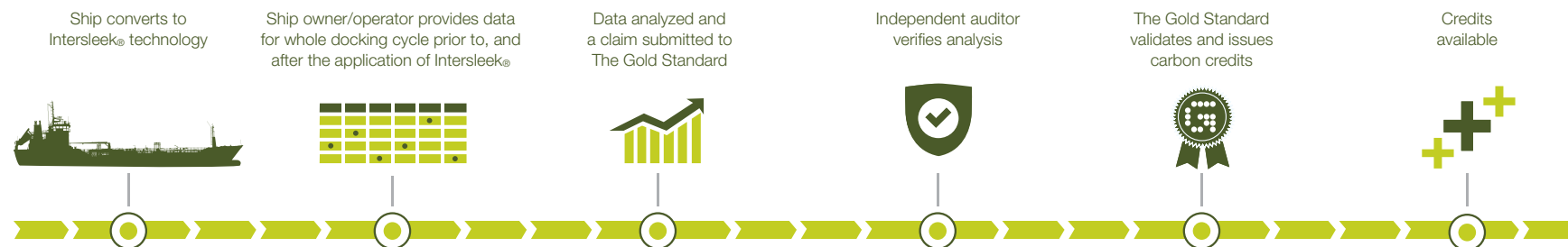
Our Intersleek foul release coatings are playing a key role in helping to make the shipping industry more sustainable.

Intersleek has been at the forefront of helping to make the shipping industry more sustainable for a number of years, but recent developments are taking this to a whole new level. It's a classic example of how sustainability is contributing to new business models.

With new global agreements in place that have set carbon reduction targets, two sectors found it difficult to set limits – the aviation industry and the shipping industry. The aviation sector was eventually able to put a global plan in place, but for the shipping industry it has proved more difficult.



## How our carbon credits scheme works



Our Interseek foul release coating is helping to change that. We can offer a viable solution which is already making a positive impact and is laying the foundations to enable the shipping sector to make rapid progress.

The product itself has been a success for many years. The game-changing development which could prove so pivotal is that we've introduced a new tool – Intertrac Vision – which provides owners with performance predictions bespoke to individual vessels, depending on their shipping routes, speed and activity. We further built on this by establishing a landmark carbon credits scheme to reward ship owners for converting to sustainable hull coatings, such as those available in our International product range.

Developed over a number of years in conjunction with The Gold Standard Foundation and Fremco Group, the award-winning initiative made its biggest award to date in 2016, when Grimaldi – who specialize in maritime transport – were presented with a total of 109,617 carbon credits, valued at more than \$500,000 at the time of the award.

Shipping needs to see more uptake in clean technology to improve its sustainability. Our carbon credits program proves that by making the investment, ship owners can benefit from both increased efficiency gains and lower fuel costs.

These benefits were only made possible by reinventing the service we provide to our customers. In Interseek's case, we developed the products, the performance of those products, the tools to measure the resistance of the hull and the fuel efficiency, and introduced a market-based mechanism which will enable the shipping sector to make the transition to becoming a more fuel efficient, modern industry.

The carbon credits scheme is spearheading the ongoing evolution in our service models that is putting sustainability at their core. By making such a strong link to longer term economic success, we are enabling sustainability to make an even bigger contribution to driving our innovation, helping our customers and generating value for the company.

### Partnerships

People often used to question how partnerships could lead to profitable business development. But as companies continue looking for ways to use more renewable resources and de-carbonize their energy, partnerships are becoming an increasingly valuable and effective way to strengthen your business.

At AkzoNobel, we've been particularly active as a consortium leader in recent years, notably in our Specialty Chemicals business. There are several examples of how we are linking up with other business partners, as well as bringing together

multi-stakeholders from the private sector, academia and the public sector to create public-private partnerships with a strong focus on sustainability.

A good example of this is the continuing emergence of Power Purchasing Agreements. It's a model which is gathering momentum in north-west Europe in particular, as well as developing quickly in India and North America.

Two years ago, AkzoNobel took the initiative and formed a consortium to jointly source power from renewable energy projects for part of our operations in the Netherlands. During 2016, we signed a joint agreement to buy electricity from Krammer wind park, which has been established by two local cooperatives with 4,000 members in the province of Zeeland. The four companies involved have agreed to source a total of 350 million kWh a year once the Krammer wind park becomes operational in 2019. This is equivalent to the total annual consumption of 100,000 Dutch households.

The partnership model works particularly well in the Netherlands, where we still lose around 2 percent of all our energy in the country purely from residual heat. This is mainly due to the steam and hot water lost from energy and power production. There are solutions for harnessing this waste – the biggest source of energy in the chemical industry is heat – but they require collaboration.

# ONE EXAMPLE OF WHERE WE ARE AT THE FOREFRONT OF A MARKET TRANSITION WHICH WILL HELP GENERATE FUTURE GROWTH IS IN WATER-BASED PAINTS

The first thing you need is a partner who is willing to use the high temperature steam or hot water. Then if lower temperatures are involved, cities can use this to heat houses. But somebody needs to build the grid. So it requires a combination of local government, power companies and the chemical company itself. Together, they can reduce wasted energy and heat and enable each other to benefit from energy at low cost, and even innovate from gas to biosteam. This is exactly what we do in Hengelo in the Netherlands, where our salt production site sends its residual heat to a local residential area.

In nearby Delfzijl, we are purchasing sustainably generated steam from biomass from Dutch energy provider Eneco. By reducing our dependence on fossil fuels, we expect to cut CO<sub>2</sub> emissions at our Delfzijl plant by an amount equivalent to what is produced each year by 12,500 Dutch households.

Our ultimate aim is to help increase the share of renewable energy in the Netherlands, which currently stands at around 5 percent. Globally, AkzoNobel's own renewable energy share is about 40 percent. We are determined to increase this figure, further de-risk ourselves and strengthen our business for the future – and partnerships will play a big role in helping us to achieve this.

## Market transition

As one of the world's biggest decorative paints companies, we invest a substantial amount of time and money in new technology and innovation to improve the products we offer to our customers. We also pay close attention to market trends, anticipate likely developments (when we're not setting the pace ourselves) and constantly identify growth opportunities.

One example of where we are at the forefront of a market transition which will help generate future growth is in water-based paints. There was a time when professional painters and decorators tended to shy away from water-based products, with solvent-based paint being very much the preferred option for trim and woodcare.

Fast forward to today and things are very different. Innovation has resulted in major advances in the quality of water-based products. They are fast-drying, odorless and offer better color retention, as well as being kinder to the environment. As a result, adoption of water-based products is gathering pace, particularly in Europe and Latin America.

The environmental benefits are clear enough. For example, one ton of solvent can have the same impact as eight tons of carbon. When they enter the air, solvents also contribute to smog and air pollution. With countries all over the world having agreed to nationally determined carbon reduction limits, it's likely to be only a matter of time before we see a global shift to water-based coatings.

In anticipation of this move to more sustainable solutions, our Decorative Paints business has developed a new market approach which will help us to drive and accelerate the transition that's starting to take place.

During the last few years, an ongoing transformation has been taking place within the business to shift its portfolio more towards water-based and VOC-free. It involves our products globally as we continue to de-risk ourselves from carbon and is already having an impact in countries where health and well-being is becoming a lifestyle choice.

For example, the pace of change towards water-based coatings in China owes much to government initiatives, such as the increase in taxes on solvent-based coatings introduced around a year ago. They understand the problems caused by solvents and we welcome steps that countries such as China are taking in an effort to encourage market change.

A lot has certainly changed in the last ten years and VOCs are now at a significantly lower level. There is still a lot more to do, however, and we are working hard to lead and accelerate the transition through both innovation and education. We know the world is ready and we have a portfolio of sustainable solutions available to drive the ongoing market transition.

## Our approach

The aim of our ongoing stakeholder engagement is to learn from key economic, environmental and social 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 2016 highlights. More details can be found on our website, in the Strategic performance section, and other chapters of this Report 2016:

- Customers: Business performance section and Note 6
- Investors: Governance and compliance section and Note 3
- Specific sustainability/research organizations and NGOs: Note 3
- Employees: Note 11
- Suppliers: Note 7
- Communities: Note 17

## Stakeholder engagement in 2016

### 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 (UNGC) since 2004. We are a partner of the Caring for Climate platform and an active member of the UN Global Compact Netherlands Network.

We have participated in a human rights program led by the UNGC Netherlands Network in partnership with Shift, a non-profit center for business and human rights practice, with Oxfam affiliates and other Global Compact local networks (see Note 16). In addition, we subscribe to the UN Universal Declaration of Human Rights, the key conventions of the International Labor Organization and the OECD Guidelines for Multinational Enterprises, and we are a signatory to 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 World Business Council for Sustainable Development (WBCSD), Forum for the Future, True Price and the Dutch Sustainable Growth Coalition. 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.

### Customers and products

Our customers are increasingly looking for products and solutions that will help 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, our aerospace coatings made a substantial contribution to the outstanding sustainability performance of KLM's new Dreamliner aircraft. The base coat/clear coat system supplied by AkzoNobel is typically lighter than

conventional systems, while its smoother surface means there is less dirt adhesion. The gleaming finish required 15 percent less paint than previously used systems and, together with other improvements, it means KLM's Dreamliner fleet can fly further, faster, cleaner, quieter and more efficiently than comparable aircraft.

More specific examples can be found in Note 4, the various case studies and the Business performance section of this Report 2016. In addition, we are in the process of improving our methods to monitor customer engagement and customer satisfaction. See Note 6.

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 are continuing 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 14.

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. We

## United Nations Sustainable Development Goals

Assessment of AkzoNobel contribution

● Main ● Intermediate ● Minor

	Supply chain and Operations	Products	Human Cities
1 No poverty	●		
2 Zero hunger		●	
3 Good health and well-being	●	●	
4 Quality education	●		●
5 Gender equality	●		
6 Clean water and sanitation	●	●	
7 Affordable and clean energy	●	●	
8 Decent work and economic growth	●		●
9 Industry, innovation and infrastructure	●	●	
10 Reduced inequalities	●		
11 Sustainable cities and communities		●	●
12 Responsible consumption and production	●	●	
13 Climate action	●	●	
14 Life below water	●	●	
15 Life on land	●	●	
16 Peace, justice and strong institutions	●		
17 Partnerships for the goals	●		●

are 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. Increasingly, countries in Africa are adopting NaFeEDTA in their fortification standards (most recently Zimbabwe and Nigeria, while Namibia and South Africa are expected to follow soon). This should have a positive effect on the sales of Ferrazone. In 2016, we started a project to assess the potential for Ferrazone in the food and beverages market.

### Suppliers and sourcing

We continue to engage with Together for Sustainability (TfS), the chemical sector initiative to create more sustainable supply chains. The initiative now has 19 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. A single assessment is then shared across the partners. It also provides a platform for monitoring improvement actions. See Note 7.

### Engaging employees

During 2016, we continued to engage employees from around the world on the theme of sustainability through our Planet Possible activities. See the Social value creation section.

### The UN Sustainable Development Goals (SDGs)

The SDGs form the global sustainable development agenda for the next 15 years. We are a signatory to the Post-2015 charter, committing to the achievement of the 17 goals. In line with guidance such as the SDG Compass,

we have reviewed these goals against our company strategy and identified priority areas. For more details of our commitment to the SDGs, see page 16. Information on how our performance relates to all SDGs can be found in the GRI table on our website. The table on the left gives an overview of our contribution.

### Human Cities Coalition

In 2016, we brought together a unique coalition of global and local partners from business, governments, academia and civil society to help make cities in the emerging world more liveable and prosperous places for all – with a specific focus on Goal 11 of the UN Sustainable Development Goals. Set up to build on the work of our Human Cities initiative, each partner organization uses its expertise to improve the economic, environmental and social development of large urban areas and help them meet the many planning challenges they face. For more details, see page 17.

### Partnerships on energy and climate

Our aim is to achieve cost-effective energy sources and maximize sustainability impact while being prepared for future developments. For our energy-intensive production processes, we actively engage in diversifying the energy mix. This helps to lower risks and improve our sustainability performance by reducing our carbon footprint and increasing the use of renewable energy. Information on various new energy partnerships – for example the Krammer wind park and bio-based raw materials partnerships – are included in the case study, the Business performance section and Note 8 of this section.

Another example is BICEPS. Co-founded by AkzoNobel, the partnership now includes ten members. BICEPS stands for Boosting Initiative for Collaborative Emission reduction by Power of demand of Shippers. It aims to realize sustainable shipping with a rating system that provides insights into the sustainability activities of shipping lines and by stimulating the sustainability dialog between carriers, shippers and solution providers. Our



Marine Coatings business can help carriers to achieve a higher rating with our low carbon solutions.

We also co-chaired the WBCSD Chemicals Sector Reaching Full Potential working group. This was finalized in 2016, along with an Energy Efficiency in Buildings (EEB) project. The focus of this assignment was to collect and disseminate the learnings of all the regional EEB projects organized during the last three years. This knowledge was then shared through our networks and via our partners to support and speed up the realization of more energy efficient 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 engage with a broad group of stakeholders. For instance, we actively support CEPE – the European Paint Association – in the pilot project for decorative paints as part of the development of the EU Product Environmental Footprint (PEF). We are incorporating natural capital thinking to ensure our business is sustainable as it grows. During 2016, we continued to expand the scope of our four-dimensional profit and loss (4D P&L) pilot, and developed our first company-wide 3D P&L, as described in Creating shared value across three dimensions.

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 use the resulting Social Capital Protocol as the basis of our 3D P&L social assessment.

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 2015 was ranked first in the ReportWatch top 400 of annual reports.

### Shareholders, analysts and indices

Following 2016 reviews, AkzoNobel is included in a number of leading sustainability indices. An overview (not intended as an exhaustive list) is provided on this page. For more details about how we engage with the social responsible investor community, see AkzoNobel on the capital markets chapter in the Governance and compliance section.

#### Sustainability rating agencies

RobecoSAM (Dow Jones Sustainability Index)	In 2016, we were included in the Dow Jones Sustainability World Index for the 11 <sup>th</sup> consecutive year.
CDP	We have participated in the CDP assessments since 2007. In 2016, we were included in the prestigious A-list and the first ever supplier engagement leader board.
Sustainalytics	For the fifth year in a row, Sustainalytics rated AkzoNobel as an industry leader on its environmental, social and governance performance.
Oekom	Oekom research has analyzed us since 2001. We have been awarded Oekom Prime status since 2012. At year-end 2016, we ranked first among chemical companies.
Vigeo	Vigeo has rated us since 1999. In 2016, we were among their leader group in ESG performance, resulting in inclusion in all their ESG indices.
FTSE4Good	In 2016, we were included in the FTSE4Good Index as the highest scoring company in our industry sector.
MSCI	We remained a constituent of both the MSCI Global Sustainability Indexes series and the MSCI Global SRI Indexes series.
STOXX	We are a member of the STOXX ESG leaders index.
Ethibel	We are included in the Ethibel PIONEER register, being one of only a very select number of companies with an A-rating.



# Creating shared value across three dimensions

The world is changing. And business is changing with it. Ratified in 2016, the Paris Agreement reached at COP21 commits the world to limiting global warming to 2 degrees Celcius – with a stretch goal of 1.5 degrees – setting legally binding targets on carbon emissions. In addition, the world began implementing the Sustainable Development Goals (SDGs) in 2016, which set the development agenda for the next 15 years.

As a result, leading businesses are accelerating their efforts to apply innovation to solve societal development challenges and de-risk their value chains from increasing limitations on resource use and carbon emissions.

For AkzoNobel, these developments mean that creating shared value across three dimensions – economic, environmental and social – is an opportunity to achieve sustained business success. We aim to make increasing use of economic, environmental and social impact assessment – as well as profit and loss accounting – using a science-based, virtual price to calculate externalities in each dimension. These will allow us to make better management decisions, including allocation of human and financial resources.

Our Planet Possible agenda is designed to help drive innovation and enable us to become more radically resource efficient, while inspiring employees, customers, suppliers and other key stakeholders to work together with us in achieving this. Our Human Cities initiative has also been established as an umbrella for the social pillar of our sustainability agenda.

By focusing on product, process and business model innovation, we aim to deliver portfolios of eco-premium solutions – products that are clearly more sustainable than the most common alternatives on the market. These solutions meet environmental and societal needs, while also increasing customer satisfaction and creating growth opportunities.

At the same time, we are focused on product and process innovations that generate more added value from each unit of raw materials and energy used across the value chain. This is measured by our Resource Efficiency Index (REI), defined as gross margin divided by cradle-to-grave carbon footprint. This will enable us to decouple business growth from resource use, take cost out of the business, reduce risks and minimize our environmental impact.

We continue to collaborate with our value chain partners to create impact at scale. We are also continuing to

bring together public-private partnerships, for example to accelerate Power Purchasing Agreements for renewable energy and carbon reduction, or to make cities more human and liveable.

In order to better understand where we can have the biggest potential impact throughout our value chain, we have conducted a novel three-dimensional profit and loss (3D P&L) assessment across all our business activities. Monetizing externalities helps us to identify which levers give the biggest outcome in terms of minimizing negative impact and scaling up positive impact. It also helps us assess how our investment decisions can contribute to generating more value in all three dimensions. We plan to roll out this process across the company to enable better management decision-making.

## 3D P&L assessment

**Economic value:** AkzoNobel created economic value for its employees, suppliers, customers, communities in which it operates, governments and investors. We identified the salaries awarded to all the people employed in the industries along our value chain as a key contributor, as well as the tax revenue for governments, interest for investors

**Economic, environmental and social value** in € billion (estimated)





and profit for shareholders. The sum of these values is referred to as economic capital.

**Environmental value:** Our business activities have a degree of impact on the environment and natural resources. In addition, we have the opportunity to generate positive value through our products which help customers to avoid emissions. In monetizing our environmental externalities, we identified CO<sub>2</sub> emissions, fossil resource use, VOC emissions and material resources as key contributors. We have used a science-based and publicly available pricing model which was developed during the last 25 years by Chalmers University of Technology in Sweden called the Environmental Priority Strategy, which is based on a long-term perspective. As a result, we used prices that are not representative of the prices today, but instead are based on what would happen in 50 to 100 years if we keep on using natural resources as we do today. For example, we used a price of €135 per ton of emitted CO<sub>2</sub> as part of this approach. Overall, this results in an estimated negative environmental capital. The key impacts on the environment occur in our upstream and downstream activities, rather than our own processes.

**Social value:** We created a positive social capital along the value chain. The current model includes value related to the knowledge and skill development of employees and their future salary development. A minor negative impact is related to the injuries at work of employees. Social impact measurement is still at the beginning of its journey. We are actively engaged with expert groups to develop new standards and methodologies. As those mature, we will continue to include other social impacts, such as from our Human Cities initiative, Human Cities Coalition and the products we develop, through which we affect the lives of millions of people.

### Approach

In order to create our 3D P&L, we have used some of the latest methodologies available, which we tested and developed in 4D P&L pilots over the last three years. We

	Economic	Environmental	Social
<b>Create value by increasing positive impact</b> 	<ul style="list-style-type: none"> <li>• Increase sales of eco-premium solutions</li> <li>• Generate more economic value across the value chain</li> </ul>	<ul style="list-style-type: none"> <li>• Create more value from fewer resources</li> <li>• Develop products that help avoid carbon emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Build employment and an engaged workforce</li> <li>• Scale up social impact and Human Cities programs</li> </ul>
 <b>Reduce risks by minimizing negative impact</b>	<ul style="list-style-type: none"> <li>• Improve Resource Efficiency Index</li> <li>• Reduce carbon risk and deploy carbon price</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce cradle-to-grave carbon footprint</li> <li>• Improve operational eco-efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Manage human rights risks towards zero incidents</li> <li>• Improve health and safety performance</li> </ul>
Illustrative, non-exhaustive examples			

are participating in the development of the Natural and Social Capital Protocol in the World Business Council for Sustainable Development (WBCSD) and have always used scientific, publicly available methodologies. This information will be made available on our website.

The results are obtained by using some of the latest thinking in this space and are robust and repeatable. However, we are still at a very early stage of social impact measuring – not just AkzoNobel as a company, but society in general. We will continue to work on improving methodologies and map additional impacts, both positive and negative. This means that our results will change over time, through improvements to our own performance, as well as through the addition of more elements or new views on assumptions in the models we used. We encourage others to work with us to further develop methodologies and agree on common approaches.

More details about our impact in each of the three dimensions can be found in the following sections of the Sustainability statements: Economic, Environmental and Social value creation.

## Driving our contribution to sustainable development

We set out to simultaneously create value and reduce risks by increasing our positive impact and minimizing our negative impact respectively. We aim to do so in all three dimensions – economic, environmental and social – recognizing that increasing our positive impact does not mean we can offset any negative impact, nor does performing well in one dimension allow us to perform poorly in another.

The conceptual table above shows some illustrative examples of how we create value or reduce our risks in each of the three dimensions.

# Economic value creation

Our sustainability agenda aims to create value for our customers by providing products with excellent functionality that generate resource or performance benefits ahead of competitive products. In turn, this creates value for our business by focusing on our end-user segments – delivering growth and profitability.

We also realize that in order to achieve sustained business success, we need to generate more value from fewer resources across our entire value chain to decouple business growth from resource use. We measure this through our Resource Efficiency Index.

We have improved our performance on eco-premium solutions. We are also seeing an improvement in our cradle-to-grave carbon footprint performance, but a lower gross margin resulted in a broadly flat Resource Efficiency Index. See Notes 4, 5 and 8.

## Value chain assessments

We use lifecycle assessment as the basis of our sustainability work. This was initially focused on environmental impacts and benefits, but more recently we have been involved in developing social assessments and associated externalities. This lifecycle thinking is incorporated in a number of our common processes, both at company and Business Area level.

### Innovation process

Our Innovation process for product and process development covers an assessment of market segments and strategic alignment, including sustainability. AkzoNobel's eco-premium solutions concept requires the assessment of both the environmental and social aspects of sustainability along the value chain. It also encourages the development of more innovative, sustainable products.

### Commercial excellence processes

Including sustainability in marketing propositions is an essential aspect of our Planet Possible agenda. We are developing our marketing activity and train our salesforce in sustainability. See Note 6.

## 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.

In 2016, we made good progress with some suppliers to identify carbon footprint improvements, as well as extending collaborations in our supply chains. See also the examples in Note 8 under Bio-based raw materials. Further information on our engagement with suppliers and the management processes is included in Note 7.

## Product portfolio management

We manage hazardous substances in our products through our priority substance program. Active for several years, it promotes the use of safer and more sustainable products and means we often take action to manage harmful substances in advance of legislation, future-proofing our products against changes in regulations. At the same time, we have set ourselves stretching targets for the amount of revenue and growth which should come from solutions with a sustainability benefit for our customers, versus the mainstream product solutions in the market.

In 2016, we piloted a combination of these approaches in three units of our business. We carried out a full analysis of sustainability and product safety risks and opportunities for our product portfolios. This has been used to support product portfolio planning through our marketing and research and development teams. In addition, using our Customer-Focused Product Stewardship (CFPS) process, we have also engaged our customers on sustainability and product safety. The CFPS process allows us to align

### Key performance indicators – economic

	2013	2014	2015	2016	Ambition 2020
Resource Efficiency Index (REI) (2012 baseline=100)	98	96	113	112	–
Eco-premium solutions with downstream benefit (% of revenue)	18	19	19	20	20
VOC in product (% reduction from 2009)	7	5	9	n/a	–
Customer delivery efficiency index	92	93	94	96	–
Critical PR <sup>1</sup> spend covered by supplier management framework (% of spend)	80	83	87	91	90 (2017)

<sup>1</sup> PR = Product related (raw materials and packaging).



customer purchasing characteristics with their product safety and sustainability ambitions.

We are further developing this methodology for product portfolio assessment together with other companies in the chemical cluster group of the WBCSD. We will continue to develop this portfolio work across our businesses to help manage our future product portfolios and to create more value for our customers.

### The process

In the pilots, we segmented our product portfolio into five categories to reflect the sustainability risks and opportunities of each product and end use (see below).

### Assessment criteria

We have used the same criteria as in our eco-premium solutions program, assessed across the full value chain:

- **Economic:** Energy efficiency and waste
- **Environmental:** Eco-toxicity, natural resources/raw materials, emissions and land use
- **Social:** Human toxicity, risks and health and well-being

## Product portfolio assessment



- Products/solutions with a sustainability benefit greater than the mainstream solution along the value chain, according to our existing eco-premium solutions definition.
- Products with a distinct sustainability benefit, but do not qualify as eco-premium.
- Products considered safe to use and have no negative sustainability issues.
- Products containing materials highlighted by governments, NGOs, customers or public groups as being of concern, or having a sustainability challenge.
- Products using substances with clear phase-out dates identified by our Priority substances management program.

We already know that 20 percent of our revenue is from eco-premium solutions. The majority of our other products is in the light green and yellow categories. Many of our solutions provide sustainability benefits even though they do not meet our strict eco-premium definition. For example, the main drivers for carbon footprint reduction are estimated to cover about half of our sales (see Customer product solutions in Note 8). Improvements in the sustainability of the overall portfolio will be driven by our product development processes as products are updated or replaced. Less than 1 percent of revenue is from products with substances that already have a phase-out date.

### Future plans

We are now evaluating the results of the pilots and reviewing opportunities to combine the basic categorization with other data, such as carbon footprint, to provide further insights.

## 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, 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.

## Carbon pricing

In order to help move the business to a lower carbon future, we will introduce carbon pricing into relevant investment decisions and procurement. Standard financial calculations on the cradle-to-gate carbon footprint will be presented in investment cases with and without a price applied to carbon (based on impacts from our raw materials and own operations). If an investment is significantly less attractive as a result of including a carbon price, currently €50 per ton, we will identify value re-engineering mitigation activities in order to lower the carbon impact and re-present the case with these included.

The aim of attaching a financial number to the carbon impact associated with our investment and procurement processes is to drive further awareness of the environmental and future economic impact of major decisions and, more importantly, to make better decisions and strengthen the sustainable business portfolio as a result. With many countries now discussing different schemes to put a price on carbon as part of their legally binding COP21 carbon reduction targets, it is important to recognize that carbon will be priced, enabling sustainability leaders to de-risk their businesses.

## Eco-premium solutions

We have a clear ambition to continue to lead in our markets. We also understand that because we live in a world of finite resources, our Planet Possible agenda has to focus on resource efficiency and creating more value from fewer resources. We need to find resource alternatives where there don't appear to be any. So we are committed to minimizing the environmental and social impact of the products we sell and the processes we use to manufacture them.

One of our focus areas is the development of eco-premium solutions – those solutions where we invest to lead in the market. These are products that are clearly more sustainable than the most common alternatives on the market. They are assessed in seven different 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 whole lifecycle and against currently available solutions on the market, the eco-premium solution we offer must be significantly better in at least one of the above criteria, and not significantly worse in any. Eco-premium solutions are an important driver for innovation.

The progress we are able to make each year will not only be impacted by our own improvements, but also by competitor activity and legislation changes. It's therefore a moving target leading to continuous improvement. An increasing number of our products and services provide sustainability benefits, but they are only classified as eco-premium when they outperform the mainstream product on the market.

We've been focusing on eco-premium solutions with downstream benefits since 2012. This is a measure of our eco-premium solutions that deliver sustainability benefits in the downstream value chain – directly to customer

operations or end-user – be that as a semi-finished product, as a final product, or as a reusable/recyclable material in the end-of-life phase.

In 2016 revenue from eco-premium products and services with downstream benefits totaled €2.9 billion, or 20 percent of total revenue. This means that we have reached our 2020 target for eco-premium solutions with downstream benefits ahead of schedule. This is a level that we plan to maintain as we continue to proactively drive the development of innovative sustainable solutions ahead of the mainstream in the market. In total, 11 percent relates to eco-premium solutions with social benefits: health and well-being, risks and toxicity. Revenue from all eco-premium solutions totaled €3.4 billion, or 24 percent of total revenue.

Companies can consider products with sustainability benefits at a number of levels. Eco-premium solutions represent the most challenging definition – those products and services with benefits clearly ahead of the

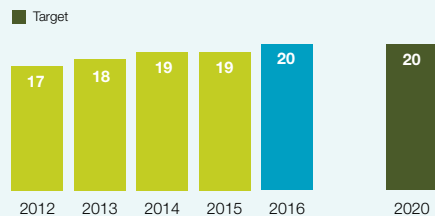
competition. Secondly, an increasing number of solutions provide a distinct sustainability benefit to our customers, but are not market leading and therefore do not qualify as an eco-premium solution. For example, we have estimated that about half our sales – including eco-premium solutions – are covered by the main drivers for carbon footprint reduction (see Customer product solutions in Note 8). Finally, our product development processes will drive continuous sustainability improvement in the overall portfolio as products are updated or replaced, for example through improvements in our processes, formulations or raw materials used.

Listed below are some recent examples of eco-premium solutions with downstream benefits.

### Decorative Paints

- **Coralar:** A low VOC wall paint compared with other options available in the Brazilian market. It has an improved spreading rate and opacity in relation to previous versions, while providing the largest color offer compared with main competitors
- **Dulux Wood Charm Woodcare:** A water-based indoor woodcare paint with significantly lower VOCs than solvent-based equivalents (in China). It has improved flexibility and a balanced performance in chemical resistance and hardness. It also contains Polyurethane Modified Acrylate (PUMA) latex technology, which is helping to drive conversion from solvent-based to water-based paints
- **Weathershield Express:** A two-coat exterior wall paint system which delivers a sealer and topcoat in one product, replacing the conventional three-coat system while keeping the same benefits. With one less coat, productivity increases by 30 percent, while resources (labor) are saved, along with a reduction in waste. Weathershield is available in India, Vietnam, Indonesia, Malaysia and Singapore

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



### Eco-premium solutions with downstream benefits per Business Area

in % of revenue	2013	2014	2015	2016
Decorative Paints	27	27	28	28
Performance Coatings	13	15	15	16
Specialty Chemicals	16	17	17	19

## Performance Coatings

- **Interpon A5550:** A powder coating with superior flow and high durability for the truck industry in China. It is a suitable replacement for liquid coatings on load bed, while offering all the performance attributes of liquid coatings. At the same time, Interpon A5550 has improved abrasion resistance, improved application efficiency resulting in less overspray, zero VOCs, reduced waste water and a smaller physical footprint
- **Basic Primer Intergard 2511 and Standard Primer Intergard 251 HS:** A 250 g/ltr VOC range which leads to lower emission fees, with a lower applied cost, and reduces paint complexity via an ability to do more with one product. The product has faster application and overcoating at ambient temperatures, with no need for thinning down. Less energy is used for the same throughput at the customer
- **Intergard 5555:** A single coat epoxy coating for engine rooms, accommodation internals and store areas. It's predominantly a replacement for the alkyd schemes (primer and topcoat) market and shows a significant productivity increase (less coats, faster drying) and better color retention (less yellowing)

## Specialty Chemicals

- **Berol DR-B1:** An essential ingredient for outdoor cleaning products which successfully meets stringent US Environmental Protection Agency standards, without compromising on performance. It's suitable for a wide range of outdoor applications where very low environmental impact is a priority. Degreasers prepared with Berol DR exhibit quick break behavior, meaning that the oil removed during washing separates rapidly from the used cleaning solution and can be removed, allowing the remaining water to be disposed of safely
- **Dissolvine M-40/MGDA:** A chelating agent with a readily biodegradable active ingredient (known as MGDA), which is more sustainable than some current alternatives. It enables the detergent industry to meet stringent rules requiring the removal of phosphate

builders in their formulations, without compromising on cleaning performance

- **Levasil SP1039:** A tailored product for substrate polishing in the electronics industry. It is a critical component for producing flat and uniform surfaces. Because of efficient polishing of substrates, there is less need for other surface preparation in the process, leading to improved cost efficiency. This is a new product that is preferred by our customers because it improves quality and reduces process steps and associated costs

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## VOC in products

The introduction of new and reformulated products with significantly reduced (preferably virtually zero) volatile organic compounds (VOC) continues in our businesses. As a result of this ongoing commitment, our product portfolio is undergoing a transformation towards a range of products that are lower in VOC content. Since 2009, this is established as an important part of our target to minimize the potential social and environmental impact from the materials in our products.

Both our Decorative Paints and Performance Coatings businesses are contributing to this continued reduction of VOC content. The company's overall paints and coatings product portfolio showed a decrease of 9 percent in average VOC content in 2015<sup>1</sup>, 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 22 percent.

A combination of technological improvements and changing customer and market demands – particularly with respect to the use of water-based products – is driving this change towards reduced VOC content. This is not an easy journey, due to the economic and technological expansion in low-cost markets. However, we are now in a position to capitalize on VOC tax

regulation changes in countries such as China, helping the industrial wood coatings market to move to our new water-based technology.

Within our Decorative Paints business, this transition from solvent-based to water-based products falls under a strategic program called Waterway. The business has made a significant contribution to VOC reduction through the continuous introduction of high quality, low VOC solutions. Sales of water-based and zero-emission paints are also steadily increasing, something which we expect to continue in the coming years. Due to a change in product mix resulting from divestments in 2014, the average VOC content in our decorative paints has actually remained at the same level 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 2015<sup>1</sup> reduced by 17 percent compared with 2012.

Our Performance Coatings business is also continuing to achieve a reduction of VOC content in its product portfolio. Examples include growing sales of powder coatings in automotive, water-based basecoats and high solid products in marine and protective coatings markets. As a result, the average VOC content in Performance Coatings reduced by 6 percent in 2015<sup>1</sup>, compared with 2012.

For 2016, we forecast a continuation of these trends, with a further reduction in average VOC content for our Performance Coatings and Decorative Paints portfolio.

<sup>1</sup> 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 2015 instead of 2016.

## Resource Efficiency Index

We adopted a Resource Efficiency Index as a key financial indicator because we are convinced 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. This will enable us to decouple business growth from resource use.

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.

**Resource Efficiency Index**  
gross margin/CO<sub>2</sub>(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

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 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 water-based coatings
- Margin improvements as a result of higher value-added products

However, alongside these positive factors, we have also seen tighter margins, together with expansion in markets that are slower in adopting low VOC coatings and have a large proportion of high carbon energy supplies. There are also impacts from changes in the overall AkzoNobel product mix.

In 2016, we achieved a reduction of absolute carbon footprint, but a decrease of gross margin resulted in a broadly flat REI, at 112 compared with the 2012 base of 100. The currency impact for 2016 compared with the previous year is significant and negatively impacts the REI.

## Customer engagement

End-users and customers regularly ask for products and solutions that will make their business more sustainable. In many cases, we work closely with them so we can deliver breakthrough solutions that provide downstream sustainability benefits while delivering 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 involving academic partners and government institutes.

We are continuing to integrate Planet Possible conversations with customers into our sales and marketing learning and development curricula. Within our Decorative Paints business, the Planet Possible marketing toolkit for both professional and consumer brands is actively used. In Specialty Chemicals, a dedicated sustainability training module has been introduced and 80 percent of front line sales employees have been exposed to this.

Engagement starts with better understanding, so gathering information about customers and consumers is central to our business processes. Customer information gathering goes across value chain participants, all the way to our end-user segments. This includes consumers in our Decorative Paints business, customers of our customers in Specialty Chemicals, and influencers (such as architects and technical advisors) in Performance Coatings.

Customer relationship management (CRM) has also been integrated into our Commercial excellence program. Internal reviews have shown that focusing on customer surveys as a measure of satisfaction is not giving a complete enough picture. We therefore need to supplement this with continuous satisfaction data – particularly as we have many customers who make complex and regular repeat orders. The result has been a company-wide approach to monitoring customer satisfaction which has been based on the following four measures:

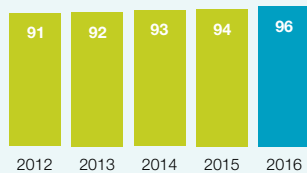


## 1. Customer satisfaction with the service that we provide

The majority of our customers are making regular repeat orders to sustain their business and we have built up long-term relationships. Failure to deliver to requirements can lead to a breakdown in the customer's own process and lead to rapid loss of revenues. Therefore, the primary cause of satisfaction for our customers is to receive their orders in a timely manner and in perfect condition. This is monitored by our performance in terms of delivery accuracy, which is measured as the level of on-time in-full deliveries (OTIF is an established measure of the percentage of orders dispatched on time and complete). These data are gathered daily or weekly at production sites and deviations trigger corrective actions by local management. Overall figures are reviewed monthly at a company level. Performance is generally in the 90 to 100 percent range in our business. The vision for the company is to have overall service levels at more than 95 percent. In 2016, global visibility continued at the very high level of 99 percent of all deliveries/customers and service performance was 96 percent, as measured by our Delivery Efficiency Index.

### Delivery Efficiency Index

in %



The world's only Flying Eye Hospital – which takes doctors around the world to treat patients with curable blindness – was repainted in 2016 with support from our Specialty Coatings business. Operated by Orbis, the DC-10 houses a fully equipped ophthalmic hospital and a 48-seat classroom. The aircraft was given new livery, with AkzoNobel supplying all the coatings.

## 2. Customer satisfaction with the way we deal with their complaints and queries

Dealing with customer complaints in a systematic and satisfactory way is a basic expectation of our customers and an integral part of the quality system for all our operations. An important measure for dealing with complaints is response times. Local management teams review this measure. They ensure that investigations into root causes are carried out and that corrective action is taken when causality has been established. Independent reviews and customer audits are common practice. In our Decorative Paints business, we also use real-time social media to interact with customer/consumer complaints.

## 3. Customer satisfaction through independent surveys, understanding customers' expectations and concerns, and improving products and services as a result

Business change is driven by a deeper understanding of customer needs and this is obtained through market research, customer discussions, consumer focus groups and specifically targeted customer surveys.

These results are reviewed at multiple levels and suitable strategic and operational action plans are undertaken. At a company level, we are monitoring the coverage achieved in the two-to-three-year cycle and are reviewing target levels. For example, in Specialty Chemicals, an extensive cross-business customer survey was conducted in 2014 which will be repeated at the beginning of 2017. A pilot of a customer 360 approach – including internal data – has resulted in key

design input for our new CRM system. In Decorative Paints, a brand health survey introduced in 2015 has been repeated, while at corporate level, the AkzoNobel brand survey has been updated and now includes strong input from customers.

## 4. Evaluating customer satisfaction through customer loyalty

Customers who order regularly always have the ability to move to alternative suppliers. Their loyalty over many years demonstrates a high level of satisfaction. The customer retention rate for our major customers is determined to be greater than 98 percent (<2 percent of major customers lost in 2015). This does not mean there are no changes within the group; some accounts grew, while others declined. During 2016, the company deepened its tracking of retained accounts to a more complete win/loss analysis, also looking at gained and lost opportunities.

One of our observations is that overall customer portfolio health needs both high customer retention in the larger accounts as described above, and a healthy rotation in the smaller to mid-size accounts, especially when dealing with newer products or applications. For these smaller customer groups, we are developing differentiated go-to-market models, for example in Performance Coatings.

External communication of all four measures is made on a customer by customer basis (specifically where there is an agreement to review this information on a regular basis).

## Supplier segmentation

Our supply base is a vital element of our value chain and a source of competitive advantage to AkzoNobel. We work closely with suppliers to support a secure and sustainable supply of products to our customers. This includes identifying and minimizing supply chain risks, creating value through continuous improvement of existing supply chains and seeking out 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

Our headline KPI is Critical Product Related (PR) Spend actively managed by our supplier framework processes. This KPI provides a measure of how well AkzoNobel is building the sustainability, capability and capacity of its suppliers in emerging markets around the world.

Spend is considered to be “actively managed” 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 (SSV) 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, Together for Sustainability (TfS)

- The supplier has 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)

We once again raised our critical PR spend coverage from 87 percent in 2015 to 91 percent, exceeding our 2016 target of 90 percent. After missing our target of 88 percent in 2015, we increased our efforts by setting clear business targets and reviewing our SSV program.

## Supplier sustainability framework



We have formalized our Supplier sustainability framework to support continuous improvement of suppliers, to prioritize improvement activities across our supply base and to accelerate delivery of our corporate sustainability goals. The framework is based on AkzoNobel’s Business Partner Code of Conduct, which 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. We demand the highest ethics and integrity in all supplier relationships.

Three formal processes are in place to help AkzoNobel ensure compliance, manage risks and promote/measure supplier development. Our Supplier Support Visits focus

on critical suppliers in emerging markets, while our Key Supplier Management program is focused on globally strategic (key) suppliers. Together for Sustainability (TfS) provides standardized, third party assessments and audits to identify and minimize risks and promote continuous improvement. It applies to all supplier segments.

### Business Partner Code of Conduct

Both critical suppliers and key suppliers have to confirm their compliance with environmental, social and governance factors.

Agreement with our Business Partner Code of Conduct covers 99 percent of the product related (PR) spend and 86 percent of the non-product related (NPR) spend.

In 2016, we increased the target spend coverage, which we successfully achieved.

### Supplier Support Visits

Introduced in 2007, Supplier Support Visits (SSV) is an internal program for critical suppliers designed to develop long-term local suppliers in emerging markets. The supportive visits are carried out by teams from Procurement and Health, Safety and Environment (HSE). The program was overhauled in 2016. This involved removing suppliers who have not developed, as well as integrating the improved suppliers who have met internal criteria into our third party Together for Sustainability (TfS) program. This will allow us to focus our resources on suppliers with real development potential.

### Together for Sustainability (TfS)

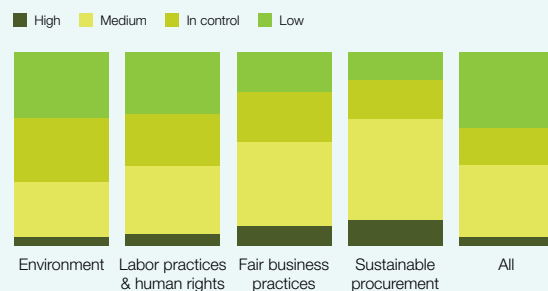
Further acceleration in 2016 has resulted in 60 percent of our total spend being assessed through this program of standardized global sustainability assessments and on-site audits. TfS is an industry initiative to improve sustainability practices within the global supply chains of the chemical industry, building on established global principles such as the United Nations Global Compact and the Responsible Care® Global Charter. It is now made up of 19 leading global chemical companies and continues to expand.

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. Recent areas include the introduction of a formal reporting system on our suppliers' sustainable procurement performance and business ethics issues. In 2017, we will focus more effort on human rights and are currently developing relevant KPIs.

The diagram below shows the risk levels of the 1,053 suppliers assessed between 2013 and 2016, 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".

### Overview of risk levels

Total of 1,053 suppliers



We request high and medium risk suppliers to work on corrective actions with a clear priority on the main areas for improvement as mentioned above. Out of the 572 suppliers that were re-assessed, 408 improved their scores.

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 again in 2015 by EcoVadis, putting us among the best performing

### Key performance indicators – supplier management

	2013	2014	2015	2016	Ambition 2016	Ambition 2017	Ambition 2018
Critical PR <sup>1</sup> spend covered by supplier management framework (% of spend)	80	83	87	91	90	90	90
Product related suppliers signed Partner CoC <sup>2</sup> (% of spend)	96	98	98	99	98	98	98
NPR <sup>3</sup> suppliers signed Partner CoC <sup>2</sup> (% of spend)	83	80	81	86	85	85	85
Suppliers on SSV program since 2007 <sup>4</sup>	392	432	455	136 <sup>4</sup>	–	–	–
Third party online sustainability assessments (TfS) <sup>5</sup>	–	539	724	1053	700	1500	1800
Third party on-site sustainability audits (TfS) <sup>5</sup>	–	20	65	166	60	190	210
Supplier Sustainability Balanced Scorecard	–	–	2	37	–	150	200

<sup>1</sup> PR = Product related (raw materials and packaging).

<sup>2</sup> CoC = Business partner Code of Conduct.

<sup>3</sup> NPR = Non-product related.

<sup>4</sup> SSV program targets are included in the Critical PR spend coverage KPI, supplier numbers rebaselined in 2016.

<sup>5</sup> Includes TfS shared assessments/audits, cumulative.

companies assessed globally in our industry category. An Ecovadis re-assessment is taking place once in early 2017.

### Key Supplier Management

As part of our ongoing operational effectiveness program, our Key Supplier Management process helps focus our internal resources on 34 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 on carbon footprint improvement, renewable materials and innovation opportunities.

### Measurable development and delivery

In addition to the standard supplier segmentation, we have identified a group of suppliers who have a significant impact on our sustainability resource efficiency/carbon footprint objectives. We use our Supplier Sustainability Balanced Scorecard (SSBS) to measure and monitor their performance quarterly.

The SSBS gives an objective measure across both compliance and performance improvement aspects. The result of the SSBS is used to allocate maturity levels. The levels move from compliance and risk management (using data from Process 1: SSV and/or Process 2: TfS), to improvement programs that contribute to other sustainability objectives, including carbon footprint reduction and collaboration with AkzoNobel on innovations.

The Supplier Sustainability Balanced Scorecard (SSBS) is currently in place with 37 suppliers, who represent a high proportion of our raw material carbon footprint. In total, nearly 20 percent of these suppliers demonstrated a lower carbon footprint than the industry average and some have further improvement targets in place.

During 2017, we plan to introduce a program which will further monetize these improvements via an enhanced SSBS for these 37 suppliers. The new SSBS will contain a revised KPI which will measure the cost of additional sustainability elements (such as waste, energy efficiency, share of renewable energy, etc.) with a target to reduce the cost of these elements for these suppliers by 3 percent per year. In addition, a total of 150 suppliers will participate in our basic SSBS program in 2017, which represents

approximately 80 percent of our Scope 3 upstream carbon emissions.

In 2016, we also carried out a pilot water risk assessment for two of our main raw material categories. This indicated focus regions for more detailed follow-up.

All of the above helps us to benchmark our suppliers and increase their awareness in sustainability. It opens discussions we did not have previously and helps us to create real partnerships to identify and maximize shared benefits. Challenging year-on-year improvement targets will continue to be defined, committed and delivered.



During 2016, we formalized our Supplier sustainability framework to support the continuous improvement of suppliers and help accelerate delivery of our corporate sustainability goals.



# Environmental value creation

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.

In the chemicals and coatings industries, we are dependent on the materials we use to manufacture our products. Raw materials extraction and production, energy supply, our own operations and the use and disposal of products used by our customers can all impact the environment. Our activities and products can also make a significant positive contribution.

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## Circular activity

We are using circular economy principles as we strive for radical resource efficiency:

- **Renewable sources:** We are not only aiming to source more renewable raw materials and energy, but also initiate or contribute to programs with a range of partners to accelerate production and adoption of these supplies. Examples include our bio-based materials partnerships and programs for wind energy and renewable steam. See Note 8.
- **Circulating products, components and materials:** Circulating our products can be a challenge because they end up as essential ingredients or offer protection that is integral to our customers' products. We therefore seek out opportunities for our "waste" to become a secondary raw material and use other people's "waste" as our secondary raw material. We currently have two main focus areas – products that do more with less, use less material and last longer; and initiating partnerships to re-use unwanted household paint through our ReColor program. See Notes 4 and 8.
- **Designing out negative externalities:** This is a core element of our work with suppliers, our own operations and the products/services we sell. Examples include operational eco-efficiency programs; investment assessments which incorporate carbon pricing;

products/services that reduce energy use for our customers, or improve air or water quality compared with standard products. See Economic value creation and Notes 4, 7 and 9.

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## 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 assessment.

We are taking an active role in developing good practice and setting standards for the industry, working with the WBCSD and with CEPE on the EU PEF pilot. See Decorative Paints in the Business performance section and Note 3.

## Carbon footprint assessment

We measure the carbon footprint of all our key value chains (487 in 2016) using a full cradle-to-grave lifecycle assessment. This is the basis of our carbon footprint key performance indicator.

## Eco-premium solutions

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. We are also developing environmental product declarations

(EPDs) for some products as part of our marketing activity. See Note 4.

## Other company processes

Lifecycle assessments are integrated into the company's Innovation process and the assessment of our major investment processes, which also include a value on carbon. See Economic value creation.

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## Eco-systems and biodiversity

We recognize our dependence on eco-systems for resources, such as fresh water, for renewable materials and for the part they play in maintaining the quality of our air, water and soil and also the impact we have on these eco-systems.

According to the Millennium Ecosystem Assessment, the main drivers for biodiversity impact are habitat change (land use change), over-exploitation, invasive alien species, pollution and climate change. An assessment carried out in 2013 indicated that the main impacts were up and downstream of our operations, with the main drivers being land use/transformation and climate impact. Our current activity focus is through our resource efficiency programs:

- Reducing climate impact across the value chain
- Water use and discharge in water scarce areas
- Sourcing renewable raw materials
- Product assessments for our eco-premium solutions (which already include land use)

## Operational eco-efficiency

The improvements in our own operations are coordinated through our operational eco-efficiency program. The focus of this 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.

## COP21 Paris agreement and science-based targets

We recognize that climate change is one of the biggest challenges that will shape the way we do business now and in the decades to come. We support the Paris agreement reached at COP21 to keep the global average temperature increase well below 2°C above pre-industrial levels and limit the increase to 1.5°C. As such, we have committed to setting a science-based target. An initial assessment has shown that our current target – a 25 to 30 percent reduction (per ton of sales) in our product cradle-to-grave carbon footprint between 2012 and 2020

– is well below the trajectory as suggested by available science-based target methodologies. We will use these methodologies as input for our Planet Possible 2025 strategy update.

## Avoided emissions

In addition to minimizing our negative impact in the environmental dimension, we also set out to scale up our positive impact – such as developing solutions that help customers avoid carbon emissions. One example is the Intersleek 1000SR, biocide-free fouling control coating we launched in 2013. The product reduces drag on vessels, resulting in up to 10 percent lower emissions and fuel consumption, leading to subsequent cost savings for our customers. Based on the total number of commercial vessels using Intersleek at year-end 2016, an estimated 8 million tons less CO<sub>2</sub> is being emitted than would have been the case if these vessels had been using traditional biocidal fouling control paints. This estimate is based on the Avoided Emissions guidelines that we developed together with ICCA (International Council of Chemical Associations) and the WBCSD.

## Carbon footprint cradle-to-grave

### Product carbon footprint

Climate change has never been a more important topic. The Paris Agreement reached at COP21 sets legally binding targets on countries to reduce their greenhouse gas (GHG) emissions, accelerating the transition to a low carbon economy.

In our 2020 sustainability objectives, carbon footprint has an 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 product 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 intend to 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 product footprint, including the impact of VOCs, of around 24 million tons of CO<sub>2</sub>(e), which is 4 percent lower than 2015 and 14 percent lower than 2012. CO<sub>2</sub>(e) per ton of sold product is 6 percent lower than 2012.

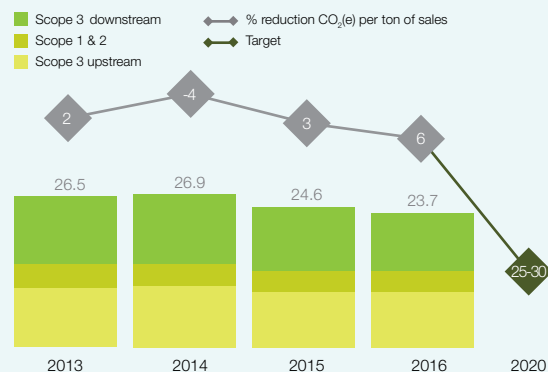
We made good progress in 2016, although our 2020 cradle-to-grave ambitions remain challenging. Our new facility in Frankfurt, Germany, has delivered major efficiency improvements, in addition to continuous improvements at other sites. Our share of renewable energy continues to improve, partly offset by other changes in power/steam sources. Emissions from our own production were 21 percent lower than in 2012. We accelerated our work with suppliers and have increased sales of paints with a lower carbon footprint in Asia. For some other businesses, the trend is towards higher footprint products. Since 2012, our upstream emissions have reduced by about 14 percent and downstream by about 13 percent.

### Key performance indicators – environmental

	2013	2014	2015	2016	Ambition 2020
Carbon footprint cradle-to-grave per ton of product sales (% reduction from 2012)	2	-4	3	6	25-30
Carbon footprint own operations (million tons of CO <sub>2</sub> (e))	3.9	3.8	3.8	3.7	<4.6
Greenhouse gas emissions per ton of production (own operations, in kg)	222	224	221	209	–
Renewable energy own operations (%)	31	34	38	40	45
Renewable raw materials (% of organic)	13	13	11	12	–
Operational eco-efficiency footprint measure (% reduction from 2009)	24	24	23	28	40 (2017)
Sustainable fresh water management (% of manufacturing sites)	85	89	93	93	–

### Cradle-to-grave product carbon footprint

in million tons of CO<sub>2</sub>(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. Includes impact from VOCs. See Assessment method on our website.

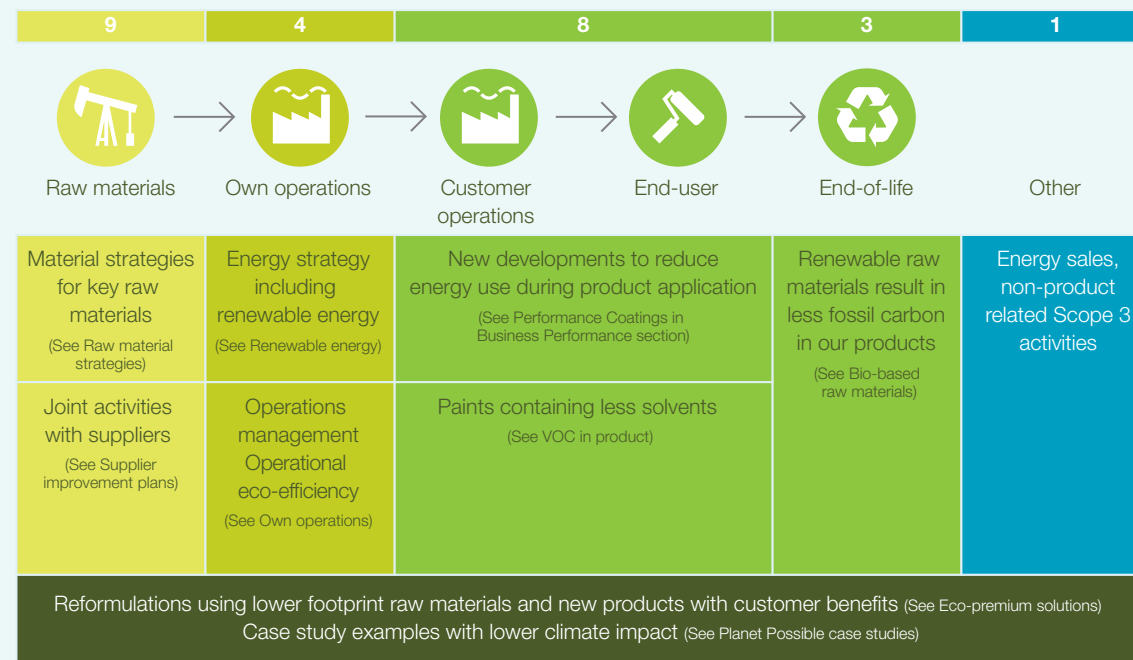
### Cradle-to-grave product carbon footprint

Total in million tons CO<sub>2</sub>(e) and reduction per ton of sales

	2013	2014	2015	2016
<b>Decorative Paints</b>				
Total	4.2	3.9	3.6	3.7
% reduction per ton of sales	3	0	4	9
<b>Performance Coatings</b>				
Total	12.9	13.6	12.3	11.6
% reduction per ton of sales	0	-2	-2	-2
<b>Specialty Chemicals</b>				
Total	9.4	9.4	8.6	8.4
% reduction per ton of sales	2	-2	6	9
<b>AkzoNobel</b>				
Scope 3 upstream	10.5	10.7	9.7	9.5
Scope 1 & 2 <sup>1</sup>	4.1	4.0	3.8	3.7
Scope 3 downstream	11.9	12.2	11.1	10.5
Total	26.5	26.9	24.6	23.7
% reduction per ton of sales	2	-4	3	6

<sup>1</sup> Scope 1 and 2 includes emissions from our facilities and our own transport, including VOCs.

### AkzoNobel carbon footprint in million tons CO<sub>2</sub>(e)



### Total carbon footprint

The company's product carbon footprint of around 24 million tons is made up of around 21 million tons of CO<sub>2</sub>(e) from the main greenhouse gases and 2.6 million tons from VOC emissions. The footprint from our own operations and transport is 3.7 million tons of CO<sub>2</sub>(e). In addition to the product footprint of around 24 million tons, there is 0.2 million tons of CO<sub>2</sub>(e) from energy sales, and about 1 million ton from non-product related Scope 3 activities, such as capital goods and commuting. Scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015). We have also assessed all Scope 3 categories according to the GHG Protocol Scope 3 standard.

More information on our assessment method for carbon footprint cradle-to-grave can be found in Note 2. A detailed breakdown of our greenhouse gas emissions, including Scope 3 and Scope 2 location-based emissions, is available on our website.

### Management plans

Each Business Area has an improvement plan, with targets and programs for different parts of the value chain. These are reviewed and updated on a routine basis, with progress monitored by the relevant management team and as part of our regular Operational review meetings.

Research activities to identify alternative raw materials are continuing, while procurement activities accelerated during the year. For example, specific plans and targets have been agreed with an increasing number of key suppliers. See Note 7.

We have also strengthened the assessment of investments to include a carbon price and continue to ensure that we are spending capital in a way which optimizes the improvement across our businesses and the company as a whole. See Economic value creation.

The illustration on the previous page highlights the impact of our main initiatives in different areas of our value chain:

- Raw materials that 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, particularly during customer application

The following pages discuss improvement activities for raw materials, our operations and the product solutions we deliver to customers.

## 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.

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 160 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, are among the key criteria applied to determine preferred raw materials.

The slates form the foundation of our standard raw material management processes. Teams of procurement and technical experts are in place to maintain the slates, manage introduction and retirement and identify opportunities to migrate products to our core raw materials. Since the start of the raw material slate program, 30 percent of non-core raw materials have been phased out.

### Supplier improvement plans

In 2016, 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. See Note 7.

### Bio-based raw materials

Bio-based materials can, in most cases, offer an option to reduce our cradle-to-grave carbon footprint.

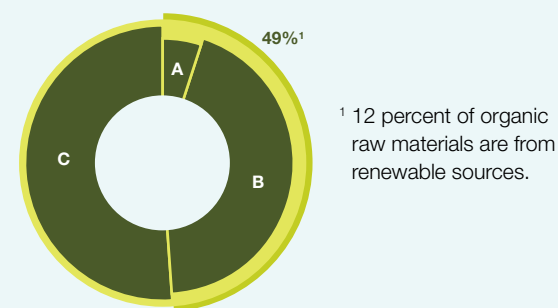
In order to accelerate the deployment of bio-based materials relevant to our markets, we have been setting up and developing partnerships across our supply chain. Our strategy focuses on cost-competitive, high-impact

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 the company to tap into alternative feedstock sources so that we can offer more sustainable products and reduce our cradle-to-grave carbon footprint. During 2016, we made progress with our existing partnerships and announced additional collaborations involving a number of our key raw materials:

- **Waste-derived chemicals:** We are part of a consortium – together with value chain partners Van Gansewinkel, Air Liquide, AVR, Enerkem and various others – exploring the feasibility of setting up waste-to-chemicals facilities in Europe. In 2016, the consortium announced that the Port of Rotterdam in the Netherlands has been chosen as the preferred location for the first facility. The project has the support of the Port of Rotterdam, the City of Rotterdam, the province of South Holland and InnovationQuarter. We are now working together to finalize the business case,

Total volume of raw materials in % per source



A Renewable raw materials (bio-based)	6
B Fossil-derived materials (petrochemicals)	43
C Inorganic materials (e.g. salt, minerals, clays)	51

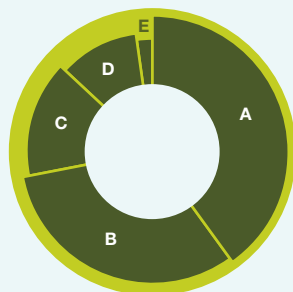


the selection of the location and to start applying for permits. This promises to be a major step towards the circular economy and would close the loop by converting waste back into useful products

- **Algae-derived oils:** Our work with biotech company TerraVia (formerly Solazyme) is nearing completion. This should lead to a multi-year supply agreement for up to 10,000 tons annually 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 various epoxy resin producers, we have worked to track and encourage the use of bio-based epichlorohydrin in our global value chains. The aim was to reach around 20 percent of our global indirect use in 2016. During the year, we reached as high as 14 percent. We are now working with our partners to improve the methodology, and apply it to other value chains

#### Total energy in % by source

A	Renewable energy	40
B	Natural gas	32
C	Coal	15
D	Nuclear	11
E	Other fossil fuels	2



#### Renewable energy

In % of total electricity, heat and energy use	2014	2015	2016	Ambition 2020
Renewable electricity (%)	39	44	46	–
Renewable heat (%)	14	16	17	–
Renewable energy (%)	34	38	40	45

- **Steel mill off-gas derived chemicals:** In June 2016, we announced our participation in the Carbon2Chem consortium. This brings together industry players ThyssenKrupp, BASF, Clariant, Covestro, Evonik, Linde and Siemens with academic partners including FHI Berlin, Fraunhofer, Max Planck Institute, Ruhr University Bochum, RWTH Aachen, University Kaiserslautern in a €60 million project to produce useful chemicals from steel mill waste gas

These partnerships and products have the potential to make a major impact on the long-term sustainability of our supply chains. In 2016, 12 percent of all our organic raw materials came from bio-based (renewable) sources (2015: 11 percent). This is 6 percent (2015: 5 percent) of the total volume of raw materials purchased, including other raw materials such as salt, minerals and clays.

## Own operations

The improvements we made relating to energy and greenhouse gases can be found here. Other environmental aspects of our operations are included in Note 9.

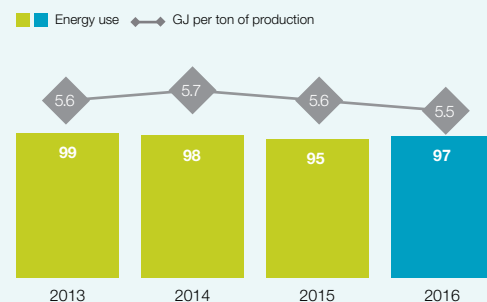
#### Energy use

The energy we use on our sites contributes about 15 percent to our cradle-to-grave carbon footprint. 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 use per ton of production reduced to 5.5 GJ/ton. Absolute energy use was up 1 percent to 97,000 TJ, both in line with a change in product mix and volume changes
- In 2016, 49 percent of our sites improved their relative footprint with regard to energy use compared with 2015
- The total cost of energy in our production was about €0.6 billion

- Energy mix has changed compared with 2015: Renewable energy share increased by two percentage points to 40 percent, and coal and nuclear shares reduced by one percentage point. Natural gas and other fossil shares remain the same

#### Energy use in 1000 TJ



#### Energy use per Business Area

In 1000 TJ	2013	2014	2015	2016
Decorative Paints	2.0	1.8	1.8	1.8
Performance Coatings	5.0	4.6	4.5	4.5
Specialty Chemicals	92.0	92.0	89.2	90.6

We use energy scans to increase awareness and identify savings opportunities in all our businesses. During 2016, this resulted in a number of energy improvement projects, including:

- The production of chlorine using new membrane technology is now fully on stream in Frankfurt, Germany, reducing energy use by more than 25 percent and saving over €6 million a year
- In Arnhem, the Netherlands, carboxy methyl cellulose production was improved by optimizing control loops, resulting in an energy reduction of more than 5 percent, which represents over €100,000 a year

- In Rotterdam, the Netherlands, new work processes introduced by our Specialty Chemicals business resulted in energy savings of €100,000 a year
- At our Decorative Paints site in Garin, Argentina, a number of cost-saving measures were introduced following an energy scan. These related to the use of LEDs, high efficiency motors and compressor optimization and resulted in savings of €21,000 a year
- The installation of new LED lighting at a Performance Coatings site in Pudong, China, resulted in an energy reduction of more than 60 percent. The total savings will be in excess of €10,000 a year
- At our Powder Coatings plant in Reading, US, the replacement of an old chiller with the latest technology resulted in a 12 percent energy reduction, saving more than €100,000 a year
- In the Netherlands, all sites have made an energy efficiency plan covering the period 2016 to 2020

### Renewable energy

Renewable energy is 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. We launched a number of key initiatives during 2016 in order to increase the use of renewables in our energy supplies and decrease our carbon footprint. These include:

- Krammer wind park: AkzoNobel has formed a unique consortium to source power from renewable energy projects for part of their operations in the Netherlands. The first deal involves a multi-year agreement with Krammer wind park, which was established by two cooperatives together with 4,000 members in the south-

- west of the Netherlands. It will be at full capacity of 105 MW in early 2019. The four companies involved have agreed to source a total of 350 million kWh a year, equivalent to the total annual consumption of 100,000 Dutch households
- Renewable steam: The first steam was delivered from the sustainable steam project 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<sub>2</sub> emissions by more than 100,000 tons a year
- Netherlands on-site solar: Solar panels have been installed at our locations in Amsterdam and Arnhem (100 kW), while construction is ongoing for panels at our R&D facility and factory at Sassenheim (500 kW)
- Renewables in the Nordics: The power contract for the Nordic region was expanded to 60 percent renewable energy in 2016. This is mainly comprised of hydro energy, along with wind energy from the VindIn consortia

Thanks to these initiatives, the proportion of renewable energy in our operations is at 40 percent.

### Greenhouse gas emissions from operations

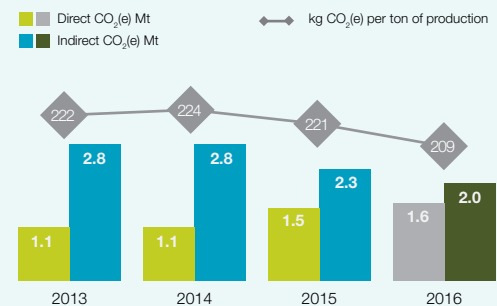
Greenhouse gas (GHG) emissions from our facilities are primarily related to the fuel and power we use. This section reflects the performance of our own operations covering the gate-to-gate scope.

Total greenhouse gas emissions per ton of production decreased by 5 percent to 209 kg/ton CO<sub>2</sub>(e). Absolute GHG emissions decreased to 3.7 million tons of CO<sub>2</sub>(e). These were both caused by a change in product mix and production volumes of main energy consumers.

- At our Specialty Chemicals site in Alby, Sweden, a new boiler was installed, saving 5,000 tons of direct CO<sub>2</sub> per year

- At LeMoyné in the US, our Specialty Chemicals business optimized the furnaces, resulting in savings of more than 2,200 tons of direct CO<sub>2</sub> per year
- In Jundiá, Brazil, the electricity contract for our Specialty Chemicals business was changed to 100 percent biomass, resulting in a reduction of over 4 kilotons of CO<sub>2</sub> compared with 2016

### 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	2016
Decorative Paints	0.1	0.1	0.1	0.1
Performance Coatings	0.3	0.3	0.2	0.2
Specialty Chemicals	3.5	3.5	3.4	3.4

### 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<sub>2</sub> reduction.

The carbon emissions for our lease car fleet were 121 g/km on average, a 2 percent improvement from 2015. These data are based on available data from EMEA. We plan to expand the coverage of our lease car CO<sub>2</sub> reporting in 2017.

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## 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 (e.g. WBCSD Addressing the Avoided Emissions Challenge).

Many of our products help our customers to produce a low carbon product, or contribute to processes that support the transition to a low carbon economy (e.g. water-based paint, coatings with new curing

technologies and chemicals used in LED lighting). In total, 13 percent of our 2016 revenue was from these leading eco-premium solutions that avoid GHG emissions for our customers, compared with the mainstream solution. Examples include:

- **Interpon ReFlex:** Meets lighting manufacturers' continuous demand for coatings with a higher reflectance. This means more light is emitted from the lighting unit because less is absorbed by the coating, boosting the effective output of commercial lighting and reducing emissions
- **Dulux Weathershield Keep Cool:** Reflects infrared heat, cooling exterior walls by up to 5°C. It means residents use less air conditioning and less energy as a result, leading to independently verified savings of up to 15 percent
- **Aquasilk:** An innovative water-based wood coating with superior hardness and excellent clarity, designed to make it easier for the Chinese furniture industry to make the transition to more sustainable water-based coatings. The product contains substantially lower levels of volatile organic compounds (VOCs) than the traditional solvent-based systems they replace

Other products that help reduce global greenhouse gas emissions are not captured by this leading measure. We have estimated about half of our total sales are covered by our main drivers for our carbon footprint reduction: renewable energy, renewable raw materials, VOC reduction and energy-efficient production processes.

Our chemicals businesses use 47 percent renewable energy or heat in their operations. Overall, 12 percent of our organic raw materials are from renewable sources. Both of our most energy intensive businesses operate leading energy-efficient technology. Energy and material efficiency is crucial for our production processes and continuous improvement is part of daily operations.

Our paints and coatings businesses continue to introduce new and reformulated solutions with significantly reduced



During 2016, our Dulux brand launched a second paint recycling facility in the UK in collaboration with Community Repaint and various other partners. The initiative is designed to remanufacture donated paint into a good quality recycled product and re-distribute it to individuals, families and communities in need. The first facility has already produced 10,000 liters of recycled paint for distribution to over 1,300 causes and individuals across the UK.

volatile organic compounds (low/zero VOC). For example, more than 80 percent of our decorative paints and 15 percent of our protective coatings 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.

One example of leading practice is the work on “post-user” waste in the Decorative Paints business. This is the paint left over by our customers/consumers when they have finished a painting job. Evidence suggests that 10 percent of all paint purchased ends up in the waste stream. This is a huge waste of valuable resources and is becoming a concern to national and local governments as disposal costs rise.

In the UK, we have worked with a social enterprise for many years to collect and re-use this paint through social and community groups. We are now going a step further, working with waste management companies and small entrepreneurial paint manufacturers, to support the remanufacture of paint into a fully recycled product, better suited to the needs of larger social and community projects. These pilots will be extended into Benelux in 2017. We are also investigating whether it will be possible to incorporate small amounts as a raw material into existing branded products.

AkzoNobel is committed to embedding continuous improvement in supply chain management and manufacturing. A company-wide approach has been defined, known as ALPS (AkzoNobel Leading Performance System), which includes standardized processes, metrics and training programs. Deployment in all three Business Areas, to all the company's manufacturing sites, will continue over the next few years.

The program is supported by the AkzoNobel Academy, which offers 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.

## Operational eco-efficiency program

The focus of the operational eco-efficiency agenda is to increase raw material efficiency, reduce energy consumption and decrease both emissions and the production of waste. Going forward we will focus on driving improvements specifically on these parameters. 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.

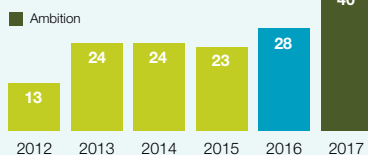
- Between 2009 and 2016, we achieved a relative footprint improvement of 28 percent. In total, 64 percent of the sites which were reported in 2009 have improved their performance

- Many of our businesses showed an eco-efficiency footprint improvement. Major positive contributions came from our new plant in Frankfurt, Germany; the closure of Deventer production in the Netherlands; our wastewater treatment plant in Maua, Brazil; and the acquisition in Columbus, US. Major negative impacts came from our sulfur derivatives plants, which emitted more SO<sub>2</sub>. Additional programs are being put in place to accelerate progress

Our operational eco-efficiency 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 eco-efficiency related topics relevant for all locations.

In order to focus even more attention on our operational eco-efficiency improvement program, projects are integrated into the main supply chain improvement monitoring tool, the AkzoNobel tracker. This will integrate/quantify all site improvement activities. A total of 209 projects with an operational eco-efficiency impact are already being tracked and all new projects with a footprint effect will have to report not only the financial aspects, but also the environmental impact.

### OEE footprint improvement (% reduction from 2009)



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

## Energy and greenhouse gas emissions

See Note 8 for reporting on energy and greenhouse gas emissions in our operations.

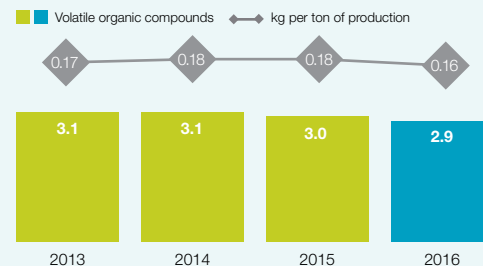
## Local air quality

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

### Volatile organic compounds in kilotons



We measure halogenated and non-halogenated organic compounds discharged to air.



projects to reduce the solvent content of our products – VOC in product. See Note 4.

VOC emissions per ton of production reduced to 0.16 kg/ton. Total VOC emissions decreased 6 percent to 2.9 kilotons (2015: 3.0 kilotons).

- In Performance Coatings, new thermal oxidizers have been installed in Tianjin and Changzhou, China, resulting in a reduction of 82 tons
- In Stockvik, Sweden, a new thermal oxidizer was installed in December which will reduce VOC emissions by 80 percent

## NOx and SOx

NOx and SOx emissions may have a significant impact on local air quality because of their potential contribution to acidification.

- NOx emissions improved to 0.09 kg/ton of production (2015: 0.10 kg/ton). Total emissions reduced to 1.6 kilotons (2015: 1.7 kilotons)
- Optimization of the new incinerator in Mons, Belgium, with a low NOx furnace resulted in a total reduction of more than 100 tons a year

### NOx and SOx emissions

in kilotons	2013	2014	2015	2016
NOx	1.3	1.3	1.7	1.6
NOx kg/ton	0.08	0.08	0.10	0.09
SOx	4.6	3.7	3.8	5.2
SOx kg/ton	0.26	0.22	0.22	0.30

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.

- SOx emissions (from process emissions and energy) increased to 0.30 kg/ton of production. Absolute emissions were up 36 percent to 5.2 kilotons
- Our three sulfur derivatives plants in Germany, the US and Argentina contributed 98 percent of the SOx emissions. Due to a product mix effect, we were not able to convert SO<sub>2</sub> to a product, resulting in the increase. A further increase was caused by a change in measurements. In 2016, we developed plans to reduce to a level well below 0.2 kg per ton of production

## Ozone depleting substances

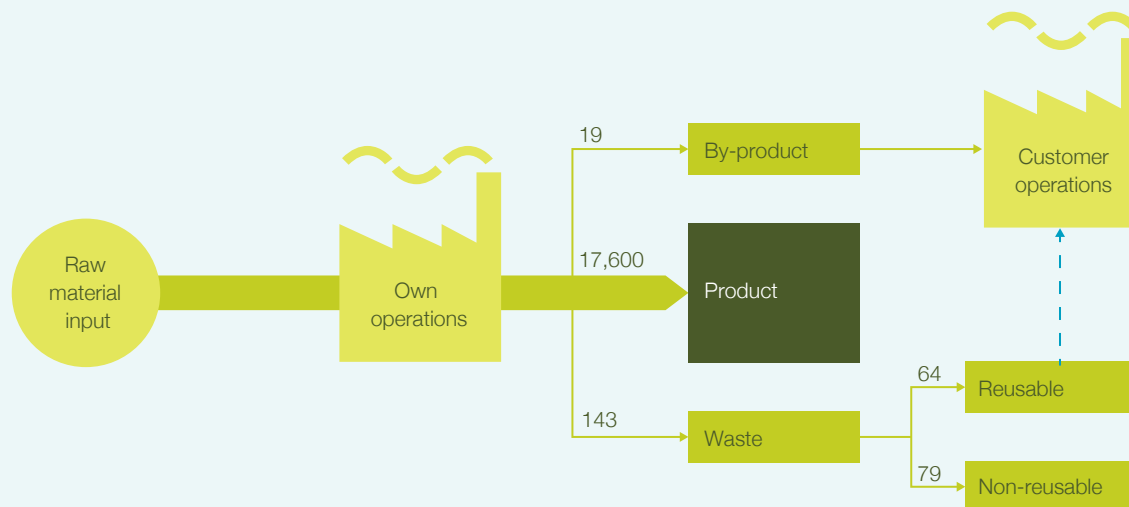
Emissions of ozone depleting substances are at a very low level, 1.8 tons (2015: 0.6 tons). They are mainly due to Freon22 from maintenance in older air conditioning and cooling units, which are replaced when appropriate.

## 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 chemical oxygen demand (COD) and the carbon related to our raw materials upstream.

- At Decorative Paints the material efficiency program was continued, focusing on a better conversion of raw materials into final products
- Performance Coatings continued their global material efficiency program for all businesses, focusing on yield improvement in production. A wide variety of smaller projects (over 75) has resulted in savings of €7 million and this will continue in 2017
- Specialty Chemicals converted some of its waste streams into valuable by-products, in line with the concept of the circular economy

### Raw material flow in kilotons

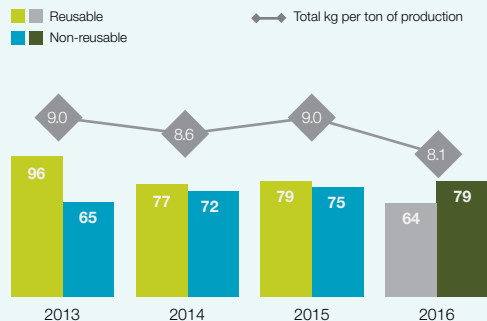


## Waste

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. Our ambition is to drive towards “Zero waste to landfill” in the coming years, and a program is being developed to support this ambition with concrete projects.

- Total waste per ton of production generated and leaving our sites was down by 10 percent to 8.1 kg/ton. The total waste volume decreased to 143 kilotons, a reduction of 8 percent
- Hazardous waste per ton of production decreased by 6 percent to 3.2 kg/ton
- The significant reduction in waste in 2016 was achieved by many specific material efficiency activities in a large number of sites around the globe. This is an ongoing improvement area. In Frankfurt, one of the waste streams is now sold for the production of sulphuric acid, a good example of our contribution to the circular economy

### 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.

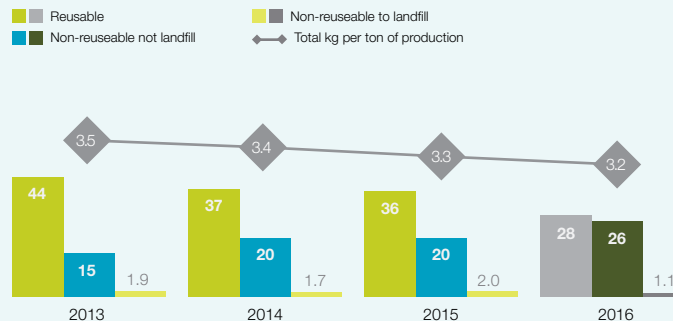
- At our Specialty Chemicals site in Columbus, US, a sustainable outlet was identified for an aluminum oxide stream, as well as a chlorate waste stream. These conversions resulted in a reduction of more than 400 tons of waste compared with 2015
- In Recife, Brazil, a water reduction program introduced by our Decorative Paints business will result in more recycling of wash water, and has already reduced waste by 60 tons

### Total waste per Business Area

in kilotons	2013	2014	2015	2016
Decorative Paints	39	35	34	32
Performance Coatings	54	55	54	53
Specialty Chemicals	64	59	66	58

- In Como, Italy, compactors are being installed at our Performance Coatings plant to allow recycling of powder fines, which will result in a saving around €500,000. The concept will also be rolled out to other Powder Coatings sites

### 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 the sustainability of our business. We rely on water for raw materials production, product formulation and manufacturing, power generation, cooling, cleaning, transportation and the effective use of certain products. Around 87 percent of our fresh water intake is from surface water, while 86 percent is used for cooling, which 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.

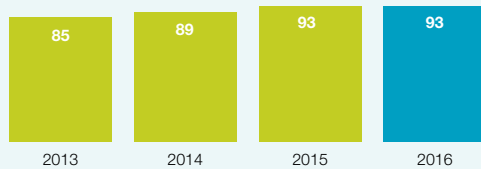
We monitor progress using a fresh water risk assessment tool, completed by each manufacturing site from 2009 to 2015. The tool assigns risk levels to water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors. 93 percent of our sites (2015: 93 percent) have sustainable fresh water management in place, as measured by the risk assessment tool.

- Fresh water use per ton of production fell to 12.8 m<sup>3</sup>/ton (2015: 16.0 m<sup>3</sup>/ton). Total fresh water use was 224 million m<sup>3</sup>, down 18 percent (2015: 274 million m<sup>3</sup>)

- An increase of over 10 million m<sup>3</sup> in 2015 was due to the start-up of a caustic evaporator at our new chlorine plant in Frankfurt, Germany. In 2016, the plant was connected to a closed loop cooling system, instead of using direct cooling by surface water, resulting in a total reduction of over 48 million m<sup>3</sup>
- In Reading, US, Performance Coatings replaced a cooling tower and old chiller with a new and more efficient chiller. As a result, less surface water was evaporated in the cooling tower, saving more than 4,000 m<sup>3</sup> a year

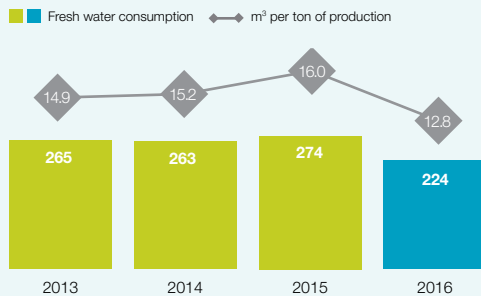
### Sustainable fresh water management

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 in million m<sup>3</sup>



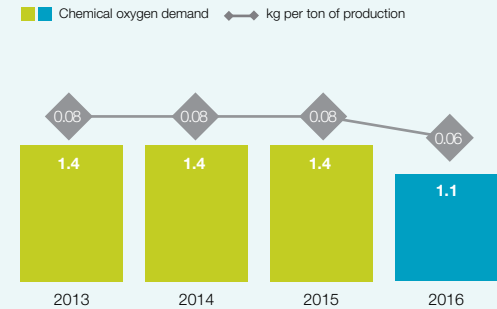
Fresh water use is the sum of the intake of groundwater, surface water and potable water.

## Water emissions

In total, 93 percent of the chemical oxygen demand (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.

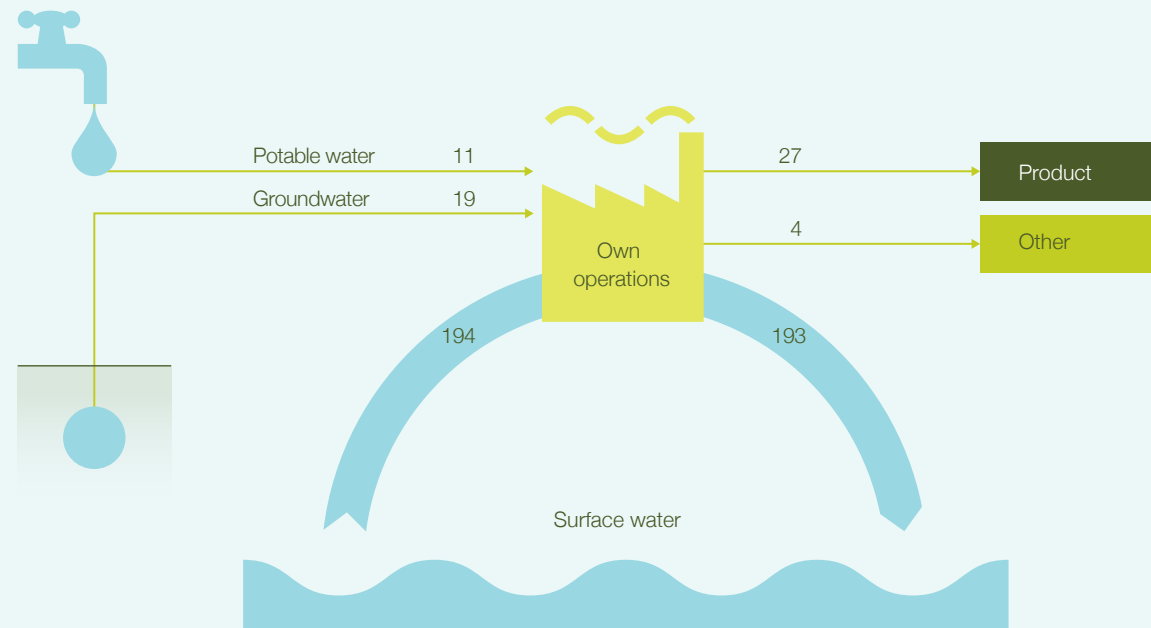
- The COD load to surface water per ton of production reduced to 0.06 kg/ton
- The total COD load to surface water reduced to 1.1 kilotons
- A new treatment plant was built in Maua, Brazil, resulting in a reduction of more than 150 tons per year
- In Stockvick, Sweden, an optimization in operations resulted in a COD reduction of 20 tons

### 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.

### Water flow in million m<sup>3</sup>



## 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 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 €252 million, which we believe is sufficient for the sites where we have ownership or responsibility. See Note 16 of the Consolidated financial statements.

Mandatory annual environmental liability reviews are conducted to review risks, monitor progress in resolving our liabilities and assess changes in company exposure.



During 2016, we continued to move our coatings portfolio to more water-based and VOC-free products. These products have several benefits for home interiors, such as paint which improves indoor air quality (see page 64) and new furniture coatings that are replacing more traditional solvent-based systems (see page 14).



# Social value creation

Our sustainability agenda aims to improve the well-being of our own employees, those in our value chain and of wider society through our innovative products and business processes.

We take a broad view on capable and engaged people. We are forming long-lasting external partnerships based on strong people connections, not only along our value chain, but also in a wider network, for example through our leadership role in the Human Cities Coalition.

## Impact measurement across the value chain

We also take a value chain approach to measure our social impact. In 2014, we pioneered our measurement of negative and positive impact across four dimensions, including social. We have since expanded the pilot to cover more businesses and, in this report we are disclosing for the first time a company-wide 3D P&L. We will continue to work with industry leaders and other partners to refine our value chain measurement and increase our understanding of our social impact.

## Our employees

Capable, engaged people are critical to our business success. An engaged workforce who live our core principles and values is what underpins the delivery of our strategic objectives. See Note 11.

With our Safety Common Platform, we have established company-wide improvement programs in people, process and product safety. See Notes 12-15.

Employees are routinely involved in delivering many aspects of our sustainability agenda. This includes 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 an updated company-wide e-learning program. This is supported by communication through newsletters, webinars, events and videos. All of the company-level management training programs in the AkzoNobel Academy have sustainability embedded into

the content. It also features strongly in our new training program to onboard new people managers. In addition, a number of functional-specific programs started to roll out in 2016.

We continued to use our Planet Possible sustainability agenda to stimulate employee engagement. Communication to employees at all levels took place, including a global campaign to take action. The Business Areas also have their own programs. For example, our Decorative Paints business is engaging employees on the strategic priority of moving the market to water-based products through the use of videos, newsletters and starting employee product trial sessions. Employees are also actively involved at their work locations through their everyday work and community activities around the world.

## Human rights

We recognize the human rights of all people as outlined in the Universal Declaration on Human Rights and the UN Guiding Principles on Business and Human Rights. We strive to prevent the infringement of human rights and to remediate the possible impact on human rights resulting from our activities or products. We expect our business partners to apply equivalent principles and seek to actively support them in their implementation where needed. See Note 16.

## Human Cities

Our Human Cities initiative and Human Cities Coalition serve as an umbrella for everything we do for and with society. It complements our Planet Possible sustainability agenda and further strengthens our social value creation. Though local community programs, we aim to make lives more liveable and inspiring. In 2016, cumulative Community Program involvement increased to €16.8 million. See Note 17.

### Key performance indicators – social

	2013	2014	2015	2016	Ambition 2020
Employee engagement score (0-5 scale)	3.88	3.97	4.03	4.17	>4.20
High potential turnover (%)	-	-	6	4	<5
Female executives (%)	16	17	19	19	25
Executive vacancies filled internally (%)	75	68	58	61	70
Total reportable injury rate employees/supervised contractors (per million hours)	2.3	1.8	1.6	1.4	<1.0
Loss of primary containment (Level 1)	-	-	-	16	-
Priority substances with management plan (%)	62	82	100	33 <sup>1</sup>	100 <sup>1</sup>
Cumulative Community Program involvement (number of projects)	2,108	2,260	2,385	2,531	-

<sup>1</sup> Phase 2 started in 2016

## Building an engaged workforce

Our people are critical to the success of our company. We won't achieve our vision of leading performance in the markets in which we operate without an engaged, diverse and capable workforce.

Having engaged colleagues 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, with the right capabilities, 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.

Employees	% of total
Managers and senior leadership	17
Professional staff	6
Sales staff	24
Scientific and technical staff	16
Operations staff	30
Administrative support staff	7

## Productivity and ROI of human capital

	2015	2016	% Change
Human capital ROI ratio	1.58	1.57	-1
Return on human capital investment (%)	54	56	4

The contribution and value of our employees is made up of their talent, skills and knowledge. The training, education and support we offer enhances their value – their human capital. A higher level of human capital can increase productivity and future earnings at both company and individual level. As such, the talent, skills and knowledge of our employees not only benefits AkzoNobel and the employee, but also society at large. In addition to the 3D P&L, we are further developing the measure of our human capital to underwrite its value as one of our most important assets.

## Our employees

Nearly half of our employees are employed in Europe, in line with our revenue generation (43 percent generated in Europe). Our commitment to Asian markets can be seen in our strong employee base in Asia (32 percent).

In common with many industrialized organizations the majority of our employee base is aged over 40. However, we see a clear distinction in age between high growth

## Revenue and employees per key region in %

Region	Total revenue	Employees in region
Asia Pacific	27	32
Europe	43	44
North America	17	10
Latin America	9	9
Other regions	4	5

regions (average age 36.8 years) and mature markets (average age 44.4 years). This difference can also be seen in the years of service (an average of 12.2 years in mature markets, and 7.2 years in high growth regions). Both average age and years of service increased compared with 2015. Workforce planning will help us to mitigate the current risk of the aging workforce in Europe and North America by mapping the aging population to start timely succession planning and knowledge transfers.

## Capability building

Our HR strategy for 2016 and beyond is strongly focused on building the capabilities needed to support our strategic ambition. These are the functional capabilities in the businesses and the leadership capabilities across the company.

In each of our Business Areas, we have identified the required competencies for our key commercial roles and have started a program of assessment and development. With the support of our Learning and Development Center of Expertise, we have developed a clear roadmap to review and refresh the rest of our functional competency frameworks. This will ensure that new capabilities around data science, smart material and digital knowledge are incorporated in the new frameworks.

To further support our strategic ambition of organic growth, we expanded our continuous improvement program to our support functions and use black belts to improve our processes and procedures and work instructions. The new hire process is one of the process improvement examples within Human Resources.

In 2016, we introduced our new leadership behaviors, which complement our core principles and values and behaviors. They provide clarity of expectations for managers and provide the opportunity to assess and build targeted development plans for our leaders. In line with

these new behaviors, we have developed a new people management training program – Leadership Essentials – to better reflect the changing role of our managers. By the end of 2016, 167 internal trainers had been trained across the world. We will start the global roll-out of the training in 2017 and aim to train 2,000 managers in the first year. These leadership behaviors will be incorporated into our performance management system from 2017.

We believe the most effective way to learn and develop new skills is to apply and practice them on the job and in real life situations. Our employees say they have good opportunities to learn and grow on a day-to-day basis, and we saw a significant improvement of +0.14 in the engagement score related to learn and grow (4.19 in 2016). That's why the 70 percent experience, 20 percent exposure and 10 percent education learning philosophy is

at the heart of our learning and development efforts. The AkzoNobel Academy serves as a virtual hub for learning and development opportunities and gives everyone in the company access to face-to-face learning programs, as well as a wide range of open access online courses available in multiple languages. By offering learning interventions through multiple channels, we help our entire workforce to continuously develop and ensure their long-term employability.

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## Ready for the future

In further support of future-proofing the organization, we have introduced mandatory workforce planning at both strategic and operational level in each of our businesses. This process has a forward-looking focus to develop and

align the capabilities of our workforce to the strategic objectives of each business and sets a company-wide standard. These plans inform our budget, recruitment, development and talent management processes.

Given that we are operating in an increasingly volatile and competitive employment market, it is important that we position ourselves as an attractive employer and streamline our hiring processes. In 2016, we standardized and improved our new hire process across our top nine countries. The process is now easier, simpler and quicker for managers. By giving back around 70 percent of the time to managers involved in these processes, they can better focus on value-adding activities that help our company to grow and continuously improve.

We are therefore proud to have been recognized as an employer of choice in four countries, including Top Employer certifications in China and the UK, number one rated employer in the chemicals industry in the Netherlands, and in Sweden in numerous rankings.

As part of workforce planning, we have identified critical roles and focused on the succession planning of these roles to ensure business continuity. In 2016, internal promotions at executive level were at 61 percent, up from 58 percent the previous year, but still below our new target of 70 percent. To improve our talent pipeline, we are focusing on the identification and development of our internal talent. By the end of 2016, 230 high potentials went through a talent development center to confirm their potential, resulting in individual development plans. In support of the talent centers, all the general managers of our businesses have been trained to assess our talent. This has ensured a common perspective on talent and improved their capability to give feedback.

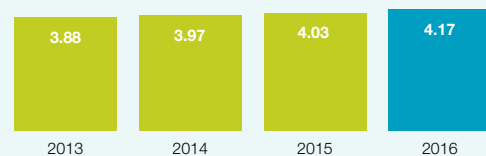
Scientist and PhD student Louisa Waine – who works for our Performance Coatings business in Felling, UK – received an Industrial Fellowship from the Royal Commission for the Exhibition of 1851 in recognition of a research project focused on low energy curing technology that can eliminate the need to heat large vessels, such as ships, to apply paint.



## Human capital ambitions

**Ambition:** The employee engagement score is at least 4.20 in 2020 (scoring 0 - 5).

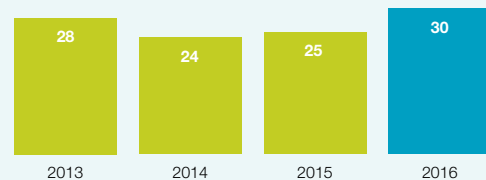
**Employee engagement score**  
(0 – 5 scale)



**Status:** On target. We exceeded our ambition level in 2016 and are close to our 2020 ambition of 4.20. See Engaged employees for details.

**Ambition:** Women make up at least 30 percent of our executive potential pool in 2020.

**Female executive potential pool** in %



**Status:** On target. We are on track to reach our 2020 ambition. See Diversity and inclusion for details.

**Ambition:** The employee engagement score related to learn and grow is at least 4.20 in 2020 (scoring 0 - 5).

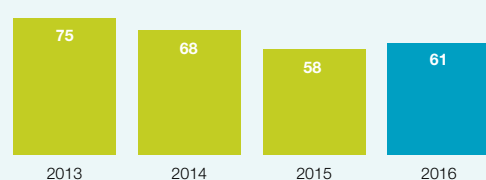
**Employee engagement score related to learn and grow** (0 – 5 scale)



**Status:** On target. We exceeded our ambition level in 2016 and are close to our 2020 ambition level of 4.20. See Capability building for details.

**Ambition:** At least 70 percent of the executive vacancies are filled internally.

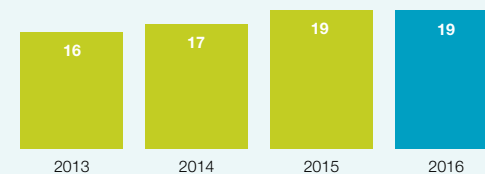
**Executive vacancies filled internally** in %



**Status:** Behind target. While we did not reach our ambition level, we did improve by 3 percent compared with 2015. See Ready for the future for details.

**Ambition:** Women hold at least 25 percent of our executive manager positions in 2020.

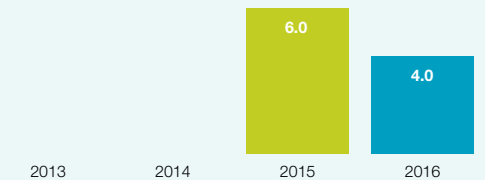
**Female executives** in %



**Status:** Behind target. The current rate of improvement won't allow us to reach our 2020 ambition. See Diversity and inclusion for details.

**Ambition:** Less than 5 percent of employees with upwards potential left the organization (based on voluntary leavers).

**High potential turnover** in %



**Status:** On target. We were able to keep the majority of our talents. See Retaining talent for details.



## Engaged employees

Being able to give and receive feedback is vital to creating an engaging work environment. We therefore invite all our employees to participate in our annual engagement survey. In 2016, 89 percent (41,170 employees) of our employees took part. Each manager with four or more direct reports receives a report on team engagement, which allows for action planning at team level.

For the sixth year in a row, our engagement levels have improved (+0.14 in 2016 to 4.17), indicating that we are continuing to transform the daily experience of working at AkzoNobel. The messages behind the survey results indicate strong progress in employee trust regarding where the company is going and the strategic direction we have chosen. At the same time, there is room for improvement in terms of how senior leaders connect our strategy and purpose to the day-to-day work for all employees.

The engagement levels show a positive trajectory at all levels of the company, which illustrates how our managers are lifting their own, and their employees', score.

We also see improved follow-up and action planning, which helps our employees become more engaged. Enabling our managers to continuously give feedback to their employees is an area for improvement and our new management training program will help to build this capability.

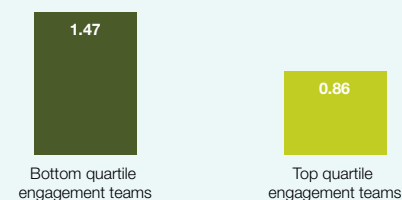
In 2016, eight times as many teams (1,472 in total) performed at top engagement levels compared with 2010 (184). It is also important to help any teams that are still somewhat behind (16 percent) so that they can also become top performers. The survey results will give us concrete insights so we can help these teams develop in the right direction.

### Engagement score by management level

	2013	2014	2015	2016	Last year change
Managers of managers	4.09	4.14	4.25	4.36	0.11
Front line managers	–	4.04	4.15	4.27	0.12
Employees (individual contributors)	3.85	3.94	4.00	4.14	0.14
Overall average	3.88	3.97	4.03	4.17	0.14
Participation rate (%)	88	85	88	89	1

### Engagement and safety

(total reportable injury rate per million hours worked)



In addition, research across a large sample of manufacturing sites demonstrates a clear connection between engagement and safety at site level. Sites with top quartile engagement levels have a 41 percent lower total reportable injury rate (number of injuries per million hours worked) than sites with bottom quartile engagement levels.

## Diversity and inclusion (D&I)

Despite just failing to reach our 2015 gender diversity ambitions (we achieved 19 percent female executives, with an ambition of 20 percent), our leadership has committed to increasing our gender diversity ambitions – a clear indication of the company's commitment to gender equality.

2016 produced mixed results in terms of reaching our ambition levels. As managers play an important role in hiring and promoting women in the organization, diversity is one of the main aspects of the new leadership management training. At the same time, we are reviewing how to better embed D&I in all our HR processes.

We have set a clear ambition to close our gender gap at executive level, calculated as the gap between the average male and female salary. The current gap is 7.7 percent, in line with last year.

### Gender diversity 2016

	% Women	2020 Ambition
Overall population	24	–
Graduate hires	43	50
External executive hires	30	50
Executive talent pool	30	30
Promotions into executive level	33	in line with talent pool
Gender pay gap executives (%)	7.7	0

## Revenue and executives from key regions in %

Region	Total revenue	Executives from the region 2016	Ambition 2020
Asia Pacific	27	11	15
Emerging Europe	7	2	63 <sup>1</sup>
Mature Europe	36	69	
North America	17	14	15
Latin America	9	3	5
Other regions	4	1	2

<sup>1</sup> All of Europe

At the start of 2016, we sharpened our focus on regional diversity by better linking diversity to the business. Our focus is no longer just on the number of executives from high growth markets, but on the revenue in key regions and the distribution of executives from these key regions. The aim for 2020 is to have a better representation among our executive population of the regions where we do business, supporting growth in these regions.

## Retaining talent

Our employees are the foundation on which our success is built. The basis for innovation and organic growth is a strong talent base with engaged and loyal employees. In 2016, our overall employee turnover was 11 percent (2015: 13 percent), while the voluntary turnover was 7 percent compared with 8 percent in 2015. High potential turnover totaled 4 percent, down 2 percent from 2015. This is in line with the increase in engagement in the company. It also puts us close to the top of the chemical industry benchmark of APQC (10 percent overall turnover) and below the Asian benchmark (AkzoNobel 13 percent, compared with 14 percent in benchmark).

Although a certain percentage of voluntary leavers is part of the employee cycle, it is important that we focus on those employees who are in critical positions and make sure we are able to retain them where we can.

The renewal of our retention program in high growth markets has ensured we are seeing 25 percent fewer regretted losses than 2015 in those regions. In mature markets, our number remained constant. We want to further decrease our high potential turnover, so we are introducing one global standard for exit interviews and an exit survey to help us develop the right employee retention strategies.

## Optimizing and aligning the HR organization

At the start of 2016, we moved to one HR system globally. The system captures basic HR information and feeds identity and access management, which in turn feeds other systems. This ensures legal compliance and the rapid onboarding and offboarding of employees. It also allows us to more effectively measure the work we do in Human Resources, resulting in greater transparency.

During 2016, we finalized plans to extend our HR operating model from our nine largest countries to the rest of the globe. This will further harmonize, align and standardize HR processes and practices to better support the business.

## Restructuring

We continued to restructure our business in 2016 to align with our company strategy. The primary focus was on the further implementation of our Global Business Services (GBS) organization.

Since 2013, we have been reconfiguring our support functions, such as Human Resources, Finance and Information Management, towards a standard operating model consisting of business partners, centers of expertise and shared services. Our GBS organization covers the shared services organization of Finance and HR in our top nine countries. During the course of 2016, we saw the transfer of activities to GBS resulting in a movement of employees from the business into the function. In 2017, we intend to transfer more activities to GBS, such as procurement of functional spend and talent resourcing.

In parallel to the GBS transition, each of the support functions is embarking on their own journey of transformation. Our objective is to continuously improve efficiency and effectiveness. In 2016, Information Management announced a transformation program which will be rolled out over a period of two to three years.

As part of the change process, we use employee and customer sounding boards to gather feedback from the organization and our internal customers. We are currently consulting with employee representative bodies in the respective countries and follow local laws and regulations in terms of employee relations. In the event of our organizational changes impacting employment, we aim to always give our employees sufficient time to prepare and help them consider various career options both inside and outside the company.

# Safety

## Key performance indicators – safety

	2012	2013	2014	2015	2016	Target 2016	Ambition 2020
<b>People</b>							
Total reportable injury rate employees/supervised contractors (per million hours)	2.4	2.3	1.8	1.6	1.4	1.4	<1.0
Behavior-based safety program implemented (% FTEs)	50	68	84	96	96	100	100
Life-Saving Rules implemented (% of sites)	–	100	100	100	100	100	100
<b>Process</b>							
Regulatory actions (Level 4)	0	0	0	0	0	0	0
Loss of primary containment (Level 1)	–	–	–	–	16	–	–
<b>Product</b>							
Priority substances with management plan (%)	42	62	82	100	33 <sup>1</sup>	33 <sup>1</sup>	100 <sup>1</sup>
REACH compliance third phase (%)	–	–	15	23	57	50	100
<b>Management</b>							
Safety incidents (Level 3)	3	0	1	0	0	0	0
Management and reassurance audits	61	56	63	57	57	–	–

<sup>1</sup> Phase 2 started in 2016.

Our Safety Common Platform has established company-wide improvement programs in people, process and product safety, supported by continuous improvement and capability building processes. It sets out milestones for achieving our long-term safety ambitions in 2020.

We aim to differentiate ourselves by our thoroughness in embedding best practice safety, health and environmental processes in all our operations, using common systems:

- Life-Saving Rules (LSR) is our flagship injury prevention program, providing clear rules relating to high risk work activities which have the highest potential for life-threatening consequences. To strengthen incident prevention, the company launched the LSR maturity self-assessment tool in 2016 to provide further clarity on the required conditions that need to be provided by work locations to facilitate LSR compliance. All manufacturing sites have completed their LSR maturity assessment and are putting plans in place to reach

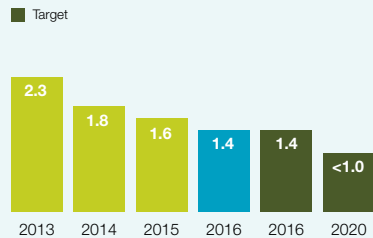
leading levels in LSR maturity. LSR e-learning for line managers was launched and a refresher e-learning for all employees is planned for early 2017. Life-Saving Rules breaches that were intentional or repeated led to the maximum disciplinary sanction allowed under local legislation in 25 cases

- Behavior-based safety (BBS) has been implemented at all sites, including all non-production work locations such as offices, stores, warehouses, laboratories and remote workers. To ensure the BBS process is embedded and continues to drive safe behavior and prevent incidents, a self-assessment tool has been developed and was piloted during 2016. As well as enabling the maturity of locally managed BBS processes to be evaluated, it also identifies any necessary improvement actions. The tool will be systematically applied, starting with all production sites in 2017

- Company drivers participate in our global Safe Driving program. An awareness e-learning training is also available to all employees and their family members
- Our process safety management (PSM) framework sets out minimum standards to be implemented at all manufacturing sites. Progress has continued towards expected completion in 2018. In addition to the 128 sites that have already started PSM implementation, 73 more joined in 2016. New PSM KPIs implemented in January will help us to monitor and improve our PSM performance and enable benchmarking using leading international standards. Various actions – including external benchmarking, capability building and development of the PSM maturity model – have helped to embed PSM in the organization
- Our company-wide rule on product stewardship requires all 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®. Our product stewardship procedure provides guidance on how to implement the eight key elements of product stewardship
- Our product stewardship and product safety processes are underpinned by a requirement for continuous improvement. In 2016, all businesses completed the product stewardship continuous improvement tool to assess their maturity level. They also provided an improvement plan and agreed next steps
- 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 advanced safety leadership program (Hearts & Minds), introduced in 2015, provides site managers with the opportunity to benchmark internally, receive coaching and share best practices worldwide. In 2016, key personnel received training in priority substance management to ensure the required risk management measures are in place at our sites. This continuous focus contributed to a further reduction in the number of injuries by 13 percent

Overall performance indicators for people safety show that the company continues to make sustained improvement towards the targets set for 2020. Implementation of the people safety programs coincides with a continued decrease in the number of injuries to employees, and supervised and independent contractors.

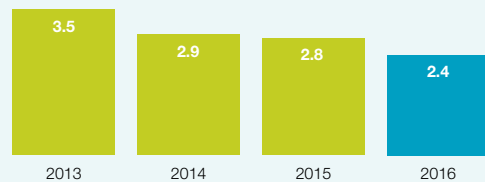
**Employee and supervised contractors total reportable injuries** injury rate



**Total reportable injury rate per Business Area**

	2014	2015	2016
Decorative Paints	1.6	1.2	1.2
Performance Coatings	1.8	1.8	1.5
Specialty Chemicals	2.4	1.9	1.8

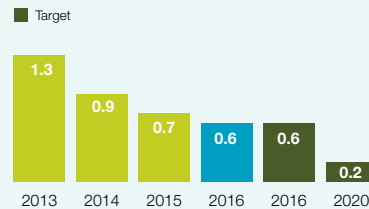
**Independent contractors total reportable injuries** injury rate



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 are reported with employees, since day-to-day management is by AkzoNobel; independent contractors are managed by their own companies.

- The overall TRR for employees and supervised contractors decreased to 1.4 (2015: 1.6), in line with our 2016 target (1.4)
- 75 percent of our sites have been recordable-free for more than one year (45 percent for three years or more)
- There were no employee or contractor fatalities during the last four years
- The lost time injury (LTI) rate for employees and supervised contractors continues to decrease to 0.6 (2015: 0.7)
- The overall downward trend in reportable injuries coincides with the implementation of our Life-Saving Rules at all facilities and across all work groups, and with the global roll-out of the people, process and product safety programs that are part of the Safety Common Platform
- The downward trend in TRR extended to the TRR of independent contractors, which also decreased to 2.4 (2015: 2.8). This is still above the TRR for employees, so there will be increased focus on the contractor safety management processes in 2017 to further reduce the rate
- In order to further reduce the number of injuries globally, the introduction of a standardized permit to work process has started and will be finalized in 2017

**Employee and supervised contractors lost time injuries** injury rate



The Lost Time Injury Frequency Rate (LTIFR) is the number of injuries resulting in a lost time case per million hours worked; supervised contractors are reported together with employees since day-to-day management is by AkzoNobel.

**Behavior-based safety (BBS)**

The BBS process, which actively engages all personnel in identifying and addressing at-risk behavior, has been implemented across all locations and work groups. In order to ensure that BBS is embedded as a sustainable process, BBS reviews have been completed by independent people safety experts across all locations. These reviews enable the sites and locations to establish and carry out actions to improve the BBS process, further reducing exposures to hazards.

**Behavior-based safety**

	2013	2014	2015	2016	Ambition 2016
Behavior-based safety reviews (% manufacturing sites)	–	100	100	100	100
Behavior-based safety reviews (% non-manufacturing sites)	–	–	–	99	100
Behavior-based safety program implemented (% FTEs)	68	84	96	96	100

- Formal review of the BBS process was completed at all manufacturing sites and 99 percent of our locations
- Sites and locations have established and implemented improvement actions based on the BBS reviews, improving employee engagement and the quality of the observations. The main actions areas for improvement include:
  - Increasing the percentage of coached observations to improve the confidence and capability of observers
  - Establishing observation strategies that focus on the most important hazards
  - Communicating results in an engaging way

**Learning from incidents**

Embedding the use of our company-wide Incident Reporting System (IRS) facilitates the sharing of learning from incidents (including near misses) locally, by business, regionally or company-wide as appropriate. The IRS is



an interactive database which is available to everyone in the company, enabling them to promptly report any incident (including near misses). The IRS provides management with visible data, enabling the progress of investigations and resultant actions to be monitored through to completion. During 2016, almost 16,000 incidents (including near misses) were reported via the IRS (2015: more than 9,500), illustrating the desire to report, investigate and learn from near misses and giving an increased opportunity for learning and prevention.

The main areas of learning in 2016 have led to increased focus on:

- Avoiding injuries due to slips, trips or falls
- Preventing “line of fire” incidents
- Improving written procedures to include foreseeable deviations

Company-wide learning from incidents is shared through:

- The publication of one-page HSE Alerts (in eight languages)
- Webinars on specific topics, such as the prevention of static electricity during the manufacture of coatings
- A monthly incident learning newsletter

## 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. Examples include the site-level industrial hygiene programs, and the promotion and use of our health risk appraisal tool, the Wellness Checkpoint.

- The total illness absence rate (TIAR) has improved slightly to 2.0 percent (2015: 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 significantly

decreased to 0.06 illnesses per million hours worked (2015: 0.14). As the absolute numbers of occupational illnesses are low, small variations in numbers can cause large fluctuations in the OIFR. However, we will continue to monitor and learn from all incidents

- 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 2016, more than 17,400 people had joined the program since its launch in 2008. During 2016, a further 8 percent of employees joined (2015: 16,209)

### Employee health

	2013	2014	2015	2016
Total illness absence rate	2.1	2.1	2.1	2.0
Occupational illness rate	0.14	0.24	0.14	0.06
Wellness Checkpoint use	>13,700	>15,000	>16,200	>17,400

Total illness absence rate (TIAR) is the number of lost employee working hours, whether work-related or not 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.

## Motor vehicle and distribution 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.

### Motor vehicle incidents

	2013	2014	2015	2016
Incidents with injury	19	20	18	12
Fatalities – employees	0	0	0	0

- The number of distribution incidents reduced to 43 in 2016 (2015: 49)
- Most distribution incidents (79 percent of the incidents in 2016) occurred on the road, and involved

### Distribution incidents

	2013	2014	2015	2016
Road	44	43	44	34
Sea	2	3	2	2
Rail	2	6	2	7
Air	0	0	0	0
Off-site pipeline	0	0	1	0
<b>Total</b>	<b>48</b>	<b>52</b>	<b>49</b>	<b>43</b>

Incidents during the off-site (in-transit) transport and handling of raw materials, products, samples, intermediates and waste 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.

the transportation of our products by third party contractors

- Through our product stewardship program (see Note 14) we insist that contractors assess all risks involved in the distribution process and take the right safety measures. We also audit their performance related to these requirements
- The focus on safe driving continues through our risk-based Safe Driving program. The number of motor vehicle incidents which resulted in injury has further decreased to 12 (2015: 18)
- A further 800 employees globally, who each drive more than 20,000 kilometers a year, completed the practical hands-on defensive driving training. This brings the total number of drivers who have received this training to 3,010, which is 99 percent of the target population
- During 2017, the remaining company drivers in this category will be trained and the program will continue to run with ongoing e-learning modules and practical refresher training at least every five years

### Safe Driving program

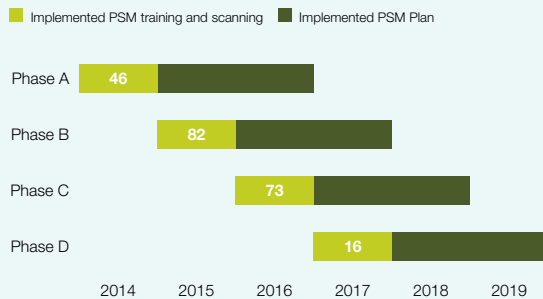
	2015	2016	Ambition 2016
Defensive driving training >20,000 km annually (number of employees)	2,176	3,010	3,044

## Process safety management

AkzoNobel's process safety management (PSM) framework is an integral part of our overall safety strategy. In addition to helping manufacturing sites meet their legal requirements, our PSM framework is an essential first step to operational excellence.

The framework 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. Sites are divided into three categories, based on their residual risk, taking into account their inherent safety hazards and current levels of process safety performance. Phase A sites are the most safety critical sites, based on their residual risk.

### Process Safety Management program planning



- In 2016, Phase A sites completed implementation of their improvement plans according to schedule
- In order to ensure sustainable PSM framework implementation and embedding of the PSM framework requirements, a PSM assessment tool and independent validation process has been developed which will be used with the Phase A sites during 2017
- Phase B and C are on target to implement PSM following planning

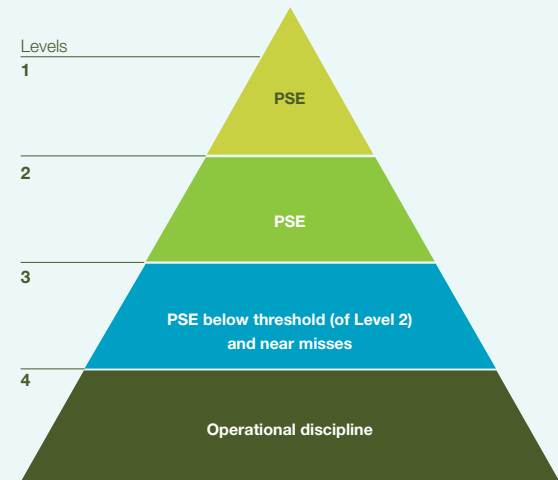
- Phase D has been introduced to cover any remaining sites, new acquisitions and research, development and innovation locations with pilot plants
- A PSM capability benchmarking study was completed. Our approach is broadly in line with that of other organizations. We will continue to develop PSM capability of both the wider PSM organization and the key PSM roles
- The organizational structure and competency assurance process for hazard studies were established. This is the foundation for PSM excellence and risk mitigation
- The program to globally standardize the Management of Change system started, with completion due in 2017

## Process safety performance

During 2016, PSM leading and lagging indicators were defined and implemented. These KPIs have replaced the old composite PSM KPI and are aligned with international best practice to enable effective measurement and monitoring of continuous improvement in PSM. A process safety event (PSE) is a loss of primary containment (LoPC) or unsafe release, or an undesired event or condition that – under slightly different circumstances – could have resulted in a LoPC of a material (lagging indicators) or deteriorated controls and disciplines that eventually could lead to a loss of primary containment (leading indicators). LoPC is the main process safety indicator at manufacturing sites.

- The number of losses of primary containment classified as Level 1 (highest severity) in 2016 was 16
- The number of process safety events Level 3 (very minor spills and leaks, which are readily controlled on site and have no regulatory notification requirement) being reported has increased by almost 100 percent to 3,422 illustrating the desire to report, investigate and learn from these process safety near misses and giving an increased opportunity for learning and prevention

### Process safety pyramid



### Process safety events

	2016
Loss of primary containment Level 1	16
Loss of primary containment Level 2	122
Process safety event Level 3	3,422

## Product stewardship

Our ambition is to be a leading company in product stewardship and to create business value from it by providing safer and more sustainable solutions for our customers.

## Continuous improvement

In 2016, all businesses completed the AkzoNobel Product stewardship continuous improvement tool (PSCIT) to assess their level of maturity in the eight key elements of product stewardship following the principles of Responsible Care® and Coatings Care®. Each business provided an improvement plan and agreed next steps towards achieving a leading level in product stewardship.

## Customer focused product stewardship

Working with our commercial excellence and marketing teams, we piloted our customer focused product stewardship (CFPS) process in our Marine Coatings business. This systematic process identifies market segments and customers where product stewardship issues are important and influence our customers' choice of product. We then meet with them to learn more about their current and future product stewardship needs and feedback into key business processes so that a solution from AkzoNobel can be provided or developed. In 2017, we will further refine and develop the CFPS process and integrate it into company processes.

## Priority substance management

During 2016, we continued our proactive approach to the review and management of hazardous substances in our products and processes through our priority substance process. Taking this approach promotes the use of safer and more sustainable products and means we often take action to manage potentially harmful substances in advance of legislation, future-proofing our products against changes in regulations.

- Between 2012 and 2015 we completed the review and management of 204 priority substances. In total, 56 have been phased out and 148 restricted to uses that are proven to be safe
- In 2016, we reviewed the impact of the priority substance program to ensure the process is fully optimized and embedded in key business processes in the company, including innovation, raw material procurement and commercial excellence. We also provided key personnel with training in priority substance management to ensure the required risk management measures are in place at our manufacturing sites
- The scoring methodology used in the substance prioritization process has now been updated, taking into account new scientific information and public concerns over hazardous substances. A further 51 priority substances have been identified which will be reviewed in a second phase of the program. In 2016, we reviewed and managed 17 of these priority substances

### Priority substances in second phase reviewed and managed

in %	Ambition			
	2016	2016	2017	2018
Priority substances in second phase reviewed and managed	33	33	66	100

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.

- Examples of priority substances that were reviewed and restricted in the second phase of the program in 2016 are diethanolamine and imidazole. Strict risk management measures must be followed when they are used

We have presented our priority substances program to stakeholders, including customers and NGOs and investor associations, and received positive feedback to our approach. Taking this proactive approach to substance management enables us to take a leading position in sustainable product stewardship and supports the development and introduction of eco-premium solutions onto the market.

## Regulatory compliance

In addition to complying with regulations which are in place 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. In 2016, we were made aware of proposals for new or modified substance management rules in several countries in which we operate, including the US, Thailand, Brazil and Indonesia.

### Compliance with substance management regulations

Our REACH teams are busy preparing information required to submit 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 2018 and we have set targets to monitor our progress. We are on target to achieve our objective.

In 2016, we worked with our customers to ensure that all AkzoNobel products manufactured and imported

into South Korea were reported to the government in compliance with the new K-REACH rules. We are also preparing to comply with the reformed substance management rules in the US (TSCA), Brazil and Thailand. To support our businesses in their compliance programs, we provided training for our product safety professionals on compliance with these regulations through the AkzoNobel Academy.

### EU REACH third phase

in %	2014	2015	2016	Ambition 2016	Ambition 2018
Progress towards EU REACH third phase	15	23	57	50	100

### Advocacy

We continue to be active in industry bodies, in public fora, with customers and other key stakeholders discussing product safety at the local, regional and global level. Participation 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. Some notable 2016 developments are listed below:

- We identified, reviewed and prioritized issues for advocacy where there is new legislation under discussion that could impact on our businesses. Key issues include endocrine disrupting substances, nanomaterials, sensitization (substances causing an allergic reaction), and volatile organic compounds in China
- We continued to advocate a progressive approach to the management of substances of very high concern (SVHC) at the European chemicals industry association (CEFIC)
- As a partner of the United Nations Environmental Program (UNEP) Global Alliance to Eliminate Lead Paint (GAELP), we continued to support the development of legislation to phase out the use of lead compounds from all paints

- Working with the Green Chemistry Council and major retailers in the US, we agreed and signed the “Joint statement on using green chemistry and safer alternatives to advance sustainable products”
- 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 into discussions on the introduction of a coatings consumption tax

## Product safety and regulatory affairs capability building

We continue to build our community of product safety and regulatory affairs (PSRA) professionals within AkzoNobel, providing learning activities for them in line with the PSRA curriculum. Where appropriate, we also invite employees from other functions to training activities when PSRA issues impact on their work. In 2016, we focused on developing and delivering the learning activities within Level 1 and Level 2 of the PSRA training curriculum in all regions, including training on management of priority substances, transport of dangerous goods, substance management regulations in Japan, the US and the Philippines. We also developed and piloted a Level 3 (advanced) learning activity on effective advocacy for PSRA professionals.

### PSRA capability development

in % of target group	2016	Ambition 2016	Ambition 2017	Ambition 2018
Priority substance management training	50	35	65	95

## Management systems

Operational excellence at our sites is supported by risk-based management systems that follow and go beyond 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.

### External certification

in % of manufacturing sites	2013	2014	2015	2016
ISO-14001/RC-14001	78	79	80	80
OHSAS-18001/RC-18001	51	53	54	53

## 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, 98 percent of all sites achieved the target for 2016 of an average maturity level of 6.5, this is an improvement of 30 percent of sites (2015: 68 percent of sites were at an average maturity level of 6.5 or higher).

### 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 (such as the PSM framework), the SAQ was thoroughly revised during 2014. This resulted in the average SAQ maturity staying constant in 2015, while in 2016 there was a small increase in the average SAQ maturity level to 7.2 (2015: 6.9).

Our HSE management system requires each site to develop a site safety improvement plan (SIP) annually using the standard template. In 2016, the templates for standardized and integrated safety improvement plans at site and business level were implemented, ensuring management visibility of the actions and required resources arising from the SAQ process and the monitoring of actions through to completion.

#### Self-assessment questionnaire (SAQ)

	2013	2014	2015	2016
% sites at or above average SAQ of 6.5	–	66	68	98
Average SAQ score	6.5	6.9	6.9	7.2

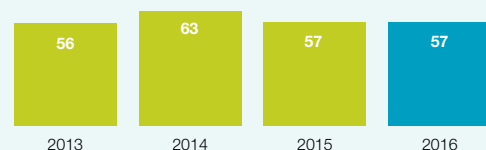
#### HSE audit

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 into 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



During 2016, 57 corporate HSE audits were completed (2015: 57); of which four were site closure audits (2015: two), and two were reassurance audits (2015: eight) 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 high risks is supervised by the internal audit function via the execution of reassurance audits. Both of the reassurance audits in 2016 received the final conclusion “acceptable”.

In order to improve the follow-up on other actions arising from audit findings, an automated action tracking system was introduced during 2016. The system enables management focus on the follow-up as it tracks actions through to closure and produces action tracking data which is planned to be included in the operation management reports. The SIPs include the actions to address the gaps identified in the audits.

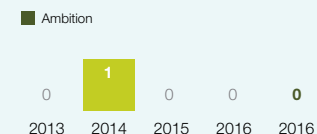
Learnings from HSE audits indicate that the management of the AkzoNobel Life-Saving Rules and critical procedures should be further improved at site level.

## Safety incidents

Severe safety incidents require an independent investigation. We investigate all safety incidents to ensure that lessons are learned, actions are taken to prevent reoccurrence and we continue to increase the safety of our operations. The lessons learned from safety incidents are shared company-wide.

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.

#### 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.

- There were no Level 2 or Level 3 safety incidents during 2016 (2015: 0)
- The total number of safety incidents in 2016 decreased to 2 (2015: 12) both of which were at Level 1 (local impact only)
- The Level 1 safety incidents included:
  - An independent contractor struck his little finger with a hammer leading to its amputation
  - Ignition of flammable solid in a packing area lead to a loss of production time

Although the number is low, these incidents reinforce the need for continued focus on behavior-based safety and process safety management.



We maintain a pool of trained investigators (who also have HSE or operational roles in the organization) to ensure timely, thorough investigations of our most serious incidents (and our high potential near miss incidents). 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.

## Regulatory actions

We have defined four categories of regulatory actions, from self-reported issues (Level 1) to a criminal prosecution or penalty greater than €100,000 (Level 4). The Level 4 regulatory actions are recognized as material for AkzoNobel.

### Regulatory actions

	2013	2014	2015	2016	Ambition 2016
Regulatory actions (Level 4)	0	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.

It is now more than four years since we received a Level 4 prosecution or penalty, which suggests that our people, process and product safety programs, near miss reporting and investigation, product stewardship and behavior-based safety programs continue to have an effect on reducing the number of serious injuries and significant losses of primary 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 HSE Faculty of the AkzoNobel Academy, 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. During 2016, the focus was on developing a career path curriculum which provides HSE professionals with insight into how they can develop themselves via on-the-job and off-the-job learning.

In 2016, the HSE Faculty's offering was expanded with a new program for HSE professionals – Risk Management. This is a next level in the HSE professional's curriculum and focuses on the risk management process.

- Since 2012, more than 1,390 critical leaders have been trained in the HSE critical leaders workshop
- In 2016, 70 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 2017, the Asset Integrity/PSM training will be updated and a second level training will be developed

### HSE capability development

cumulative number of people trained	2014	2015	2016	Ambition 2016
HSE critical leaders workshop	885	1,208	1,397	–
Site managers participated in Hearts & Minds	–	83	130	123

The social impact of our sustainability agenda goes beyond our own employees. It also aims to improve the well-being of those in our value chain, the communities in which we operate and of wider society. We are not only committed to respecting human rights throughout our value chain, but we also use our skills and products for sustainable projects that benefit local communities as part of our Human Cities initiative. In addition, we recently founded the Human Cities Coalition, bringing together a unique coalition of partners from different sectors with a focus on realizing Goal 11 of the UN Sustainable Development Goals.

## Our commitment to respect human rights

As part of our core principles, we are committed to respecting internationally recognized human rights in all our operations and throughout our value chain. This commitment is in line with the United Nations Guiding Principles on Business and Human Rights (UNGP) and the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work. Further support is provided by our human rights framework, which includes policies, a governance structure, a focus on salient issues, due diligence processes to identify and mitigate risks, a grievance mechanism and reporting on risks and actions.

During 2016, we continued to participate in a project led by the United Nations Global Compact (UNGC) Netherlands Network in partnership with Shift, Oxfam affiliates and other Global Compact local networks. This Global Perspectives Project, launched in 2014, explores how to improve awareness and build capacity in the area of human rights in four key countries – Indonesia, Mexico, South Africa and Turkey. Senior managers at AkzoNobel have participated in workshops organized in Indonesia and Mexico, together with local representatives of other companies and civil society. They shared experiences, challenges and ways forward to ensure greater business respect for human rights. It has led to an updated publication and an online portal ([businessrespecthumanrights.org](http://businessrespecthumanrights.org)). 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 UNGP.

## Policies

### Code of Conduct and directives

Our Code of Conduct outlines the responsibility we take for avoiding the infringement of human rights, and for remediating any human rights impact resulting from our activities, our products, or any activities that our business partners conduct on our behalf. The Code of Conduct is supplemented by directives on topics such as health and safety, anti-harassment and child labor. Our Code of Conduct and directives apply to all employees, in all countries in which we operate.

### Business Partner Code of Conduct

We have a diverse supply chain and recognize the essential role our business partners play in helping us deliver our high quality and responsibly sourced products. Our Business Partner Code of Conduct sets out the responsible behaviors we expect from anyone we do business with, including our suppliers, distributors and agents. All new business partners are expected to apply the principles laid down in the Business Partner Code of Conduct, or apply equivalent principles. Non-compliance with the Business Partner Code of Conduct may lead to measures, including termination of the business relationship.

## Governance

### Human Rights Committee

Our Executive Committee is responsible for ensuring that the company operates in line with its core principles of safety, integrity and sustainability, including its commitment to respecting human rights. In 2016, a Human Rights Committee was established – reporting to the Executive Committee through the General Counsel and the Director of Human Resources, and working closely with the Director of Sustainability – with responsibility for implementing and maintaining the company's human rights framework. The committee is cross-functional and

includes Directors of Compliance (chair), Internal Audit (co-chair), Health Safety and Environment, Procurement, Operations, People Development and Occupational Health, Business Partner Compliance, the legal counsel for human rights and the Manager of Sustainability Reporting. In Q3, the Executive Committee and the Supervisory Board received training on human rights.

### Incentives

Sustainable performance and respect for human rights is incentivized in that 30 percent of the conditional grant of shares for our executives is based on AkzoNobel's performance in the RobecoSAM assessment over a three-year period. This assessment includes consideration of the company's reporting with regard to respect for human rights.

All employees must confirm that they have understood and acted in accordance with our Code of Conduct in their annual performance and development dialog.

In addition, at the end of the year, managers must confirm through the Non-Financial Letter of Representation process that their business was operated in accordance with the Code of Conduct, including principles that respect human rights. If deficiencies are noted, they must set and implement actions to remedy them.

## Salient issues

One of the first tasks of the Human Rights Committee was to identify AkzoNobel's salient issues. This will enable the company to focus on areas that potentially pose the greatest risk to human rights. Salient issues are defined by the UNGP Reporting Framework as those human rights that are at risk of the most severe negative impact through a company's activities or business relationships. With the help of the global accountancy and advisory firm Mazars, the Human Rights Committee mapped the severity and likelihood of human rights risks. Four salient issues were

identified, which were approved subsequently by the Executive Committee and reviewed by the Supervisory Board. These salient issues are being verified with internal and external stakeholders – such as works councils, suppliers, customers and investors – to assess their validity and to understand if other human rights risks may also need to be identified as salient. In defining these salient issues, the company has further identified the initial areas on which to focus its resources. While that focus is initially within our own operations, we will learn from our findings to better inform ourselves of the issues that may potentially also exist with our business partners. The four salient issues and our initial focus can be summarized as follows:

#### **1. Health and safety in our operations and our supply chain**

Being a manufacturing company, the health and safety of people is one of our highest priorities. AkzoNobel has implemented a global people, process and product safety management program, through which we strive to ensure that the highest safety standards are applied to our activities and sites. In addition, our Life-Saving Rules program embeds eight key safety rules that must be applied with zero tolerance, along with one golden rule that all our employees are empowered to stop work that they recognize as being unsafe. We assess the safety of employees at our suppliers through several processes, including the Together for Sustainability assessments and audits, and the Supply Support Visits program (see Note 7). In 2017, we will investigate how to better leverage the information available through these processes in order to understand the health and safety risks that exist for people in our operations and supply chain. We will continue to study the impact that certain chemicals may have on people in our value chain, and we will initiate a study into the impact some of our operations may have on the communities around us. Depending on the results of these studies and their timing, we will take measures to avoid infringement of human rights and address adverse human rights

impacts resulting from our activities and the activities of parties in our supply chain contributing to our products.

#### **2. Working conditions at our sites**

Our people are essential to the success of our company. We won't achieve our vision of leading performance in the markets in which we operate without an engaged workforce that believes AkzoNobel is a great place to work. We must therefore offer decent working conditions, including fair working hours, reasonable salaries and appropriate facilities, such as restrooms, restaurants and dormitories. Through our overtime tracking and reporting, we know that in certain parts of the company people sometimes work long hours. We will conduct a study into overtime to establish on the one hand the need and desire to work longer hours, and on the other hand the effect this may have on the health and safety of people. We will also conduct a study into the salaries of certain groups of employees who may be vulnerable to low standards of living. In addition, we will add the review of the facilities at our sites to our HSE audits. The information resulting from these studies and audits will help us focus our efforts on providing decent working conditions for our workforce, in accordance with the UNGP and ILO standards.

#### **3. Discrimination and harassment among employees**

At AkzoNobel, we strive to foster a culture of dignity and respect, free of harassment and discrimination. We recognize that a little over 20 percent of reports received through our grievance mechanism (SpeakUp!) relate to some form of harassment. We will conduct a study into the root causes of these cases to identify any key themes. This information will be used to adjust or implement training and sanction standards.

#### **4. Under-age labor in our supply chain**

AkzoNobel does not employ people under the age of 16, irrespective of whether local laws provide for a lower minimum age. We expect the same from all companies in our supply chain that contribute to the products and services we procure. While our information supports that we do not employ children under the age of 16, and while all our business partners are expected to apply

the standards explained in our Business Partner Code of Conduct, we do not have comprehensive data to support that child labor does not occur further upstream in our supply chain. We recognize the leverage we carry in part of the supply chain of our mica-based pearlescent pigments, and we undertook due diligence in close cooperation with suppliers and two NGOs, namely Terre des Hommes and SOMO (the Center for Research on Multinational Corporations). Information regarding this child labor due diligence was published by Terre des Hommes and SOMO in their combined Report in March 2016. We will conduct a further study, particularly focusing on the origin of raw materials in our supply chain. The information resulting from this study will enable us to plan for coaching and auditing of parties in our supply chain, and for taking appropriate action against non-compliance with our fundamental principle of respecting human rights.

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## Due diligence

Embedding a due diligence process is at the core of the UN Guiding Principles. We operate several due diligence processes that help us identify and assess human rights risks and impacts, on which we engage and communicate. For example, our HSE audits assess the health and safety conditions at our sites. Standardized assessments, surveys and audits form part of the Together for Sustainability program, which is designed to identify and assess sustainability practices, including human rights, in our supply chain. Our Supplier Support Visits also help identify and address human rights risks at certain long-term local suppliers in emerging markets. We have developed a business partner screening process which helps us identify human rights issues with potential business partners who may be perceived as high risk because of the nature of their industry, or the countries in which they are located. In 2016, we introduced an online Privacy Impact Assessment (PIA) tool as part of the further implementation of our Binding Corporate Rules. The PIA

helps us to assess the level of compliance with our rules and privacy laws of applications and procedures in which the personal data of our people, customers, suppliers and business partners is processed.

We recognize we have more work to do to identify specific risk areas, engage with stakeholders, act on findings and structure actions that can address them. This will facilitate our mechanism for self-improvement and will enable us to build more systematic due diligence processes.

## Grievance mechanism

We promote a feedback culture through communications and training. An open atmosphere helps identify issues, including concerns relating to respect for human rights.

The SpeakUp! grievance mechanism offers our employees, business partners and the general public a confidential environment in which they can raise concerns relating to breaches of our Code of Conduct, including the human rights reflected therein. With the launch of the renewed Code of Conduct, the availability of the SpeakUp! process to raise concerns was widely communicated within the company. The results are reported every year and can be found in the Compliance and integrity management chapter in the Governance and compliance section.

## Reporting

While we have previously reported on our commitment to respect human rights and the various processes that support this, this is the first year we are reporting in a more integrated way on our human rights framework in our annual report. Additional reporting on our human rights framework is also available on our corporate website and our UK Modern Slavery Act statement.

We live in a world where rapid urbanization is a fast-approaching fact. Today, around 50 percent of the world's population lives in cities. This is expected to increase to nearly 70 percent by 2050. A new urban agenda will be necessary to ensure that people continue to lead liveable and loveable lives. And as neighborhoods, villages and towns meld into megacities, how can we preserve the identity of people and places? How can we keep our cities "human"?

Our Human Cities initiative is an active expression of our company purpose to create everyday essentials to make people's lives more liveable and inspiring. It's everything we do with and for society and is our commitment to improving, energizing and regenerating urban communities across the world.

By combining our sense of care with our people, products and leadership in innovation, safety and sustainability, we are helping cities to meet the many challenges they face. We are using our products and expertise to help cities deliver a stronger sense of community purpose, pride and happiness.

Since the launch of Human Cities in 2014, many successful projects have been completed, bringing essential ingredients, essential protection and essential color into the lives of people across the world. For example, the initiative has given a sporting chance to blind and visually impaired people in Rio de Janeiro, Brazil, as well as creating jobs for young people in North Asia and the UK. It has also helped to connect two secluded villages in Indonesia via the "Bridge of Hope" for which we provided coatings and expertise. In addition, historic landmarks such as Burkill Hall in Singapore and the Rijksmuseum in Amsterdam, the Netherlands, have been renovated and restored.

Through our Community Program, we've been transforming communities for more than a decade, while our global "Let's Colour" program – which has been revitalizing urban areas for over five years – is now strongly linked to our Human Cities activities.

### Our ingredients to create positive change in society



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## Positively changing urban environments

Since the second half of 2016, Human Cities acts as an umbrella for everything we do for and with society. This includes the Community Program and global “Let’s Colour” initiative. These programs have been run separately in the past, so we’ve measured them in different ways. Therefore, we report them separately this year. Our goal for 2017 is to define a standard approach for measuring and managing the overall social impact and related business benefits. The following paragraph gives an overview of the positive impact our new Human Cities projects had in 2016 (excluding “Let’s Colour” and the Community Program).

During 2016 we carried out 62 additional Human Cities projects with a total budget spend of about €2.4 million (excluding partnerships). In total, 1,994 AkzoNobel volunteers supported the projects with 9,818 volunteer hours. Our products also provide a meaningful contribution to society – we supplied around 85,000 liters of paint for our Human Cities projects in 2016. In total, over 5.2 million people benefited. We couldn’t have done this alone, so we set up strategic partnerships at a cost of around €1 million to help amplify our efforts worldwide. These numbers and trends give an idea of the social impact we have with Human Cities. However, we are working on improving the way we measure and report this.

External awareness of Human Cities is steadily increasing through media coverage, as well as social channels, primarily contributing favorably to the reputation of AkzoNobel.

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## Striking a balance to drive results

We firmly believe that companies who think and care about the future will achieve the most success. Business and society both stand to benefit from working together. Studies suggest that 80 percent of people across

the globe expect businesses to pay equal attention to business goals and societal goals (Edelman Trust Barometer 2016). In addition, 50 percent of consumers say they would pay more for products from a company known for its commitment to social value (2015 Nielsen Global Sustainability Report). Meanwhile, 50 percent of the millennial workforce would be willing to take a pay cut in exchange for a company purpose (Deloitte Millennial Survey 2015), and 25 percent of people are more likely to recommend as an employer companies that are involved in addressing broader social issues (Edelman Trust Barometer 2016).

We’ve already seen this trend at work within AkzoNobel, with the results of our engagement survey having improved for the seventh year in a row. Human Cities can help to accelerate this by building company pride and engaging employees in making a positive impact on society.

This means that for business, getting involved in society is now a crucial part of reputation management, recruitment and long-term growth. It’s been proven that companies with a clear purpose and corporate social responsibility strategy grow faster. Great brands are built on what they do, not what they say. Finding a balance between business and societal goals is an important part of running a successful and sustainable business because it:

- Strengthens the brand and reputation of the corporate and product brands
- Builds trust and strengthens relationships with a wide range of stakeholders
- Opens new doors and grants earlier access to decision makers
- Attracts and retains top talent
- Boosts engagement, motivation and advocacy among employees
- Drives commercial benefits by contributing to organic growth and innovation

Embedding our societal initiatives in our business strategy is a key priority. During 2016, our Decorative Paints

business and its Coral brand launched the Unexpected Courts project in Rio’s Santa Marta favela in Brazil. It involves giving children the chance to test their sporting skills in surprising spaces, through the simple but ingenious use of paint. Several courts have been created so far, including a walkway that has been turned into a running track, a set of stairs and a wall that have become a basketball arena, and a series of clothes lines and pillars that have been transformed into a volleyball court. Projects such as this bring color and inspiration to people’s lives and drive the value and equity of our brands.

Towards the end of 2016, our Specialty Chemicals business showcased the power of urban gardens at the United Nations Habitat III conference in Quito, Ecuador, by installing a vertical garden. We helped transform a bleak expanse of concrete into a colorful and more attractive space for local residents. The garden has no soil and is based on a hydroponic system, which uses our micronutrients to provide essential minerals for the plants.

Meanwhile, our Performance Coatings business is busily preparing for the 2017/2018 Volvo Ocean Race. As well as entering the race ourselves with team AkzoNobel, we are also supplying coatings and technical expertise to all of the boats in the race. Human Cities activities are being planned at each of the 12 host ports to help create more liveable and inspiring harbor cities around the world.

The meaningful contribution we make to society is typified by the complete portfolios of sustainable products that we offer. Around 60 percent of what we make ends up in cities and many of our products have a direct social impact. For example, we produce coatings that provide fire protection or heat-reflecting functionality for buildings. We also supply coatings that can prevent moisture and mold in classrooms and promote sanitary conditions on hospital walls. We even help to create safer nurseries by providing suppliers such as IKEA with formaldehyde-free, lead pigment-free and solvent-free products.



In addition, considerable time and effort goes into building and maintaining strategic global and local partnerships in order to amplify the reach of our projects, the profile of our brands and the awareness of our company purpose. This includes working with 100 Resilient Cities, the Johan Cruyff Foundation, the Human Cities Coalition and the Plan organization. Together, we can make an even bigger positive impact on people's lives.

Any partnerships or projects created as part of the Human Cities initiative reflect the principles of our Planet Possible agenda so that we can deliver the most sustainable work for our communities.

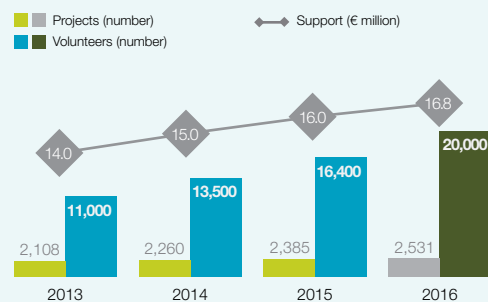
## Programs and partnerships

### Community Program

AkzoNobel's Community Program encourages sites and employees all over the world to use their skills and the company's products for sustainable projects that benefit local communities. The program – which makes funds available for worthwhile local projects that include hands-on involvement – is highly valued and has become an integrated part of the way we do business.

### Cumulative Community Program involvement

Cumulative data, since 2005

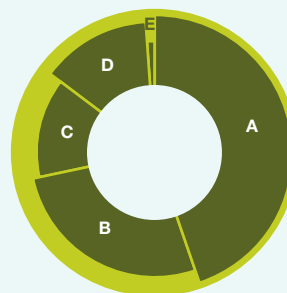


The Community Program is also an easy and accessible way for employees to contribute to the company's Human Cities initiative. For example, team events are very popular and have become an annual tradition for many departments, frequently being included in conference agendas. They are also great for team building and help to enhance employee engagement, as well as promote the development of new skills and talent.

During 2015, the ten most inspiring community initiatives were selected as part of the celebrations for the Community Program's tenth anniversary. In 2016, these winning teams were personally awarded their prizes by senior management in recognition of their valuable work. All prize money was spent on approved worthy causes and charities.

### 2016 projects by region

A Europe	93
B Asia	26
C Latin America	13
D North America	13
E Other regions	1



During the course of 2016, more than 3,600 AkzoNobel volunteers from around the world took part in 146 new Community Program projects. These included the refurbishment and repainting of schools, as well as upgrading buildings and facilities used by seniors and people impacted by addiction or homelessness. Other projects involved offering vocational training and health, safety and environment (HSE) workshops.

A particular highlight was a team event which saw 220 of the company's senior executives paint outdoor furniture and create colorful artwork which was donated to 12

Salvation Army and "Volksbond" charities in Amsterdam, the Netherlands. A few months later, various teams of employees revisited these locations to repaint the benches and flower boxes that had been donated in order to protect them against humidity and winter weather conditions.

In Vietnam, 77 employees from Wood Coatings and Powder Coatings participated in projects to assist orphans and the elderly, which included helping with personal care, painting, cleaning, cooking and planting fruit trees.

Several projects organized during 2016 were also focused on assisting refugees. In Sweden, for example, our employees worked alongside a number of refugees to build pavilions made out of recyclable materials. They were also put in contact with local organizations for participation in vocational training sessions and to learn more about work opportunities. In Germany, employees worked with migrants to repaint the doors of a refugee center, while in the Netherlands, employees invited refugee families to visit local museums and zoos, and set up site visits and educational workshops.

Another project in the Netherlands involved employees organizing a Talent Day for refugees at the AkzoNobel Center in Amsterdam. Thirteen refugees with university degrees attended, the aim being to provide them with the skills needed to find a job in the Netherlands, possibly within AkzoNobel. As a follow-up, a mentoring program will be rolled out to assist the refugees in their search for a job and further contribute to their development.



### “Let’s Colour”

Our “Let’s Colour” program believes in the power of paint to improve people’s lives. By adding color to Human Cities initiatives, we help to improve urban environments and make people’s lives more liveable and inspiring. Together, they make an important contribution to improving and inspiring people’s lives around the world.

During 2016, our employees took part in 99 “Let’s Colour” projects, impacting 3.8 million lives with 81,000 liters of paint. One notable example was the ongoing project in the Santa Marta favela in Rio de Janeiro. This year, we staged the launch of Unexpected Courts, an inventive program which encourages children to try out different sporting activities through the simple but ingenious use of paint. The project won a bronze award at the 2016 London International Awards in the design category for installations and displays.



“Let’s Colour” is also focused on giving people a chance to learn a trade. We gave training to 1,577 people around the world, which will help to improve their lives by enabling them to have a sustainable profession and earn a living through paint.

### Education Fund

AkzoNobel is proud to be associated with a variety of organizations and initiatives in ways that help to 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. The cooperation was established in 1994 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.

Our most recent projects in 2016 focused on economically empowering young people in China and India through vocational training and education. In China, we are working with Plan International and the Chengdu Qing Yang District Youth Employment and Entrepreneurship Center to help give 800 vulnerable young people from the Chengdu region access to stable and decent employment. In India, we are working with Plan India to help more than 500 adolescent girls from Bengaluru become empowered through better education and life skills training.

### Global partnerships

Our work with the Johan 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 them to create and maintain facilities in neighborhoods where children lack the possibility to play sports in a safe environment.

During 2016, seven new Cruyff Courts were built using our products, including one in the US, three in the Netherlands, one in Israel and two in Spain. We also opened a Special Cruyff Court in Rio de Janeiro, Brazil, for blind and visually impaired people. It’s located on the premises of Urece, an organization which gives blind and partially sighted people the opportunity to play sports. The Special Cruyff Court was funded by the Johan Cruyff Foundation, with AkzoNobel providing the paint.

### Human Cities Coalition

The Human Cities Coalition (HCC) is a public-private partnership of Dutch organizations from government, NGOs and business that want to make a positive difference in the world’s cities. Initiated by AkzoNobel in an effort to positively impact more people and cities around the world, it brings together more than 20 partners and

140 members to focus on realizing Goal 11 of the UN Sustainable Development Goals: Sustainable cities and communities.

The projects that the HCC supports will focus on making slums more liveable, as well as addressing issues such as land rights, public spaces, drinking water, sanitation, drainage, housing and healthcare facilities. The first two HCC pilot projects will take place in Manila, the Philippines and Jakarta, Indonesia, with a trial project having already been completed.

The trial project took place during the UN Habitat III Conference for Sustainable Urban Development, staged in Quito, Ecuador, in October. A special route through the city, known as the “Ruta de la Experiencia”, was revitalized to help make the area more liveable and inspiring for local residents. One of the largest Habitat III projects, it involved a combination of physical, social, economic and cultural interventions designed to leave a legacy of future growth in the area.

As partner of The Rockefeller Foundation’s 100 Resilient Cities program, we are also continuing to launch projects in the flagship cities identified at the beginning of our partnership. Two game-changing projects announced in 2016 involved a partnership with Shanghai’s Jing’an District in China and an agreement with the Rotterdam Delfshaven projects in the Netherlands. These projects are focused on creating more inspirational public spaces, protecting heritage, working with school children to create more liveable neighborhoods and bringing color and protection to landmark buildings.

### AkzoNobel Art Foundation

Our renowned Art Foundation celebrated its 20th anniversary in 2016 with the opening of the AkzoNobel Essential Art Space at our Amsterdam Center in the Netherlands. A public and multi-functional meeting place, it is open to everyone, including employees, customers, art lovers, local residents and visitors from around the world.



More than 30,000 people have visited our Art Foundation's Essential Art Space at the AkzoNobel Center in Amsterdam since it opened in early 2016.

Pictured artworks by Bernard Frize, Alan Uglow, Callum Innes and Yutaka Sone.

The Essential Art Space follows through on the company's purpose to make cities more liveable and inspiring. It welcomed more than 30,000 visitors this year, who were quick to praise the quality of the art on display, as well as being enthusiastic about AkzoNobel's commitment. It represents a colorful and logical connection between the company and society.

Art reflects who we are – as a society, as individuals and as companies. Art is stimulation, innovation, communication and, above all, inspiration. These values –

founded on the autonomy of art and the values associated with AkzoNobel – also reflect the company's global Human Cities initiative.

Our art collection is just one of the ways we help to maintain and preserve our international cultural heritage, as an expression of AkzoNobel's corporate, cultural and social responsibility. It is run by an independent, not-for-profit Foundation, with board members from the cultural field, as well as AkzoNobel's senior leadership, including CEO Ton Büchner and CFO Maëlys Castella.

The Foundation seeks out primarily young and unknown talent in the art world, buying ahead of the markets, investing small while achieving great results. The pioneering and insightful spirit of artists helps make art and culture trailblazers for innovation.

# Independent assurance report

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## To the readers of the AkzoNobel Report 2016

### Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the sustainability information included in the Report 2016 of Akzo Nobel N.V. does not present, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to sustainability
- The events and achievements related thereto for the year ended December 31, 2016

### Our opinion

In our opinion, Note 1: Managing our sustainability agenda, in the Report 2016 is prepared, in all material respects, in accordance with the sustainability reporting criteria as described in Note 2: Reporting principles.

### What we are assuring

The sustainability information contains a representation of the policy and business operations of Akzo Nobel N.V., Amsterdam (hereafter: "AkzoNobel"), regarding sustainability and the events and achievements related thereto for 2016.

We have reviewed the sustainability information for the year ended December 31, 2016, as included in the following sections in the Report 2016 of AkzoNobel:

- The Compliance and integrity management section (pages 126 to 131)
- The Sustainability statements (pages 189 to 247)

Additionally, we have audited sustainability information for the year ended December 31, 2016, as included in Note 1: Managing our sustainability agenda on pages 191 to 194 of the Report 2016 of AkzoNobel.

The sustainability information contains several links to external sources or websites and are not part of the

sustainability information. Therefore, we do not provide assurance over information outside of this sustainability information.

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## The basis for our conclusion and opinion

We conducted our assurance engagement in accordance with Dutch law, including Dutch Standard 3810N "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements on corporate social responsibility reports). This engagement is aimed to obtain a combination of limited assurance on the sustainability information and reasonable assurance on Note 1: Managing our sustainability agenda. Our responsibilities under this standard are further described in the paragraph "Our responsibilities for the assurance engagement of the sustainability information" of this Independent assurance report.

### Independence and quality control

We are independent of AkzoNobel in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (VIO, the Dutch auditor independence regulations for assurance engagements) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, the Dutch Code of Ethics for Professional Accountants and regulation with respect to Rules of Professional Conduct).

We apply the "Nadere voorschriften accountantskantoren ter zake van assurance opdrachten" (RA/AA, the Dutch detailed rules for auditing firms on assurance engagements) and accordingly maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

### Reporting criteria

AkzoNobel developed its reporting criteria on the basis of the sustainability reporting criteria as described in Note 2: Reporting principles on pages 194 to 197 of the Report 2016. The information in the scope of this assurance engagement needs to be read and understood in conjunction with these reporting criteria. The Board of Management is responsible for selecting and applying these reporting criteria. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

### Inherent limitations

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans, estimates and risk assessments based on assumptions. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

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## Responsibilities for the sustainability information and the assurance engagement responsibilities of the Board of Management

The Board of Management of AkzoNobel is responsible for the preparation of the sustainability information, in accordance with the sustainability reporting criteria, as described in Note 2: Reporting principles, including the

identification of stakeholders and the definition of material subjects. The choices made by the Board of Management regarding the scope of the sustainability information and the reporting policy are summarized in Note 2: Reporting principles. The Board of Management is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The Board of Management is also responsible for such internal control as it determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

### Our responsibilities for the assurance engagement of the sustainability information

Our responsibility is to plan and perform the assurance engagement to obtain sufficient and appropriate assurance information to provide a basis for our conclusion and opinion.

Our review engagement is aimed at obtaining limited assurance on the sustainability information. In obtaining a limited level of assurance, the performed procedures are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an audit engagement. The performed procedures in this context consisted mainly of gathering information from the company's employees and applying analytical procedures set out in relation to the information included in the sustainability information. The assurance obtained in review engagements aimed at obtaining limited assurance is, therefore, significantly lower than the assurance obtained in audit engagements aimed at obtaining reasonable assurance.

Our audit engagement is aimed at obtaining reasonable assurance on the sustainability information presented in Note 1: Managing our sustainability agenda. It has been performed with a high, but not absolute, level of

assurance, which means we may not have detected all material errors and fraud.

Misstatements may arise due to fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review and audit, as well as the evaluation of the effect of identified misstatements on our conclusion and opinion.

### Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our main review procedures include:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the organization
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialog and the reasonableness of management's estimates
- Evaluating the design and implementation of the reporting systems and processes related to the sustainability information in the Report 2016
- Interviewing relevant staff at corporate and local level responsible for the sustainability strategy and policy
- Interviewing relevant staff at corporate level, responsible for providing the sustainability information in the Report 2016, carrying out internal control procedures on the data and consolidating the data in the sustainability information
- Joining the internal audit of Health, Safety and Environment management at the local production sites

in Cologne (Germany), Malmö (Sweden) and Lancaster (United States)

- An analytical review of the data and trends submitted for consolidation at corporate level
- Reviewing internal and external documentation to determine whether the sustainability information, including the disclosure, presentation and assertions made in the sustainability information, is substantiated adequately
- Assessing the consistency of the sustainability information and the information in the Report 2016 not in scope for this assurance report
- Assessing whether the sustainability information has been prepared in accordance with the AkzoNobel sustainability reporting criteria
- Reviewing the relevant work of the Internal Audit function

In addition to the procedures mentioned above, we performed the following audit procedures on Note 1: Managing our sustainability agenda:

- Corroborating the information disclosed in Note 1 through multiple interviews with selected staff throughout the company
- Testing the operating effectiveness of relevant key controls related to how AkzoNobel manages its sustainability agenda
- Corroborating supporting documentation to determine whether the information in Note 1 is substantiated adequately, such as management meeting agendas and minutes and internal management information

Amsterdam, February 14, 2017

**PricewaterhouseCoopers Accountants N.V.**

**R. Dekkers RA**



# Sustainability performance summary

## Economic

Area		2012	2013	2014	2015	2016	Ambition 2020
<b>Product/service</b>							
Eco-premium solutions with downstream benefits	% of revenue	17	18	19	19	20	20
VOC in product (reduction from 2009)	% reduction	10	7	5	9	n/a	–
Customer delivery efficiency index		91	92	93	94	96	–
<b>Supplier management</b>							<b>Ambition 2018</b>
Critical PR <sup>1</sup> spend covered by supplier management framework	% of spend	69	80	83	87	91	90
Product related suppliers signed Business Partner Code of Conduct	% of spend	97	96	98	98	99	98
NPR <sup>2</sup> suppliers signed Business Partner Code of Conduct	% of spend	80	83	80	81	86	85
Suppliers on SSV program since 2007 <sup>3</sup>	number	373	392	432	455	136 <sup>8</sup>	–
Third party online sustainability assessments (TfS) <sup>4</sup>	cumulative	–	–	539	724	1053	1800
Third party on-site sustainability audits (TfS) <sup>4</sup>	cumulative	–	–	20	65	166	210

## Social

<b>Employees</b>							<b>Ambition 2020</b>
Employee numbers (FTE)	number	50,610	49,600	47,200	45,600	46,000	–
Employee engagement score	0-5 scale	3.80	3.88	3.97	4.03	4.17	>4.20
Female executives	%	15	16	17	19	19	25
Female executive potential pool	%	27	28	24	25	30	30
Executive vacancies filled internally	%	70	75	68	58	61	70
High potential turnover	%	–	–	–	6	4	<5
Community Program investment	€ millions	1.5	1.0	1.0	1.0	0.8	–
<b>People, process and product safety</b>							
Fatalities employees	number	2	0	0	0	0	0
Total reportable injury rate employees/supervised contractors	/million hours	2.4	2.3	1.8	1.6	1.4	<1.0
Lost time injury rate employees/supervised contractors	/million hours	1.1	1.3	0.9	0.7	0.6	0.2
Occupational illness rate employees	/million hours	0.23	0.14	0.24	0.14	0.06	–
Total illness absence rate employees	%	2.0	2.1	2.1	2.1	2.0	–
Fatalities contractors (supervised plus independent)	number	0	0	0	0	0	0
Total reportable injury rate independent contractors	/million hours	4.2	3.5	2.9	2.8	2.4	–
Behavior-based safety program implemented	% of employees	50	68	84	96	96	100
Distribution incidents	number	46	48	52	49	43	–
Loss of primary containment (Level 1) <sup>5</sup>	number	–	–	–	–	16	–
Regulatory actions (Level 4)	number	0	0	0	0	0	0
Priority substances with management plan	%	42	62	82	100	33 <sup>6</sup>	100 <sup>6</sup>
<b>HSE management</b>							
Safety incidents (Level 3)	number	3	0	1	0	0	0
Safety incidents (Level 1, 2, 3)	number	23	14	15	12	2	–
Management audits plus reassurance audits	number	61	56	63	57	57	–

## Environmental

Area		2012	2013	2014	2015	2016	Ambition 2020
<b>Value chain/Product carbon footprint</b>							
Total CO <sub>2</sub> (e) emissions (cradle-to-grave) <sup>7</sup>	million tons	27.5	26.5	26.9	24.6	23.7	–
reduction per ton of product sales (from 2012)	%	0	2	-4	3	6	25–30
Carbon footprint (own operations)	million tons	4.7	3.9	3.8	3.8	3.7	<4.6
Renewable energy (own operations)	%	33	31	34	38	40	45
Renewable raw materials	% organic RM	13	13	13	11	12	–
<b>Maintain natural resources/fresh air</b>							
Operational eco-efficiency footprint measure (% reduction from 2009)	footprint measure	13	24	24	23	28	40 (2017)
Total energy consumption	1000TJ	106	99	98	95	97	–
per ton of production	GJ/ton	5.7	5.6	5.7	5.6	5.5	–
Direct CO <sub>2</sub> (e) emissions (Scope 1)	million tons	1.5	1.1	1.1	1.5	1.6	–
per ton of production	kg/ton	82	64	63	87	94	–
Indirect CO <sub>2</sub> (e) emissions (Scope 2)	million tons	3.2	2.8	2.8	2.3	2.0	–
per ton of production	kg/ton	175	158	161	133	115	–
VOC emissions	kiloton	3.6	3.1	3.1	3.0	2.9	–
per ton of production	kg/ton	0.19	0.17	0.18	0.18	0.16	–
NOx emissions	kiloton	1.9	1.3	1.3	1.7	1.6	–
per ton of production	kg/ton	0.10	0.08	0.08	0.10	0.09	–
SOx emissions	kiloton	7.6	4.6	3.7	3.8	5.2	–
per ton of production	kg/ton	0.41	0.26	0.22	0.22	0.30	–
Fresh water use	million m <sup>3</sup>	283	265	263	274	224	–
per ton of production	m <sup>3</sup> /ton	15.3	14.9	15.2	16.0	12.8	–
COD emissions	kiloton	1.6	1.4	1.4	1.4	1.1	–
per ton of production	kg/ton	0.09	0.08	0.08	0.08	0.06	–
Manufacturing sites with sustainable fresh water	%	83	85	89	93	93	–
<b>Raw material efficiency</b>							
Total waste	kiloton	203	161	149	155	143	–
per ton of production	kg/ton	11.0	9.0	8.6	9.0	8.1	–
Total non-reusable waste	kiloton	85	65	72	75	79	–
per ton of production	kg/ton	4.6	3.6	4.1	4.4	4.5	–
Hazardous waste total	kiloton	71	62	58	57	55	–
per ton of production	kg/ton	3.8	3.5	3.4	3.3	3.2	–
Hazardous waste non-reusable	kiloton	20	17	22	22	27	–
per ton of production	kg/ton	1.1	1.0	1.2	1.3	1.6	–
Hazardous waste to landfill	kiloton	2.7	1.9	1.7	2.0	1.1	–
per ton of production	kg/ton	0.15	0.11	0.10	0.12	0.06	–

<sup>1</sup> PR – Product related (raw materials and packaging).

<sup>2</sup> NPR – Non-product related.

<sup>3</sup> SSV program updated 2016. Targets included in the Critical PR spend coverage KPI.

<sup>4</sup> Includes TFS shared assessments/audits.

<sup>5</sup> Definition change 2016.

<sup>6</sup> Phase 2 started in 2016.

<sup>7</sup> Reported from 2012. Includes impact from VOC emissions.

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# Financial calendar

2017

April 24

**Report for Q1 2017**

April 25

Annual General Meeting of shareholders

April 27

Ex-dividend date of 2016 final dividend

April 28

Record date of 2016 final dividend

May 2 – 17

Election period cash or stock dividend

May 19

Determination of exchange ratio

May 24

Payment date of cash dividend and delivery of new shares

July 25

**Report for Q2 2017**

October 18

**Report for Q3 2017**

2018

February 8

**Report for the full-year 2017 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 income 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 is the total amount of greenhouse gas (GHG) emissions caused during a defined period of the product lifecycle. It is expressed in terms of the amount of carbon dioxide equivalents CO<sub>2</sub>(e) emitted.

## **Circular economy**

An economic system which 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, human rights, health, safety, environment and security and community involvement.

## **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.

## **EBIT**

EBIT is operating income excluding incidentals.

## **EBITDA**

Operating income before depreciation, amortization and incidentals.

## **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 with downstream benefits**

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. Downstream benefits include a tangible sustainability benefit for our customers.

## **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<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub>, VOCs, chemical oxygen demand, hazardous and non-hazardous waste. Definitions are in the Sustainability statements section.

## **GBS**

Global Business Services, which covers functional support activities such as Human Resources, Finance and Information Management, as well as non-product related Procurement.

## **GHG**

Greenhouse gases, including CO<sub>2</sub>, CO, CH<sub>4</sub>, N<sub>2</sub>O and HFCs, which have a global warming impact. We also include the impact of VOCs in our targets.

## **HSE**

Health, safety and environment.

## **Human Cities**

Everything we do for and with society is channeled through our Human Cities initiative. This incorporates AkzoNobel's Community Program, which encourages and gives financial support for employees to get involved, hands-on, in their local communities; and our "Let's Colour" program, which uses the power of color to improve people's lives.

## **Incidentals**

Incidentals are special charges and benefits, results on acquisitions and divestments, major impairment charges and charges related to major legal, anti-trust and environmental cases.

## **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.

**Loss of primary containment**

A loss of primary containment is an unplanned release of material, product, raw material or energy to the environment (including those resulting from human error). Loss of primary containment incidents are divided into three categories, dependent on severity, from small, on-site spill/near misses up to Level 1 – a significant escape.

**Lost time injury (LTI) rate**

The number of lost time injuries per million hours worked. Full definitions are in the Sustainability statements.

**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 raw materials.

**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 incidentals.

**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 four categories of regulatory action, from self-reported issues (Level 1) to formal legal notifications with fines above €100,000 (Level 4).

**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 EBIT as a percentage of average invested capital.

**ROS (return on sales)**

This is a key profitability measure and is calculated as EBIT 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**

The Dow Jones Sustainability Index (DJSI) tracks the performance of global sustainability leaders. The index comprises the top 10 percent in each industry for the 3,400 largest companies.

**Three-dimensional profit and loss (3D P&L)**

The three-dimensional profit and loss methodology quantifies and monetizes the positive and negative impacts a company has in the economic, environmental and social dimensions. It has been developed from previous 4D P&L pilots.

**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)**

Compares the performance of different companies' stocks and shares over time. Combines share price appreciation and dividends paid to show the total return to shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

**VOC**

Volatile organic compounds.

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**Safe harbor statement**

This Report 2016 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 2016**

AkzoNobel's annual financial report has been combined with the sustainability report into one Report 2016. The Report 2016 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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# OCHRE GOLD

Color of the Year 2016



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